

## ECONOMIC REVIEW | July 2023 External Trade

### Weakness in External Demand Persisted in Jul-23

- *Total trade -14.4% lower than last year. Total trade continued to fall, declining by -14.4%yoy (Jun-23: -16.2%yoy), although the trade value remained above RM200b.*
- *Exports fell further, more than expected. Exports continued to fall at -13.1%yoy in Jul-23 (Jun-23: -14.1%yoy), sharper than ours and market estimates. The decline was attributable to the continued drop in domestic exports (-13%yoy) as well as weaker re-exports (-13.5%yoy).*
- *Lower base led to sustained growth in E&E exports. Based on export performance by sector, E&E exports sustained the third consecutive month of growth at +7.3%yoy in Jul-23, but offset by weak exports commodities i.e. petroleum and palm oil.*
- *Adjust our projection 2023 external trade projection lower. We revise down our projections for both imports and exports to fall sharper at -6.9% (previous forecast: -3.4%) and -6.4% (previous forecast: -1.9%), respectively, because recent data pointed to continued weakness in international trade.*

**Total trade -14.4% lower than last year.** Total trade continued to fall, declining by -14.4%yoy (Jun-23: -16.2%yoy), although the trade value remained above RM200b. The annual decline was attributable to both lower exports and imports against Jul-22. Following monthly decline in exports by +5.8%mom and +1.3%mom increase in imports, trade surplus shrank to RM17.1b (Jun-23: RM25.5b), attributable to smaller surplus in trade of manufactured goods mainly *E&E products* and larger deficits in trade of *transport equipment* and *machinery, equipment & parts*. For the 7MCY23, -5.9%yoy decline in exports and -6.5% drop in imports resulted in total trade declining by -6.1%yoy. We opine the weak exports were closely linked to weaker external demand. For imports, although the decline may be linked to lower price effect, we believe it signaled cautious approach by local producers and suppliers in response to concerns over stability of demand outlook.

**Exports fell further, more than expected.** Exports continued to fall at -13.1%yoy in Jul-23 (Jun-23: -14.1%yoy), sharper than ours and market estimates. Nevertheless, the decline was expected, looking at sharp declines in exports of some regional countries and with PMI surveys highlighting sluggishness in overseas demand. The decline was attributable to the continued drop in domestic exports (-13%yoy) as well as weaker re-exports (-13.5%yoy). The recent data continued to show the drag from commodity exports which we believe contributed to the overall weakness in domestic exports, while re-exports fell further for the second straight month. On month-on-month basis, exports fell by -5.8%mom from the previous month mainly due to weaker exports of manufactured goods, particularly E&E and refined petroleum products. On another note, as exports fell further entering in the first month of 2HCY23, we opine the subdued external trade may continue with commodity exports (particularly palm oil and petroleum) to remain as a downward drag in the coming months, partly because of the lower price effect.

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

	Jan-23	Feb-23	Mar-23	Apr-23	May-23	Jun-23	Jul-23
<b>Exports (RMb)</b>	112.7	112.3	129.7	105.2	119.5	124.0	116.8
% YoY	1.4	10.3	(1.4)	(17.5)	(0.9)	(14.1)	(13.1)
% MoM	(14.4)	(0.3)	15.5	(18.9)	13.6	3.7	(5.8)
<b>Imports (RMb)</b>	94.5	92.7	103.0	92.6	103.8	98.4	99.7
% YoY	1.8	12.2	(2.2)	(11.1)	(3.7)	(18.7)	(15.9)
% MoM	(8.8)	(1.9)	11.1	(10.1)	12.1	(5.2)	1.3
<b>Total Trade (RMb)</b>	207.2	205.0	232.6	197.8	223.3	222.4	216.4
% YoY	1.6	11.2	(1.7)	(14.6)	(2.2)	(16.2)	(14.4)
% MoM	(11.9)	(1.1)	13.5	(15.0)	12.9	(0.4)	(2.7)
<b>Trade Balance (RMb)</b>	18.1	19.6	26.7	12.6	15.7	25.5	17.1
<b>Import Components</b>							
<b>Intermediate (RMb)</b>	48.4	48.8	53.6	45.4	54.9	47.9	48.9
% YoY	(5.3)	2.2	(9.7)	(24.1)	(13.0)	(25.3)	(20.9)
<b>Capital (RMb)</b>	9.7	7.9	9.7	10.1	9.9	9.7	10.5
% YoY	(1.9)	(0.7)	3.1	11.3	13.0	(12.6)	(3.6)
<b>Consumption (RMb)</b>	8.2	7.0	9.3	8.2	8.9	8.2	9.0
% YoY	(4.7)	1.1	6.4	(1.6)	4.5	(11.9)	5.9

Note: MoM is non-seasonally adjusted figure

Source: Macrobond, MIDFR

**Imports also down by -15.9%yoy.** Imports also sustained double-digit decline for the second month, decreasing by -15.9%yoy due to reduced purchases of foreign-made *intermediate* (-20.9%yoy) and *capital* (-3.6%yoy) goods. We opine that this continue to suggest cautious approach by local producers in their production and investment plans, in response to slowing demand particularly on the external front. The slower fall in overall imports can be attributed to the rebound in *consumption goods* imports (+5.9%yoy), in line with our expectations for sustained rise in domestic spending. By sector, large part (or 75%) of the reduction in imports in Jul-23 was due to lower imports of manufactured goods (-14.5%yoy) where approximately 87% was linked to weaker imports of *E&E products*, *petroleum products*, and *chemicals & chemical products*. Agriculture imports also another drag to overall imports, falling by -13.6%yoy on weaker imports across all major sub-sectors especially *palm oil*, *other vegetable oil* and *natural rubber*. Mining goods imports also declined by -21.3%yoy in Jul-23, underpinned by lower imports of *other mining commodities*, *LNG*, and *metalliferous ores & metal scrap*. 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. As businesses also indicated concerns over slowing demand, we opine imports will also remain weak in line with the slowdown in global manufacturing and trade activities.

**Rebound in exports to China and US, but not enough.** There was a rebound in shipments to China, USA, and Vietnam in Jul-23, however the recovery was more than offset by reduced exports to other major destinations. We noticed the sustained growth in E&E exports led to the improved outward shipments to China, USA and Vietnam. However, sharper fall of -18.8%yoy in exports to ASEAN countries contributed to the overall

weakness in Jul-23 exports, as regional countries bought petroleum products and crude & processed palm oil products from Malaysia. The reduced exports of these 2 items (i.e. petroleum products and palm oil) also translated into continued decline in exports to EU countries. We remain cautious that the stability of China's economic recovery will support future export performance, especially when China's authorities highlighted concerns over slowing growth momentum and the need to provide more policy supports to the economy. Apart from uncertainty in China's demand, we foresee Malaysia's trade-oriented sectors would be hit by weaker demand from major markets like USA and Europe may be constrained by tighter credits and high borrowing costs (due to the effect of policy tightening).

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

	Jan-23	Feb-23	Mar-23	Apr-23	May-23	Jun-23	Jul-23
<b>Total Exports (RMb)</b>	<b>112.7</b>	<b>112.3</b>	<b>129.7</b>	<b>105.2</b>	<b>119.5</b>	<b>124.0</b>	<b>116.8</b>
Re-exports (RMb)	26.6	24.8	27.2	25.0	25.9	30.2	27.6
Domestic Exports (RMb)	86.0	87.4	102.4	80.2	93.6	93.8	89.1
<b>Exports by Key Country / Region</b>							
China	(11.9)	8.0	6.7	(20.4)	1.4	(8.0)	6.1
USA	(0.7)	21.0	7.8	(21.5)	15.3	(19.0)	2.2
Japan	13.2	78.1	46.6	(22.1)	2.1	(20.9)	(26.9)
India	(30.7)	46.0	57.1	(29.8)	(5.6)	(32.0)	(17.6)
Hong Kong	4.0	26.3	10.5	(4.3)	(7.8)	(11.2)	(3.9)
Australia	27.8	27.9	53.4	(14.4)	28.7	9.1	(0.6)
EU	1.4	(2.3)	(5.7)	(30.5)	(6.1)	(21.8)	(5.8)
ASEAN	10.9	14.8	(3.4)	(11.3)	(1.7)	(9.4)	(18.8)
Singapore	18.9	29.4	3.8	(1.4)	6.8	(0.9)	(19.7)
Thailand	8.3	15.3	17.9	(24.1)	(8.9)	(26.5)	(17.7)
Indonesia	(1.8)	17.8	22.9	8.5	(11.8)	(8.5)	(18.3)
Vietnam	(7.9)	(26.1)	(19.2)	(28.6)	13.0	(6.0)	0.2
Philippines	1.6	74.5	(3.2)	(27.2)	(21.5)	(9.5)	(31.3)

Source: Macrobond, MIDFR

**Lower base led to sustained growth in E&E exports.** Based on export performance by sector, E&E exports sustained the third consecutive month of growth at +7.3%yoy in Jul-23, driven by exports of *semiconductors*, *automatic data processing unit*, and *electrical power machinery & parts*, which offset the lower exports of other E&E products. Despite the sustained growth in E&E exports, demand for other major products declined with large drag from commodities i.e. petroleum and palm oil. The continued decline of -28.4%yoy in agriculture exports were also contributed lower exports of *other vegetable oil* and *natural rubber*, in addition to the large drag from weak palm oil exports. For mining sector, the -33.6% contraction in exports reflected reduced external demand for Malaysia's LNG and crude oil. At this juncture, looking at the weak Jul-23, we foresee continued weakness in global manufacturing as well as global semiconductor sales signal external demand may continue to remain weak. In addition, the weakness in commodity exports would continue to affect export outlook. While rising volume

indicated higher demand for commodities, lower prices will likely limit positive contribution from commodity exports at least until end of 3QCY23.

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

	Jan-23	Feb-23	Mar-23	Apr-23	May-23	Jun-23	Jul-23
E&E	6.1	13.3	(4.4)	(6.5)	1.5	3.3	7.3
Machinery, Equipment & Parts	(12.5)	5.0	11.0	(29.0)	13.0	(17.6)	(21.0)
Optical & Scientific Equipment	3.6	6.6	11.7	(16.7)	11.5	(8.4)	(4.2)
Palm oil & palm-oil based products	(22.7)	(14.9)	(14.4)	(34.8)	(36.1)	(45.9)	(34.6)
Crude Petroleum	25.9	54.4	(4.8)	(46.8)	(5.5)	(43.7)	(20.6)
Petroleum Products	97.4	73.6	35.9	30.1	13.8	(32.4)	(48.7)
LNG	61.2	31.5	13.4	(13.4)	6.7	(40.8)	(39.7)
Rubber products	(44.9)	(35.5)	(29.5)	(51.7)	(20.9)	(32.7)	(22.6)


Source: Macrobond, MIDFR

**Volume had greater impact than price.** Based on the latest data up to Jun-23, contraction in both exports and imports in 1HCY23 was mainly due to reduced trade volume. With the decline of -10.7%yoy in Jun-23, the average contraction in export volume was -4.3%yoy in the first 6 months of 2023. Among products which recorded double-digit volume reduction during the 6-month period were *chemicals, manufactured goods, and miscellaneous manufactured articles & commodities*. In contrast, exports volume for *mineral fuels, lubricants & related materials* as well as *beverages & tobacco* registered double-digit increases compared to 1HCY22. Similarly, the large -17%yoy fall in import volume in Jun-23 translated to average decline of -4.4%yoy in 1HCY23, with double-digit contraction for imports of *inedible crude materials* and *oils & fats*. Again, while we noticed greater exports of processed petroleum products, this may explain the strong rise in volume of *mineral fuels, lubricants & related materials* imports.

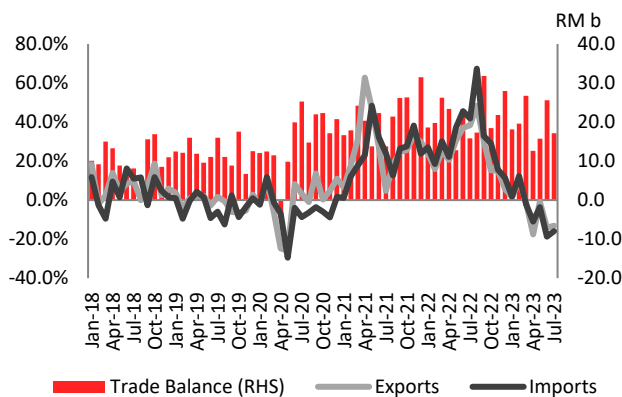
**Drag from lower prices will diminish later this year.** The sharper fall in prices for both exports and imports by -4.9%yoy and -4.7%yoy, respectively, in Jun-23 still tracked the lower prices for crude oil and CPO prices, as shown by the double-digit fall in prices of *mineral fuels, lubricants & related materials, and oils & fats*. We expect to see smaller drag in Jul-23 as both Brent crude oil and CPO averaged higher in Jul-23, rising to USD80.16 (Jun-23: USD74.98pb) and RM3,907.19/tonne (Jun-23: RM3,555.50/tonne), respectively. Compared to Jul-22, Brent crude oil prices were down by -23.7%yoy (Jun-23: -36.1%yoy) and CPO prices were only -1.9% lower (Jun-23: -38.4%yoy). We expect the gap will shrink especially in 4QCY23, taking into account commodity prices corrected in the final quarter of 2022. As the drag to growth from lower prices to diminish, we expect volume changes will remain as key determinant for trade performance.

**Trade of goods would drag down 2Q GDP.** We reiterate net exports of goods will contribute negatively to GDP growth in 2QCY23 as the size of surplus shrank -8.8%yoy in 2QCY23. Decline in real exports, as measured by the volume change, was slight larger at -4.9%yoy vis-à-vis -4.7%yoy drop in real imports. The decline in 2QCY23 will mark contraction for real goods exports for 2 straight quarters, last seen in 1HCY20 during the first

movement control order (MCO). On the other hand, we expect negative contribution from trade of goods will be cushioned by the recovery in services exports, underpinned by tourism recovery and higher tourist arrivals.

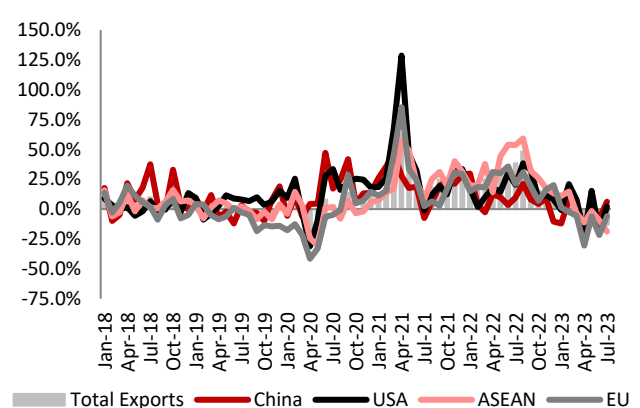
**Adjust our projection 2023 external trade projection lower.** We revise down our projections for both imports and exports to fall sharper at -6.9% (previous forecast: -3.4%) and -6.4% (previous forecast: -1.9%), respectively, because recent data pointed to continued weakness in international trade. Previously we assumed China recovery could provide a positive spillover, but we now expect the boost will be limited in view of the recent concerns on slowing growth momentum in China and calls for stimulus from the government. Moreover, with final demand from advanced markets such as the US and Europe is expected to weaken, this supports for subdued demand in the latter part of the year. The weakening demand will be due to the effect of high interest rates on consumer spending following policy tightening by monetary authorities. If rates were to be hiked even higher, demand outlook could weaken further going into next year. For imports, the revised forecast reflects our anticipation that imports will also decline as producers will continue to be cautious about demand outlook, mainly for trade-oriented industries. 

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



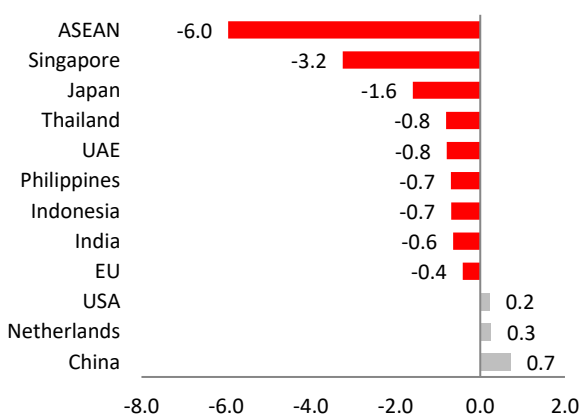
Source: Macrobond, MIDFR

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



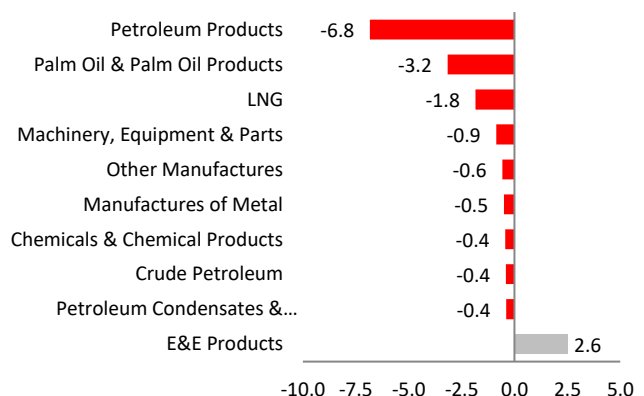
Source: Macrobond, MIDFR

**Chart 3: Contribution to Total Exports Growth in Jul-23 by Destinations (%-points)**



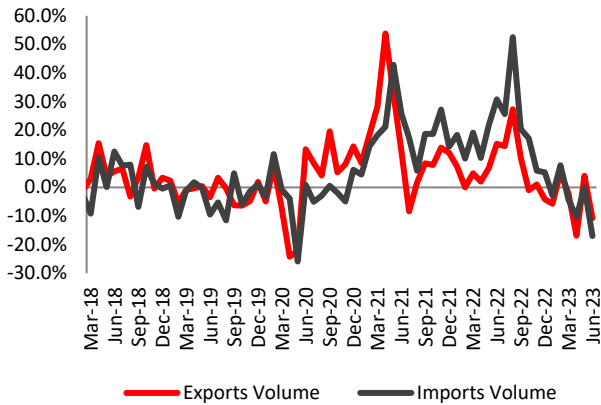
Source: Macrobond, MIDFR

**Chart 4: Contribution to Total Exports Growth in Jul-23 by Key Products (%-points)**



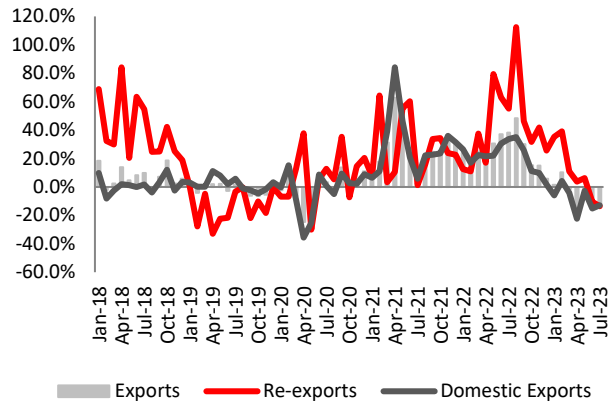
Source: Macrobond, MIDFR

**Chart 5: Exports vs Imports Volume (YoY%)**



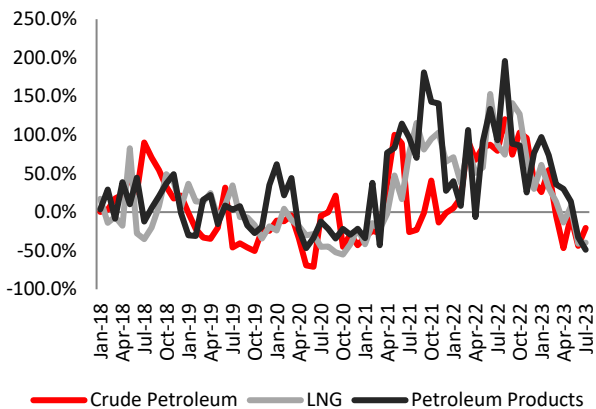
Note: Latest available data as of Jun-23  
Source: Macrobond, MIDFR

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



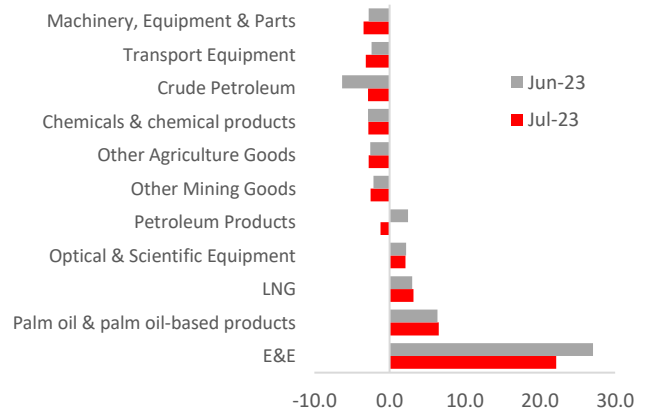
Source: Macrobond, MIDFR

**Chart 7: Exports of Mining Goods (YoY%)**



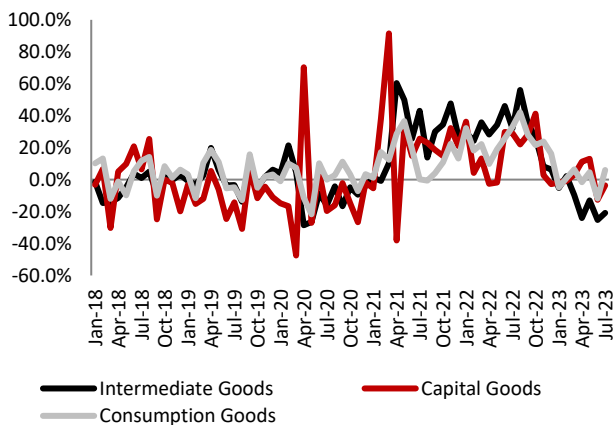
Source: Macrobond, MIDFR

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



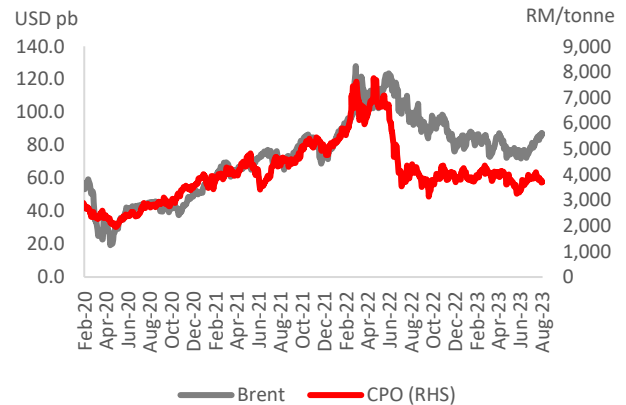
Source: Macrobond, MIDFR

**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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