

ECONOMIC REVIEW | July 2018 Distributive Trade

Tax Holiday Period Pushes Distributive Trade to New High at RM106.5b

- Retail and motor vehicles sales at new record high. Distributive trade rose by 10.3%yoy to a fresh record high of RM106.5b in Jul-18 as both retail and motor vehicles sales reached a new all-time high of RM43.4b and RM13.9b respectively. In addition, wholesale trade continued to expand by 7.2%yoy to RM49.2b.
- Distributive sales to improve in 2H18. For first seven months, distributive sales moderated to 8%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 zero-rated GST and 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. 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.

Retail and motor vehicles sales at new record high. Distributive trade rose by 10.3%yoy to a fresh record high of RM106.5b in Jul-18 as both retail and motor vehicles sales reached a new all-time high of RM43.4b and RM13.9b respectively. In addition, wholesale trade continued to expand by 7.2%yoy to RM49.2b. On monthly basis, both retail and motor vehicles sales grew by 1.7%mom and 6.5%mom respectively while wholesale trade dipped further by 2.5%mom. As anticipated, consumers continued to spend especially on big-ticket items such as motor vehicles in order to reap benefits of the 3-month tax holiday period started on 1st June. Looking ahead, we foresee distributive trade to keep increasing significantly in upcoming month as consumers will opt to fully utilize the last month of tax holiday period.

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

	Dec-17	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18	Jul-18
Distributive Trade	101.2	101.1	97.2	103.8	99.8	103.7	106.1	106.5
YoY%	7.2	8.0	7.4	6.5	7.5	7.0	9.6	10.3
MoM%	3.5	(0.2)	(3.9)	6.8	(3.9)	3.9	2.3	0.3
Motor Vehicles	12.1	11.7	10.5	12.3	12.1	12.3	13.0	13.9
YoY%	(3.7)	2.6	2.2	(4.6)	6.3	(2.9)	10.1	12.1
MoM%	0.3	(3.4)	(9.5)	16.4	(1.7)	2.0	5.8	6.5
Wholesale Trade	49.4	49.7	47.4	50.7	48.6	50.5	50.4	49.2
YoY%	8.0	7.9	7.1	8.0	7.6	7.8	7.4	7.2
MoM%	3.6	0.6	(4.8)	6.9	(4.1)	4.0	(0.3)	(2.5)
Retail Trade	39.7	39.7	39.2	40.8	39.1	40.9	42.7	43.4
YoY%	10.0	9.9	9.2	8.6	7.9	9.3	12.1	13.3
MoM%	4.4	(0.2)	(1.1)	4.1	(4.2)	4.4	4.5	1.7

Source: CEIC; MIDFR

*MoM is seasonally adjusted figures

Positive spillover effects from robust external trade activities. As exports expanded further by 9.4%yoy in Jul-18 to a new high of RM86.1b, the follow-through effects are among others in a form of manufacturing sales. In tandem with June's solid exports growth, manufacturing sales rose by 9.6%yoy to record high of RM70b. Hence, employment in the sector during the same month increased by 2%yoy to over 1.1m persons. Meanwhile, wage growth of the manufacturing sector continued expanding solidly by double digits at 10.1%yoy to RM3.9b in Jul-18. Better employment and wages will eventually improve domestic consumption. Furthermore, passenger movements in Jul-18 which grew by 2.2% to 8.6m also aided the growth of retail sales during the month.

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 Meterials & Live Animals	3.5	7.0	11.5	10.2	8.2	10.3	8.4	1.6
Wholesale Sales: Food, Beverages & Tabacco	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 seven months, distributive sales moderated to 8%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 zero-rated GST and 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. We opine that August sales figures will contribute largely to an overall performance for 2H18 as we expect a similar strength of June's and July's record into upcoming month's.

Stable consumption across key countries. Retail sales growth in most of the key countries are considered stable with no change or just a minimal drop. For instance, Philippines' retail sales growth remain unchanged at 4.2%yoy in Jul-18. Meanwhile, retail sales growth for other major countries such as Japan, China and US slowed marginally to 1.5%yoy, 8.8%yoy and 6.4%yoy respectively. Despite a challenging environment, consumer confidence still signals a healthy consumer spending at least in the near-term. In fact, Conference Board Consumer Confidence Index for the US in Aug-18 soared to 133.4 (127.9 in Jul-18).

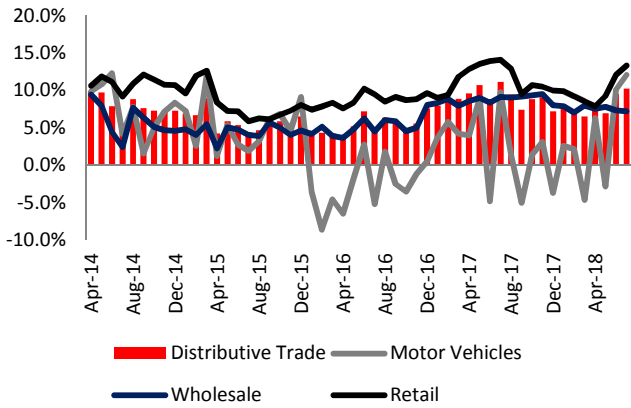
Table 3: Global Retail Sales (YoY%)

	Dec-17	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18	Jul-18
Malaysia	10.0	9.9	9.2	8.6	7.9	9.3	12.1	13.3
Indonesia	0.7	-1.8	1.5	2.5	4.1	8.3	2.3	
Singapore	6.3	-7.8	8.6	(1.1)	0.6	0.1	2	
Philippines	2.5	3.5	3.8	4.2	4.0	4.1	4.2	4.2
Thailand	4.1	9.7	7.8	3.7	7.5	7.1		
Japan	3.6	1.5	1.7	1.0	1.5	0.6	1.7	1.5
China	9.4	9.7	9.7	10.1	9.4	8.5	9.0	8.8
Euro Area	2.2	1.4	1.8	1.7	1.6	1.7	1.5	1.1
US	5.1	3.9	4.1	5.1	4.8	6.5	6.6	6.4

Source: CEIC; MIDFR

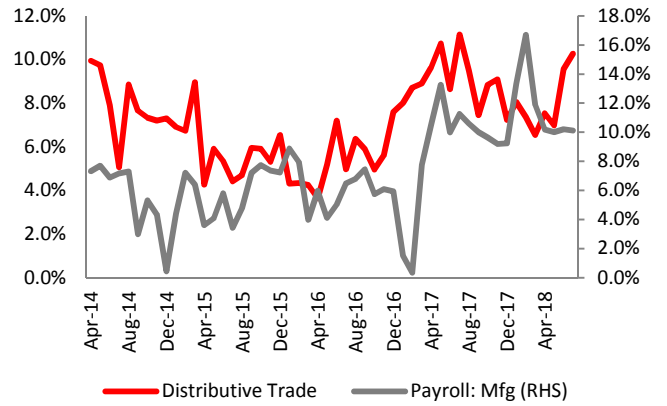
We estimate private consumption and services sector to grow at 6.5% and 6.2% respectively for 2018. Encouraging trend of distributive sales in 2017 is expected to continue for 2018 supported by economic conditions such as strengthening labor market including more job creation and wage growth on top of 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 the scrapping of GST and stable retail fuel prices give extra room for domestic consumption to rise steadily throughout the year. Nevertheless, the mounting US 'trade bazooka' on China and counter-attack by the world's second largest economy together with retaliations from other countries could pose possible threat to Malaysia. 

Chart 1: Distributive Trade, DT (YoY%)



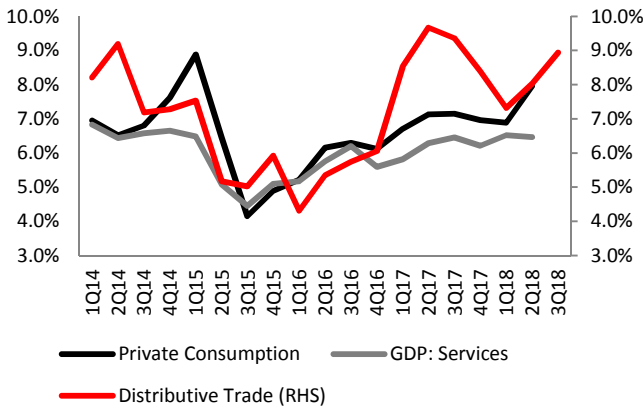
Source: CEIC; MIDFR

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



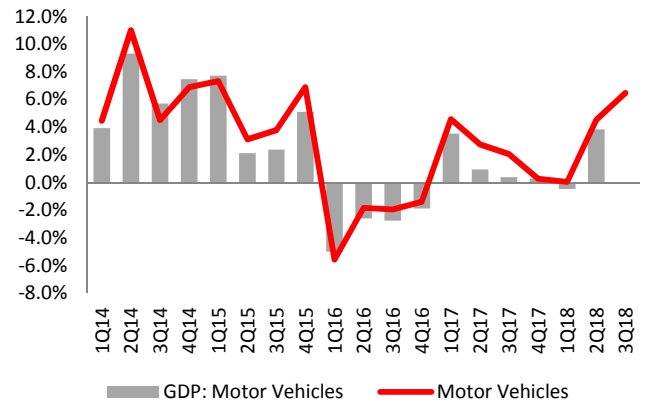
Source: CEIC; MAHB; MIDFR

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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