

## ECONOMIC REVIEW | February 2018 Distributive Trade

### Distributive Trade Sales Remain Sturdy – Indicating Healthy Domestic Demand for the 1H18

- *Distributive trade sales returned to below RM100bn value. Distributive trade rose by 7.5%yoy to RM97.3 billion in Feb-18 lifted by retail trade. However, the figure was slightly lower than previous month's reading of 8%yoy, in line with our expectation on a trivial slowdown in Feb-18 following short working days due to the Chinese New Year festive holidays.*
- *Expecting a slight slowdown for private consumption and services sector in 1Q18. Despite tourism activity dynamics, unfavourable base effect is likely to affect moderating speed in distributive sales performances in 1Q18.*
- *We estimate private consumption and services sector to grow at 6.5% and 6.2% respectively for 2018. Firm domestic spending together with strengthening labor market including more job creation and wage growth will support Malaysia's economy particularly via private consumption and services sector.*

**Distributive trade sales returned to below RM100bn value.** Distributive trade rose by 7.5%yoy to RM97.3 billion in Feb-18 lifted by retail trade. However, the figure was slightly lower than previous month's reading of 8%yoy, in line with our expectation on a trivial slowdown in Feb-18 following short working days due to the Chinese New Year festive holidays. Retail trade expanded by 9.2%yoy to RM39.2 billion, followed by wholesale trade which grew by 7.5%yoy to RM47.6 billion. Meanwhile, motor vehicles businesses rose by 1.9%yoy to RM10.5 billion. We opine the overall slowdown is only temporary. Hence, we foresee distributive trade sales to remain on steady momentum underpin by stable job market, strengthening Ringgit, decelerating inflationary pressure, tourism activities and accommodative economic policies.

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

	Jul-17	Aug-17	Sep-17	Oct-17	Nov-17	Dec-17	Jan-18	Feb-18
<b>Distributive Trade</b>	<b>96.5</b>	<b>97.5</b>	<b>97.7</b>	<b>98.0</b>	<b>97.8</b>	<b>101.2</b>	<b>101.1</b>	<b>97.3</b>
YoY%	11.1	9.5	7.5	8.8	9.1	7.2	8.0	7.5
MoM%	0.3	0.7	(0.8)	1.3	0.6	(0.3)	0.8	0.8
<b>Motor Vehicles</b>	<b>12.4</b>	<b>12.2</b>	<b>11.3</b>	<b>11.8</b>	<b>12.0</b>	<b>12.1</b>	<b>11.7</b>	<b>10.5</b>
YoY%	9.8	1.4	(5.0)	1.4	3.1	(3.7)	2.6	1.9
MoM%	2.7	(0.2)	(6.5)	5.8	2.6	(2.4)	1.9	0.7
<b>Wholesale Trade</b>	<b>45.9</b>	<b>47.4</b>	<b>49.2</b>	<b>48.4</b>	<b>47.7</b>	<b>49.4</b>	<b>49.7</b>	<b>47.6</b>
YoY%	9.2	9.1	9.2	9.4	9.6	8.0	7.9	7.5
MoM%	0.2	2.0	1.3	0.1	(0.2)	(0.7)	0.9	0.6
<b>Retail Trade</b>	<b>38.3</b>	<b>37.9</b>	<b>37.3</b>	<b>37.8</b>	<b>38.1</b>	<b>39.7</b>	<b>39.6</b>	<b>39.2</b>
YoY%	14.1	12.9	9.5	10.7	10.5	10.0	9.9	9.2
MoM%	(0.5)	(0.4)	(3.0)	2.4	0.6	0.3	0.7	1.0

Source: CEIC; MIDFR

\*MoM is seasonally adjusted figures

**Modest domestic spending amid of contraction in external trade activities.** Exports fell by -2%yoy to RM70.3 billion in Feb-18, after robust 17.9%yoy gain in the preceding month. This translated into moderating industrial production and manufacturing sales by 3%yoy and 4.9%yoy respectively. On top of that, macroeconomic variable such as employment in the manufacturing sector also eased by 2.2%yoy. However, other variables are favourable toward domestic spending with wage growth went up 16.7%yoy and inflation rate further slowed to 1.4%yoy. Hence, we foresee Malaysia's domestic spending will continue expanding at steady pace in 2018 in line with external trade activities and tourism performances.

**Expecting a slight slowdown for private consumption and services sector in 1Q18.** Despite tourism activity dynamics, unfavourable base effect is likely to affect moderating speed in distributive sales performances in 1Q18. MAHB's passenger movements in 1Q18 saw a 3.4% growth, the slowest since 2Q16. Therefore, we forecast private consumption and services sector grow marginally lower in 1Q18 as compared to 4Q17.

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

	1Q16	2Q16	3Q16	4Q16	1Q17	2Q17	3Q17	4Q17
<b>Distributive Trade Sales</b>	<b>4.3</b>	<b>5.4</b>	<b>5.7</b>	<b>6.1</b>	<b>8.5</b>	<b>9.7</b>	<b>9.3</b>	<b>8.4</b>
<b>Wholesale Sales</b>	<b>4.4</b>	<b>4.9</b>	<b>5.5</b>	<b>5.9</b>	<b>8.4</b>	<b>8.7</b>	<b>9.1</b>	<b>9.0</b>
Wholesale Sales: Fee or Contract Basis	1.0	3.6	3.7	5.8	9.0	8.0	9.2	7.1
Wholesale Sales: Agri Raw Materials & Live Animals	0.8	(2.5)	3.5	7.0	11.5	10.2	8.2	10.3
Wholesale Sales: Food, Beverages & Tobacco	7.9	8.4	7.8	7.9	8.9	9.6	9.9	8.7
Wholesale Sales: Household Goods	7.2	6.0	4.4	4.7	3.9	6.5	5.6	5.4
Wholesale Sales: Machinery, Equipment & Supplies	3.4	7.0	10.5	8.2	9.0	8.8	6.1	7.2
Wholesale Sales: Others Specialised	2.7	4.1	4.4	5.0	10.0	9.4	11.9	11.6
Wholesale Sales: Non-Specialised	4.6	6.7	6.8	3.9	3.2	3.4	3.5	2.8
<b>Retail Sales</b>	<b>7.9</b>	<b>8.7</b>	<b>9.0</b>	<b>9.1</b>	<b>10.1</b>	<b>13.5</b>	<b>12.2</b>	<b>10.4</b>
Retail Sales: Non-Specialised Stores	7.7	8.8	9.9	9.0	9.9	15.3	13.1	11.2
Retail Sales: Food, Beverages & Tobacco	8.9	10.6	11.3	9.7	13.3	14.0	10.8	10.6
Retail Sales: Automotive Fuel	8.7	8.9	9.7	9.5	16.0	16.2	14.0	13.2
Retail Sales: Information & Communication Equip	6.6	9.5	7.4	8.1	7.3	9.8	9.2	5.5
Retail Sales: Household Equip	7.4	7.8	7.5	6.6	7.3	10.5	9.2	8.9
Retail Sales: Cultural & Recreation Goods	9.8	7.8	7.1	7.3	8.1	7.8	8.8	10.3
Retail Sales: Others in Specialised Store	8.2	8.7	9.3	11.7	11.5	15.1	14.9	11.9
Retail Sales: Stalls & Markets	10.8	11.7	12.7	11.4	11.7	10.4	9.6	9.7
Retail Sales: Not in Stores, Stalls & Markets	4.2	6.3	7.4	5.8	6.5	8.7	8.5	8.4
<b>Motor Vehicles Sales</b>	<b>(5.5)</b>	<b>(1.8)</b>	<b>(2.0)</b>	<b>(1.4)</b>	<b>4.5</b>	<b>2.5</b>	<b>1.9</b>	<b>0.3</b>
Motor Vehicles Sales: Motor Vehicle	(9.0)	(5.2)	(5.4)	(5.2)	4.6	(0.1)	(1.1)	(4.0)
Motor Vehicles Sales: Motor Vehicle Maint. & Repair	0.5	2.4	3.0	4.0	5.6	7.5	7.0	7.1
Motor Vehicles Sales: Motor Vehicle Parts & Accessories	0.1	4.4	4.0	5.2	4.2	6.5	5.9	6.2
Motor Vehicles Sales: Motorcycles Maint. & Repair, Parts & Acc.	(3.9)	1.5	0.7	2.0	3.1	2.8	4.6	4.7

Source: CEIC; MIDFR

**Retail sales improved for key economies, particularly Indonesia.** Indonesia's retail sales rebounded by 1.5%yoy in Feb-18 from a fall of -1.8% in the preceding month. The rise in sales was mainly supported by other goods category, specifically sales of clothing that increased by 10.2%yoy partly due to Lunar New Year Celebrations from purchases of new clothes for the festive season. Besides that, Japan's retail sales also expanded by 1.6%yoy in Feb-18 as consumers spent more on food, drinks and clothes. Rising wages and tight labour market support Japan's consumer confidence and point to slightly bigger gain during the month. Overall global retail sales suggests growing consumer confidence in major economies which will result in a steady momentum of consumers spending at least for first half of 2018. Nevertheless, protectionism threat remains as a major global downside risk. In fact, business sentiments in the US have shown declining reactions after the imposition of tariff hikes on certain imported goods. In Mar-18, NFIB Business Optimism Index and ISM Manufacturing PMI in the US went down to 104.7 points (Feb-18: 107.6, 2<sup>nd</sup> Highest Record) and 59.3 points (Feb-18: 60.8, 14-year high).

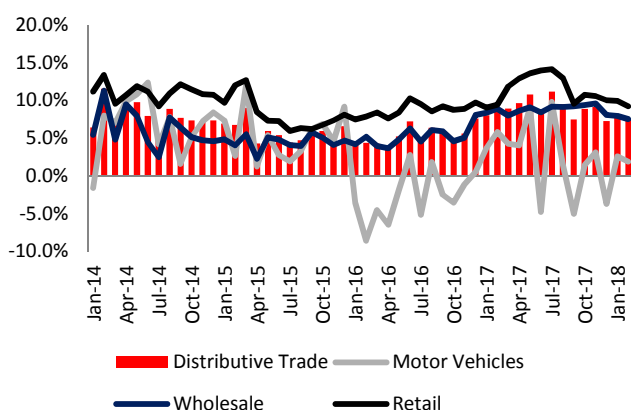
**Table 3: Global Retail Sales (YoY%)**

	Jul-17	Aug-17	Sep-17	Oct-17	Nov-17	Dec-17	Jan-18	Feb-18
Malaysia	14.1	12.9	9.5	10.7	10.5	10.0	9.9	9.2
Indonesia	(3.3)	2.2	1.8	2.2	2.5	0.7	(1.8)	1.5
Singapore	1.7	3.7	(0.6)	(0.2)	5.0	6.3	(8.4)	
Philippines	3.3	3.3	3.2	2.7	2.4	2.5	3.5	3.8
Thailand	6.6	9.5	9.4	5.7	7.0	3.9	12.7	
Japan	1.8	1.8	2.3	(0.2)	2.1	3.6	1.5	1.6
China	10.4	10.1	10.3	10.0	10.2	9.4	9.7	9.7
Euro Area	2.3	1.8	3.9	0.3	3.7	2.0	1.5	1.8
US	3.7	3.5	5.0	5.0	5.9	5.1	3.9	4.0

Source: CEIC; MIDFR

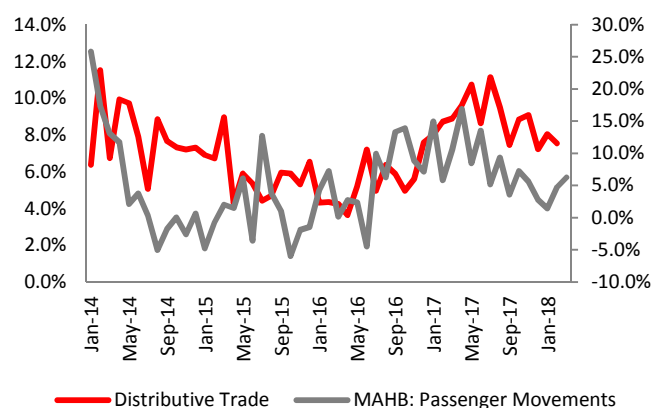
**We estimate private consumption and services sector to grow at 6.5% and 6.2% respectively for 2018.** Firm domestic spending together with strengthening labor market including more job creation and wage growth will support Malaysia's economy particularly via private consumption and services sector. We opine Malaysian economy will expand by 5.5% in 2018. 📈

**Chart 1: Distributive Trade, DT (YoY%)**



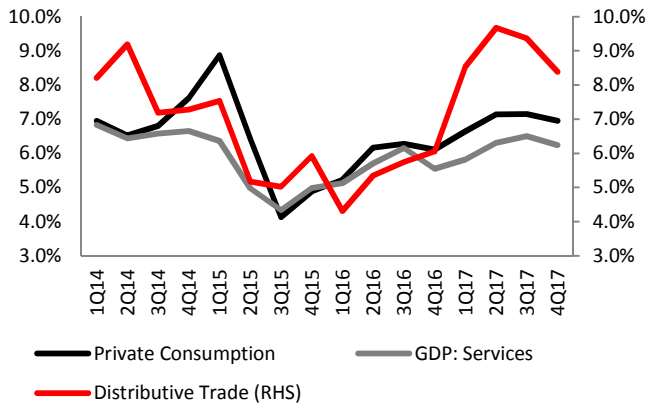
Source: CEIC; MIDFR

**Chart 2: DT vs Passenger Movements (YoY%)**



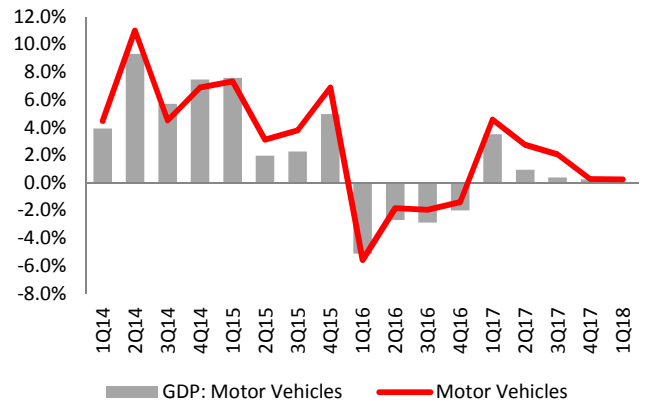
Source: CEIC; MAHB; MIDFR

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



Source: CEIC; MIDFR

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



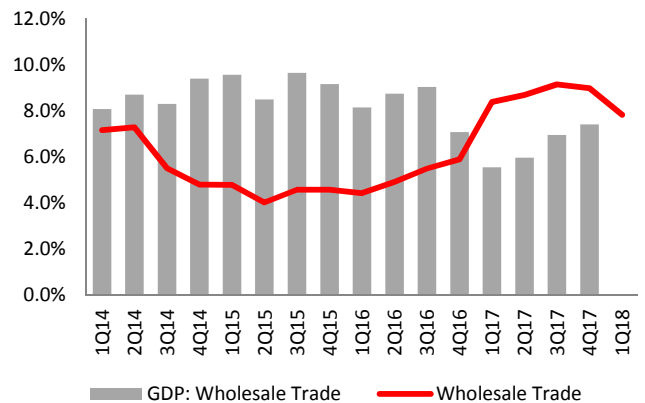
Source: CEIC; MIDFR

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



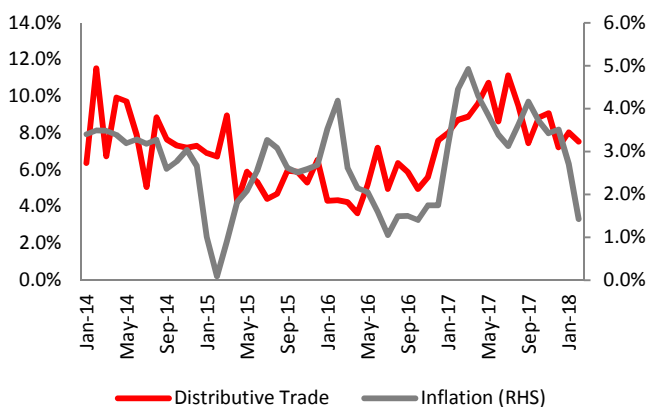
Source: CEIC; MIDFR

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



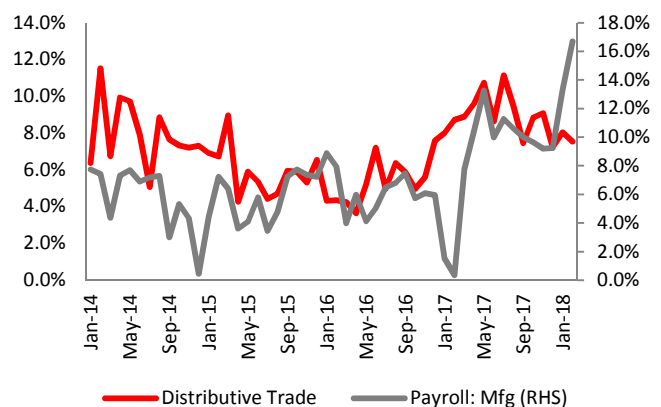
Source: CEIC; MIDFR

**Chart 7: Distributive Trade vs Inflation Rate (YoY%)**



Source: DOSM; MIDFR

**Chart 8: : Distributive Trade vs Manufacturing Payroll (YoY%)**



Source: DOSM; MIDFR

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