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ECONOMIC REVIEW | April 2023 External Trade

Exports Fell Further in Apr-23, the Sharpest Contraction in 3 Years

- *Total trade dropped -1.6%yoy YTD. Malaysia's total trade fell again by -14.9%yoy in Apr-23 due to declines in both exports and imports by -18.7%mom and -10.1%mom, respectively.*
- *Exports contracted by -17.4%yoy, sharpest fall since May-20. Malaysia recorded a sharper decline in exports at -17.4%yoy (Mar-23: -1.4%yoy), attributable to faster contraction in domestic exports (-22.3%yoy) vis-à-vis sustained but slower growth in re-exports (+3.8%yoy).*
- *Exports fell to major markets. By destination, exports to most markets fell in Apr-23 with lower shipments to China, US, and even major regions i.e. EU and ASEAN.*
- *E&E exports declined further but higher for petroleum products. By sector, manufacturing exports contracted sharper at -15.5%yoy, which reflected lower exports of E&E, manufactures of metal, and chemicals & chemical products; excluding petroleum products which rose during the month.*
- *Downgrade 2023 growth forecast for exports to -3.4% and imports to -1.9%. Given the recent weakness in trade numbers, we now predict exports and imports to fall by -3.4% and -1.9%, respectively, this year.*

Total trade dropped -1.6%yoy. Malaysia's total trade fell again by -14.9%yoy in Apr-23, the second straight month and the sharpest contraction since the post-pandemic recovery. The value of total trade even fell to RM198b after remaining above RM200b for the past 13 months. The lower trade was a result of monthly declines in both exports and imports by -18.7%mom and -10.1%mom, respectively. With the sharper fall in exports, surplus of trade during the month dropped to RM12.8b, the lowest in 11 months and -45.3%yoy lower than a year ago. Given the slower trade numbers in Apr-23, total trade in the first fourth months was -1.6%yoy below the same period last year, mainly due to sharper fall in exports (Jan-Apr 2023: -2.6%yoy) and some weakness in imports (Jan-Apr 2023: -0.3%yoy). We opine the relatively slower fall in imports was in line with the strength in the domestic economy, given the still robust consumer demand on the back of improved job market.

Exports contracted by -17.4%yoy, sharpest fall since May-20. Malaysia recorded a sharper decline in exports at -17.4%yoy (Mar-23: -1.4%yoy). The decline in Apr-23 was the sharpest since exports recovered from the sharp contraction in Apr-May 2020 when the economy was adversely hit by the first ever Movement Control Order in Mar-20. The -17.4%yoy decline was also worse than ours and market forecasts, although we predicted that exports will remain weak given the lower commodity prices (vs. Apr-22) and continued weakness in global demand for manufactured goods. The data shows that weaker export performance was attributable to sharper fall in domestic exports (-22.3%yoy), in contrast to sustained but slower growth in re-exports (+3.8%yoy). In particular, 75% of the fall was contributed by the reduced exports of manufacturing goods, primarily E&E, manufactures of metal and chemicals & chemical products. In contrast to additional downward drag from lower shipments of crude petroleum and LNG, exports of petroleum products remained the positive contributor to Malaysia's exports growth. Compared to Mar-23, the -18.7%mom monthly drop in exports was mainly attributable to weaker external demand for E&E, palm oil & palm oil products, machinery & equipment as well as LNG & crude

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petroleum. Apart from the high base, we still expect the near-term export outlook to be constrained by the relatively lower commodity prices, especially for palm oil and crude oil. On another note, we expect demand for processed petroleum products will remain as positive contributor to export growth.

Table 1: Malaysia's External Trade Summary

	Oct-22	Nov-22	Dec-22	Jan-23	Feb-23	Mar-23	Apr-23
Exports (RMb)	131.6	129.7	131.8	112.7	112.3	129.7	105.4
% YoY	14.9	15.1	5.9	1.4	9.8	(1.4)	(17.4)
% MoM	(8.8)	(1.5)	1.6	(14.5)	(0.3)	15.5	(18.7)
Imports (RMb)	113.5	107.9	103.6	94.5	92.7	103.0	92.6
% YoY	29.1	15.6	11.5	2.2	12.4	(1.8)	(11.1)
% MoM	1.0	(4.9)	(4.0)	(8.8)	(1.9)	11.1	(10.1)
Total Trade (RMb)	245.1	237.6	235.4	207.2	205.0	232.6	198.0
% YoY	21.1	15.3	8.3	1.8	11.0	(1.6)	(14.5)
% MoM	(4.5)	(3.1)	(0.9)	(12.0)	(1.1)	13.5	(14.9)
Trade Balance (RMb)	18.1	21.8	28.1	18.1	19.6	26.7	12.8
Import Components							
Intermediate (RMb)	60.7	59.3	54.4	48.4	48.8	53.6	45.3
% YoY	26.4	8.2	6.4	(4.2)	2.9	(9.0)	(24.2)
Capital (RMb)	11.7	9.8	9.9	9.7	7.9	9.7	10.2
% YoY	41.2	2.9	(2.9)	(1.9)	(0.3)	3.1	(10.3)
Consumption (RMb)	8.5	9.5	9.3	8.2	7.0	9.3	8.2
% YoY	21.6	23.9	16.2	(4.8)	1.0	6.4	(1.6)

Note: MoM is non-seasonally adjusted figure
Source: Macrobond, MIDFR

Imports dropped by -11.1%yoy. Sharper fall of -11.1%yoy in imports (Mar-23: -1.8%yoy) was due to declines in purchases of foreign made intermediate (-24.2%yoy), capital (-10.3%yoy) and consumption (-1.6%yoy) goods. By sector, lower imports were recorded mainly for manufactured goods (-7%yoy) which posed a -5.7ppt downward drag or more than half of the decline due to reduced imports of E&E and chemicals & chemical products. On the other hand, imports for petroleum products (+34.3%yoy) and transport equipment (+27.1%%yoy) continued to rise on the back of rising domestic spending. Another one-third (or -4.3ppt) of the decline was from reduced imports of mining goods (-38.6%yoy), particularly crude petroleum and metalliferous ores & metal scrap. The balance of the lower imports was from reduced agriculture goods imports (-11.4%yoy), attributable to lower imports of palm oil-related agriculture products, natural rubber and other vegetable oil. We opine the relatively lower prices (against high base last year) would likely keep import growth subdued in the coming months.

Volume signals slower demand, while price increases eased further. Based on the available data, we still conclude commodity price correction in 2HCY22 led to reduced upward pressures on Malaysia's export and import prices, where both eased further to 2-year lows at +0.7%yoy and +2.6%yoy, respectively, in Mar-23. For the record, Brent crude oil prices and CPO prices averaged lower around USD79.45pb (-29.4%yoy) and

RM4,509.79/tonne (-40.4%yoy), respectively, in Mar-23. Although Brent crude oil prices averaged higher at USD81.62pb in Apr-23 while CPO prices fell to RM3,968.46/tonne, both prices remained around -20% to -40% lower than a year ago. We foresee both export and import prices will continue to ease in the coming months. The volume data, however, suggests that the recent drop was also a sign of slowing external demand as indicated by the declines in both export volume (-2.1%yoy) and import volume (-4.2%yoy) in Mar-23. We remained cautious that the weakness in external trade will continue in view of more domestically-driven in China's post-lockdown recovery and slowing growth (and final demand) from the advanced economies.

Exports fell to major markets. By destination, exports to most markets fell in Apr-23 with shipments to China falling sharper at -19.9%yoy, the 5th straight month of decline as China purchased less (processed) petroleum products and other manufactures from Malaysia. Meanwhile, exports to the US recorded a large contraction of -21.5%yoy, dragged down by lower demand for manufactured goods (among others, manufactures of metal, wood products and optical & scientific equipment). By region, Malaysia's exports to the EU countries continued to weaken and recorded sharper fall of -30.5%yoy, nearly comparable to the sharp decline of -36.6%yoy in Apr-20 during the first MCO. The weaker exports to EU was a result of lower exports of manufactures of metal, E&E and palm oil. Meanwhile, Malaysia's exports to regional ASEAN countries dropped sharper -11.4%yoy in Apr-23, the sharpest fall in 3 years dragged down by lower shipments of chemicals & chemical products, crude petroleum and E&E. While softening demand from the US and EU would likely affect manufactured goods exports, we remained cautious on the overall strength in China recovery and the potential positive spillover to global trade outlook; the recovery thus far has been driven more by the recovery in domestic spending. On another note, there is a downside risk to trade outlook from rising borrowing costs which could affect future demand outlook.

Table 2: Malaysia's Exports (YoY%)

	Oct-22	Nov-22	Dec-22	Jan-23	Feb-23	Mar-23	Apr-23
Total Exports (RMb)	**131.6**	**129.7**	**131.8**	**112.7**	**112.3**	**129.7**	**105.4**
Re-exports (RMb)	**30.4**	**26.2**	**26.6**	**26.6**	**24.8**	**27.2**	**25.0**
Domestic Exports (RMb)	**101.2**	**103.5**	**105.2**	**86.0**	**87.4**	**102.4**	**80.4**
Exports by Key Country / Region							
China	3.2	9.0	(12.1)	(11.9)	(6.0)	(6.2)	(19.9)
USA	8.8	8.4	7.8	(0.7)	18.7	7.5	(21.5)
Japan	27.1	31.6	13.7	13.2	8.3	(6.0)	(20.5)
India	(9.8)	(2.2)	(8.4)	(30.7)	(9.8)	0.9	(29.8)
Hong Kong	18.5	26.0	(3.6)	4.0	25.1	9.5	(4.3)
Australia	37.0	59.1	28.4	27.8	20.0	37.2	(14.4)
EU	6.9	16.3	20.1	1.4	(2.2)	(5.3)	(30.5)
ASEAN	25.9	16.9	12.7	10.7	14.8	(3.5)	(11.4)
Singapore	27.6	36.3	23.1	19.0	27.7	3.0	(1.3)
Thailand	21.6	23.3	3.4	8.3	6.5	(4.1)	(24.1)
Indonesia	28.7	9.9	1.6	(1.8)	13.3	17.9	8.5
Vietnam	18.5	(25.2)	3.3	(7.9)	(32.3)	(29.4)	(28.6)
Philippines	15.5	(2.1)	(7.2)	1.6	32.5	(18.3)	(27.2)

Source: Macrobond, MIDFR

E&E declined further but petroleum products higher. By sector, manufacturing exports contracted sharper at -15.5%yoy, which reflected the sharper drop in E&E exports (-6.5%yoy), manufactures of metal (-35%yoy), and chemicals & chemical products (-33.2%yoy). On the contrary, Malaysia's exports of petroleum products rose by +20.8%yoy, mostly higher shipments to Singapore, Indonesia, South Korea, Austarlia, and even EU. Meanwhile, agriculture exports also fell sharply at -29.2%yoy mainly due to weak palm oil exports. Mining exports also contracted by -28.9%yoy as the value of shipments for crude petroleum (-45.7%yoy) and LNG (-13.6%yoy) was smaller than a year ago. Similarly, agriculture exports recorded larger fall -29.2%yoy in Apr-23, largely attributable to the fall in palm oil exports, particularly to India and the Netherlands. Exports of other agricultural commodities like natural rubber and sawn timber & moulding also fell during the month. We anticipate continued weakness in foreign demand for manufactured goods would affect exports near-term Malaysia's exports outlook. On the other hand, resource-based exports may be influenced not only by relatively lower commodity prices but also by the slowing global demand.

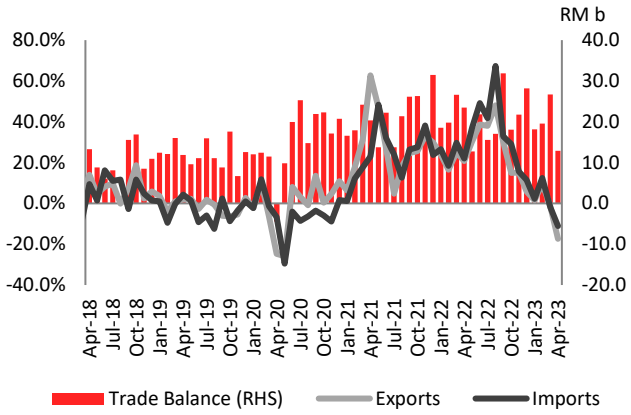
Table 3: Malaysia's Exports by Major Products (YoY%)

	Oct-22	Nov-22	Dec-22	Jan-23	Feb-23	Mar-23	Apr-23
E&E	19.0	30.9	4.8	4.9	11.8	(4.4)	(6.5)
Machinery, Equipment & Parts	1.8	2.7	10.1	(12.5)	5.0	11.0	(27.6)
Optical & Scientific Equipment	13.7	18.1	11.0	3.6	6.6	11.7	(16.7)
Palm oil & palm oil-based products	(5.0)	(12.1)	(6.2)	(22.7)	(14.9)	(14.4)	(34.8)
Crude Petroleum	78.4	95.8	40.0	25.9	50.6	(4.8)	(45.7)
Petroleum Products	96.1	26.4	66.4	114.9	86.3	32.1	20.8
LNG	135.2	68.3	33.5	62.3	32.9	11.4	(13.6)
Rubber products	(45.7)	(46.5)	(42.1)	(44.9)	(35.5)	(29.5)	(51.7)

Source: Macrobond, MIDFR

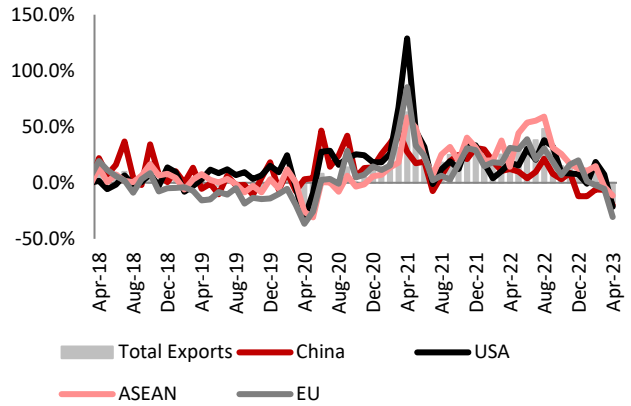
Downgrade 2023 growth forecast for exports to -3.4% and imports to -1.9%. Taking into account the recent weakness in trade numbers in Apr-23, we now predict exports and imports to fall by -3.4% and -1.9%, respectively, this year. While China's recovery can be a boost to international trade activity this year, we view weak global demand (particularly for manufactured goods) in addition to limited upward pressures on prices and thus the high base would translate into slower external trade performance this year. In fact, we expect lower commodity prices will continue to affect resource-based exports in the next few months. Trade outlook could weaken further if global inflation remains high, central banks continue to tighten monetary policy and geopolitical risk deteriorates. Despite the weakness in external trade, we expect Malaysia's economic growth will remain positive, driven by sustained growth in domestic demand in view of the positive outlook for consumer spending and job market.

Chart 1: Exports & Imports (YoY%) vs Trade Balance (RM b)



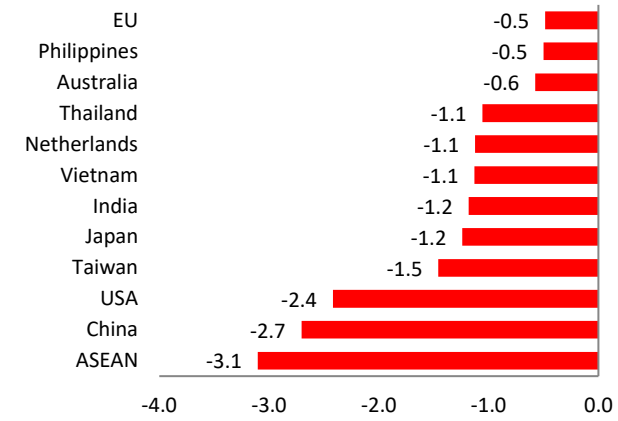
Source: Macrobond, MIDFR

Chart 2: Exports Growth by Major Destination (YoY%)



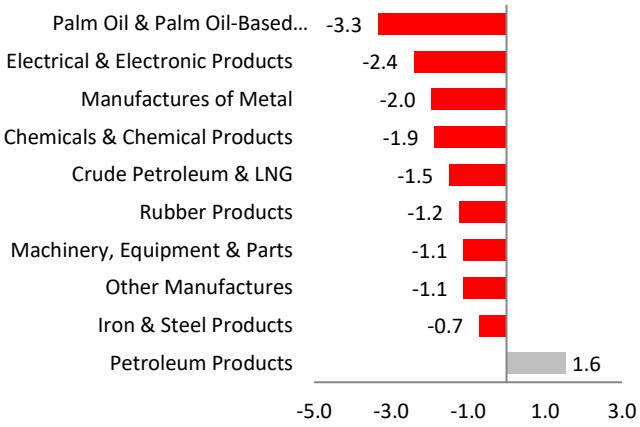
Source: Macrobond, MIDFR

Chart 3: %-point Contribution to Total Exports Growth in Apr-23 by Major Destination



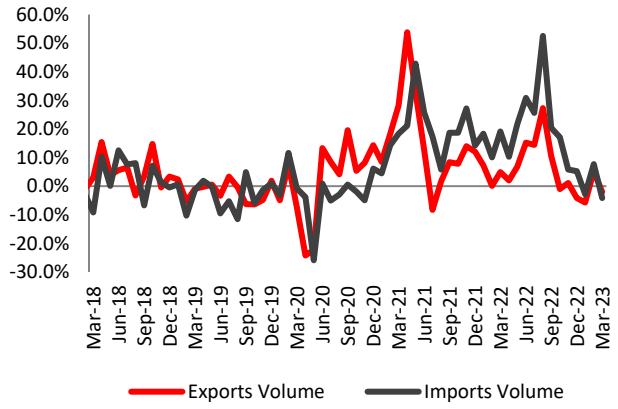
Source: Macrobond, MIDFR

Chart 4: %-point Contribution to Total Exports Growth in Apr-23 by Key Products



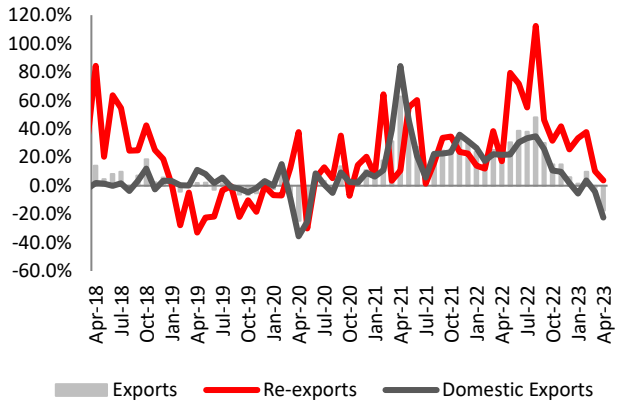
Source: Macrobond, MIDFR

Chart 5: Exports vs Imports Volume (YoY%)



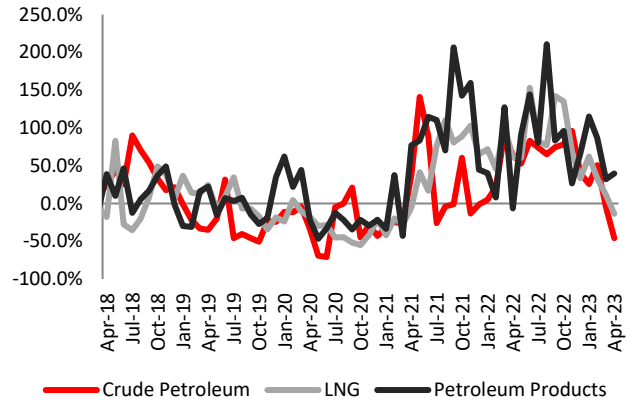
Note: Latest available data as of Mar-22
Source: Macrobond, MIDFR

Chart 6: Exports: Domestic vs Re-exports (YoY%)



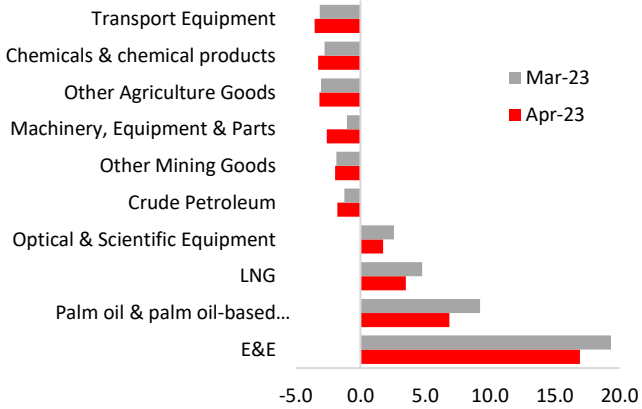
Source: Macrobond, MIDFR

Chart 7: Exports of Mining Goods (YoY%)



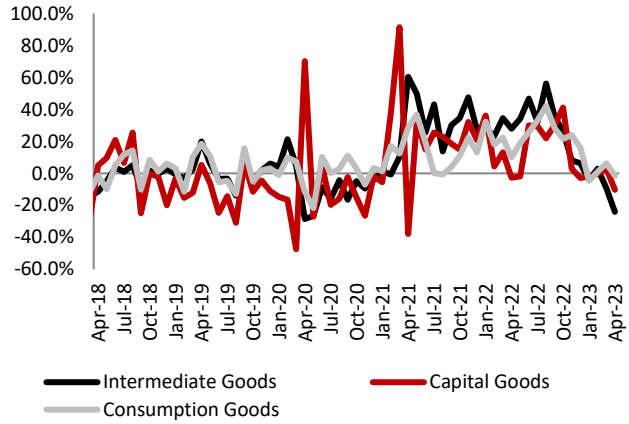
Note: Latest available data as of Dec-22
Source: Macrobond, MIDFR

Chart 8: Trade Balance for Selected Products (RM b)



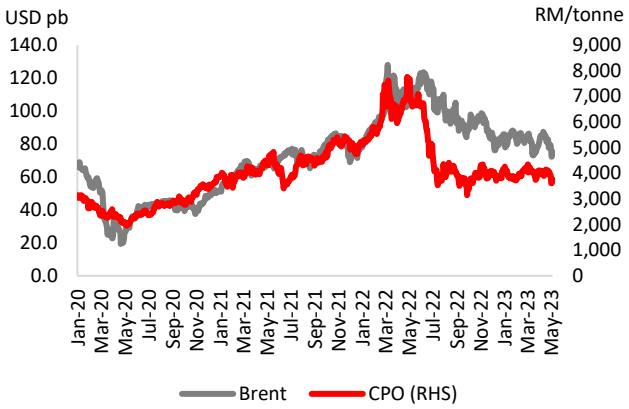
Source: Macrobond, MIDFR

Chart 9: Imports of Goods by End Use (YoY%)



Source: Macrobond, MIDFR

Chart 10: Price of Brent Crude Oil and CPO



Source: Bloomberg, MIDFR

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