11 April 2023

ECONOMIC REVIEW | February 2023 Distributive Trade

Malaysia's Distributive Trade Sales Growth at 4-Month High Despite Inflation Concerns

- *Solid distributive trade performances. Malaysia's distributive trade sales grew by +14.7%yoy in Feb-23, marking the 11th straight months of double-digit growth rate and fastest pace in 4-month. . Excluding price effects, seasonally adjusted volume of distributive trade growth hit 4-month high at +10.6%yoy, mainly supported by motor vehicles and retail trade by +24.9%yoy and +11.6%yoy respectively.*
- *Airports passenger movement firm on recovery path. The second month of 2023 saw the international passenger movements registered at 2.6 million, approximately reaching 62.4% of Feb-19 levels. Due to seasonal factor, the end of year-end holidays also caused contractionary growth in the first two months. The passenger traffic declined by -6.1%mom, ASEAN tourists were down by -6.4%mom and non-ASEAN tourists declined by -5.7%mom. During the pre-pandemic, 50.7% of Malaysia's airports passenger traffic was contributed by international travels, 25.0% by ASEAN and 25.7% by non-ASEAN destinations.*
- *We maintain retail trade growth forecast at +8.9% for 2023. Considering macroeconomic outlook and improving domestic fundamentals, we are optimistic that retail trade growth able to touch +8.9% for 2023. We believe the pent-up demand will continue into this year underpinned by improving labour market, stable inflationary pressure, accommodative economic policies and uptick in tourism industry.*

Solid distributive trade performances. Malaysia's distributive trade sales grew by +14.7%yoy in Feb-23, marking the 11th straight months of double-digit growth rate and fastest pace in 4-month. All components except wholesale trade posted strong double-digit expansion. Wholesale trade inched up by +5.9%yoy while sales of motor vehicles increased by +36.1%yoy, the strongest expansion rate since Oct-22. As consumer demand stayed solid, retail trade sales grew by +19.2%yoy. Excluding price effects, seasonally adjusted volume of distributive trade growth hit 4-month high at +10.6%yoy, mainly supported by motor vehicles and retail trade by +24.9%yoy and +11.6%yoy respectively. On monthly comparison, distributive trade volume increased by +5.5%mom, the biggest gain in 10-month. The expansion of distributive trade sales came from both value and volume factors. Looking ahead, we opine the upbeat momentum of domestic demand to continue in 2023 underpin by steady labour market, softening inflationary pressure, pick-up in tourism activities and supportive economic policies.

Airports passenger movement firm on recovery path. The second month of 2023 saw the international passenger movements registered at 2.6 million, approximately reaching 62.4% of Feb-19 levels. Due to seasonal factor, the end of year-end holidays also caused contractionary growth in the first two months. The passenger traffic declined by -6.1%mom, ASEAN tourists were down by -6.4%mom and non-ASEAN tourists declined by -5.7%mom. During the pre-pandemic, 50.7% of Malaysia's airports passenger traffic was contributed by international travels, 25.0% by ASEAN and 25.7% by non-ASEAN destinations. As of Feb-23, travellers for domestic destinations accounted for 54.7% (2022: 71.7%) vis-à-vis international destinations at 45.3% (2022: 28.1%), whereby 20.7% were non-ASEAN and 24.5% ASEAN. Moving forward, we expect airport passenger movements to improve in 2023 underpinned by borders reopening by China & Japan. The recovery towards 2019

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level is still a long journey despite the reopening of Malaysia's international borders since last year. Our house view is that the earliest for passenger traffic to reach 2019 level will only be by 2024.

Table 1: Malaysia's Distributive Trade Summary (RM Billion)

	Aug-22	Sep-22	Oct-22	Nov-22	Dec-22	Jan-23	Feb-23
Distributive Trade	**133.6**	**134.0**	**133.6**	**134.3**	**137.3**	**135.1**	**134.3**
YoY%	33.6	24.0	14.9	14.2	13.8	12.4	14.7
MoM%	2.5	0.3	(0.3)	0.5	2.3	(1.6)	(0.6)
Motor Vehicles	**16.5**	**16.3**	**15.4**	**16.0**	**17.5**	**15.2**	**16.9**
YoY%	183.3	51.2	8.9	19.8	20.3	20.1	36.1
MoM%	17.0	(1.2)	(5.5)	4.0	9.3	(13.4)	11.7
Wholesale Trade	**60.1**	**60.0**	**59.9**	**59.5**	**60.3**	**60.4**	**59.1**
YoY%	16.0	13.3	7.3	5.6	4.7	3.1	5.9
MoM%	0.7	(0.2)	(0.3)	(0.6)	1.4	0.1	(2.0)
Retail Trade	**57.0**	**57.7**	**58.3**	**58.7**	**59.5**	**59.6**	**58.2**
YoY%	34.5	30.0	26.0	22.8	22.7	21.7	19.2
MoM%	0.7	1.2	1.1	0.7	1.2	0.2	(2.4)

Source: DOSM; MIDFR
Note: MoM is non-seasonally adjusted figures

Positive retail trade outlook. Even though at double digit pace, the growth rate of retail trade is moderating as low-base effects factor is tapering off. As compared to previous year, Malaysia's consumers among others were boosted by EPF withdrawals and vehicle sales tax exemption. Elevated cost of living pressure and higher interest rate levels are among key downside risks to the consumer growth. However, we opine further recovery of labour market, softening inflation rate, pick-up in tourism activities led by China's tourists and supportive economic policies will bolster the household consumption and retail trade spending to stay upward for this year. In terms of seasonally-adjusted volume, retail trade growth hit 5-month high at +3.3%mom in the second month of 2023.

Table 2: Distributive Trade's Detailed Components Performance

	Share % Total DT		MoM%		YoY%	
	Feb-22	Feb-23	Jan-23	Feb-23	Jan-23	Feb-23
Motor Vehicles Sales (MVS)	**10.6**	**12.6**	**(13.4)**	**11.7**	**20.1**	**36.1**
MVS: Motor Vehicle	5.3	6.9	(23.4)	21.3	25.0	49.8
MVS: Motor Vehicle Maint. & Repair	1.6	1.7	0.4	1.1	16.8	21.2
MVS: Motor Vehicle Parts & Accessories	3.0	3.2	0.3	1.2	15.9	22.6
MVS: Motorcycles Maint. & Repair, Parts & Acc.	0.8	0.8	(3.3)	6.0	12.1	24.4
Wholesale Sales (WS)	**47.7**	**44.1**	**0.1**	**(2.0)**	**3.1**	**5.9**
WS: Fee or Contract Basis	0.9	0.8	(4.1)	1.5	9.5	9.0
WS: Agri Raw Meterials & Live Animals	4.0	3.9	(4.3)	(1.8)	12.8	10.0
WS: Food, Beverages & Tabacco	9.3	8.9	3.5	(5.1)	7.6	9.9
WS: Household Goods	9.3	9.3	4.4	(2.1)	8.6	15.8
WS: Machinery, Equipment & Supplies	3.9	3.4	(6.0)	(1.7)	(4.0)	1.9

	Share % Total DT		MoM%		YoY%	
	Feb-22	Feb-23	Jan-23	Feb-23	Jan-23	Feb-23
WS: Others Specialised	19.1	16.4	(1.3)	(0.5)	(2.8)	(1.0)
WS: Non-Specialised	1.3	1.2	(1.5)	(2.5)	2.6	6.1
Retail Sales (RS)	**41.7**	**43.3**	**0.2**	**(2.4)**	**21.7**	**19.2**
RS: Non-Specialised Stores	15.6	16.5	1.4	(2.6)	24.6	21.1
RS: Food, Beverages & Tobacco	2.6	2.7	2.5	(0.8)	17.5	18.4
RS: Automotive Fuel	3.2	4.1	0.9	(1.7)	45.0	45.9
RS: Information & Communication Equip	3.9	3.7	(1.3)	(1.0)	6.4	8.0
RS: Household Equip	5.4	5.1	0.2	(2.6)	10.9	7.5
RS: Cultural & Recreation Goods	2.2	1.9	(2.1)	(3.2)	0.4	(1.2)
RS: Others in Specialised Store	8.2	8.9	(1.7)	(3.1)	29.1	24.2
RS: Stalls & Markets	0.1	0.1	0.9	(0.6)	19.8	21.0
RS: Not in Stores, Stalls & Markets	0.5	0.5	(1.6)	(1.3)	10.9	14.0

Source: DOSM; MIDFR

Retail trade growth at more than 2-year low in the US. Signs of cooling labour market, American retail spending grew at a lesser pace of +5.4%yoy in Feb-23. The retail trade contracted -0.4%mom, deeper than market expecationas -0.3%mom. Elevated inflation pressure, higher borrowing cost and cooling job market are among downward factors on the US retail trade. Economic sentiment as reflected by The IBD/TIPP Economic Optimism Index remained in pessimism for the past 20-month. Across the globe, retail trade still on contractionary in Eurozone due to geopolitical uncertainty, elevated energy prices and higher interest rate in the region. We shall expect gradual uptick in China's retail trade growth amid end of pandemic disruptions, borders reopening and low inflation pressure.

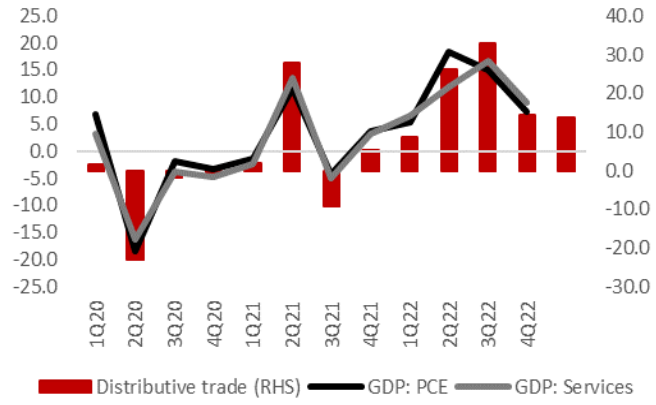
Table 3: Global Retail Sales (YoY%)

	Aug-22	Sep-22	Oct-22	Nov-22	Dec-22	Jan-23	Feb-23
Malaysia	34.5	30.0	26.0	22.8	22.7	21.7	19.2
Indonesia	4.9	4.6	3.7	1.3	0.7	(0.6)	
Singapore	13.4	11.3	10.7	6.8	7.7	(0.8)	12.7
Thailand	22.3	12.5	(0.6)	4.6	(0.4)	6.3	
Vietnam	50.2	36.1	17.1	17.5	17.1	20.0	13.2
Taiwan	12.0	7.8	2.1	1.8	9.4	4.2	4.6
South Korea	2.4	(0.9)	(0.7)	(2.1)	(2.5)	0.7	
China	5.4	2.5	(0.5)	(5.9)	(1.8)	3.5	3.5
Japan	4.1	4.8	4.4	2.5	3.8	5.0	6.6
Euro area	(1.3)	0.2	(2.6)	(2.4)	(2.8)	(2.4)	
USA	9.7	8.4	8.0	5.9	6.2	7.7	5.4

Source: Macrobond; MIDFR

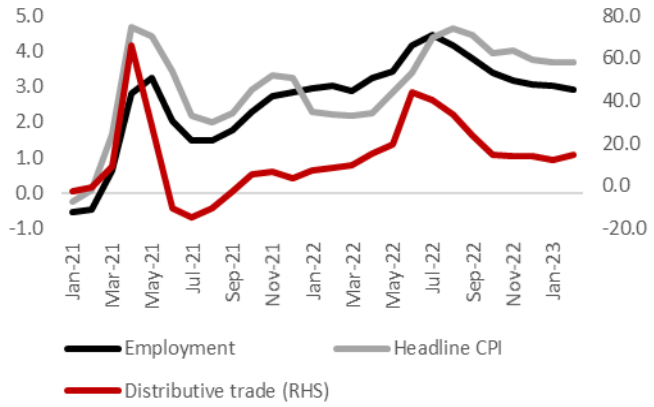
We maintain retail trade growth forecast at +8.9% for 2023. Considering macroeconomic outlook and improving domestic fundamentals, we are optimistic that retail trade growth able to touch +8.9% for 2023. We believe the pent-up demand will continue into this year underpinned by improving labour market, stable inflationary pressure, accommodative economic policies and uptick in tourism industry. Even though OPR is closer to its normalised rate of 3.00%, we believe it would have minimal effect on domestic spending outlook.

Chart 1: Distributive Trade Sales, DT vs. GDP (YoY%)



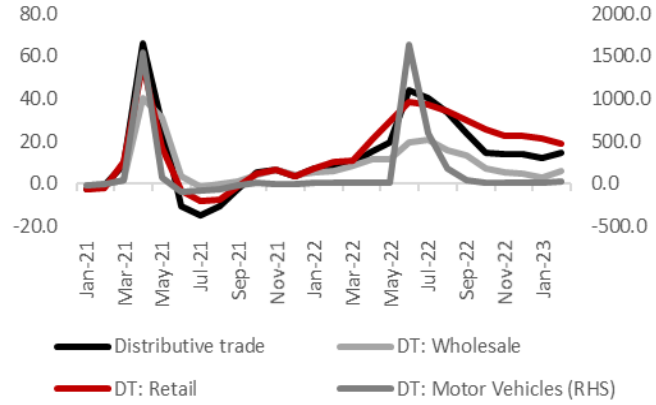
Source: DOSM; MIDFR

Chart 2: DT vs. CPI vs. Employment (YoY%)



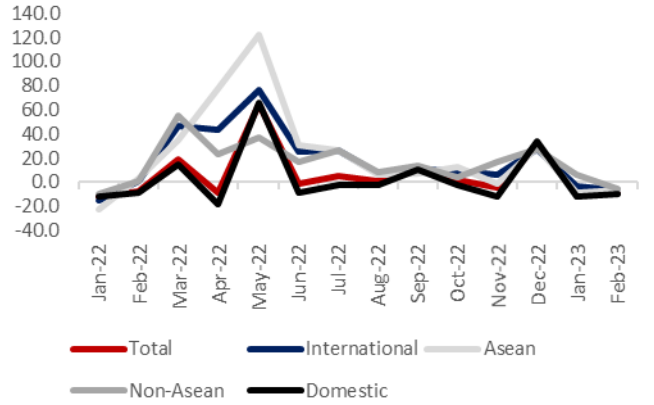
Source: DOSM; MIDFR

Chart 3: Distributive Trade Sales by Component (YoY%)



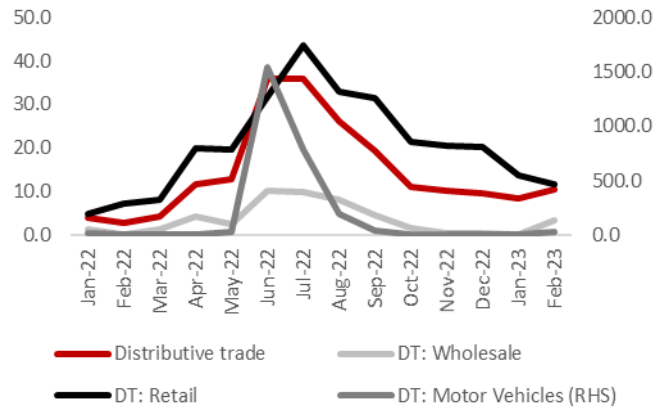
Source: DOSM; MIDFR

Chart 4: Airports Passenger Movements (MoM%)



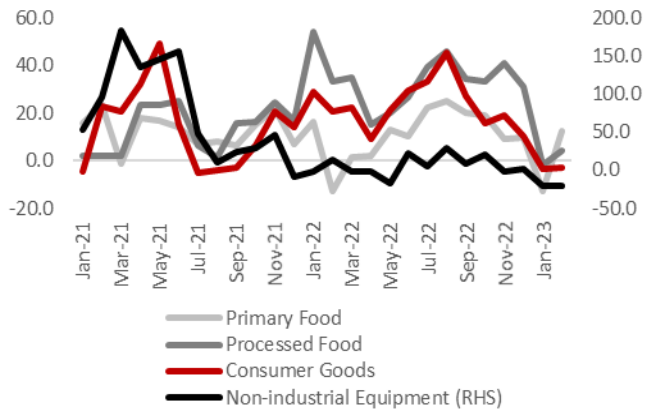
Source: MAHB; MIDFR

Chart 5: Distributive Trade Sales by Component (YoY%)



Source: DOSM; MIDFR

Chart 6: Components of imported consumption goods (YoY%)



Source: DOSM; MIDFR

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