

**ECONOMIC REVIEW | September 2018 Distributive Trade****Wholesale Hit Fresh High Despite Reintroduction of SST**

- *Spending relaxed as tax holiday ended. Distributive trade growth slowed to 7.2%yoy in Sep-18, returned to the pace prior to tax holiday (7%yoy in June-18), however sustaining value above RM100b. Although slowing down, retail sales still maintained its double digit growth of 10.5%yoy to RM11.2b in Sep-18. Similarly, wholesale trade moderated at 6.5%yoy however reached a new all-time high of RM52.4b in Sep-18 probably due to the lower tax resulting from reintroduction of SST compared to GST.*
- *Distributive sales to improve in 4Q18. For the first nine months, distributive sales moderated to 8.2%yoy compared to 9.2%yoy recorded in the same comparable period last year, consistent with our expectations. For the 3Q18 alone, sales surged 9.4%yoy, highest since 4Q17 boosted by tax holiday period in which retail sales growth (12.9%yoy) hit five-quarter high and motor vehicles trade expanded 7.5%yoy, highest since 1Q15. For 4Q18, 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. 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.*

**Spending relaxed as tax holiday ended.** Distributive trade growth slowed to 7.2%yoy in Sep-18, returned to the pace prior to tax holiday (7%yoy in June-18), however sustaining value above RM100b. Although slowing down, retail sales still maintained its double digit growth of 10.5%yoy to RM11.2b in Sep-18. Similarly, wholesale trade moderated at 6.5%yoy however reached a new all-time high of RM52.4b in Sep-18 probably due to the lower tax resulting from reintroduction of SST compared to GST. In contrast, motor vehicles posted negative growth of 0.9%yoy in Sep-18, a widely anticipated declining pattern as consumers advanced their purchases prior to the implementation of SST in Sep-18. On monthly basis however distributive trade contracted by 2.9% as both motor vehicles and retail sales posted negative growth of 17% and 5.3% respectively. Moving forward, we expect distributive trade to increase gradually as consumers adapting to the reinstatement of SST.

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

	Feb-18	Mar-18	Apr-18	May-18	Jun-18	Jul-18	Aug-18	Sep-18
<b>Distributive Trade</b>	<b>97.2</b>	<b>103.8</b>	<b>99.8</b>	<b>103.7</b>	<b>106.1</b>	<b>106.5</b>	<b>107.9</b>	<b>104.7</b>
YoY%	7.4	6.5	7.5	7.0	9.6	10.3	10.7	7.2
MoM%	(3.9)	6.8	(3.9)	3.9	2.3	0.3	1.3	(2.9)
<b>Motor Vehicles</b>	<b>10.5</b>	<b>12.3</b>	<b>12.1</b>	<b>12.3</b>	<b>13.0</b>	<b>13.9</b>	<b>13.5</b>	<b>11.2</b>
YoY%	2.2	(4.6)	6.3	(2.9)	10.1	12.1	10.6	(0.9)
MoM%	(9.5)	16.4	(1.7)	2.0	5.8	6.5	(2.8)	(17.1)
<b>Wholesale Trade</b>	<b>47.4</b>	<b>50.7</b>	<b>48.6</b>	<b>50.5</b>	<b>50.4</b>	<b>49.2</b>	<b>50.9</b>	<b>52.4</b>
YoY%	7.1	8.0	7.6	7.8	7.4	7.2	7.4	6.5
MoM%	(4.8)	6.9	(4.1)	4.0	(0.3)	(2.5)	3.6	2.9
<b>Retail Trade</b>	<b>39.2</b>	<b>40.8</b>	<b>39.1</b>	<b>40.9</b>	<b>42.7</b>	<b>43.4</b>	<b>43.5</b>	<b>41.2</b>
YoY%	9.2	8.6	7.9	9.3	12.1	13.3	14.8	10.5
MoM%	(1.1)	4.1	(4.2)	4.4	4.5	1.7	0.1	(5.3)

Source: CEIC; MIDFR

*\*MoM is seasonally adjusted figures*

**Positive spillover effects from robust external trade activities.** As exports rebounded by 6.7%yoy to RM83b in Sep-18, the follow-through effects are among others in a form of manufacturing sales. In tandem with September's solid exports growth, manufacturing sales rose by 8.2%yoy to a fresh record high of RM70.8b. Hence, employment in the sector during the same month increased by 1.9%yoy to approximately 1.1m persons. Meanwhile, wage of the manufacturing sector rose 9.1%yoy to RM3.9b in Sep-18. Better employment and wages will eventually improve domestic consumption. Furthermore, passenger movements in Sep-18 which grew by 1.3%yoy to 7.7m and low inflation rate of 0.3%yoy which favored domestic spending also aided the growth of retail sales during the month.

**Distributive sales to improve in 4Q18.** For the first nine months, distributive sales moderated to 8.2%yoy compared to 9.2%yoy recorded in the same comparable period last year, consistent with our expectations. For the 3Q18 alone, sales surged 9.4%yoy, highest since 4Q17 boosted by tax holiday period in which retail sales growth (12.9%yoy) hit five-quarter high and motor vehicles trade expanded 7.5%yoy, highest since 1Q15. For 4Q18, 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 3Q18 which positioned above 100-threshold level indicate business and consumers are optimistic on current as well as future economic outlook.

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

	4Q16	1Q17	2Q17	3Q17	4Q17	1Q18	2Q18	3Q18
<b>Distributive Trade Sales</b>	6.1	8.5	9.7	9.3	8.4	7.3	8.0	9.4
<b>Wholesale Sales</b>	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
<b>Retail Sales</b>	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
<b>Motor Vehicles Sales</b>	(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

**Less demand than expected in the US.** Retail sales in the US rose 4.7%yoy in Sep-18, the lowest gain since Mar-18 and missing market expectations of 5.2%yoy. Hurricane Florence which hit the country in mid-Sep-18 may have influenced the spending during the month especially on restaurants. Similarly, retail trade growth in Indonesia slowed to 4.8%yoy in Sep-18 as demand occasioned by Asian Games started to fade. Meanwhile, China's retail sales continued to increase by 9.2%yoy in Sep-18, fastest growth in five months and beat market forecast of 9%yoy as sales growth accelerated for garments and personal care, among others. Moving forward, overall consumer spending remain optimistic. Most of the slowdowns are perceived to be a one-offs rather than sudden slowdown in underlying consumer demand. For instance, 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 Oct-18 increased further to 137.9 (135.3 in Sep-18). In addition, PMI for the US inched up to 55.7 points in Oct-18 (55.6 in Sep-18).

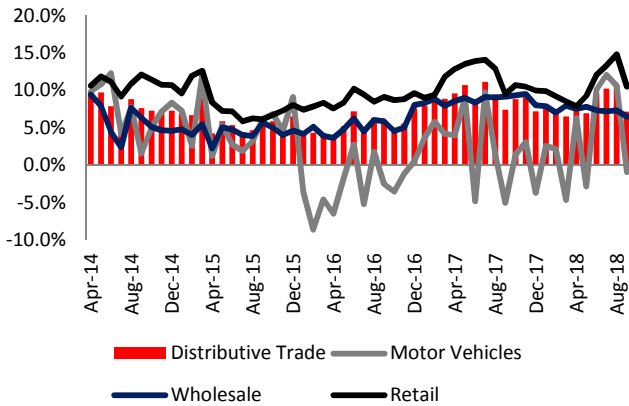
**Table 3: Global Retail Sales (YoY%)**

	Feb-18	Mar-18	Apr-18	May-18	Jun-18	Jul-18	Aug-18	Sep-18
Malaysia	9.2	8.6	7.9	9.3	12.1	13.3	14.8	10.5
Indonesia	1.5	2.5	4.1	8.3	2.3	2.9	6.1	4.8
Singapore	8.7	(0.9)	0.9	0.2	2.2	-2.7	-0.4	Na
Philippines	3.8	4.2	4.0	4.1	4.2	4.2	4.1	Na
Thailand	7.9	3.7	7.6	6	7	16.6	17.8	Na
Japan	1.7	1.0	1.5	0.6	1.7	1.5	2.7	2.1
China	9.7	10.1	9.4	8.5	9.0	8.8	9.0	9.2
Euro Area	1.6	1.6	1.8	1.6	1.6	1.0	2.2	0.8
US	4.1	5.1	4.8	6.4	6.1	6.6	6.5	4.7

Source: CEIC; MIDFR

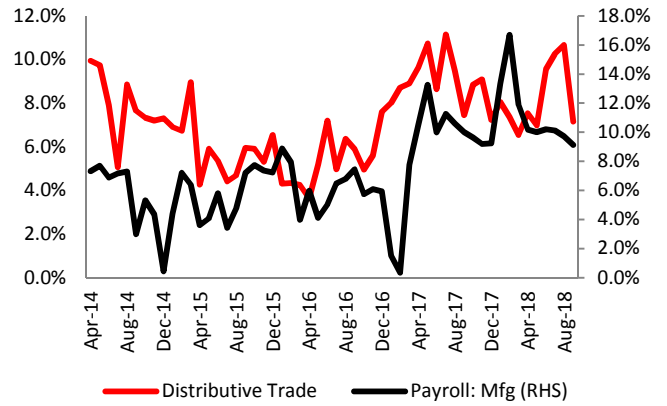
**We estimate private consumption and services sector to grow at 6.5% and 6.2% respectively for 2018.** Encouraging trend of distributive sales in 2017 is expected to continue for 2018 supported by economic conditions such as strengthening labor market including more job creation and wage growth on top 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%)**



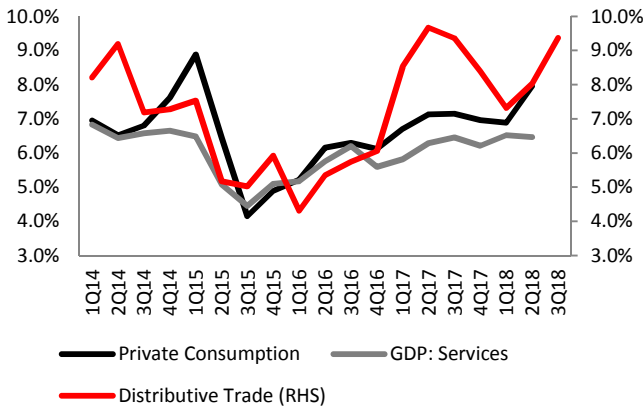
Source: CEIC; MIDFR

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



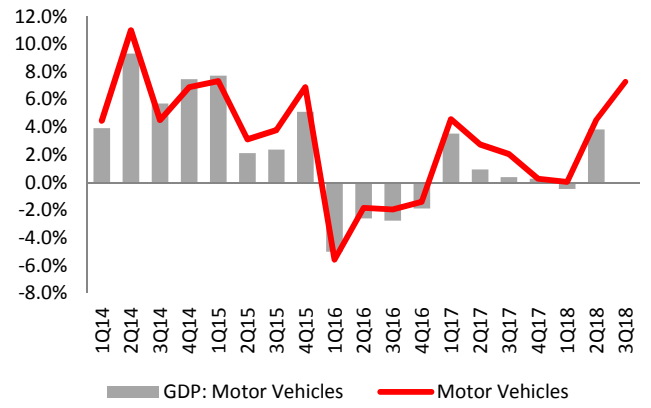
Source: CEIC; MAHB; MIDFR

**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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