

## ECONOMIC REVIEW

### April 2015 External Trade – Lower exports as Asian economies slow down

- *Export registered a decline of 8.8%yoy while imports declined by 7.0%yoy. The lower exports were due to Asian economies slow down while the lower imports were caused by fall of capital imports.*
- *GST showed minimal impact to consumers as consumption goods imports increased in April by 12.4%. However there is a significant fall in capital imports by 16.0%yoy. The fall in capital imports was mostly due to stockpiling activity prior GST implementation.*
- *Slowdown in Asian economy can be seen in the majority of Asian countries with lower imports demand. Meanwhile, OECD had cut its 2015 growth forecast for USA from 3.1% to 2.0%. Despite that, USA and EU still remain as the most important exports destination for 2015.*

**Back in the red.** After a positive increase in March, both imports and exports are back in the red with a decline of 7.0%yoy and 8.8%yoy respectively. This is due to the Asian economies slowing down rather than a problem with Malaysia's economy. Despite the larger decline in exports, trade balance is still in positive territory at RM6.9 billion.

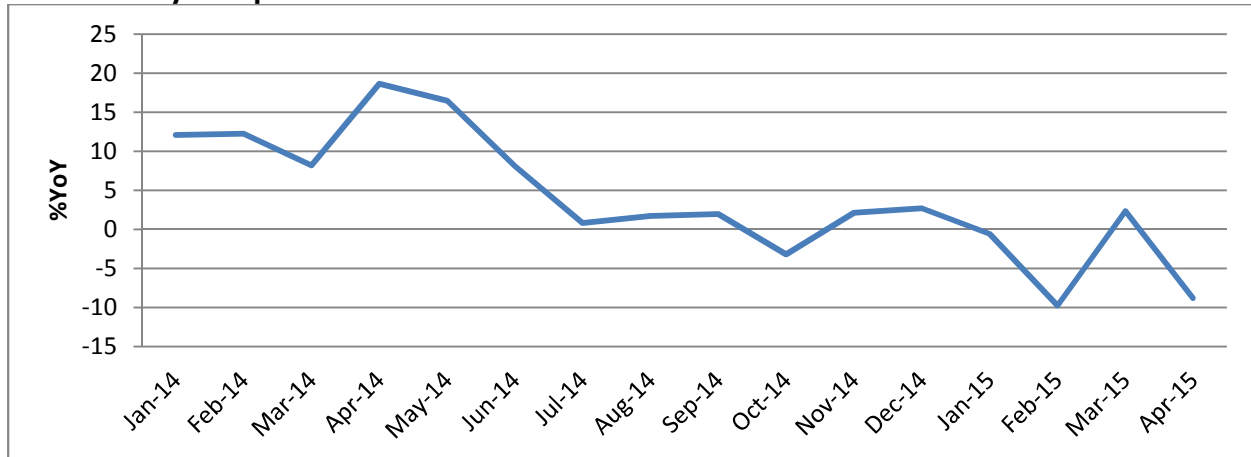
**GST affects businesses, not consumers.** The impact of Goods and Services Tax (GST) implementation are more significant on the capital goods rather than consumption goods. There is an increase of 12.4%yoy for consumption imports while the capital goods declined by 16.0%yoy. As imported goods are seen as more of a luxurious good, the increase in imports for consumption goods reflected that GST implementation has minor impact on consumers. However, there is a significant impact on capital goods imports, most likely as businesses already stockpiled their capital goods in March prior to GST. We are expecting for the capital goods imports to improve in the months to come once there is a need to restock their capital.

**Table 1: Malaysia's External Trade Summary**

	Oct-14	Nov-14	Dec-14	Jan-15	Feb-15	Mar-15	Apr-15
<b>Exports (RMb)</b>	65.1	63.7	67.7	63.6	53.2	66.5	60.4
% YoY	(3.2)	2.1	2.7	(0.6)	(9.7)	2.3	(8.8)
%MoM	0.8	(2.0)	6.2	(6.0)	(16.4)	25.0	(9.2)
<b>Imports (RMb)</b>	63.9	52.6	58.5	54.6	48.6	58.6	53.5
% YoY	9.1	0.1	4.2	(5.3)	0.3	5.8	(7.0)
%MoM	15.8	(17.7)	11.1	(6.5)	(11.0)	20.6	(8.8)
<b>Total Trade</b>	129	116.3	126.2	118.2	101.8	125.1	113.9
% YoY	2.5	1.2	3.4	(2.7)	(5.2)	3.9	(8.0)
%MoM	7.7	(9.8)	8.5	(6.3)	(13.9)	22.9	(9.0)
<b>Trade Balance (RMb)</b>	1.1	11.1	9.2	9.0	4.6	7.8	6.9
<b>Import Components</b>							
<b>Consumption (RMb)</b>	4.3	4.0	4.6	4.4	3.9	4.4	4.3
% YoY	5.9	1.7	4.5	2.0	13.2	0.4	12.4
<b>Capital (RMb)</b>	7.7	8.0	9.6	8.1	6.9	9.5	8.3
% YoY	(1.7)	6.0	(2.7)	2.1	6.6	15.6	(16.0)
<b>Intermediate (RMb)</b>	41.1	31.4	33.6	33.1	29.3	34.5	32.8
% YoY	21.2	3.5	11.8	(3.0)	5.9	6.7	(3.0)

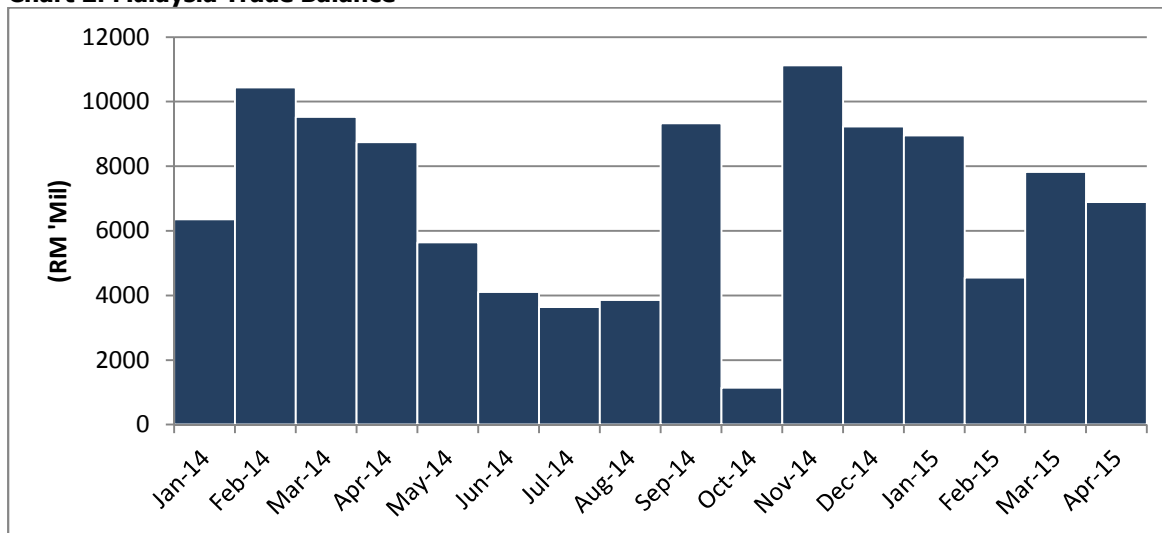
Source: Department of Statistics, Malaysia; MIDF Research

**Chart 1: Malaysia Export Performance**



Source: Department of Statistics, Malaysia; MIDF Research

**Chart 2: Malaysia Trade Balance**



Source: Department of Statistics, Malaysia; MIDF Research

**Asian countries slow growths continue.** The slowdown in Asian economies led by Japan has taken a toll in exports figures. Exports to Japan have fallen for four consecutive months in year-on-year basis with the latest decline of 24.9%yoy. Exports to Singapore on the other hand have fallen for third consecutive months, with the largest decline by 14.9%yoy in April. Despite exports to China having a positive growth in year-on-year basis by 1.9%, it fell by 2.5% in month-on-month basis in April. However, the negative exports figures for Asian countries are being supported by USA and EU, where exports increased by 7.6%yoy and 3.1%yoy respectively.

**Table 2: Malaysia's Exports (%YoY)**

	Oct-14	Nov-14	Dec-14	Jan-15	Feb-15	Mar-15	Apr-15
<b>Total Exports (RMb)</b>	65.1	63.7	67.7	63.6	53.2	66.5	66.2
<b>Exports by Key Country / Region</b>							
China	(17.8)	(14.6)	(14.9)	(21.9)	(21.3)	6.6	1.9
Hong Kong	(8.0)	(4.8)	1.1	0.1	(5.1)	25.6	(20.2)
USA	7.5	16.0	28.0	18.1	8.2	17.8	7.6
Japan	(4.2)	10.7	2.6	(0.9)	(6.2)	(0.3)	(24.9)
India	1.0	31.7	18.5	14.7	(13.8)	43.7	(16.1)
Australia	(14.4)	(2.7)	(26.8)	(14.5)	(10.9)	(23.2)	(6.4)
EU	(3.8)	8.6	21.4	3.7	(3.2)	4.5	3.1
ASEAN	0.9	13.3	0.2	1.8	(8.2)	(1.6)	(8.9)
<b>Selected ASEAN</b>							
Singapore	2.0	18	5.8	0.9	(4.9)	(3.3)	(14.9)
Thailand	0.9	18.4	(0.1)	12.5	0.1	0.5	(0.2)
Indonesia	(8.9)	6.6	(29.9)	(19.4)	(28.7)	(17.8)	1.5
Philippines	25.1	(10.0)	43.2	33.3	(15.7)	23.4	(31.1)
Vietnam	1.4	18.4	23.9	26.0	0.4	20.2	17.2


Source: Department of Statistics, Malaysia; MIDF Research

**Lower exports for O&G products.** Similar to the preceding months, the fall in oil price has caused a decline in exports of O&G products in year-on-year basis. However, the decline is higher in April which particularly can be seen for LNG product. Most of the falls in exports are mainly due to the slow economic condition among Malaysia's main trading partner. As Japan is the main importer of Malaysia's LNG, the fall of LNG exports contributes highly towards Malaysia's exports to Japan. Despite the fall, 37.5% of Malaysia's exports to Japan come from LNG.

**Table 3: Malaysia's Export by Major Products (%YoY)**

	Oct-14	Nov-14	Dec-14	Jan-15	Feb-15	Mar-15	Apr-15
E&E	(4.1)	6.7	13.8	7.6	(0.3)	14.6	(3.0)
Chemicals & Chemical Products	7.4	11.2	19.2	8.0	(6.2)	6.5	2.4
Crude Petroleum	2.5	12.5	(35.7)	1.3	(20.9)	(28.3)	(44.3)
LNG	6.1	(10.2)	5.1	0.3	(5.5)	15.5	(40.1)
Palm Oil	(3.9)	(10.0)	0.1	(11.3)	(22.6)	(7.0)	(19.8)
Petroleum Products	(13.1)	(6.5)	(33.4)	(42.2)	(27.3)	(30.8)	(36.6)

Source: Department of Statistics, Malaysia; MIDF Research

**Prospects:** The table below shows the overall export trend to the main partners of Malaysia. We note that the trend is not that encouraging for most markets with the exception of the U.S and E.U. These two market account for about 19.2% of Malaysia's exports in April 2015. The seemingly weak April trade figures were due to the trade in oil and gas. Indeed, excluding crude petroleum, LNG and petroleum products, Malaysia's exports actually grew 26%yoy. Meanwhile, the mainstay of Malaysia's trade, namely the E&E sector declined marginally by 3%yoy in April. We would attribute this to the seasonal weakness in the semiconductor sector, which should start to reverse by May or June (latest). The sector itself is fundamentally healthy, driven by products such as smartphones and other smart gadgets. The fact that export to the U.S is growing is testament of the growth momentum in this industry. 

**Forecasts:** All considered, we maintain our 2015 merchandise export forecasts of -3.0%. We also maintain our trade balance forecast at RM70.4 billion for the year.

**Table 4: Malaysia's Export Trend and Economic Performance of Selected Destination**

M'sia Export to:	Trend	Economic Performance
China	Rebounding	Economic growth continues to decelerate and investment contracting. Downward pressures are persisting particularly in the industrial part of the economy. The People's Bank of China has cut the interest rate for the third times in 6 months
Singapore	Falling	Economy is losing its momentum as export growth eased in April. The manufacturing PMI fell slightly further into contractionary territory in the same month
EU	Growing overall	Consumers are spending more supported by the sharp decline in oil price. However Greek debt crisis remains the biggest risk to the region
USA	Growing	Job growth was strong in April in the health care and construction sectors but there were major losses in the mining industry — a result of lower oil prices that have forced cutbacks among American drillers and their suppliers
Japan	Falling	Increased economic stimulus and pumped trillions of yen into the marketplace causing yen to depreciate and spike in exports and internal economic activity. However it has also at the same time led to a fall in imports
Thailand	Stagnant	Improvement of domestic consumption and investment are slow because of caution in the private sector. Externally, the Thai economy is affected by the current uneven recovery of the global economy, which hinders Thailand's export growth
Hong Kong	Uncertain	Falling tourists led to low retail sales while unemployment is near to all time low. Domestic demand is high but external demand is constrained
Indonesia	Falling overall	Economy shrank as exports and government spending dropped. Falling Rupiah has led to weaker consumer spending

**Table 5: MIDF Forecasts**

	2015	2016
Exports (f.o.b) %yoy	(3.0)	5.2
Imports (c.i.f) %yoy	(1.5)	4.5
Trade balance (RM'b)	70.4	78.8
Current account balance (%GNI)	3.5	5.0
Current account balance (RM'b)	30.3	45.5

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