19 October 2023

ECONOMIC REVIEW | September 2023 External Trade

External Trade Declined at Slower Pace in Sep-23

- *Exports contracted slower at -13.7%yoy in Sep-23. The pace of contraction in exports slowed to -13.7%yoy in Sep-23 (Aug-23: -187%yoy). Compared to prior month, exports surged +8.2%mom driven by exports of manufactured goods, especially E&E (+25.7%mom) and optical & scientific equipment (+12.5%mom).*
- *Rebound in semiconductor exports. Manufacturing exports improved in Sep-23, as the monthly +9.6%mom increase resulted in the slower year-on-year decline of -11.8%yoy (Aug-23: -17.7%yoy), which reflected the slower fall in E&E exports following rebound in semiconductor exports.*
- *No change to our projection. We maintain our forecast that exports and imports will fall by -6.4% and -6.9%, respectively, this year.*

Exports contracted slower at -13.7%yoy in Sep-23. Malaysia's total trade continued to decline albeit at slower pace of -12.6%yoy (Aug-23: -19.9%yoy). The slower fall was attributable to +5.4%mom rise in monthly total trade to RM224.4b, the highest in 7 months. Exports jumped by +8.2%mom, relatively faster than +2.1%mom increase in imports, and as a result trade surplus widened to RM24.5b (Aug-23: RM17.2b). Although exports fell further for the 7th month since Mar-23, the pace of annual contraction slowed to -13.7%yoy (Aug-23: -18.7%yoy). The improvement (as shown in the slower contraction) was better than expected because the decline in Sep-23 was not as sharp as ours and market predictions. In particular, E&E exports, which accounted 43.7% of total exports, recorded slower decline. Both domestic exports and re-exports fell slower at -12.4%yoy and -17.9%yoy (Aug-23: -13.8%yoy and -33.8%yoy), respectively. Continued decline in overall exports was dragged down by weak exports of crude and refined petroleum products, E&E, palm oil & palm oil-based products and LNG, compared to a year ago. Compared to prior month, exports rebounded and surged by +8.2%mom driven primarily by stronger exports of manufactured goods, especially E&E (+25.7%mom) and optical & scientific equipment (+12.5%mom). Given the weak overseas demand, this explains the continued decline exports relative to a year ago. For the 3QCY23, exports of goods fell sharper at -15.2%yoy (2QCY23: -11.1%yoy).

Table 1: Malaysia's External Trade Summary

	Mar-23	Apr-23	May-23	Jun-23	Jul-23	Aug-23	Sep-23
Exports (RMb)	129.7	105.2	119.5	124.0	116.8	115.0	124.5
% YoY	(1.4)	(17.5)	(0.9)	(14.1)	(13.0)	(18.7)	(13.7)
% MoM	15.5	(18.9)	13.6	3.7	(5.8)	(1.5)	8.2
Imports (RMb)	103.0	92.6	103.8	98.4	99.5	97.8	100.0
% YoY	(2.2)	(11.1)	(3.7)	(18.7)	(16.1)	(21.2)	(11.1)
% MoM	11.1	(10.1)	12.1	(5.2)	1.1	(1.6)	2.1
Total Trade (RMb)	232.6	197.8	223.3	222.4	216.3	212.9	224.4
% YoY	(1.7)	(14.6)	(2.2)	(16.2)	(14.5)	(19.9)	(12.6)
% MoM	13.5	(15.0)	12.9	(0.4)	(2.7)	(1.6)	5.4
Trade Balance (RMb)	26.7	12.6	15.7	25.5	17.4	17.2	24.5

	Mar-23	Apr-23	May-23	Jun-23	Jul-23	Aug-23	Sep-23
Import Components							
Intermediate (RMb)	53.6	45.4	54.9	47.9	48.9	51.5	49.5
% YoY	(9.7)	(24.1)	(13.0)	(25.3)	(20.8)	(22.5)	(15.6)
Capital (RMb)	9.7	10.1	9.9	9.7	10.5	10.7	10.9
% YoY	3.1	11.3	13.0	(12.6)	(4.3)	(16.1)	(24.2)
Consumption (RMb)	9.3	8.2	8.9	8.2	8.7	8.5	8.8
% YoY	6.4	(1.6)	4.5	(11.9)	2.8	(5.5)	(0.6)

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

Imports also decreased at slower pace. The pace of decline in imports also slowed to -11.1%yoy in Sep-23 (Aug-23: -21.2%yoy), mainly mirroring the slower contraction in imports of *intermediate* (-15.6%yoy) and consumption (-0.6%yoy) goods. Capital goods imports, on the other hand, fell sharper by -24.2%yoy. From month-on-month perspective, imports rebounded by +2.1%mom on higher purchases of foreign-made consumption (+2.9%mom) and capital goods (+1.9%), offsetting the monthly fall in intermediate goods imports (-3.9%mom). By sector, lower imports of manufactured and mining goods contributed close to 85% of the decline in Sep-23. Manufacturing imports fell by -5.9%yoy, mainly due to weaker imports of E&E products (-9.3%yoy) and chemicals & chemical products (-10.9%yoy). Mining goods imports fell by -42.6%yoy, dragged down by reduced purchases of crude petroleum (-51.3%yoy) and other mining products (-39.1%yoy) from other countries. We believe imports outlook may be constrained by continued cautious approach by local producers, in view of the continued weakness in overseas demand as highlighted in the recent manufacting PMI survey.

Slower declines in exports to ASEAN, China and US. By destination, exports to most major markets continued to fall but improvement in exports to ASEAN, China and the US among others contributed to the slower fall in Sep-23. Continued -17.3%yoy in shipments to China, however, was due to lower exports of LNG, palm oil & E&E products, while -9.3% decline in exports to the US was a result of lower shipments of manufactured goods such as other manufactures, E&E and machinery, equipment & parts. Meanwhile, exports to ASEAN improved following slower exports decline to Singapore and Indonesia, where the continued decline for both markets was due to reduced exports of refined petroleum products. In contrast, exports to Thailand (mainly crude petroleum) and Vietnam (mainly E&E) recorded positive growth during the month. Although Malaysia's E&E exports to EU countries increased by +9.5%yoy, overall exports to the EU fell sharper at -8.3%yoy, dragged down by lower exports of refined petroleum products, iron & steel and palm oil. Looking at exports to other countries, shipments to Japan fell sharper at -26%yoy on lower exports of LNG, E&E and refined petroleum. Similarly, Malaysia's exports to Australia dropped sharply by -26.2%yoy because of lower shipments of crude petroleum and chemical products. Going forward, we remain cautious on the effect of previous policy tightening to the strength of demand from major countries like the US and Europe in the coming months. Exports to countries like Japan, Australia and even to regional countries may be influenced by changes in commodity demand. On the contrary, we believe Malaysia will benefit from continued recovery in demand from China.

Table 2: Malaysia's Exports (YoY%)

	Mar-23	Apr-23	May-23	Jun-23	Jul-23	Aug-23	Sep-23
Total Exports (RMb)	**129.7**	**105.2**	**119.5**	**124.0**	**116.8**	**115.0**	**124.5**
Re-exports (RMb)	27.2	25.0	25.9	30.2	27.7	23.1	27.8
Domestic Exports (RMb)	102.4	80.2	93.6	93.8	89.1	91.9	96.7
Exports by Key Country / Region							
China	6.7	(20.4)	1.4	(8.0)	5.8	(20.3)	(17.3)
USA	7.8	(21.5)	15.3	(19.0)	2.2	(9.7)	(9.3)
Japan	46.6	(22.1)	2.1	(20.9)	(24.8)	(19.4)	(26.0)
India	57.1	(29.8)	(5.6)	(32.0)	(16.2)	(17.6)	(12.4)
Hong Kong	10.5	(4.3)	(7.8)	(11.2)	(3.8)	(33.4)	(12.0)
Australia	53.4	(14.4)	28.7	9.1	(0.1)	12.6	(26.2)
EU	(5.7)	(30.5)	(6.1)	(21.8)	(6.0)	(4.6)	(8.3)
ASEAN	(3.4)	(11.3)	(1.7)	(10.6)	(18.7)	(20.9)	(10.9)
Singapore	3.8	(1.4)	6.8	(0.9)	(19.6)	(19.4)	(12.0)
Thailand	17.9	(24.1)	(8.9)	(26.5)	(17.7)	(22.5)	4.7
Indonesia	22.9	8.5	(11.8)	(8.5)	(18.0)	(40.3)	(31.6)
Vietnam	(19.2)	(28.6)	13.0	(6.0)	0.2	23.4	12.1
Philippines	(3.2)	(27.2)	(21.5)	(9.5)	(30.9)	8.9	(11.1)

Source: Macrobond, MIDFR

Rebound in semiconductor exports. By sector, manufacturing exports improved in Sep-23, as the monthly +9.6%mom increase resulted in the slower year-on-year decline of -11.8%yoy (Aug-23: -17.7%yoy). The performance reflected the slower fall in E&E exports (Sep-23: -5.3%yoy; Aug-23: -15.5%yoy), supported by rebound in semiconductor exports (Sep-23: +0.4%yoy; Aug-23: -16.3%yoy). However, exports of E&E continued to drop due to weaker shipments of among other telecommunication equipment & parts (-17.1%yoy) and automatic data processing equipment (-29.2%yoy). Meanwhile, agriculture exports also registered smaller decline of -23.1%yoy in Sep-23 (Aug-23: -27.1%yoy). But the continued contraction mainly reflected the lower exports of palm oil agriculture products (-26.5%yoy), sawn timber & moulding (-23%yoy), fresh seafood (-13.1%yoy) and natural rubber (-9.4%yoy). On the other hand, mining exports fell sharper by -28%yoy (Aug-23: -23.1%yoy) due to weaker shipments of LNG, as a result of reduced demand from Japan and China, and crude petroleum. There has been signs of stabilization in global manufacturing activities which would support overall exports recovery, but we expect lower commodity exports will continue to be a drag to exports performance in the coming months.

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

	Mar-23	Apr-23	May-23	Jun-23	Jul-23	Aug-23	Sep-23
E&E	(4.4)	(6.5)	1.5	3.3	7.3	(15.5)	(5.3)
Machinery, Equipment & Parts	11.0	(29.0)	13.0	(17.6)	(21.0)	(11.5)	(4.6)
Optical & Scientific Equipment	11.7	(16.7)	11.5	(8.4)	(4.2)	(13.3)	(7.4)
Palm oil & palm-oil based products	(14.4)	(34.8)	(36.1)	(45.9)	(34.4)	(29.8)	(24.7)
Crude Petroleum	(4.8)	(46.8)	(5.5)	(43.7)	(20.6)	(22.5)	(13.9)
Petroleum Products	35.9	30.1	13.8	(36.9)	(50.8)	(35.5)	(37.9)

	Mar-23	Apr-23	May-23	Jun-23	Jul-23	Aug-23	Sep-23
LNG	13.4	(13.4)	6.7	(40.8)	(39.7)	(26.0)	(37.8)
Rubber products	(29.5)	(51.7)	(20.9)	(32.7)	(22.6)	(22.7)	(17.8)

Source: Macrobond, MIDFR

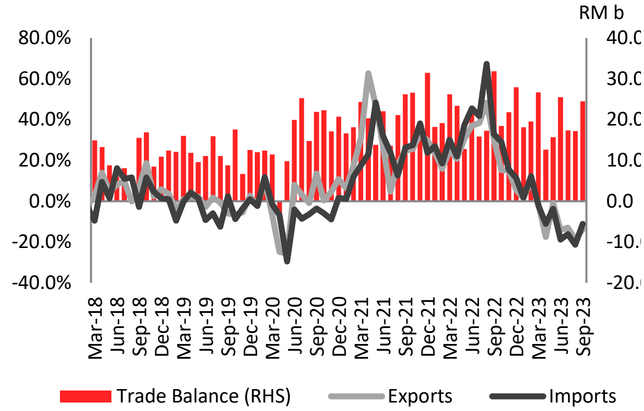
Volume decline was the major drag. Based on the latest available data for Aug-23, the recent weakness in external trade was more influenced by the decline in trade volume. Export volume dropped sharper by -15%yoy in Aug-23 (Jul-23: -6.7%yoy) mainly for products such as machinery & transport equipment, oils & fats and food. Relatively, export prices fell slower by -5.1%yoy (Jul-23: -5.4%yoy), underpinned by higher prices of inedible crude materials and slower fall in prices of manufactured goods and oils & fats. Similar trend was observed for imports where import volume fell sharper by -18.9%yoy (Jul-23: -11%yoy) because of continued declines seen in products such as mineral fuels, lubricants and related materials; oils & fats; chemicals and manufactured goods. Relative to the import volume, the contraction in import prices was smaller at -4.3%yoy (Jul-23: -4.6%yoy), underpinned by lower prices of products such as inedible crude materials; mineral fuels, lubricants & related materials; oils & fats; and chemicals. We expect external trade performance going forward will be more influenced by the volume change because the high base effect from global commodity prices has diminished.

Higher trade surplus due to better E&E trade. The monthly increase in trade balance to RM24.5b in Sep-23 (Aug-23: RM17.2b) was largely due to larger surplus in E&E trade (Sep-23: RM23.3b; Aug-23: RM13.6b). This was backed by stronger E&E exports, which surged +25.7%mom from the previous month. In addition, trade of palm oil & palm oil products also recorded higher surplus of RM7.6b in Sep-23 (Aug-23: RM6.5b). In contrast, the deficits for trade of machinery, equipment & parts and other agricultures widened during the month to -RM2.7b and -RM3.2b (Aug-23: -RM2.4b and -RM2.7b), respectively. We foresee that trade surplus will continue, especially with the recovery in the global E&E trade to limit the downward drag from other products.

Continued drag to GDP growth. Although the net exports of goods recorded a wider surplus of RM59.1b in 3QCY23 (2QCY23: RM53.9b), the size of surplus was still -9.1%yoy less than 3Q last year (2QCY23: -9.2%yoy). This suggests the weakness in external demand for goods from Malaysia will remain as a downward drag to GDP growth in 3QCY23. On the other hand, we anticipate the downward drag to net exports will be cushioned by the continued recovery in services exports on the back of growing tourism activity.

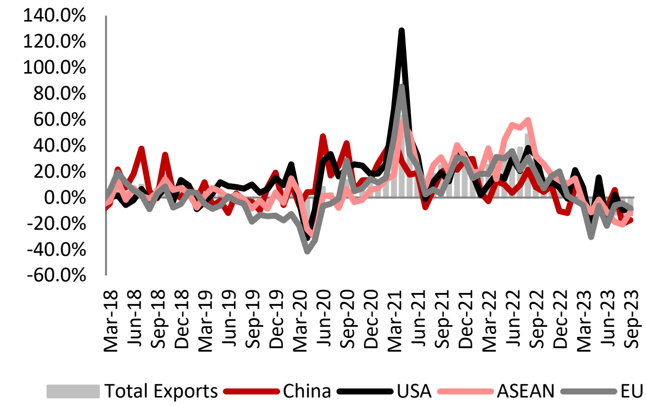
No change to our projection. We maintain our forecast that exports and imports will fall by -6.4% and -6.9%, respectively, this year. Although exports of goods recorded a sharp decline of -7.8%yoy in first 3 quarters this year, our forecast factored in expectations for turnaround in E&E trade which will result in slower export decline in the coming months. As price changes will have smaller effect going forward, we assumed continued recovery in China will be key factor that will support regional trade outlook. We expect the recovery momentum will continue and support for both exports and imports to pick up going into next year. Nevertheless, several downside risks could derail near-term trade outlook such as the recent escalation in geopolitical tensions, uptrend in commodity prices, sharp slowdown in final demand and renewed concerns over growth prospects in China.

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



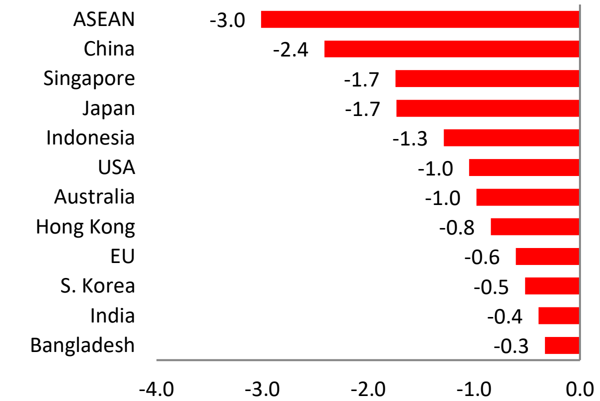
Source: Macrobond, MIDFR

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



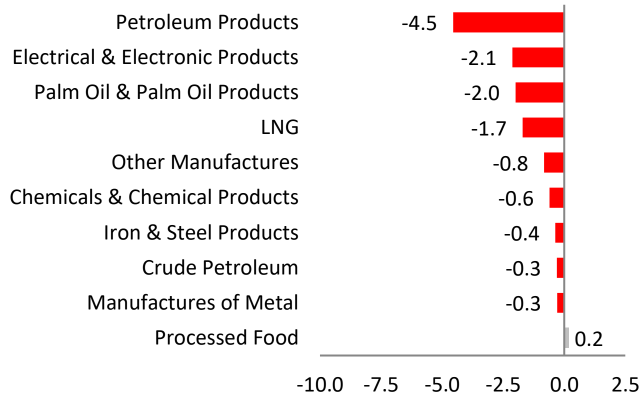
Source: Macrobond, MIDFR

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



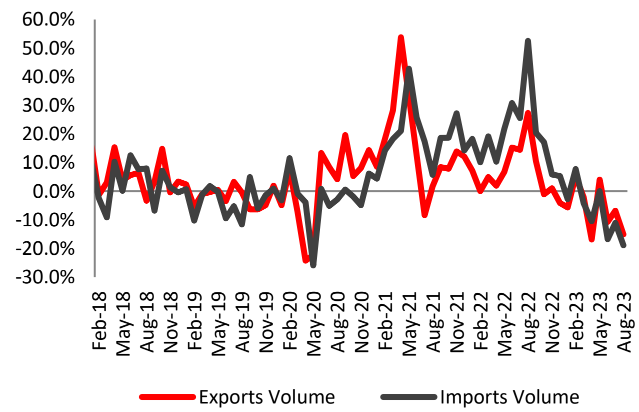
Source: Macrobond, MIDFR

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



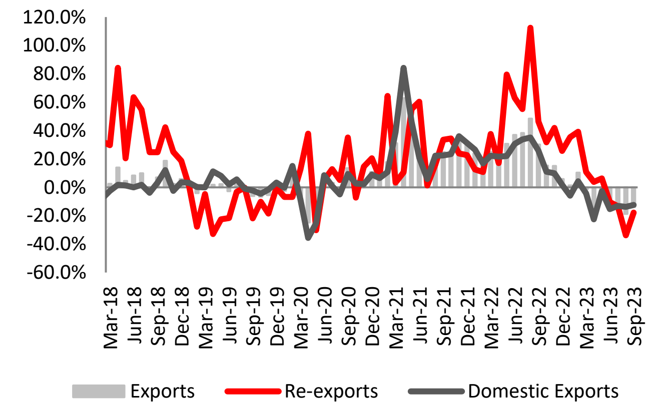
Source: Macrobond, MIDFR

Chart 5: Exports vs Imports Volume (YoY%)



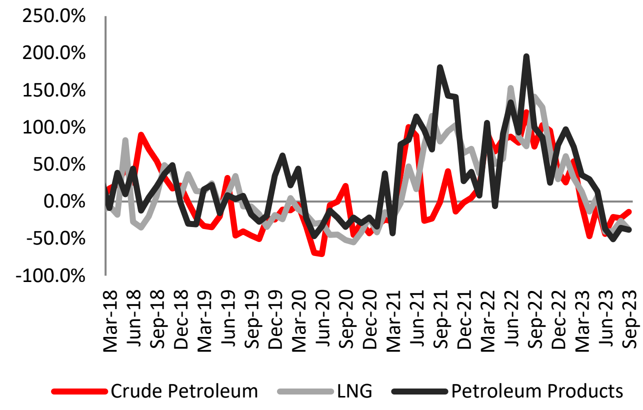
Note: Latest available data as of Aug-23
Source: Macrobond, MIDFR

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



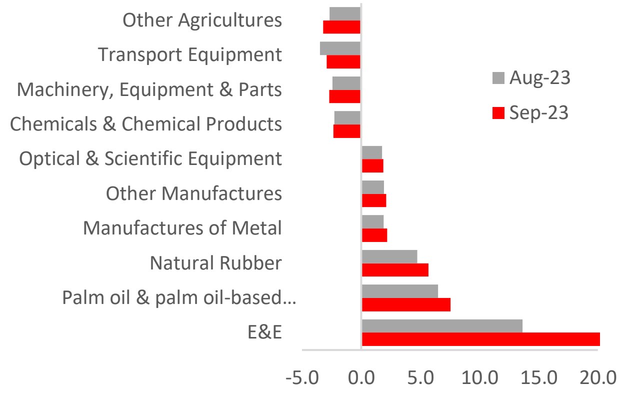
Source: Macrobond, MIDFR

Chart 7: Exports of Mining Goods (YoY%)



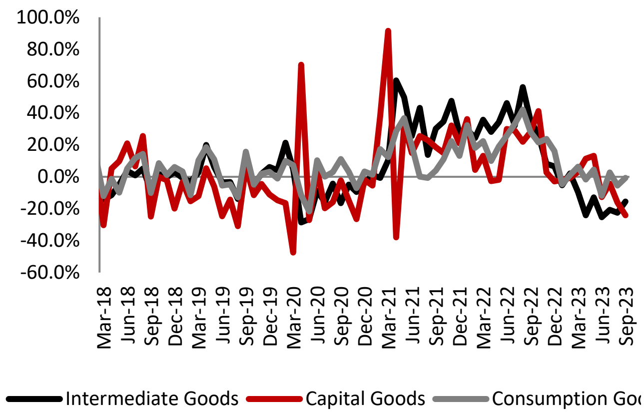
Source: Macrobond, MIDFR

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



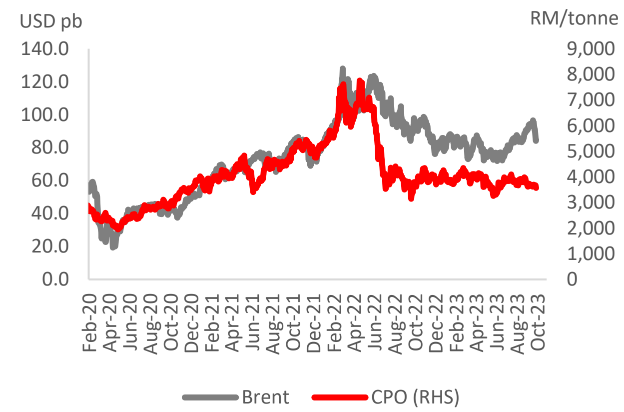
Source: Macrobond, MIDFR

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



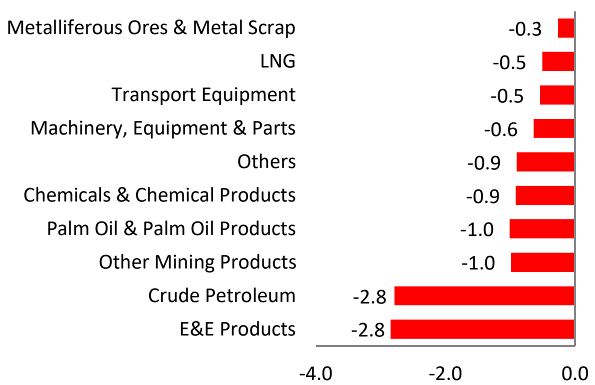
Source: Macrobond, MIDFR

Chart 10: Brent Crude Oil and CPO Prices



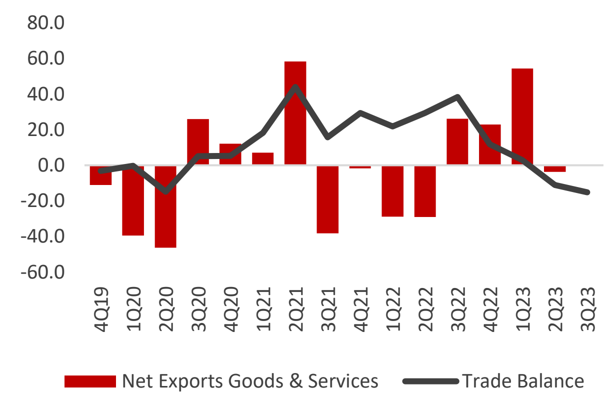
Source: Bloomberg, MIDFR

Chart 11: Contribution to Total Imports Growth in Sep-23 by Key Products (%-points)



Source: Macrobond, MIDFR

Chart 12: Trade Balance vs. Net Exports (YoY%)



Source: Macrobond, MIDFR

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