

## ECONOMIC REVIEW | December 2023 External Trade

### Exports Fell -8% in 2023, More than Expected Due to Sharper Fall in Dec-23

- Exports fell sharper in Dec-23. Exports fell sharper by -10%yoy (Nov-23: -6.1%yoy), mainly due to sharper fall in re-exports as well as lower exports of E&E, palm oil and petroleum products.
- Weaker exports to EU and ASEAN vs. slower fall in shipments to China and USA. By destination, the sharper decline in overall exports was dragged down by steeper contraction in exports to ASEAN (-12.6%yoy) and EU (-25.5%). In contrast, exports to China (-1.5%yoy) and the USA (-5.1%yoy) recorded smaller declines.
- Steeper decline in exports of palm oil and petroleum products. By sector, the steeper fall in exports in Dec-23 was mainly explained by the large declines in exports of palm oil & palm oil-based products (-26.6%yoy) and petroleum products (-18.8%yoy). Despite falling slower at -12.2%yoy, the reduction in E&E exports was the main contributor to export decline in Dec-23.
- External trade to recover this year. We maintain our projection that external trade will recover this year, expecting goods exports and imports to rebound and grow at +5.2% (2023: -8%) and +4.4% (2023: -6.4%). Nevertheless, the outlook may be constrained by geopolitical and trade tensions, sharp slowdown in major economies and still sluggish global manufacturing activities.

**Exports fell sharper in Dec-23.** Malaysia's total trade declined sharper at -4.3%yoy in Dec-23, falling the 9th consecutive month. The decline mainly reflected the continued fall in exports vis-à-vis rising imports, which expanded for the second month. The weak exports together with growing imports resulted in reduced trade surplus of RM11.8b, the smallest surplus since Jun-20. Exports fell sharper by -10%yoy (Nov-23: -6.1%yoy), extending the year-on-year contraction for the 10th straight month. The sharper fall was against ours and market expectations for smaller decline as exports for several regional countries improved in the final 2 months of 2023. The weaker exports was mainly due to sharper fall in re-exports (Dec-23: -20.3%yoy; Nov-23: +0%yoy), in contrast to relatively slower fall in domestic exports (Dec-23: +7.4%yoy; Nov-23: -7.7%yoy). On month-on-month basis, exports decreased by -2.7%mom, largely due to lower exports of petroleum products (-32.1%mom) and crude petroleum (-13.3%mom) far offset the increases in exports of E&E products (+1.1%mom) and LNG (+10.8%mom). For the full-year 2023, the decline in exports by -8.0%yoy was larger than our estimate, taking into account the sharper fall in Dec-23-. Nevertheless, we still expect recovery in external demand will support better exports performance going forward in view of better regional trade performance.

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

	Jul-23	Aug-23	Sep-23	Oct-23	Nov-23	Dec-23	2023
<b>Exports (RMb)</b>	116.8	115.0	124.3	126.1	121.7	118.5	1,425.7
% YoY	(13.0)	(18.7)	(13.8)	(4.5)	(6.1)	(10.0)	(8.0)
% MoM	(5.8)	(1.5)	8.1	1.4	(3.5)	(2.7)	-
<b>Imports (RMb)</b>	99.5	97.8	99.9	113.2	109.5	106.7	1,211.6
% YoY	(16.1)	(21.2)	(11.1)	(0.3)	1.5	2.9	(6.4)
% MoM	1.1	(1.6)	2.1	13.3	(3.3)	(2.6)	-

	Jul-23	Aug-23	Sep-23	Oct-23	Nov-23	Dec-23	2023
<b>Total Trade (Rmb)</b>	216.3	212.9	224.2	239.3	231.2	225.1	2,637.2
% YoY	(14.5)	(19.9)	(12.6)	(2.5)	(2.7)	(4.3)	(7.3)
% MoM	(2.7)	(1.6)	5.3	6.7	(3.4)	(2.6)	-
<b>Trade Balance (Rmb)</b>	17.4	17.2	24.4	12.9	12.2	11.8	214.1
<b>Import Components</b>							
<b>Intermediate (Rmb)</b>	48.9	51.5	49.7	55.7	56.0	60.0	620.9
% YoY	(20.8)	(22.5)	(15.2)	(8.1)	(5.6)	10.1	(12.1)
<b>Capital (Rmb)</b>	10.5	10.7	10.8	12.7	14.8	12.4	128.8
% YoY	(4.3)	5.3	(6.4)	8.6	51.3	24.6	7.2
<b>Consumption (Rmb)</b>	8.7	8.5	8.8	9.4	9.7	9.2	104.1
% YoY	2.8	(5.5)	(0.5)	9.9	2.4	(0.7)	0.1

Note: MoM is non-seasonally adjusted figure

Source: Macrobond, MIDFR

**Imports grew for the second month.** Imports grew stronger at +2.9%yoy in Dec-23 (Nov-23: +1.5%yoy), the second straight month of growth. The growth was underpinned mainly by higher imports of intermediate goods, which rebounded to positive growth of +10.1%yoy (Nov-23: -5.6%yoy). Imports of capital goods were also higher than last year, although the growth moderated to +24.6%yoy in Dec-23 (Nov-23: +51.3%yoy). Consumer goods imports, however, fell marginally by -0.7%yoy. By sector, increased imports were mainly driven by higher imports of manufactured goods (share: 83.6% of imports in Dec-23), which grew by +2.3%yoy and mainly driven by higher purchases of E&E products (+6.2%yoy) and iron & steel products (+24%yoy). Mining goods imports (+7.7%yoy) also contributed to the import growth in Dec-23, with crude petroleum imports the largest contributor (+2.2%point or 75% of the overall growth in Dec-23). Higher imports of intermediate goods continued to suggest local businesses increased their purchases of materials in anticipation of improved demand, in line with the optimism as indicated in the recent manufacturing PMI report. We view increased capital goods imports also indicative of growing investment activities. Despite growth in the final 2 months of 2023, imports fell by -6.4% last year mainly because of reduced imports of intermediate goods (-12.1%), in line with slower global manufacturing activities. The full-year import decline was not as sharp as our estimate, thanks to higher capital goods imports (+7.2%) and marginal rise in while consumer goods imports (+0.1%).

**Weaker exports to EU and ASEAN vs. slower fall in shipments to China and USA.** By destination, the sharper decline in overall exports was dragged down by steeper contraction in exports to ASEAN (-12.6%yoy) and EU (-25.5%). Reduced amount of E&E products were shipped to these regions. Moreover, the main contributors to the weak exports to EU were lower shipments of palm oil and transport equipment. Malaysia's exports to India and Australia also fell sharper in Dec-23. In contrast, exports to China and the USA showed improvement, with smaller declines of -1.5%yoy and -5.1%yoy, respectively, attributable to higher exports of E&E products. In line with the smaller fall in exports to China, the decline in exports to Hong Kong also slowed to -9.1%yoy in Dec-23. For the full-year 2023, more than half of the -8% contraction in total exports last year was due to reduced exports to ASEAN, China and EU countries. In comparison, despite the -3.5% decline in exports to the US, it only contributed 4.8% of -0.4%point to the overall decline. Meanwhile, exports to Australia increased by +3.8% last year underpinned by higher exports of petroleum products. Going forward, we expect the improved shipments to major markets such as China and the US will support external trade recovery this year. Nevertheless, demand from the US could be constrained by the high borrowing costs, which may lead to moderate US economic growth this year.

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

	Jul-23	Aug-23	Sep-23	Oct-23	Nov-23	Dec-23	2023
<b>Total Exports (RMb)</b>	<b>116.8</b>	<b>115.0</b>	<b>124.3</b>	<b>126.1</b>	<b>121.7</b>	<b>118.5</b>	<b>1,425.7</b>
Re-exports (RMb)	27.7	23.1	27.6	29.8	26.2	21.2	315.3
Domestic Exports (RMb)	89.1	91.9	96.7	96.3	95.5	97.3	1,110.4
<b>Exports by Key Country / Region</b>							
China	5.8	(20.3)	(17.3)	(7.1)	(8.4)	(1.5)	(8.7)
USA	2.2	(9.7)	(9.3)	3.9	(8.7)	(5.1)	(3.5)
Japan	(24.8)	(19.4)	(25.5)	(23.8)	(18.3)	(4.7)	(13.1)
India	(16.2)	(17.6)	(12.4)	4.6	(20.3)	(21.5)	(16.8)
Hong Kong	(3.8)	(33.4)	(12.0)	5.9	(14.4)	(9.1)	(6.1)
Australia	(0.1)	12.6	(26.2)	(8.1)	(0.3)	(11.5)	3.8
EU	(6.0)	(4.6)	(8.3)	0.7	(6.9)	(25.5)	(10.5)
ASEAN	(18.7)	(20.9)	(10.9)	(5.8)	(5.9)	(12.6)	(7.2)
Singapore	(19.6)	(19.4)	(12.0)	(8.2)	(17.0)	(24.8)	(5.7)
Thailand	(17.7)	(22.5)	4.8	(21.6)	(0.5)	(11.6)	(10.7)
Indonesia	(18.0)	(40.3)	(31.8)	(10.1)	4.8	10.7	(8.7)
Vietnam	0.2	23.4	12.1	11.6	40.4	(2.7)	(3.0)
Philippines	(30.9)	8.9	(11.1)	20.4	(1.8)	10.8	(6.3)

Source: Macrobond, MIDFR

**Steeper fall in exports of palm oil and petroleum products.** By sector, the steeper fall in exports in Dec-23 was mainly explained by the large declines in exports of palm oil & palm oil-based products (-26.6%yoy) and petroleum products (-18.8%yoy). The decline in palm oil exports largely contributed to the -25.9%yoy decline in agriculture goods exports. Apart from the lower petroleum exports, the contraction of -10.3%yoy in manufactured goods exports were also dragged down by lower exports of E&E products (-12.1%yoy), transport equipment (-40.4%yoy) and chemical & chemical products (-12.7%yoy). Although E&E exports decline was slower (vs. -13.7%yoy in Nov-23), it was the largest contributor (-4.8%point) to the export decline in Dec-23. Mining goods exports, on the other hand, rose by +9.1%yoy in Dec-23, backed by strong rise in exports crude petroleum (+35.1%yoy) and petroleum condensates & other petroleum oil (+326.6%yoy). For full-year 2023, more than 70% of the decline in Malaysia's exports last year was due to lower exports of palm oil & palm oil-based products (-26%), petroleum products (-11%) and E&E (-3%).

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

	Jul-23	Aug-23	Sep-23	Oct-23	Nov-23	Dec-23	2023
E&E	7.3	(15.5)	(5.6)	(1.6)	(13.7)	(12.1)	(3.0)
Machinery, Equipment & Parts	(21.0)	(11.5)	(5.2)	6.6	10.3	(0.1)	(5.2)
Optical & Scientific Equipment	(4.2)	(13.3)	(7.4)	1.2	(12.7)	(7.9)	(3.6)
Palm oil & palm-oil based products	(34.4)	(29.7)	(24.7)	(5.4)	(7.1)	(26.6)	(26.0)
Crude Petroleum	(20.6)	(22.5)	(13.9)	(22.3)	15.6	35.1	(9.8)
Petroleum Products	(50.8)	(39.9)	(41.3)	(28.1)	8.2	(22.2)	(11.0)
LNG	(39.7)	(26.0)	(37.9)	(34.9)	(14.8)	(0.1)	(12.4)
Rubber products	(22.6)	(26.0)	(17.8)	(5.2)	4.6	1.4	(25.9)
Transport equipment	9.4	(6.6)	(10.8)	24.9	(42.3)	(40.4)	(8.0)

Source: Macrobond, MIDFR

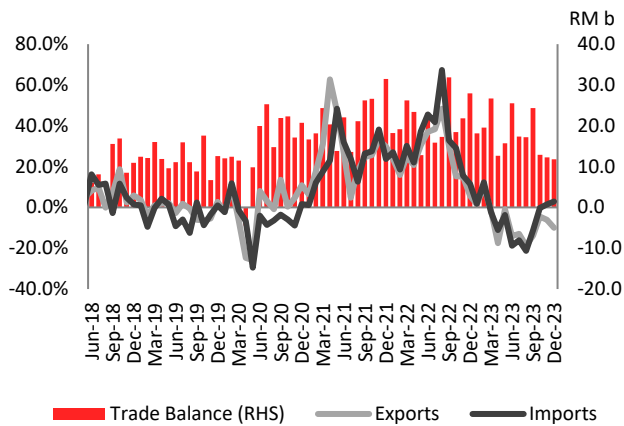
**Trade performance continued to be influenced by volume change.** Based on data until Nov-23, the sharper fall in exports were explained by decline in export volume (-6.2%yoy), in contrast to increase in export value (+0.4%yoy). Declines were recorded in export volume for machinery & transport equipment; other commodities & manufactured articles; chemicals; and beverage & tobacco. Similarly, increases in imports continued to be driven by higher import volume (Nov-23: +4.1%yoy; Oct-23: +1.3%yoy) vis-à-vis steeper decline in import value (Nov-23: -2.2%yoy; Oct-23: -1.5%yoy). The higher import volume were recorded in among others purchases of mineral fuels, lubricants & related materials; manufactured goods; machinery & transport equipment; and foods. Meanwhile, reduced import prices were mainly recorded for mineral fuels, lubricants & related materials, which can be linked to the lower Brent crude oil prices which fell by -5.2%mom in Nov-23. Import value for other products like crude inedible materials and machinery & transport equipment also fell during the month. Going forward, we expect continued rise in trade volume will support the external trade recovery.

**Petroleum products turned to trade deficit, with larger deficit in crude petroleum trade.** Trade surplus dropped to RM11.8b in Dec-23, the lowest monthly surplus in the post-pandemic period. In particular, this was largely explained by reduced exports of petroleum products and higher imports of crude petroleum. As a result, trade of petroleum products turned to deficit (Dec-23: -RM1.5b; Nov-23: +RM2.3b), on top larger deficit in crude petroleum trade (Dec-23: -RM3.5b; Nov-23: -RM2.5b). These deficits overwhelmed the higher surplus in trade of among others E&E products (Dec-23: +RM13.6b; Nov-23: +12.7b) and LNG (Dec-23: +RM5.7b; Nov-23: +RM4.9b). Overall trade surplus was also contributed by sustained surplus in trade of palm oil & palm oil-based products, albeit smaller at +RM7.5b (Nov-23: +RM7.8b). Despite the lower exports of E&E and palm oil, trade surpluses of these 2 products remained the largest contributors to overall trade surplus. We foresee Malaysia's external trade will remain in surplus with the expectations of improved E&E exports and overall external recovery. However, the size of surplus may be constrained by increased (dependency on) imports for products such as transport equipment, machinery, chemicals, agriculture products (i.e. foods) and even crude petroleum.

**Larger drag to GDP in 4QCY23.** Although exports sequentially rose by +2.8%qoq from 3QCY23, the higher growth in imports by +10.8%qoq resulted to smaller trade surplus of +RM36.9b in the final quarter 2023 (3QCY23: +RM58.9b). This will result in a continued drag from net exports (of goods) to the GDP growth in 4QCY23 as the size of trade surplus during the quarter was far lower (or -45.9%yoy) than +RM68.2b in 4QCY22. For the whole year 2023, with exports declining by -8% and imports only falling by -6.4%, trade surplus decreased by -16.4% to +RM214.1b last year (2022: +RM256.2), the lowest trade surplus in 3 years. Given the sharper fall in exports and smaller trade surplus, external trade will be the reason behind more moderate GDP growth for Malaysia in 2023.

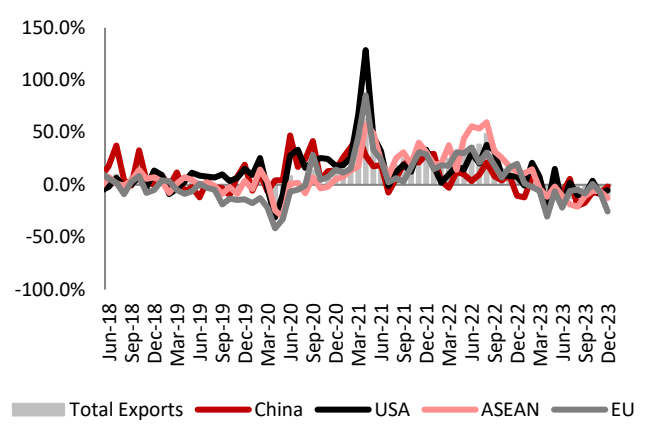
**External trade to recover this year.** In view of improving E&E exports and better export performance reported by several regional countries, we expect maintain our projection that external trade will recover this year. We forecast goods exports and imports to rebound in 2024 and grow at +5.2% (2023: -8%) and +4.4% (2023: -6.4%). Apart from the turnaround in the global E&E market, we expect continued (albeit moderate) economic growth in China and the US will support export growth this year. Nevertheless, we opine several downside risks could affect global trade this year such as increased geopolitical and trade tensions, sharper slowdown in major economies and still sluggish global manufacturing activities. 

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



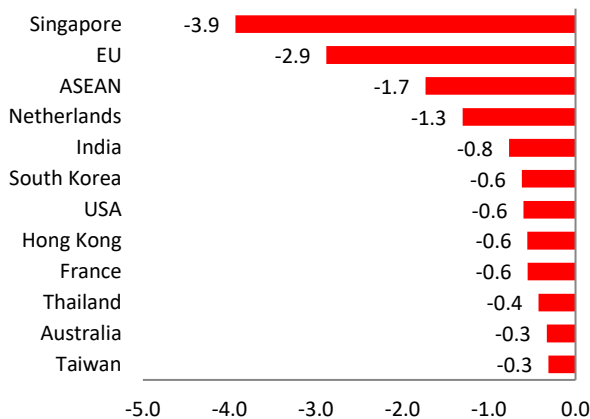
Source: Macrobond, MIDFR

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



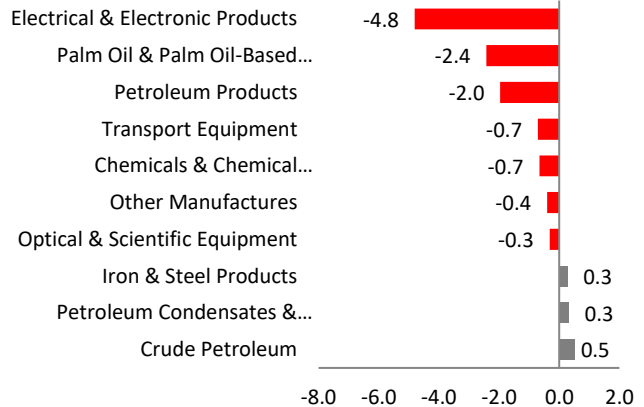
Source: Macrobond, MIDFR

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



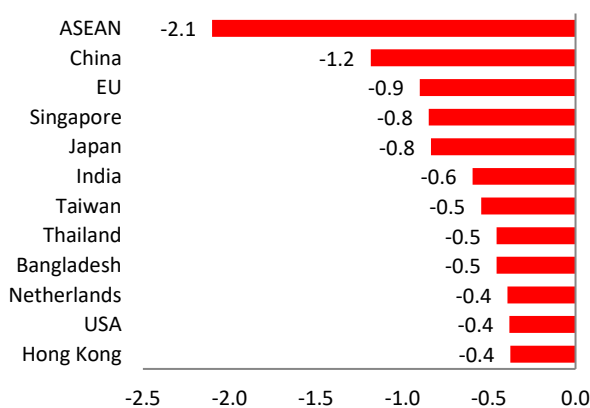
Source: Macrobond, MIDFR

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



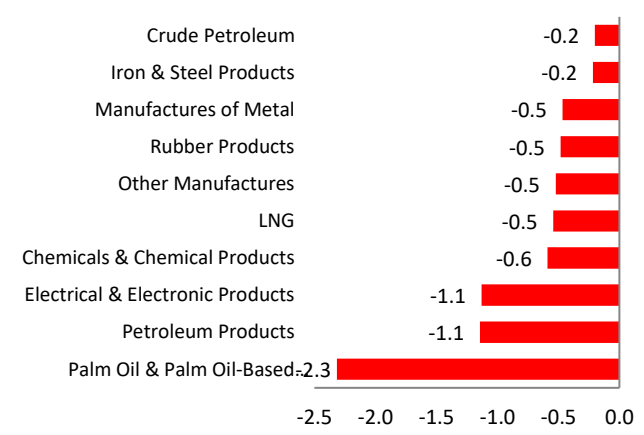
Source: Macrobond, MIDFR

**Chart 5: Contribution to Total Exports Growth in 2023 by Destinations (%-points)**



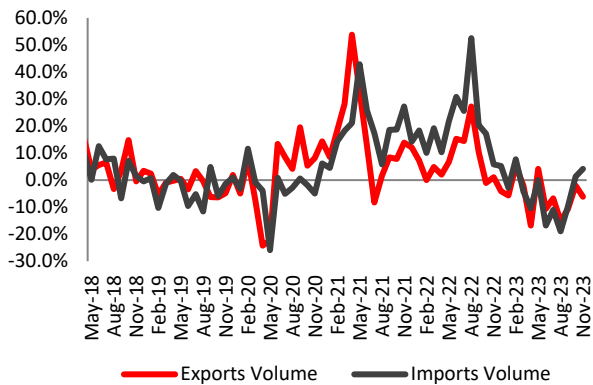
Source: Macrobond, MIDFR

**Chart 6: Contribution to Total Exports Growth in 2023 by Key Products (%-points)**



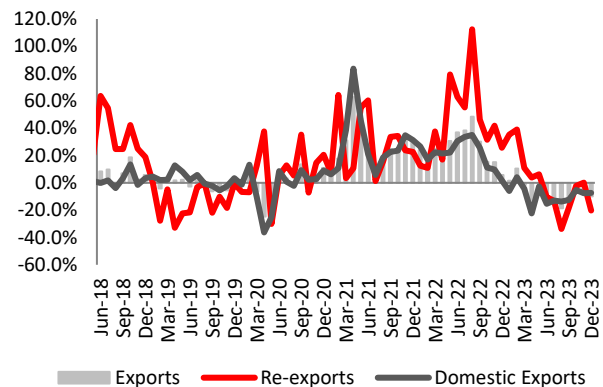
Source: Macrobond, MIDFR

**Chart 7: Exports vs Imports Volume (YoY%)**



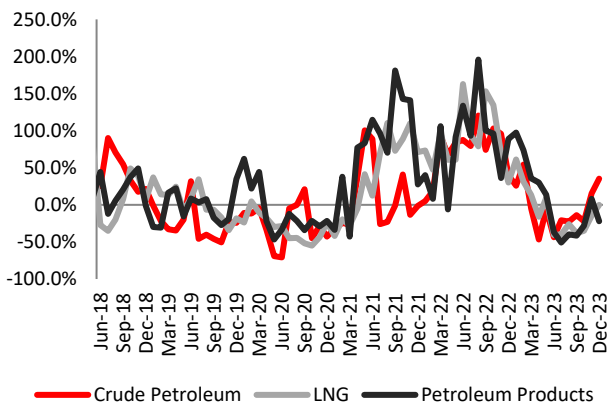
Note: Latest available data as of Nov-23  
Source: Macrobond, MIDFR

**Chart 8: Exports: Domestic vs Re-exports (YoY%)**



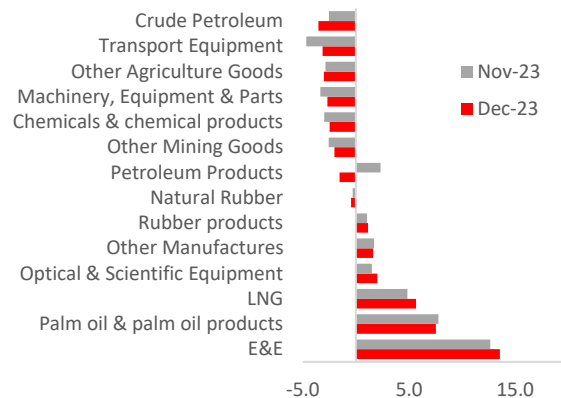
Source: Macrobond, MIDFR

**Chart 9: Exports of Mining Goods (YoY%)**



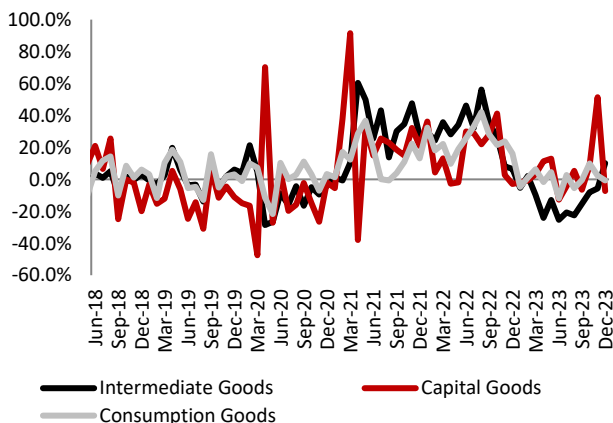
Source: Macrobond, MIDFR

**Chart 10: Trade Balance for Selected Products (RM b)**



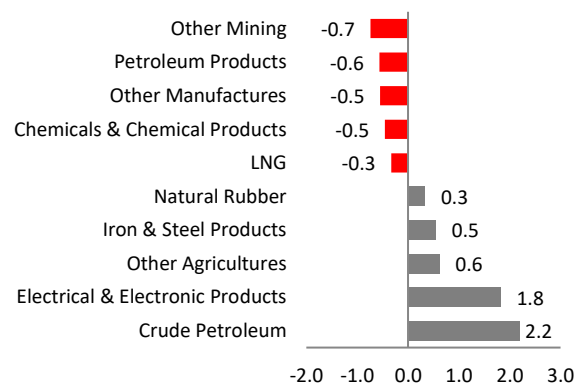
Source: Macrobond, MIDFR

**Chart 11: Imports of Goods by End Use (YoY%)**



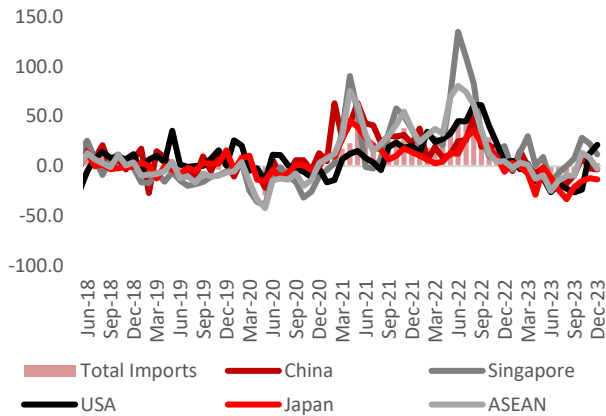
Source: Macrobond, MIDFR

**Chart 12: Contribution to Total Imports Growth in Dec-23 by Key Products (%-points)**



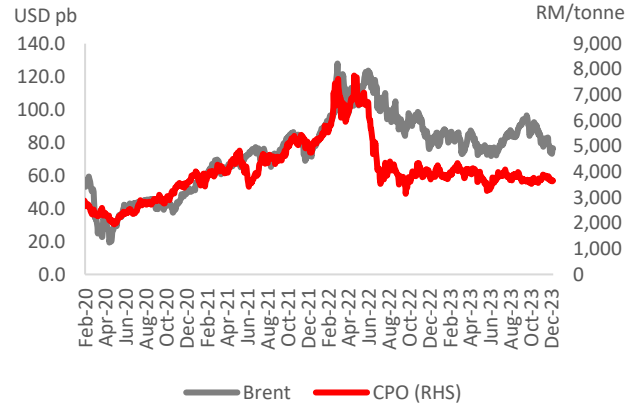
Source: Bloomberg, MIDFR

**Chart 13: Imports Growth by Major Source (YoY%)**



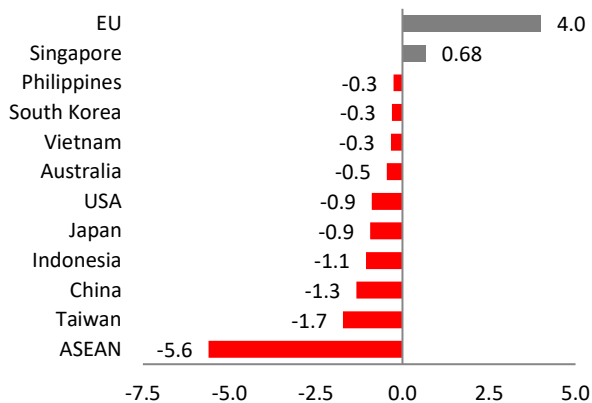
Source: Macrobond, MIDFR

**Chart 14: Brent Crude Oil and CPO Prices**



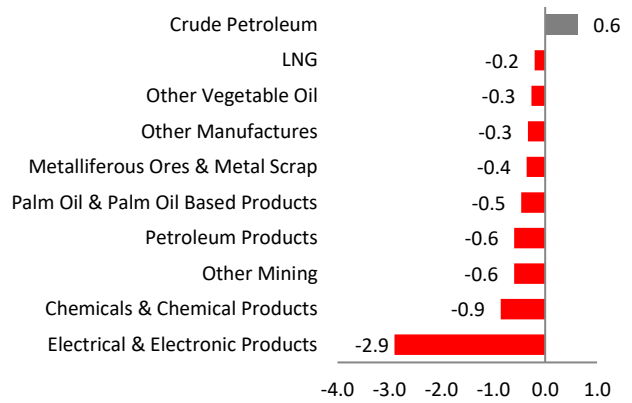
Source: Macrobond, MIDFR

**Chart 15: Contribution to Total Imports Growth in 2023 by Source (%-points)**



Source: Macrobond, MIDFR

**Chart 16: Contribution to Total Imports Growth in 2023 by Key Products (%-points)**



Source: Macrobond, MIDFR

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