20 July 2023

ECONOMIC REVIEW | June 2023 External Trade

Weaker External Trade A Drag to Growth this Year

- *Total trade lower than last year. Total trade remained below last year, falling sharper at -16.3%yoy (May-23: -2.2%yoy) against a higher base in Jun-22.*
- *Exports fell sharper by -14.1%yoy. Exports continued to fall but at sharper pace of -14.1%yoy in Jun-23 (May-23: -0.8%yoy), with reduction in both domestic exports (-15.2%yoy) and re-exports (-10.3%yoy). Exports to most major markets fell in Jun-23, including to China, USA, ASEAN and EU countries.*
- *Sustained rise in E&E exports not enough to support overall exports. E&E exports sustained another month of growth at +3.2%yoy in Jun-23, but unable to avert the broad declines recorded by other export products.*
- *Maintain 2023 growth projection for exports at -3.4% and imports at -1.9%. Given the weaker performance in 1HCY23, we maintain our projection that Malaysia's exports and imports will decline by -3.4% and -1.9%, respectively, this year.*

Total trade lower than last year. Total trade remained below last year, falling sharper at -16.3%yoy (May-23: -2.2%yoy). The decline was mainly due to higher base in Jun-22 because the value RM222.1b was only -0.5%mom smaller than May-23. Following monthly jump in exports by +3.7%mom and decline in imports by -5.4%mom, trade surplus widened to RM25.8b (May-23: RM15.7b), mainly contributed by higher surplus in E&E trade. For the 1HCY23, total trade fell by -4.6%yoy (2HCY23: +27.4%yoy) which captured the declines in both exports (-4.5%yoy) on the back of weaker external demand and imports (-4.7%yoy) as businesses were more cautious about the future demand outlook. As we mentioned previously, the weakness in external demand (mainly for goods) will be a drag to economic growth this year.

Exports fell sharper by -14.1%yoy. Exports continued to fall but at sharper pace of -14.1%yoy in Jun-23 (May-23: -0.8%yoy). We anticipated the decline given the high base in Jun-22 and taking into account the continued weakness reported by several regional countries. The decline was sharper than our estimate but broadly in line with market expectations following contraction in both domestic exports (-15.2%yoy) and re-exports (-10.3%yoy). The decline in domestic exports reflected the weak commodity exports, while re-exports registered its first annual decline after 31 straight months of growth since Nov-20. On month-on-month basis, exports rose by +3.7%mom from the previous month, driven mainly by higher E&E exports in contrast to lower exports of crude petroleum & processed petroleum products. Contrary to the weak demand as highlighted by PMI surveys, E&E exports registered a sustained growth in Jun-23. Nevertheless, we opine that the near-term outlook for exports would be hampered by weak commodity exports (particularly palm oil and to a certain extent crude petroleum) in view of the current prices remaining below last year.

Table 1: Malaysia's External Trade Summary

	Dec-22	Jan-23	Feb-23	Mar-23	Apr-23	May-23	Jun-23
Exports (RMb)	131.8	112.7	112.3	129.7	105.2	119.5	124.0
% YoY	5.9	1.4	9.8	(1.4)	(17.6)	(0.8)	(14.1)
% MoM	1.6	(14.5)	(0.3)	15.5	(18.9)	13.6	3.7
Imports (RMb)	103.6	94.5	92.7	103.0	92.6	103.8	98.2
% YoY	11.5	2.2	12.4	(1.8)	(11.1)	(3.7)	(18.9)
% MoM	(4.0)	(8.8)	(1.9)	11.1	(10.1)	12.1	(5.4)
Total Trade (RMb)	235.4	207.2	205.0	232.6	197.8	223.3	222.1
% YoY	8.3	1.8	11.0	(1.6)	(14.6)	(2.2)	(16.3)
% MoM	(0.9)	(12.0)	(1.1)	13.5	(15.0)	12.9	(0.5)
Trade Balance (RMb)	28.1	18.1	19.6	26.7	12.6	15.7	25.8
Import Components							
Intermediate (RMb)	54.4	48.4	48.8	53.6	45.4	54.9	47.6
% YoY	6.4	(4.2)	2.9	(9.0)	(24.1)	(13.0)	(25.7)
Capital (RMb)	9.9	9.7	7.9	9.7	10.1	9.9	9.8
% YoY	(9.4)	(16.4)	(11.0)	(1.8)	(10.4)	1.3	(26.6)
Consumption (RMb)	9.3	8.2	7.0	9.3	8.2	8.9	8.2
% YoY	16.2	(4.8)	1.0	6.4	(1.6)	4.5	(11.8)

Note: MoM is non-seasonally adjusted figure
Source: Macrobond, MIDFR

Imports declined faster at -18.9%yoy. Imports also contracted at faster pace of -18.9%yoy (May-23: -3.7%yoy) because of reduced imports of intermediate goods (-25.7%yoy) as well as capital (-26.6%yoy) and consumption (-11.8%yoy) goods. By sector, big chunk of decline traced reduced imports of manufactured goods (-22.5%yoy) where approximately 84% of the decline was due to lower imports of E&E products, petroleum products, chemicals & chemical products, manufactures of metal, and transport equipment. Agriculture imports also fell (-15.6%yoy) with reduced inward shipments across all major sub-sectors especially other vegetable oil and natural rubber. In contrast, mining goods imports continued to increase on sustained buying of crude petroleum. Given the continued weakness in global manufacturing activities, we foresee imports to fall in the next few months as manufacturers indicated a more cautious stance on the near-term demand outlook.

Reduced exports to most major destinations. Exports to most major markets fell in Jun-23, including to China, USA, ASEAN and EU countries. Based on the updated trade numbers, exports to China actually decreased in May-23; therefore, the negative growth in Jun-23 marked the 7th consecutive month of contraction albeit at slower rate of -8.5%yoy (May-23: -15.1%yoy) due to lower demand for palm oil & palm oil products, other manufactured goods and LNG. Exports to the USA fell by -19%yoy mainly due to lower purchases of manufactured goods such as petroleum products, E&E and rubber products. Exports to Japan also contracted by -20.9%yoy, largely reflecting lower LNG exports which was in line with the natural gas price correction. To other regions like EU, weaker exports of palm oil & palm oil products was the major contributor to the faster export contraction of -21.8%yoy. Meanwhile, exports to ASEAN shrank faster by -8.5%yoy primarily due to lower shipments of crude and processed petroleum products. While additional policy support to engineer stronger business and trade activities in China would be positive for regional trade outlook, we foresee slowdown in external demand to stay given the limited boost from China's recovery thus far, weak global manufacturing and expected slowdown in demand from USA and Europe.

Table 2: Malaysia's Exports (YoY%)

	Dec-22	Jan-23	Feb-23	Mar-23	Apr-23	May-23	Jun-23
Total Exports (RMb)	**131.8**	**112.7**	**112.3**	**129.7**	**105.2**	**119.5**	**124.0**
Re-exports (RMb)	26.6	26.6	24.8	27.2	25.0	25.9	30.2
Domestic Exports (RMb)	105.2	86.0	87.4	102.4	80.2	93.6	93.8
Exports by Key Country / Region							
China	(12.1)	(11.9)	(6.0)	(6.2)	(20.4)	(15.1)	(8.5)
USA	7.8	(0.7)	18.7	7.5	(21.5)	14.4	(19.0)
Japan	13.7	13.2	8.3	(6.0)	(22.1)	2.1	(20.9)
India	(8.4)	(30.7)	(9.8)	0.9	(29.8)	(5.6)	(31.7)
Hong Kong	(3.6)	4.0	25.1	9.5	(4.3)	(8.5)	(11.2)
Australia	28.4	27.8	20.0	37.2	(14.4)	28.7	9.1
EU	20.1	1.4	(2.2)	(5.3)	(30.5)	(6.2)	(21.8)
ASEAN	12.7	10.7	14.8	(3.5)	(11.4)	(1.6)	(8.5)
Singapore	23.1	19.0	27.7	3.0	(1.4)	6.8	(0.9)
Thailand	3.4	8.3	6.5	(4.1)	(24.1)	(8.9)	(26.5)
Indonesia	1.6	(1.8)	13.3	17.9	8.5	(11.8)	(8.5)
Vietnam	3.3	(7.9)	(32.3)	(29.4)	(28.6)	(0.7)	(6.0)
Philippines	(7.2)	1.6	32.5	(18.3)	(27.2)	(21.5)	(9.5)

Source: Macrobond, MIDFR

Sustained rise in E&E exports not enough to support overall exports. Based on export performance by sector, E&E exports sustained another month of growth at +3.2%yoy in Jun-23. It was overwhelmingly underpinned by exports of semiconductor, despite reduced demand for other E&E products. Nevertheless, the resilience in E&E exports was unable to avert the broad declines recorded by other export products such as palm oil and palm oil products, crude & processed petroleum products, LNG, rubber products and machinery, equipment & parts. Exports of other manufactured of goods like optical & scientific equipment, chemicals & chemical products and manufactures of metal also contracted in Jun-23. With the continued fall in shipments of crude petroleum, overall mining exports contracted by -34.9%yoy as exports of LNG and most other mining goods weakened during the month. For agriculture goods, the primary sector's exports declined faster at -42.1%yoy tracking the sharper fall in palm oil exports. We foresee the overall weakness in manufacturing exports to be closely linked to the subdued outlook for the manufacturing sector. Given the large portion (share: 40.8% of total exports), turnaround and sustained recovery in E&E exports will be crucial to support overall exports. Nevertheless, commodity exports will pose a drag to this year's export performance as prices relatively stay and hover lower than last year.

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

	Dec-22	Jan-23	Feb-23	Mar-23	Apr-23	May-23	Jun-23
E&E	4.8	4.9	11.8	(4.4)	(6.5)	1.5	3.2
Machinery, Equipment & Parts	10.1	(12.5)	5.0	11.0	(29.0)	11.2	(16.5)
Optical & Scientific Equipment	11.0	3.6	6.6	11.7	(16.7)	11.5	(7.5)
Chemicals & chemical products	0.0	(6.6)	(7.2)	(5.2)	(33.2)	1.7	(19.0)
Manufactures of Metal	(7.6)	(34.9)	(4.5)	(4.6)	(35.0)	(3.0)	(15.9)
Palm oil & palm oil-based products	(6.2)	(22.7)	(14.9)	(14.4)	(34.8)	(36.2)	(45.8)
Crude Petroleum	40.0	25.9	50.6	(4.8)	(45.7)	(5.5)	(43.7)
Petroleum Products	66.4	87.5	67.5	32.1	20.8	10.5	(28.7)
LNG	33.5	62.3	32.9	11.4	(13.6)	9.3	(40.8)
Rubber products	(42.1)	(44.9)	(35.5)	(29.5)	(51.7)	(20.9)	(32.7)

Source: Macrobond, MIDFR

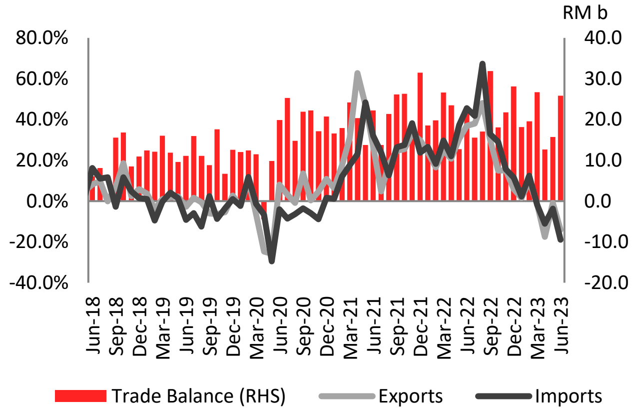
Larger trade surplus thanks to E&E trade. Looking at trade balance by sector, higher surplus (i.e. monthly jump in exports) of E&E largely explained the wider surplus of RM25.8b in Jun-23 (May-23: RM15.7b). This was encouraging as E&E exports actually jumped by +16%mom from May-23; and the wider surplus was also a result of -5.3%mom fall in E&E imports. The widening of E&E trade surplus (by +RM9b) alone offset the smaller surpluses in trade of palm oil & palm oil-based products and LNG as well as the wider deficit of crude petroleum trade. We believe the smaller surpluses in commodity-related trade was a result of the reduced re-stocking given the relatively lower prices against the high levels last year. On the other hand, the wider deficit of crude oil not only reflects the slower exports (again due to lower prices) but can be attributed to increased imports because of stronger domestic demand and other downstream activities. Thanks to the monthly increase, the surplus in Jun-23 was also +11.3%yoy than a year ago.

Volume change affected trade performance. The recent changes in external trade performance continued to be influenced by volume change. While 95% of the annual contraction in Apr-23 exports was due to the reduced demand volume, i.e. smaller decline in May-23, the improvement was also underpinned by the rebound in export volume which rose by +4.2%yoy (Apr-23: -16.9%yoy) such as inedible crude materials, mineral fuel & lubricants as well as F&B and tobacco. Similarly, import volume also improved in May-23 (+0.4%yoy; Apr-23: -10.4%yoy) with increased purchases of manufactured goods, chemicals and mineral fuel, lubricants & related materials. In contrast, price changes contributed to the weakness in exports and imports, with the unit prices fell sharper in May-23 by -4.7%yoy (Apr-23: -0.8%yoy) and -3.5%yoy (Apr-23: -0.6%yoy). This was more of a result of the lower global commodity prices, and we believe this will continue to be a drag in Jun-23 with Brent crude oil and CPO prices hovering at around USD74.98pb (-36.2%yoy) and RM3,555.50/tonne (-38.4%yoy), respectively. Given the sharper year-on-year contraction, we opine reduced volume also affected the performance of both exports and imports in Jun-23.

Trade of goods a drag to GDP growth in 2QCY23. Although Jun-23 net exports registered a higher surplus, the size of surplus in 2QCY23 was -8.8%yoy smaller than 2Q last year. This was a sharper reduction compared to -0.9%yoy in 1QCY23, dragged down by the -11.1%yoy decline in exports of goods (1QCY23: +2.8%yoy), marking the first decline since 2QCY20. In contrast, we expect negative contribution from weaker trade of goods will be cushioned by the recovery in services exports, supported by tourism recovery and higher tourist arrivals.

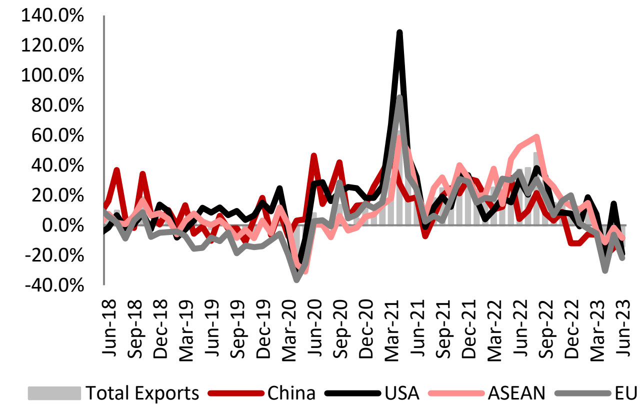
Maintain 2023 growth projection for exports at -3.4% and imports at -1.9%. Given the weaker performance in 1HCY23, we maintain our projection that Malaysia's exports and imports will decline by -3.4% and -1.9%, respectively, this year. Once again, turnaround in E&E exports and the global manufacturing sector could be positive factors to support trade outlook in 2HCY23, apart from a much delayed boost from China's recovery. On the other hand, we opine the anticipated slowdown in global demand, particularly from developed markets like the US and European countries, will keep trade outlook less encouraging than last year. Moreover, other downside risks could also derail trade outlook which include worsening of geopolitical and trade tensions, weaker recovery in China, persistently high inflation and consequently sharper-than-expected contraction in global growth. While external slowdown will be a drag to economic growth, we are sanguine that increased domestic spending and sustained growth on the domestic front will be the main growth driver this year.

Chart 1: Exports & Imports (YoY%) vs Trade Balance (RM b)



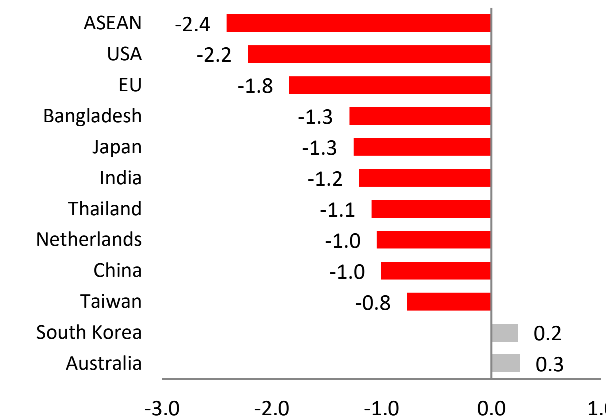
Source: Macrobond, MIDFR

Chart 2: Exports Growth by Major Destination (YoY%)



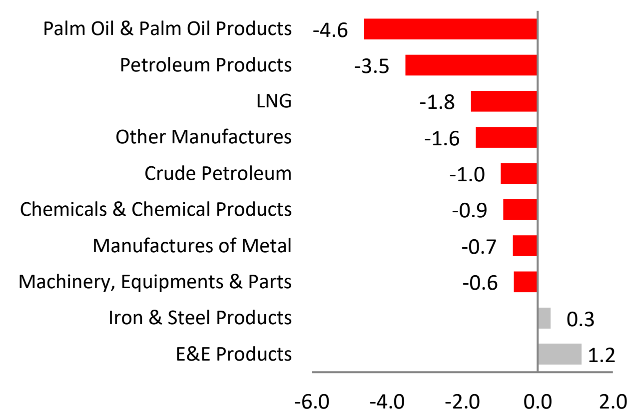
Source: Macrobond, MIDFR

Chart 3: %-point Contribution to Total Exports Growth in Jun-23 by Major Destinations



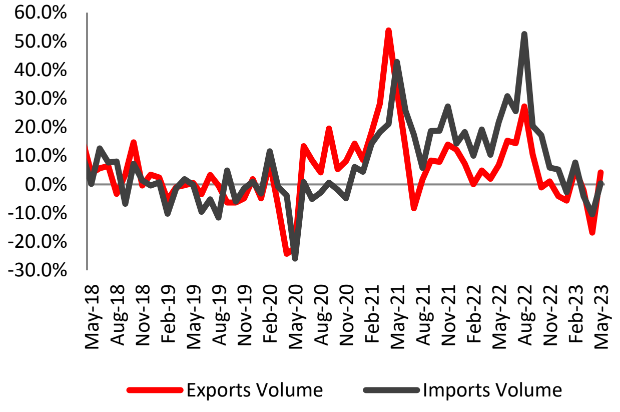
Source: Macrobond, MIDFR

Chart 4: %-point Contribution to Total Exports Growth in Jun-23 by Key Products



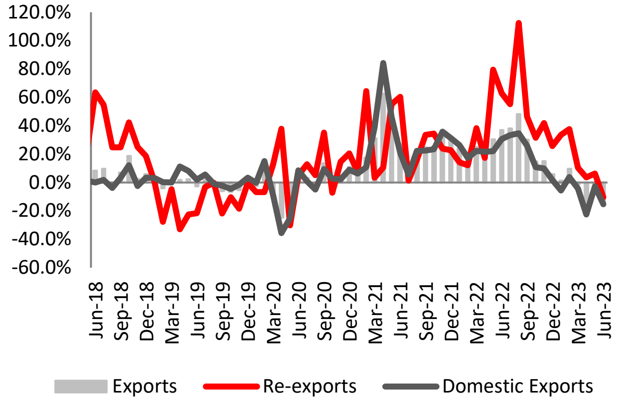
Source: Macrobond, MIDFR

Chart 5: Exports vs Imports Volume (YoY%)



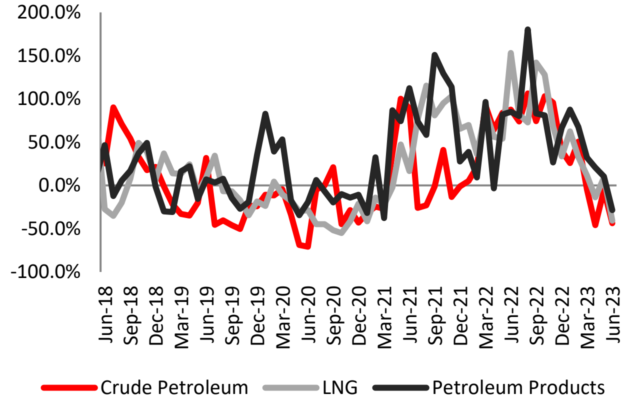
Note: Latest available data as of May-22
Source: Macrobond, MIDFR

Chart 6: Exports: Domestic vs Re-exports (YoY%)



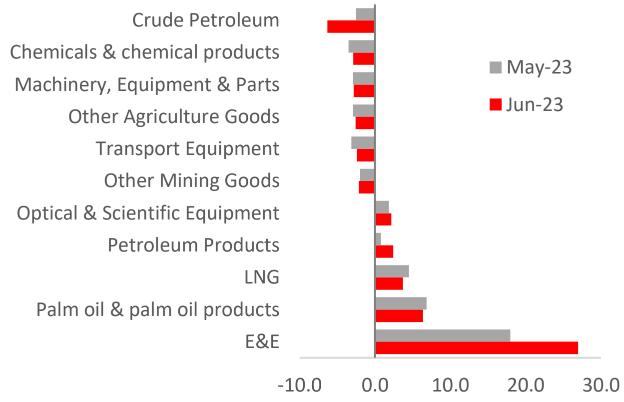
Source: Macrobond, MIDFR

Chart 7: Exports of Mining Goods (YoY%)



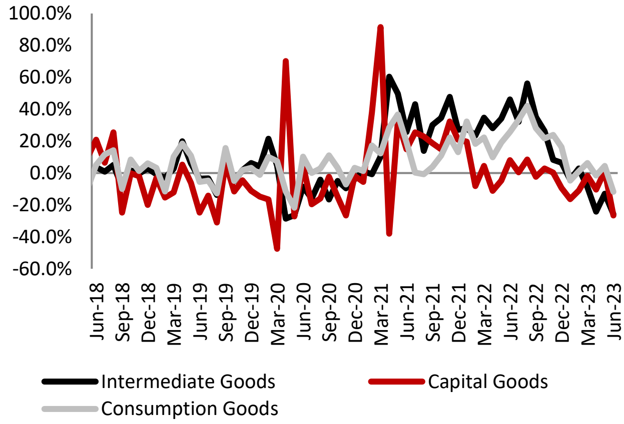
Source: Macrobond, MIDFR

Chart 8: Trade Balance for Selected Products (RM b)



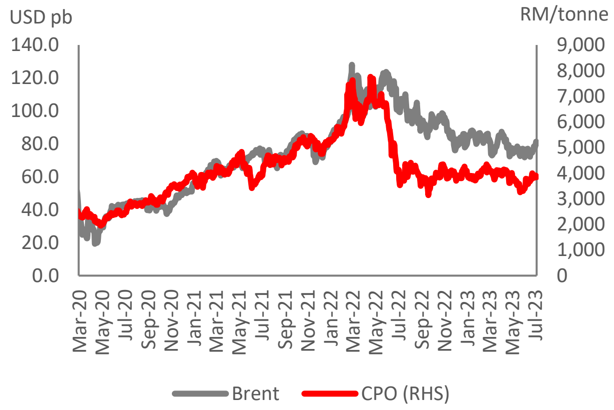
Source: Macrobond, MIDFR

Chart 9: Imports of Goods by End Use (YoY%)



Source: Macrobond, MIDFR

Chart 10: Price of Brent Crude Oil and CPO



Source: Bloomberg, MIDFR

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