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ECONOMIC REVIEW | January 2024 External Trade

Exports Rebounded to +8.7%yoy in Jan-24, the First Expansion in 11 Months

- *Exports growth turn positive in Jan-24. Exports rebounded to +8.7%yoy in Jan-24, marking the first annual growth in 11 months driven by higher exports of petroleum products and palm oil & palm oil-based products.*
- *Improvement in exports to major markets except China. By destination, the export rebound in Jan-24 was driven by improvement in exports to major destinations such as the US, EU and ASEAN. In contrast, exports to China and Hong Kong declined in Jan-24 mainly due to lower E&E exports.*
- *Double-digit growth for various export products vs. continued fall in E&E exports. The rebound in Jan-24 exports was due to strong double-digit growth in various exports products such as petroleum products; iron & steel; machinery, equipment & parts; transport equipment; and rubber products. However, E&E exports fell further by -6.5%yoy, mainly due to weak semiconductor exports.*
- *External trade to recover this year. We maintain our projection that export and imports will rebound this year and grow at +5.2% (2023: -8.0%) and +4.4% (2023: -6.4%), respectively.*

Exports growth turn positive in Jan-24. Malaysia's total trade rebounded to +13.3%yoy in Jan-24, marking the first growth in 11 months. This was due to increases in both exports (+3.4%mom) and imports (+5.3%mom) and the lower base in Jan-23. Due to the relatively stronger rise in imports, monthly trade surplus reduced to a new post-pandemic low of +RM10.1b. Exports rebounded and registered the first annual growth after 10 months of contraction, growing at +8.7%yoy in Jan-24, above ours and market expectations. Nevertheless the improving trend is in line with our expectation in view of improving regional trade and better PMI reading in Jan-24. The breakdown shows exports growth was driven by increased re-exports (+4.1%yoy), while the rebound in domestic exports (+10.1%yoy) was mainly explained by the lower base effect. Broadly, the exports growth in Jan-24 was driven by higher shipments of petroleum products and palm oil & palm oil-based products. From month-on-month perspective, monthly rise of +3.4%mom in exports was largely due to increased exports of manufactured products (+4.8%mom); overwhelmingly from petroleum products (+63.5%mom), which more than offset the decline in E&E exports (-4.2%mom). Meanwhile, imports grew faster at +18.8%yoy in Jan-24, the fastest growth in since Nov-22, driven mainly by purchases of E&E and petroleum products. We view the stronger-than-expected rebound in exports to be an encouraging development because we expect the recovery in external demand to contribute towards stronger economic growth this year, in addition to growing domestic demand.

Table 1: Malaysia's External Trade Summary

	Jul-23	Aug-23	Sep-23	Oct-23	Nov-23	Dec-23	Jan-24
Exports (RMb)	116.8	115.0	124.3	126.1	121.7	118.4	122.4
% YoY	(13.0)	(18.7)	(13.8)	(4.5)	(6.1)	(10.1)	8.7
% MoM	(5.8)	(1.5)	8.1	1.4	(3.5)	(2.8)	3.4
Imports (RMb)	99.5	97.8	99.9	113.2	109.5	106.6	112.3
% YoY	(16.1)	(21.2)	(11.1)	(0.3)	1.5	2.9	18.8
% MoM	1.1	(1.6)	2.1	13.3	(3.3)	(2.6)	5.3
Total Trade (RMb)	216.3	212.9	224.2	239.3	231.2	225.0	234.7
% YoY	(14.5)	(19.9)	(12.6)	(2.5)	(2.7)	(4.3)	13.3
% MoM	(2.7)	(1.6)	5.3	6.7	(3.4)	(2.7)	4.3

	Jul-23	Aug-23	Sep-23	Oct-23	Nov-23	Dec-23	Jan-24
Trade Balance (RMb)	17.4	17.2	24.4	12.9	12.2	11.7	10.1
Import Components							
Intermediate (RMb)	48.9	51.5	49.7	55.7	56.0	60.0	58.8
% YoY	(20.8)	(22.5)	(15.2)	(8.1)	(5.6)	10.2	21.4
Capital (RMb)	10.5	10.7	10.8	12.7	14.8	12.3	13.7
% YoY	(4.3)	5.3	(6.4)	8.6	51.3	23.7	41.8
Consumption (RMb)	8.7	8.5	8.8	9.4	9.7	9.2	10.3
% YoY	2.8	(5.5)	(0.5)	9.9	2.4	(0.7)	25.4

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

Imports surged +18.8%yoy, the strongest growth in 15 months. Imports grew strongly by +18.8%yoy in Jan-24 (Dec-23: +2.9%yoy), underpinned by higher purchases of all major types of import products: intermediate goods (+21.4%yoy), capital goods (+41.8%yoy) and consumer goods (+25.4%yoy). For the capital goods imports, part of the increases were related to investment into Johor. By sector, +15.8%-point or 84% of the growth in Jan-24 imports was attributable to increased purchases of foreign-made manufactured goods, mainly imports imports of E&E products (+15.5%yoy) and petroleum products (+27.8%yoy). Higher imports of agriculture goods (+19.1%yoy) and mining goods (+10.0%yoy) also contributed to the import growth in Jan-24, mainly due to higher inbound shipment of other agriculture producsts (+44.7%yoy) and crude petroleum (+20.9%yoy). We believe the continued rise in imports of intermediate goods and capital goods is consistent with the better PMI reading in Jan-24, which pointed to stabilization in the manufacturing sector activities and optimism that demand outlook will improve. Going forward, imports will continue to driven by increased investment and business activities, including inventory restocking and sourcing of raw materials. In addition, imports of consumption goods will also expand on the back of growing domestic spending.

Improvement in exports to major markets except China. By destination, the export rebound in Jan-24 was driven by improvement in exports to major destinations with the exception China and Hong Kong. Shipments to the US rebounded to +11.9%yoy due to higher demand for E&E, iron & steel and wood products. Meanwhile, exports to the EU also registered first growth in 3 months, growing at +6.4%yoy in Jan-24 because of higher shipments of E&E and palm oil-based manufactured products. Exports to ASEAN also rebounded to +9.5%yoy, following strong double-digit growth in exports to Indonesia, Vietnam and the Philippines; more than offset the decreased shipments to Thailand and Singapore. Increased demand for manufactured goods (mainly petroleum products, machinery, equipment & parts, and chemicals & chemical products) contributed to the higher exports to ASEAN. Exports to Australia also surged robustly by +34.6%yoy largely driven by the steep rise in demand for petroleum products (+93.3%yoy). On the other hand, Malaysia's exports to China and Hong Kong fell further by -7.4%yoy and -7.9%yoy, respectively, primarily because of lower exports of E&E products. To a certain extent, weakness in the exports in the early part of the year may be linked to slower business activities ahead of the Lunar New Year holiday. Going forward, we expect the improvement in shipments to major markets such as China, the US and regional countries will support the external trade recovery this year. However, demand from the advanced economies like the US and euro area may be constrained by the high borrowing costs, especially if the restrictive monetary policy is kept for extended period.

Table 2: Malaysia's Exports (YoY%)

	Jul-23	Aug-23	Sep-23	Oct-23	Nov-23	Dec-23	Jan-24
Total Exports (RMb)	**116.8**	**115.0**	**124.3**	**126.1**	**121.7**	**118.4**	**122.4**
Re-exports (RMb)	27.7	23.1	27.6	29.8	26.2	21.2	27.7
Domestic Exports (RMb)	89.1	91.9	96.7	96.3	95.5	97.2	94.7
Exports by Key Country / Region							
China	5.8	(20.3)	(17.3)	(7.1)	(8.4)	(1.5)	(7.4)
USA	2.2	(9.7)	(9.3)	3.9	(8.7)	(5.3)	11.9
Japan	(24.8)	(19.4)	(25.5)	(23.8)	(18.3)	(4.7)	2.8
India	(16.2)	(17.6)	(12.4)	4.6	(19.7)	(21.5)	18.7
Hong Kong	(3.8)	(33.4)	(12.0)	5.9	(14.4)	(9.1)	(7.9)
Australia	(0.1)	12.6	(26.2)	(8.1)	(0.3)	(11.5)	34.6
EU	(6.0)	(4.6)	(8.3)	0.7	(6.9)	(25.5)	6.4
ASEAN	(18.7)	(20.9)	(10.9)	(5.8)	(5.9)	(12.7)	9.5
Singapore	(19.6)	(19.4)	(12.0)	(8.2)	(17.0)	(25.0)	(2.6)
Thailand	(17.7)	(22.5)	4.8	(21.3)	(0.5)	(11.9)	(12.6)
Indonesia	(18.0)	(40.3)	(31.8)	(10.1)	4.9	10.6	60.6
Vietnam	0.2	23.4	12.1	11.6	40.4	(2.7)	53.7
Philippines	(30.9)	8.9	(11.1)	20.4	(1.8)	10.8	24.3

Source: Macrobond, MIDFR

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

	Jul-23	Aug-23	Sep-23	Oct-23	Nov-23	Dec-23	Jan-24
E&E	7.3	(15.5)	(5.6)	(2.4)	(13.7)	(12.1)	(6.5)
Machinery, Equipment & Parts	(21.0)	(11.5)	(5.2)	6.6	10.3	(0.7)	35.7
Optical & Scientific Equipment	(4.2)	(13.3)	(7.4)	1.2	(12.7)	(8.5)	21.8
Palm oil & palm-oil based products	(34.4)	(29.7)	(24.7)	(5.4)	(7.1)	(26.6)	16.2
Crude Petroleum	(20.6)	(22.5)	(13.9)	(22.3)	15.6	35.1	17.7
Petroleum Products	(50.8)	(39.9)	(41.3)	(28.1)	8.2	(22.2)	24.2
LNG	(39.7)	(26.0)	(37.8)	(34.9)	(14.8)	(0.1)	(9.3)
Rubber products	(22.6)	(26.0)	(17.8)	(5.2)	4.6	1.4	16.1
Transport equipment	9.4	(6.6)	(10.8)	24.9	(42.3)	(39.3)	22.6

Source: Macrobond, MIDFR

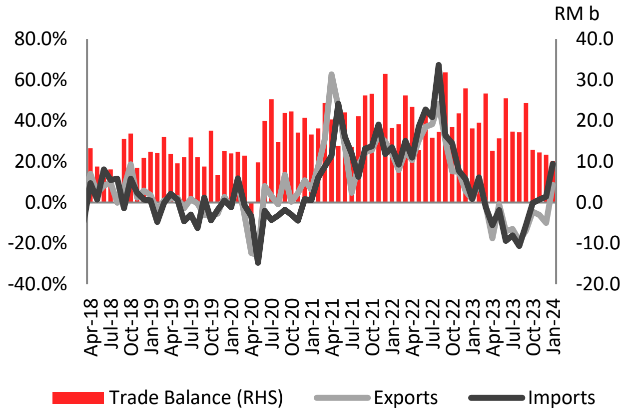
Double-digit growth for various export products vs. continued fall in E&E exports. The export rebound in Jan-24 was due to strong double-digit growth in various export products such as petroleum products (+24.2%yoy); iron & steel (+70.4%yoy); machinery, equipment & parts (+35.7%yoy); transport equipment (+22.6%yoy); and rubber products (+16.1%yoy). However, E&E exports fell further for the 6th straight month albeit at slower pace of -6.5%yoy, mainly due to weak semiconductor exports (-8.4%yoy). By sector, pick-up in all these exports contributed to the rebound in manufacturing exports (+9.3%yoy). Agriculture goods exports also grew (+17.5%yoy) in Jan-24, mainly due to higher palm oil exports. Mining goods exports, on the other hand, contracted by -4.9%yoy as lower exports of LNG (-9.3%yoy) and metalliferous ores & metal scrap (-22.5%yoy) more than offset the increase in crude petroleum exports (+17.7%yoy). We reiterate our expectations Malaysia's exports will recover backed by turnaround in E&E trade. Furthermore, increased demand for petroleum products and palm oil could also support exports growth this year.

Trade performance continued to be influenced by volume change. Based on the latest data as of Dec-23, volume change continued to have larger influence on trade performance. The sharper -10.1%yoy contraction in exports in Dec-23 (Nov-23: -6.1%yoy) was explained by reduction in export volume (-12.2%yoy), in contrast to increase in export value (+2.4%yoy). Volume declines were mainly recorded in exports of oils & fats; machinery & transport equipment; chemicals; and mineral fuels, lubricants & related materials. Similarly, the stronger growth of +2.9%yoy in imports in Dec-23 was due to continued rise in import volume (Dec-23: +3.4%yoy; Nov-23: +3.8%yoy) and smaller decline in import value (Dec-23: -0.3%yoy; Nov-23: -2.1%yoy). Higher volumes were recorded in among others imports of manufactured goods; foods; and mineral fuels, lubricants & related materials. Going forward, we expect improvement in trade volume will be the main contributor to the recovery in external trade, as price changes (for both exports and imports) have limited impact to overall trade performance.

Smaller surplus in E&E trade and wider deficits in other agricultural goods. Trade surplus shrank further to RM10.1b in Jan-24, the smallest monthly surplus in the post-pandemic period. In particular, the decline was due to reduced surplus in E&E trade (Jan-24: +RM11.1b; Dec-23: +RM13.6b) and wider deficits from trade agricultural goods (Jan-24: -RM4.1b; Dec-23: -RM3.0b). Wider deficits were also recorded in trade of machinery, equipment & parts and other mining goods, in addition to lower surplus from LNG trade. In contrast, the deterioration in trade balance was partly offset by improvement in petroleum trade, following turnaround in trade of processed petroleum products, which turned to surplus of +RM3.1b (Dec-23: -RM1.5b) and smaller deficits in crude petroleum trade. On balance, major source of trade surplus contributed by trade of 3 major products i.e. E&E, palm oil and LNG. We still expect pick-up in E&E trade will support the overall trade recovery this, and will continue to anchor for the continued trade surplus. We reiterate that the reduced trade surplus mainly reflected dependency on imports for products such as transport equipment, machinery, chemicals, agriculture products (i.e. foods) and even crude petroleum.

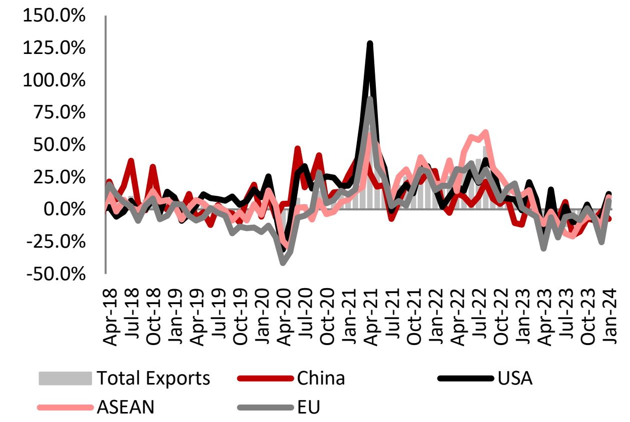
External trade to recover this year. We maintain our projection that export performance will rebound this year and grow at +5.2% (2023: -8.0%). Although the E&E exports remained below a year ago, the expected turnaround in the E&E trade will be one of the factors to support external trade recovery. The stronger-than-expected rebound in Jan-24 was also in line in improving regional trade performance. In other words, Malaysia stands to benefit from the pick-up in regional production activities and improvement in global demand. Nevertheless, several downside risks could disrupt trade outlook, such as worsening of geopolitical and trade tensions, lower demand from major trading partners and prolonged weakness in the global production activities. On another note, we expect Malaysia's imports to rebound to +4.4% this year (2023: -6.4%), on the back of expanding domestic demand and improvement in manufacturing activities.

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



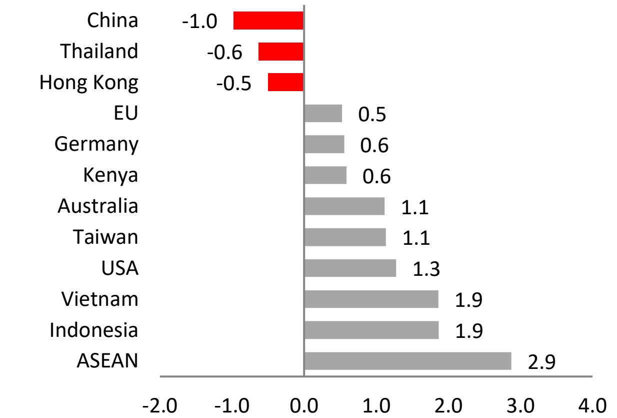
Source: Macrobond, MIDFR

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



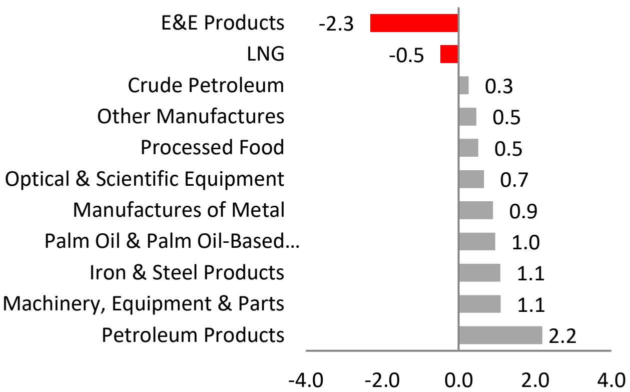
Source: Macrobond, MIDFR

Chart 3: Contribution to Total Exports Growth in Jan-24 by Destinations (%-points)



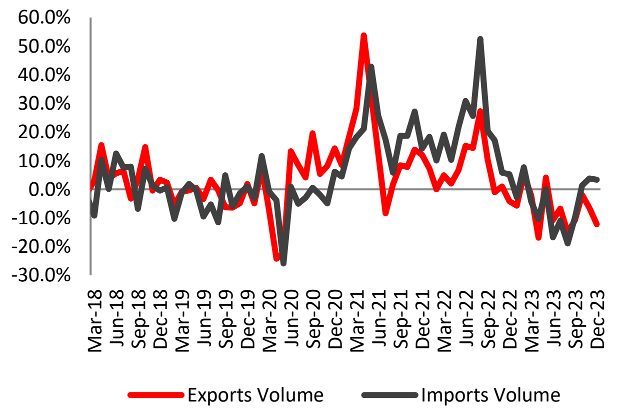
Source: Macrobond, MIDFR

Chart 4: Contribution to Total Exports Growth in Jan-24 by Key Products (%-points)



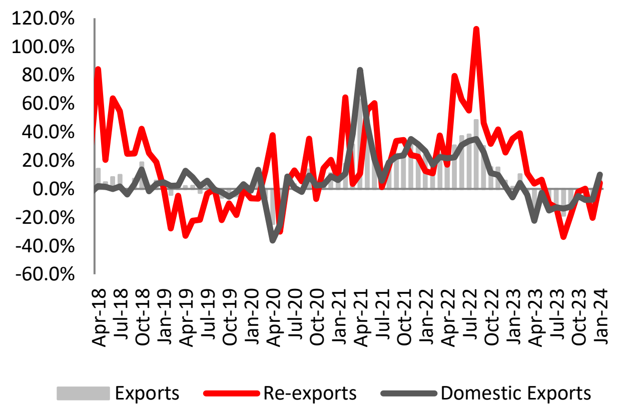
Source: Macrobond, MIDFR

Chart 5: Exports vs Imports Volume (YoY%)



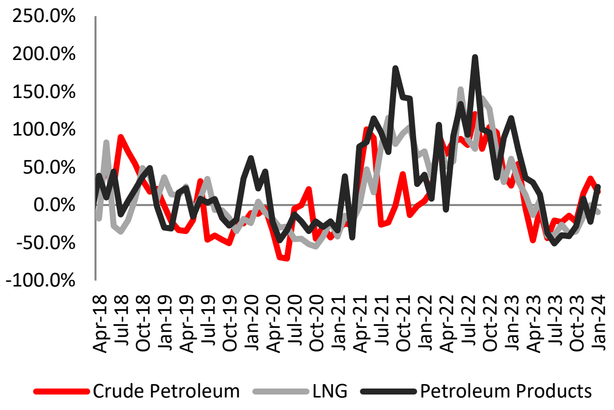
Note: Latest available data as of Dec-23
Source: Macrobond, MIDFR

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



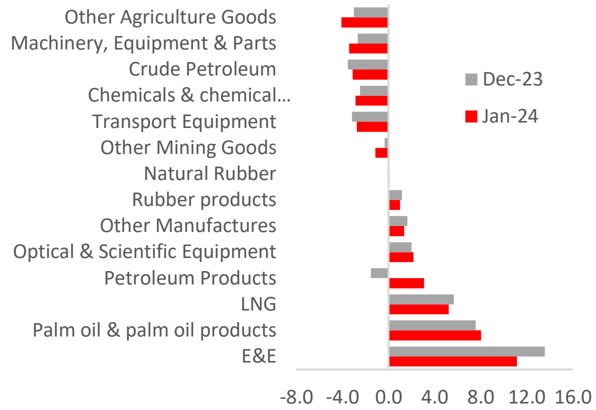
Source: Macrobond, MIDFR

Chart 7: Exports of Mining Goods (YoY%)



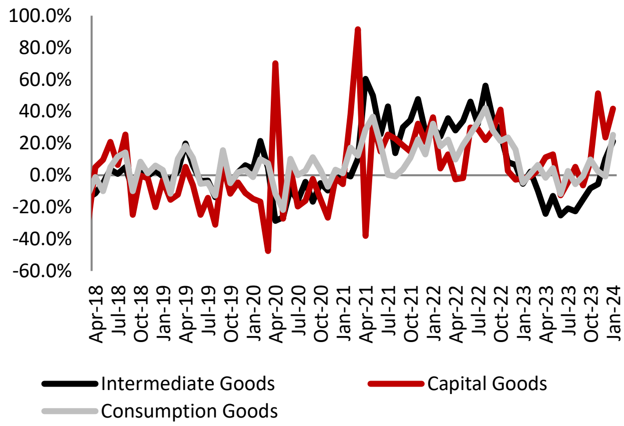
Source: Macrobond, MIDFR

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



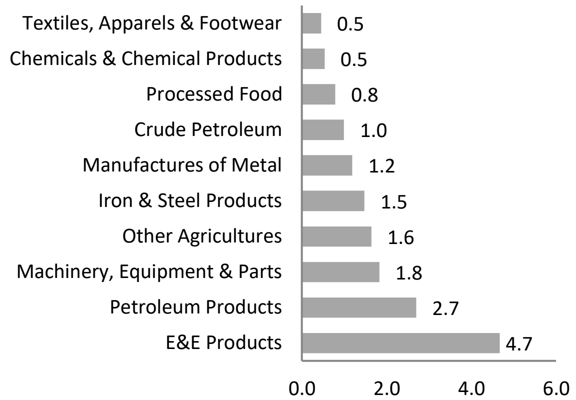
Source: Macrobond, MIDFR

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



Source: Macrobond, MIDFR

Chart 10: Contribution to Total Imports Growth in Jan-24 by Key Products (%-points)



Source: Bloomberg, MIDFR

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