

ECONOMIC REVIEW | August 2018 Distributive Trade

Wholesale and Retail Hit New High as Tax Holiday Period Comes to End

- Wholesale and retail at new record high. Distributive trade rose by 10.7%yoy to a fresh record high of more than RM107b in Aug-18 as both wholesale and retail trade reached a new all-time high of RM50.9b and RM43.5b respectively. It is the highest growth since Aug-17 fuelled by a ramp-up consumer spending as tax holiday period came to an end.
- Distributive sales to improve in 2H18. For first eight months, distributive sales moderated to 8.4%yoy compared to 9.4%yoy recorded in the same comparable period last year, consistent with our expectations. For 2H18, we foresee a continuous positive performance in distributive sales buoyed by slowdown in inflation, stable job market and supportive policy changes such as stabilized retail fuel prices.
- We estimate private consumption and services sector to grow at 6.5% and 6.2% respectively for 2018. Encouraging trend of distributive sales in 2017 is expected to continue for 2018 supported by economic conditions such as strengthening labor market including more job creation and wage growth on top of softening inflation and upbeat tourism activities.

Wholesale and retail at new record high. Distributive trade rose by 10.7%yoy to a fresh record high of more than RM107b in Aug-18 as both wholesale and retail trade reached a new all-time high of RM50.9b and RM43.5b respectively. It is the highest growth since Aug-17 fuelled by a ramp-up consumer spending as tax holiday period came to an end. In addition, motor vehicles continued to expand by 10.6%yoy to RM13.5b. On monthly basis, wholesale trade rebounded by 3.6% while retail sales grew at tepid pace of 0.1%. In contrast, motor vehicles sales dropped 2.8% after three consecutive months of positive growth despite the last month of tax holiday period. With the reintroduction of SST in Sep-18, we foresee a trivial decline in distributive trade during the month as consumers spending might experience a temporary transition shock.

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

	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18	Jul-18	Aug-18
Distributive Trade	101.1	97.2	103.8	99.8	103.7	106.1	106.5	107.9
YoY%	8.0	7.4	6.5	7.5	7.0	9.6	10.3	10.7
MoM%	(0.2)	(3.9)	6.8	(3.9)	3.9	2.3	0.3	1.3
Motor Vehicles	11.7	10.5	12.3	12.1	12.3	13.0	13.9	13.5
YoY%	2.6	2.2	(4.6)	6.3	(2.9)	10.1	12.1	10.6
MoM%	(3.4)	(9.5)	16.4	(1.7)	2.0	5.8	6.5	(2.8)
Wholesale Trade	49.7	47.4	50.7	48.6	50.5	50.4	49.2	50.9
YoY%	7.9	7.1	8.0	7.6	7.8	7.4	7.2	7.4
MoM%	0.6	(4.8)	6.9	(4.1)	4.0	(0.3)	(2.5)	3.6
Retail Trade	39.7	39.2	40.8	39.1	40.9	42.7	43.4	43.5
YoY%	9.9	9.2	8.6	7.9	9.3	12.1	13.3	14.8
MoM%	(0.2)	(1.1)	4.1	(4.2)	4.4	4.5	1.7	0.1

Source: CEIC; MIDFR

*MoM is seasonally adjusted figures

Robust domestic spending despite slight contraction in foreign activities. Exports fell marginally by 0.3%yoy however value remains above RM80b. Exports of E&E products which constituted 39% of total exports rose by 3.2%yoy to RM32b in Aug-18 compared to a double digit growth of 23.6%yoy in the previous month. In line, industrial production moderated to 2.2% in the same month as manufacturing of E&E products grew at a softer pace of 4.6%yoy (8%yoy in Jul-18). Likewise, manufacturing sales also slowed to 8.1%yoy compared to 9.6% in the preceding month. On top of that, employment and wages growth in the manufacturing sector also eased to 1.9%yoy and 9.7%yoy respectively. However, inflation rate slowed further to 0.2%yoy which favored domestic spending.

Table 2: Distributive Trade's Detailed Components Performance (YoY%)

	3Q16	4Q16	1Q17	2Q17	3Q17	4Q17	1Q18	2Q18
Distributive Trade Sales	5.7	6.1	8.5	9.7	9.3	8.4	7.3	8.0
Wholesale Sales	5.5	5.9	8.4	8.7	9.1	9.0	7.7	7.6
Wholesale Sales: Fee or Contract Basis	3.7	5.8	9.0	8.0	9.2	7.1	6.3	351.3
Wholesale Sales: Agri Raw Materials & Live Animals	3.5	7.0	11.5	10.2	8.2	10.3	8.4	1.6
Wholesale Sales: Food, Beverages & Tobacco	7.8	7.9	8.9	9.6	9.9	8.7	7.1	16.2
Wholesale Sales: Household Goods	4.4	4.7	3.9	6.5	5.6	5.2	6.8	8.2
Wholesale Sales: Machinery, Equipment & Supplies	10.5	8.2	9.0	8.8	6.1	7.2	6.3	386.7
Wholesale Sales: Others Specialised	4.4	5.0	10.0	9.4	11.9	11.6	8.9	8.4
Wholesale Sales: Non-Specialised	6.8	3.9	3.2	3.4	3.5	2.8	2.9	3075.1
Retail Sales	9.0	9.1	10.1	13.5	12.2	10.4	9.2	9.8
Retail Sales: Non-Specialised Stores	9.9	9.0	9.9	15.3	13.1	11.2	10.0	(81.1)
Retail Sales: Food, Beverages & Tobacco	11.3	9.7	13.3	14.0	10.8	10.6	9.7	11.3
Retail Sales: Automotive Fuel	9.7	9.5	16.0	16.2	14.0	13.2	11.0	35.0
Retail Sales: Information & Communication Equip	7.4	8.1	7.3	9.8	9.2	5.5	4.7	4.2
Retail Sales: Household Equip	7.5	6.6	7.3	10.5	9.2	8.9	8.0	(56.6)
Retail Sales: Cultural & Recreation Goods	7.1	7.3	8.1	7.8	8.8	10.3	9.6	10.2
Retail Sales: Others in Specialised Store	9.3	11.7	11.5	15.1	14.9	11.9	10.4	(98.5)
Retail Sales: Stalls & Markets	12.7	11.4	11.7	10.4	9.6	9.7	7.4	5.0
Retail Sales: Not in Stores, Stalls & Markets	7.4	5.8	6.5	8.7	8.5	8.4	6.1	3771.8
Motor Vehicles Sales	(2.0)	(1.4)	4.5	2.5	1.9	0.2	(0.2)	4.3
Motor Vehicles Sales: Motor Vehicle	(5.4)	(5.2)	4.6	(0.1)	(1.1)	(4.3)	(3.9)	(77.1)
Motor Vehicles Sales: Motor Vehicle Maint. & Repair	3.0	4.0	5.6	7.5	7.0	7.1	6.7	7.8
Motor Vehicles Sales: Motor Vehicle Parts & Accessories	4.0	5.2	4.2	6.5	5.9	6.2	4.2	(66.4)
Motor Vehicles Sales: Motorcycles Maint. & Repair, Parts & Acc.	0.7	2.0	3.1	2.8	4.6	4.7	2.1	4.9

Source: CEIC; MIDFR

Distributive sales to improve in 2H18. For first eight months, distributive sales moderated to 8.4%yoy compared to 9.4%yoy recorded in the same comparable period last year, consistent with our expectations. For 2H18, we foresee a continuous positive performance in distributive sales buoyed by slowdown in inflation, stable job market and supportive policy changes such as stabilized retail fuel prices. In addition, the buoyant business and consumer confidences in 2Q18 which positioned above 100-threshold level indicate business and consumers are optimistic on current as well as future economic outlook. Looking at at the passenger movements in Sep-18 which grew to 7.7 million at a rate of 1.3%yoy, we opine it will aid the growth for retail sales in upcoming month.

Greater demand in Indonesia amid Asian Games. Retail sales in Indonesia surged 6.1%yoy in Aug-18 after two months of meager growth. The stronger pace was mainly fuelled by greater demand due to the Asian Games and Indonesian Independence Day. During the month, retail sales were mainly boosted by clothing sales. Similarly, retail sales grew at a stronger pace compared to previous month for China (9% vs 8.8%), Japan (2.7% vs 1.5%) and Euro Area (1.8% vs 1%). Meanwhile, retail sales in the US slowed marginally to 6.6% in Aug-18 from 6.7% registered in Jul-18 as high gasoline prices pulled spending away from other categories. Moving forward, expectations are mixed on the consumer spending pattern for the key economies. Consumer spending is expected to remain healthy in the US as signalled by its consumer confidence. Conference Board Consumer Confidence Index for the US in Sep-18 increased further to 138.4 (134.7 in Aug-18). In line, the University of Michigan's consumer sentiment for the US in Sep-18 reported higher at 100.1 (96.2 in Aug-18). However, Euro Area recorded the lowest reading since May-17 at -2.9%.

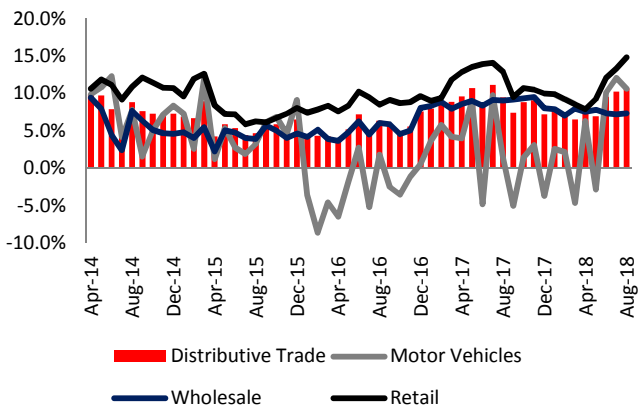
Table 3: Global Retail Sales (YoY%)

	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18	Jul-18	Aug-18
Malaysia	9.9	9.2	8.6	7.9	9.3	12.1	13.3	14.8
Indonesia	-1.8	1.5	2.5	4.1	8.3	2.3	2.9	6.1
Singapore	-7.6	8.7	-0.9	0.9	0.2	2.2	-2.6	na
Philippines	3.5	3.8	4.2	4	4.1	4.2	4.2	4.1
Thailand	9.8	7.9	3.7	7.6	6	7	16.6	na
Japan	1.5	1.7	1	1.5	0.6	1.7	1.5	2.7
China	9.7	9.7	10.1	9.4	8.5	9	8.8	9
Euro Area	1.4	1.8	1.7	1.6	1.7	1.5	1	1.8
US	3.9	4.1	5.1	4.8	6.4	6.1	6.7	6.6

Source: CEIC; MIDFR

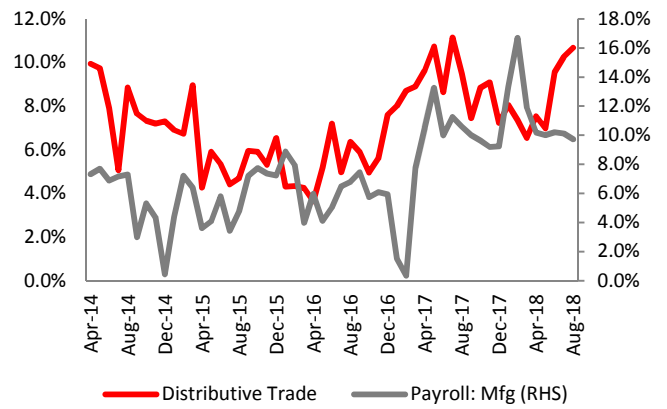
We estimate private consumption and services sector to grow at 6.5% and 6.2% respectively for 2018. Encouraging trend of distributive sales in 2017 is expected to continue for 2018 supported by economic conditions such as strengthening labor market including more job creation and wage growth on top of softening inflation and upbeat tourism activities. The strong momentum in distributive trade will translate into solid growth for private consumption and services sector thus will drive Malaysia's economy into a good position in 2018. Moreover, new economic policies such as stable retail fuel prices give extra room for domestic consumption to rise steadily throughout the year. Nevertheless, the intensifying Sino-US trade battles could affect Malaysia. 

Chart 1: Distributive Trade, DT (YoY%)



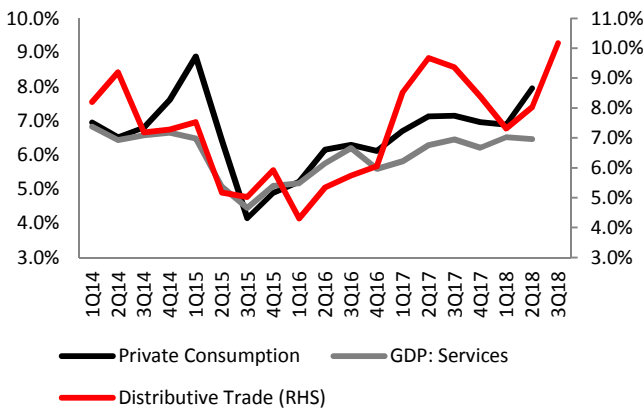
Source: CEIC; MIDFR

Chart 2: DT vs Payroll: Manufacturing (YoY%)



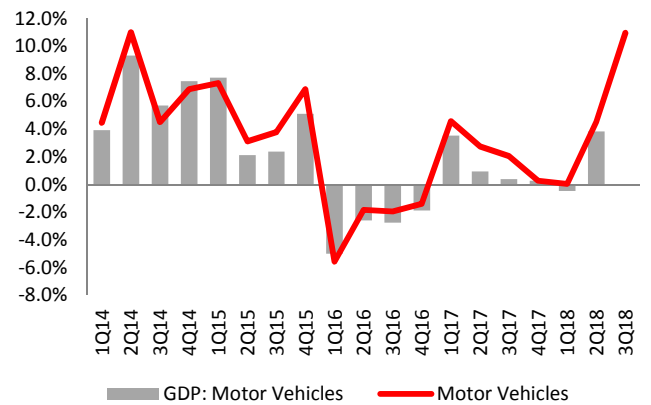
Source: CEIC; MAHB; MIDFR

Chart 3: DT vs Private Consumption vs Services (YoY%)



Source: CEIC; MIDFR

Chart 4: Motor Vehicles: GDP vs DT (YoY%)



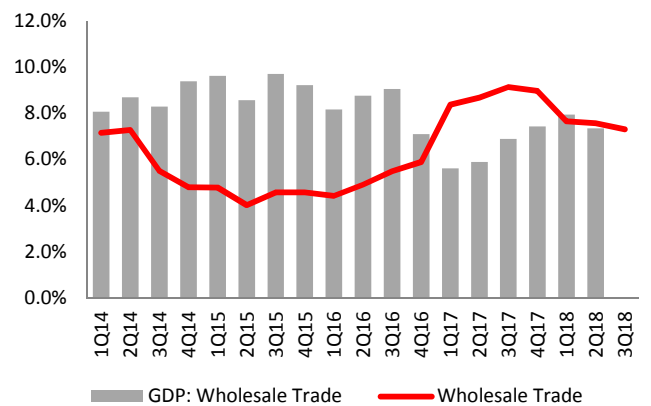
Source: CEIC; MIDFR

Chart 5: Retail Trade: GDP vs DT (YoY%)



Source: CEIC; MIDFR

Chart 6: Wholesale Trade: GDP vs DT (YoY%)



Source: CEIC; MIDFR

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