

ECONOMIC REVIEW | November 2018 Distributive Trade**Domestic Spending Remain Buoyant as Retail Sales Posted Double Digit Growth for 6th Consecutive Months**

- *Domestic sales increased gradually amid SST. Distributive trade grew further by 8.6%yoy in Nov-18 (8.2%yoy in Oct-18) to RM106.2B. Retail sales sustained its double digit growth for the sixth consecutive months at 12.6%yoy to RM42.9B in Nov-18, the highest growth in three months after the reintroduction of SST. Meantime, wholesale trade and motor vehicles increased by 6.9%yoy and 2.1%yoy respectively. The solid growths could be due to higher expenses in accordance to Deepavali festival besides growing purchases from 'Singles' Day' sales.*
- *Distributive sales to improve in 4Q18. For the first eleven months, distributive sales moderated to 8.3%yoy compared to 9.1%yoy recorded in the same comparable period last year, consistent with our expectations. For 4Q18, we foresee a continuous positive performance in distributive sales buoyed by low inflation, stable job market and supportive policy changes such as stabilized retail fuel prices.*
- *We estimate private consumption and services sector to grow at 7.5% and 6.2% respectively for 2019. Encouraging trend of distributive sales in 2018 is expected to continue for 2019 supported by economic conditions such as strengthening labor market including more job creation and wage growth on top of 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 2019. Moreover, clearer direction of the economy and supportive policies such as targeted petrol subsidy with RON95 to be capped at RM2.2 per litre will pave the path for domestic consumption to rise steadily throughout the year.*

Domestic sales increased gradually amid SST. Distributive trade grew further by 8.6%yoy in Nov-18 (8.2%yoy in Oct-18) to RM106.2B. Retail sales sustained its double digit growth for the sixth consecutive months at 12.6%yoy to RM42.9B in Nov-18, the highest growth in three months after the reintroduction of SST. Meantime, wholesale trade and motor vehicles increased by 6.9%yoy and 2.1%yoy respectively. The solid growths could be due to higher expenses in accordance to Deepavali festival besides growing purchases from 'Singles' Day' sales. On a monthly basis, distributive trade grew marginally by 0.2%. The domestic trade performances indicate that SST has less significant impact on household consumption as consumers are adapting to it and continue spending. Looking ahead, such gradual increases are likely to continue in upcoming months. In addition, the reduction of statutory contribution rate by the employers for the employees aged 60 and above, along with zero contribution from the employees will increase the disposable income and provide extra boost to the spending.

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

	Apr-18	May-18	Jun-18	Jul-18	Aug-18	Sep-18	Oct-18	Nov-18
Distributive Trade	99.8	103.7	106.1	106.5	107.9	104.7	106.0	106.2
YoY%	7.5	7.0	9.6	10.3	10.7	7.2	8.2	8.6
MoM%	(3.9)	3.9	2.3	0.3	1.3	(2.9)	1.2	0.2
Motor Vehicles	12.1	12.3	13.0	13.9	13.5	11.2	12.1	12.3
YoY%	6.3	(2.9)	10.1	12.1	10.6	(0.9)	2.9	2.1
MoM%	(1.7)	2.0	5.8	6.5	(2.8)	(17.1)	8.7	1.3
Wholesale Trade	48.6	50.5	50.4	49.2	50.9	52.4	51.9	51.0
YoY%	7.6	7.8	7.4	7.2	7.4	6.5	7.2	6.9
MoM%	(4.1)	4.0	(0.3)	(2.5)	3.6	2.9	(0.9)	(1.6)
Retail Trade	39.1	40.9	42.7	43.4	43.5	41.2	42.0	42.9
YoY%	7.9	9.3	12.1	13.3	14.8	10.5	11.2	12.6
MoM%	(4.2)	4.4	4.5	1.7	0.1	(5.3)	2.0	2.1

Source: CEIC; MIDFR

*MoM is seasonal adjusted figures

Robust domestic spending despite moderation in foreign activities. As exports growth in Nov-18 slowed sharply on annual basis at 1.6% (17.7% in Oct-18) while contracted on monthly basis at 12% (+16.2% in Oct-18), the follow-through effects are among others in a form of manufacturing sales. In tandem with November's lukewarm exports growth, manufacturing sales rose by a single digit of 7.7%yoy to RM71.8B compared to a double digit growth of 10.2%yoy recorded in the preceding month. Hence, employment in the sector during the same month increased by 2%yoy to approximately 1.1M persons, moderating from 2.2%yoy in the prior month. Similarly, wage growth of the manufacturing sector eased to 9%yoy in Nov-18 (10.2%yoy in Oct-18). However, inflation rate slowed to 0.2%yoy in Nov-18 while passenger movements grew by 4.3%yoy, both favored domestic spending.

Distributive sales to improve in 4Q18. For the first eleven months, distributive sales moderated to 8.3%yoy compared to 9.1%yoy recorded in the same comparable period last year, consistent with our expectations. For 4Q18, we foresee a continuous positive performance in distributive sales buoyed by low inflation, stable job market and supportive policy changes such as stabilized retail fuel prices. In addition, the buoyant business and consumer confidences in 3Q18 which positioned above 100-threshold level indicate business and consumers are optimistic on current as well as future economic outlook. According to the latest Business Tendency Survey, overall business performance is expected to remain positive at a better pace given that overall business confidence registered at 7.1% in 4Q18, higher than the previous quarter. Looking at the passenger movements in Dec-18 which grew to 9.4 million at a rate of 3.5%yoy, we opine it will boost the growth for retail sales in upcoming month.

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

	4Q16	1Q17	2Q17	3Q17	4Q17	1Q18	2Q18	3Q18
Distributive Trade Sales	6.1	8.5	9.7	9.3	8.4	7.3	8.0	9.4
Wholesale Sales	5.9	8.4	8.7	9.1	9.0	7.7	7.6	7.0
Wholesale Sales: Fee or Contract Basis	5.8	9.0	8.0	9.2	7.1	6.3	8.1	6.6
Wholesale Sales: Agri Raw Materials & Live Animals	7.0	11.5	10.2	8.2	10.3	8.4	1.6	(2.2)
Wholesale Sales: Food, Beverages & Tobacco	7.9	8.9	9.6	9.9	8.7	7.1	9.4	9.8
Wholesale Sales: Household Goods	4.7	3.9	6.5	5.6	5.2	6.8	8.2	8.6
Wholesale Sales: Machinery, Equipment & Supplies	8.2	9.0	8.8	6.1	7.2	6.3	5.5	2.1
Wholesale Sales: Others Specialised	5.0	10.0	9.4	11.9	11.6	8.9	8.4	8.2
Wholesale Sales: Non-Specialised	3.9	3.2	3.4	3.5	2.8	2.9	4.5	5.9
Retail Sales	9.1	10.1	13.5	12.2	10.4	9.2	9.8	12.9
Retail Sales: Non-Specialised Stores	9.0	9.9	15.3	13.1	11.2	10.0	11.1	15.1
Retail Sales: Food, Beverages & Tobacco	9.7	13.3	14.0	10.8	10.6	9.7	11.3	10.7
Retail Sales: Automotive Fuel	9.5	16.0	16.2	14.0	13.2	11.0	11.9	12.9
Retail Sales: Information & Communication Equip	8.1	7.3	9.8	9.2	5.5	4.7	4.2	6.7
Retail Sales: Household Equip	6.6	7.3	10.5	9.2	8.9	8.0	9.0	11.7
Retail Sales: Cultural & Recreation Goods	7.3	8.1	7.8	8.8	10.3	9.6	10.2	11.8
Retail Sales: Others in Specialised Store	11.7	11.5	15.1	14.9	11.9	10.4	10.0	14.5
Retail Sales: Stalls & Markets	11.4	11.7	10.4	9.6	9.7	7.4	5.0	5.9
Retail Sales: Not in Stores, Stalls & Markets	5.8	6.5	8.7	8.5	8.4	6.1	5.4	9.5
Motor Vehicles Sales	(1.4)	4.5	2.5	1.9	0.2	(0.2)	4.3	7.5
Motor Vehicles Sales: Motor Vehicle	(5.2)	4.6	(0.1)	(1.1)	(4.3)	(3.9)	3.5	7.7
Motor Vehicles Sales: Motor Vehicle Maint. & Repair	4.0	5.6	7.5	7.0	7.1	6.7	7.8	8.0
Motor Vehicles Sales: Motor Vehicle Parts & Accessories	5.2	4.2	6.5	5.9	6.2	4.2	4.4	7.5
Motor Vehicles Sales: Motorcycles Maint. & Repair, Parts & Acc.	2.0	3.1	2.8	4.6	4.7	2.1	4.9	5.2

Source: CEIC; MIDFR

China's retail sales grew at 15-years low. China's retail sales posted their weakest growth in 15 years at 8.1%yoy in Nov-18 and missed market expectations of 8.8%yoy. It also posted moderation in growth for the second straight month, indicating a downward trend is underway. The easing pattern came in despite record spend on 'Singles' Day' on November 11 and also the new individual income tax measures which was expected to unlock spending power. China is counting on households and companies to boost the economy as the US-China trade spat continues to weigh on exports. However, weak consumption thwarts government's efforts to stabilize the economy. Similarly, retail sales growth in other big economies such as the US and Japan moderated to 4.2%yoy and 1.4%yoy respectively in Nov-18. In contrast, retail sales of Indonesia expanded 3.4%yoy in Nov-18, higher than 2.9%yoy recorded in the previous month. Moving forward, the slowing global demand is expected to cause a gradual slowdown in overall consumer spending in most of the countries. In line, World Bank has recently reduced its 2019 forecast for global economy to 2.9% from a downwardly revised 3% in 2018.

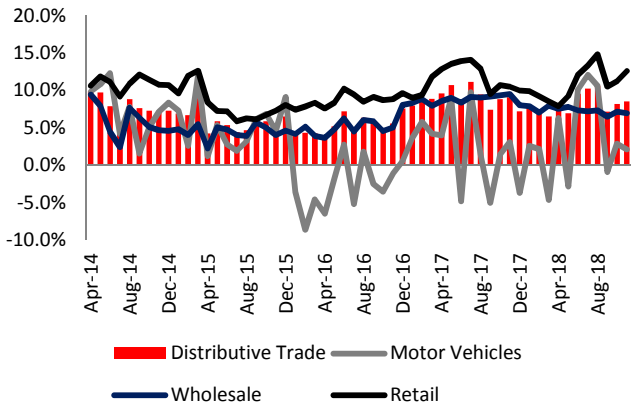
Table 3: Global Retail Sales (YoY%)

	Apr-18	May-18	Jun-18	Jul-18	Aug-18	Sep-18	Oct-18	Nov-18
Malaysia	7.9	9.3	12.1	13.3	14.8	10.5	11.2	12.6
Indonesia	4.1	8.3	2.3	2.9	6.1	4.8	2.9	3.4
Singapore	0.9	0.2	2.2	-2.7	-0.4	1.9	0.1	
Philippines	4.0	4.1	4.2	4.2	4.1	4.3	4.0	
Thailand	7.7	6.1	7.3	15.7	16.5	9.7	20.7	
Japan	1.5	0.6	1.7	1.5	2.7	2.2	3.6	1.4
China	9.4	8.5	9.0	8.8	9.0	9.2	8.6	8.1
Euro Area	1.8	1.6	1.6	1.0	2.2	0.3	2.3	1.1
US	4.8	6.4	6.1	6.6	6.4	4.0	4.8	4.2

Source: CEIC; MIDFR

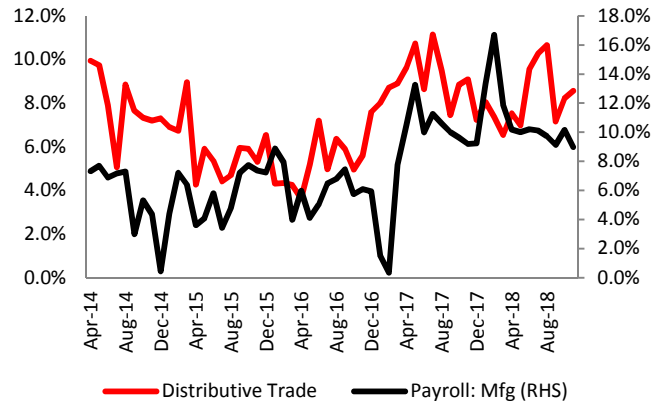
We estimate private consumption and services sector to grow at 7.5% and 6.2% respectively for 2019. Encouraging trend of distributive sales in 2018 is expected to continue for 2019 supported by economic conditions such as strengthening labor market including more job creation and wage growth on top of 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 2019. Moreover, clearer direction of the economy and supportive policies such as targeted petrol subsidy with RON95 to be capped at RM2.2 per litre will pave the path for domestic consumption to rise steadily throughout the year. On a side note, risks to the global economy remain despite recent trade truce between the US and China as it does little to deal with the core sticking points of the duo's economic rivalry. 

Chart 1: Distributive Trade, DT (YoY%)



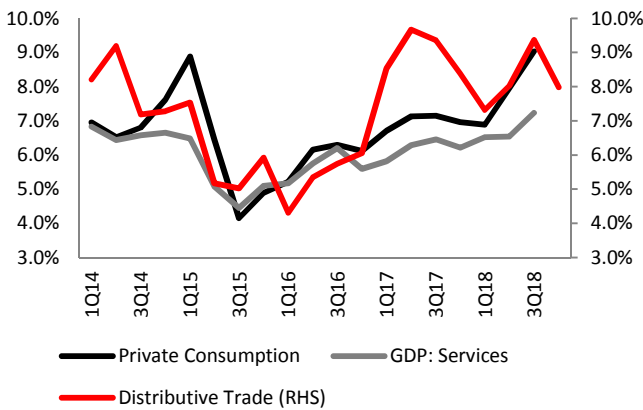
Source: CEIC; MIDFR

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



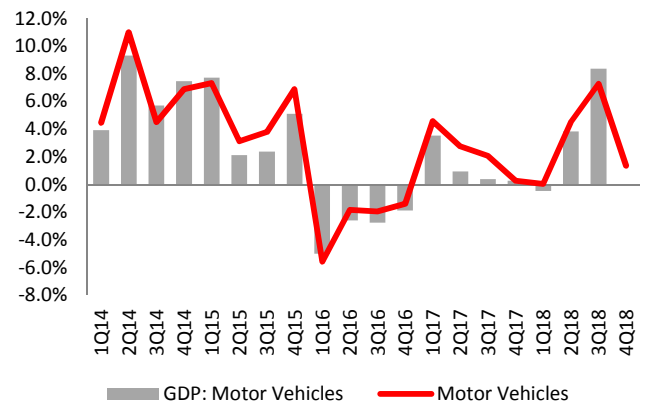
Source: CEIC; MAHB; MIDFR

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



Source: CEIC; MIDFR

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



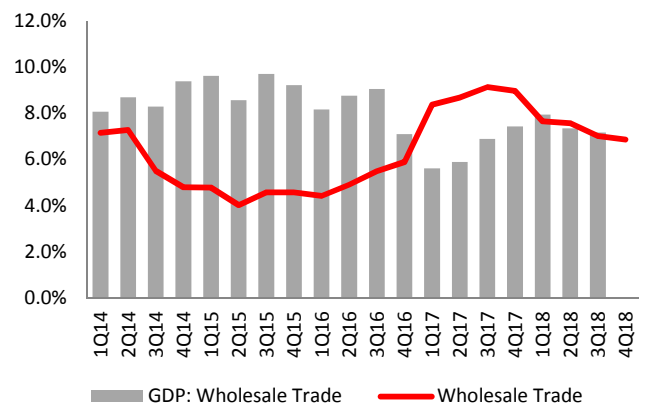
Source: CEIC; MIDFR

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



Source: CEIC; MIDFR

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



Source: CEIC; MIDFR

**MIDF RESEARCH is part of MIDF Amanah Investment Bank Berhad (23878 - X).
(Bank Pelaburan)
(A Participating Organisation of Bursa Malaysia Securities Berhad)**

DISCLOSURES AND DISCLAIMER

This report has been prepared by MIDF AMANAH INVESTMENT BANK BERHAD (23878-X). It is for distribution only under such circumstances as may be permitted by applicable law.

Readers should be fully aware that this report is for information purposes only. The opinions contained in this report are based on information obtained or derived from sources that we believe are reliable. MIDF AMANAH INVESTMENT BANK BERHAD makes no representation or warranty, expressed or implied, as to the accuracy, completeness or reliability of the information contained therein and it should not be relied upon as such.

This report is not, and should not be construed as, an offer to buy or sell any securities or other financial instruments. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. All opinions and estimates are subject to change without notice. The research analysts will initiate, update and cease coverage solely at the discretion of MIDF AMANAH INVESTMENT BANK BERHAD.

The directors, employees and representatives of MIDF AMANAH INVESTMENT BANK BERHAD may have interest in any of the securities mentioned and may benefit from the information herein. Members of the MIDF Group and their affiliates may provide services to any company and affiliates of such companies whose securities are mentioned herein. This document may not be reproduced, distributed or published in any form or for any purpose.