19 April 2024

ECONOMIC REVIEW | March 2024 External Trade

Robust +15.5%mom Exports Rebound in Mar-24, Yet Still Falls Short of Last Year by -0.8% yoy

- *Exports fell at the same pace of -0.8%yoy in Mar-24. Exports sustained -0.8%yoy contraction for the second month, again linked to lower re-exports (-20.2%yoy) and reduced shipments of palm oil, petroleum and E&E.*
- *Lower exports to China, ASEAN and EU countries. By destination, the export declines were recorded to most major markets like China, Japan, ASEAN and EU, in contrast to continued rise in shipments to US and India.*
- *Drag from weaker exports of palm oil & crude petroleum. By sector, the main drag on export performance in Mar-24 was from weaker exports of palm oil & palm oil products (-20.3%yoy). As a result, the agriculture sector's exports fell by –17.3%yoy during the month.*
- *External trade will rebound this year. We maintain our projection that Malaysia's goods exports and imports will rebound this year and grow at +5.2% (2023: -8.0%) and +4.4% (2023: -6.4%), respectively.*

Exports fell at the same pace of -0.8%yoy in Mar-24. Malaysia's total trade grew stronger at +5.1%yoy in Mar-24, sustaining annual expansion for the third straight month, mainly underpinned the strong double-digit growth in imports. Despite the relatively faster monthly increase of +15.7%mom in imports, a strong +15.5% surge in exports resulted in a higher trade surplus of +RM12.8b (Feb-24: +RM11.2b), the highest in 5 months. From the year-on-year perspective, exports sustained -0.8%yoy contraction for the second month. The decline was however not as sharp as our estimate and market consensus. The weaker external trade performance is in line with the sharper fall in manufacturing activities as shown by the decline in the sector's PMI to 48.4 (Feb-24: 49.5). The decline in exports was again linked to the continued decline in re-exports (Mar-24: -20.2%yoy; Feb-24: -20.2%yoy), while domestic exports grew slower at +1.7%yoy (Feb-24: +4.7%yoy). By major products, the decline in overall exports reflected lower exports of palm oil & palm oil products, crude & refined petroleum, and E&E products. From a month-on-month perspective, the strong surge in exports by +15.5%mom was mainly supported by stronger external demand for manufactured goods (+17.8%mom), especially E&E products (+24.3%mom) and machinery, equipment & parts (+23.2%mom). In contrast, imports recorded faster annual growth of +12.5%yoy in Mar-24 (Feb-24: +8.0%yoy), mainly due to higher imports of E&E; crude petroleum & petroleum products; and, machinery, equipment & parts. As expected, external trade experienced strong monthly rebounds after the Chinese New Year holidays, which affected trade activities in Feb-24. Although Feb-24 and Mar-24 performance remained below last year, at least the 1Q data continues to show Malaysia's external trade on recovery trend since the final quarter last year.

Table 1: Malaysia's External Trade Summary

	Sep-23	Oct-23	Nov-23	Dec-23	Jan-24	Feb-24	Mar-24
Exports (RM b)	124.3	126.1	121.7	118.4	122.4	111.4	128.6
% YoY	(13.8)	(4.5)	(6.1)	(10.1)	8.7	(0.8)	(0.8)
% MoM	8.1	1.4	(3.5)	(2.8)	3.4	(9.0)	15.5
Imports (RM b)	99.9	113.2	109.5	106.6	112.2	100.1	115.8
% YoY	(11.1)	(0.3)	1.5	2.9	18.7	8.0	12.5
% MoM	2.1	13.3	(3.3)	(2.6)	5.3	(10.8)	15.7
Total Trade (RM b)	224.2	239.3	231.2	225.0	234.6	211.5	244.5

	Sep-23	Oct-23	Nov-23	Dec-23	Jan-24	Feb-24	Mar-24
% YoY	(12.6)	(2.5)	(2.7)	(4.3)	13.3	3.2	5.1
% MoM	5.3	6.7	(3.4)	(2.7)	4.3	(9.9)	15.6
Trade Balance (RM b)	24.4	12.9	12.2	11.7	10.2	11.2	12.8
Import Components							
Intermediate (RMb)	49.7	55.7	56.0	60.0	58.8	55.5	59.3
% YoY	(15.2)	(8.1)	(5.6)	10.1	21.3	13.7	10.5
Capital (RM b)	10.8	12.7	14.8	12.4	13.7	10.2	16.2
% YoY	(6.4)	8.6	51.3	24.6	41.5	30.0	66.2
Consumption (RM b)	8.8	9.4	9.7	9.2	10.3	8.4	9.4
% YoY	(0.5)	9.9	2.4	(0.7)	25.3	19.6	1.2

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

Lower exports to China, ASEAN and EU countries. By destination, the export declines were recorded to most major markets like China, Japan, ASEAN and EU, in contrast to continued rise in shipments to the US and India. Lower shipments to China (-2.1%yoy) and Japan (-5.4%yoy) were mainly attributable to reduced exports of palm oil and E&E products. Exports to the EU countries contracted faster at -10.3%yoy due to weaker shipments of manufactured goods, mainly manufactures of metal, petroleum products and iron & steel products. On the other hand, shipments to the US grew further by +3%yoy as higher demand for various manufactured products (e.g. machinery, equipment & parts; optical & scientific equipment; and iron & steel products) more than offset the decline in E&E products. The sustained double-digit rise (+15%yoy) in exports to India was mainly supported by surging demand for transport equipment and manufactures of metal. We expect growing demand from major trading partners to support export recovery this year, in view of more resilient outlook in the US economy and continued growth in China's economy.

Table 2: Malaysia's Exports (YoY%)

	Sep-23	Oct-23	Nov-23	Dec-23	Jan-24	Feb-24	Mar-24
Total Exports (RMb)	**124.3**	**126.1**	**121.7**	**118.4**	**122.4**	**111.4**	**128.6**
Re-exports (RMb)	27.6	29.8	26.2	21.2	27.7	19.8	24.5
Domestic Exports (RMb)	96.7	96.3	95.5	97.2	94.7	91.5	104.2
Exports by Key Country / Region							
China	(17.3)	(7.0)	(8.4)	(1.5)	(7.4)	(0.4)	(2.1)
USA	(9.3)	4.0	(8.5)	(5.1)	11.9	10.1	3.0
Japan	(25.5)	(23.4)	(18.3)	(4.7)	2.8	5.7	(5.4)
India	(12.4)	4.6	(19.7)	(21.5)	18.7	26.7	15.0
Hong Kong	(12.0)	5.9	(14.4)	(9.1)	(7.9)	(29.2)	(5.7)
Australia	(26.2)	(8.1)	6.5	(11.5)	34.6	16.6	(25.2)
EU	(8.3)	0.7	(6.9)	(25.5)	6.4	(1.8)	(10.3)
ASEAN	(10.9)	(5.7)	(5.8)	(12.6)	9.4	(5.1)	(0.8)
Singapore	(12.0)	(8.2)	(17.0)	(24.8)	(2.6)	(15.3)	(6.8)
Thailand	4.8	(21.3)	(0.5)	(11.6)	(12.6)	(19.3)	(3.5)
Indonesia	(31.8)	(10.1)	4.9	10.7	60.6	10.7	(3.3)
Vietnam	12.1	11.6	40.4	(2.7)	53.7	51.9	45.9
Philippines	(11.1)	20.4	(1.8)	10.8	24.3	(3.2)	(13.5)

Source: Macrobond, MIDFR

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

	Sep-23	Oct-23	Nov-23	Dec-23	Jan-24	Feb-24	Mar-24
E&E	(5.6)	(2.4)	(13.7)	(12.1)	(6.5)	(9.7)	(1.5)
Machinery, Equipment & Parts	(5.2)	6.6	10.3	(0.7)	35.5	22.1	12.1
Optical & Scientific Equipment	(7.4)	1.2	(12.7)	(8.5)	22.4	3.7	(1.7)
Palm oil & palm oil-based products	(24.7)	(5.6)	(7.0)	(26.6)	16.6	(5.9)	(20.3)
Crude Petroleum	(13.9)	(22.3)	15.6	35.1	17.7	36.9	(7.3)
Petroleum Products	(41.3)	(28.1)	0.4	(28.5)	16.7	(14.0)	(9.9)
LNG	(37.8)	(34.9)	(14.8)	(0.1)	(9.3)	16.5	8.4
Rubber products	(17.8)	(5.2)	4.6	1.4	16.1	8.2	(0.0)
Transport equipment	(10.8)	24.9	(42.3)	(39.3)	23.0	6.0	37.4

Source: Macrobond, MIDFR

Drag from weaker exports of palm oil & crude petroleum. By sector, the main drag to export performance in Mar-24 was from weaker exports of palm oil & palm oil products (-20.3%yoy). As a result, the agriculture sector's exports fell by –17.3%yoy during the month. In contrast, manufacturing exports grew marginally by +0.7%yoy. Although the decline in E&E exports slowed further to -1.5%yoy which was the slowest fall in 8 months, the growth in manufacturing exports was supported exports of machinery, equipment & parts (+12.1%yoy); iron & steel products (+20.3%yoy); and transport equipment (+37.4%yoy). Apart from the continued fall in E&E exports, weaker exports of petroleum products (-9.9%yoy) also explained the marginal growth in manufacturing exports. Mining sector also recorded a small export growth of +0.2%yoy, thanks to the +8.4%yoy rise in LNG exports which countered the declines in crude petroleum (-7.3%yoy) and petroleum condensates & other petroleum oil (-80.8%yoy). Malaysia's external trade outlook will continue to be influenced by the growing demand for resource-based products such as LNG, petroleum, and palm oil. Moreover, given the size of E&E exports (which accounted 36.9% of total exports in 1QCY24), we continue to expect Malaysia's overall exports will recover this year underpinned by recovery in E&E trade.

Import growth back to double-digit. Following the strong monthly increase, import growth accelerated to +12.5%yoy in Mar-24 (Feb-24: +8.0%yoy), underpinned stronger rise in imports of capital goods (+66.2%yoy). From what we learned; this was linked to purchases of foreign-made E&E products to cater for foreign investment in the IT sector. Imports of intermediate goods also sustained double-digit growth (+10.5%yoy), indicating continued pick-up in purchases of input materials by local businesses. Imports of consumption goods, however, moderated sharply to +1.2%yoy after 2 months of strong expansion. By sector, 87.2% of the increase in Mar-24 imports was due to higher purchases of manufactured goods (+10.9%yoy), especially E&E and processed petroleum products. Meanwhile, imports of mining goods also rebounded robustly by +21.6%yoy, primarily driven by the increase in crude petroleum imports (+40.7%yoy). The agriculture sector's imports also expanded by +9.4%yoy in Mar-24, driven by imports of other agriculture products which more than offset the declines in palm oil and fresh seafoods imports. We believe imports will continue to grow in the coming months, in line with the continued expansion in domestic economic activities, both business and consumer spending.

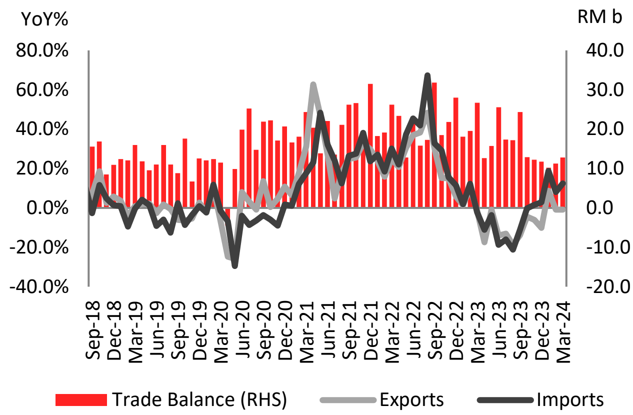
Price increases also contributed to the recent pick-up. Based on the latest data as of Feb-24, volume change continued to be the main factor affecting both exports and imports performance. On another note, price increases also contributed to trade recovery in recent months. For example, exports growth fell back to negative in Feb-24, where the overall decline of -0.8%yoy (Jan-24: +8.7%yoy) was a result of the -5%yoy reduction in export volume (Jan-24: +5.4%yoy) but limited by the sharper rise of +4.3%yoy in export value (Jan-24: +3.1%yoy). Meanwhile, imports growth moderated to +8%yoy in Feb-24 (Jan-24: +18.7%yoy), mainly due to the slower rise of +7.4%yoy in import volume (Jan-24: +18.2%yoy). Similar to the trend in export value, import value also increased faster by +0.9%yoy in Feb-24 (Jan-24: +0.4%yoy), rising for the second month. On that note, we believe price increases could also add to trade recovery. Overall, we continue to expect the growing trade volume to be the main driver for the pick-up in external trade this year.

The overall trade surplus widened because of the higher surplus in E&E trade. The trade surplus widened to +RM12.8b in Mar-24 (Feb-24: +RM11.2b). The surplus in the E&E trade, which increased to +RM12.4b (Feb-24: +RM10.4b), remained the main contributor. This was followed by a higher surplus in trade of palm oil & palm oil products, which also widened to +RM7.2b (Feb-24: +RM6.6b). In contrast, trade of mining goods fell to a deficit of -RM1b from surplus of +RM2.5b in the previous month. This was mainly due to a larger deficit in crude petroleum (Mar-24: -RM3.2b; Feb-24: -RM0.7b), worsened by both lower exports and higher imports. Morever, trade of petroleum products continued to record a deficit of -RM2.9b (Feb-24: -RM3.1b). We continue to expect trade of E&E, palm oil and LNG to keep Malaysia's trade balance in surpluses. We opine the surplus level will improve, in line with the turnaround in foreign demand and recovery in the global E&E market. Nevertheless, the size of surplus could shrink due to dependency on imports from abroad for products such as transport equipment, machinery, agriculture products (especially foods) and petroleum.

Trade of goods will remain a drag to 1QCY24 GDP growth. Although exports rebounded to +2.2%yoy in 1QCY24 (4QCY23: +6.2%yoy) which marked the first growth in 4 quarters, we believe trade of goods continued to contribute negatively to Malaysia's economic growth during the quarter. This can be explaiend by the trend in net exports which remained largely below a year ago (1QCY24: -46.8%yoy; 4QCY23: -45.9%yoy). This was due to the stronger rise in imports (1QCY24: +13.1%yoy; 4QCY23: +1.3%yoy), particularly the strong growth in imports of capital goods (+47%yoy). To a certain extent, the recent pick-up in imports was a result of early preparation for the foreign investments into Malaysia. At the same time, the growing imports also indicate the growing business and consumer demand within the country. Overall, we expect improvement in the E&E exports and external demand would support the economy to grow stronger this year.

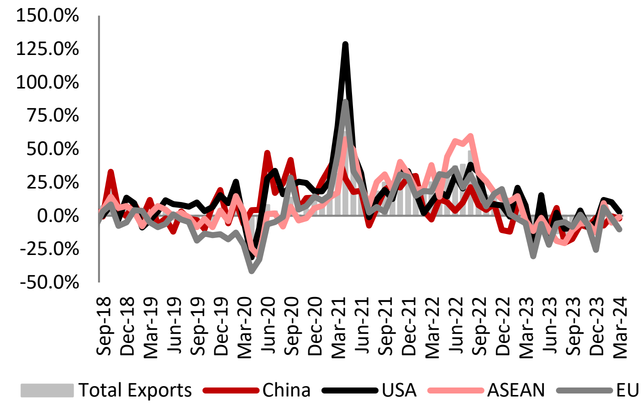
External trade will rebound this year. We maintain our projection that Malaysia's overall goods exports will rebound and grow at +5.2% this year (2023: -8.0%). We believe Malaysia will gain from the recovery in the global E&E trade, as shown by the gradual improvements in Malaysia's E&E trade and continued recovery in the global semiconductor sales. Being part of the global production network, we expect Malaysia's external trade will also pick up similar to what is observed in regional trade performance. However, trade outlook continued to be challenged by downside risks such as recent escalation of geopolitical tensions, concerns over demand slowdown in major trading partners, and prolonged weakness in global production activities. Similar to exports, we expect Malaysia's imports to rebound this year to +4.4% (2023: -6.4%), underpinned by the continued rise in domestic spending activities.

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



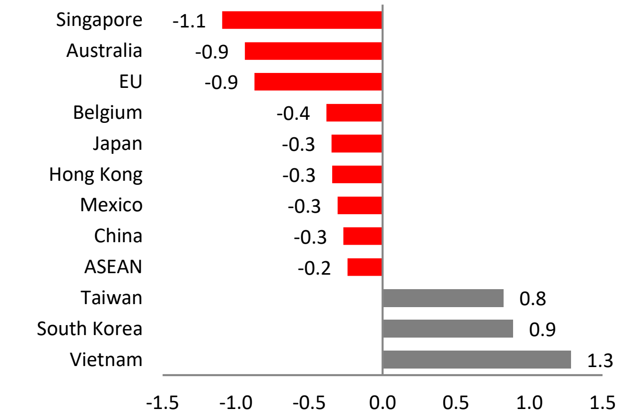
Source: Macrobond, MIDFR

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



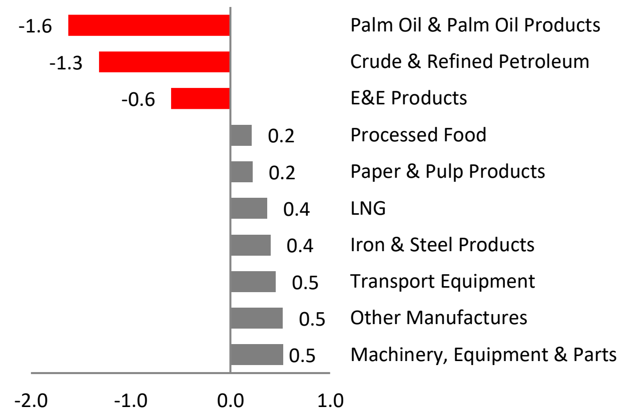
Source: Macrobond, MIDFR

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



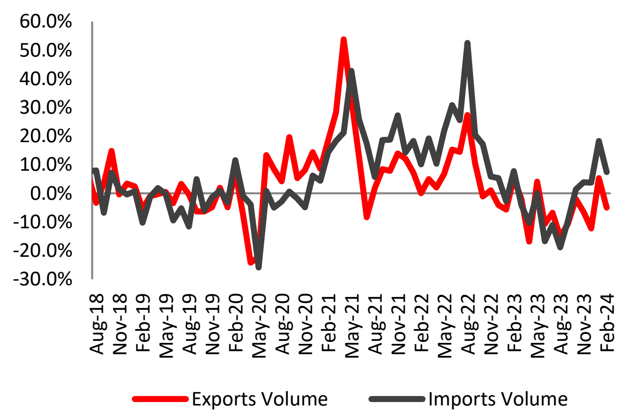
Source: Macrobond, MIDFR

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



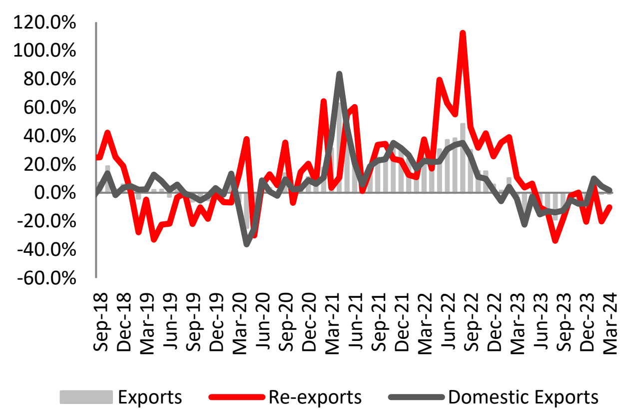
Source: Macrobond, MIDFR

Chart 5: Exports vs Imports Volume (YoY%)



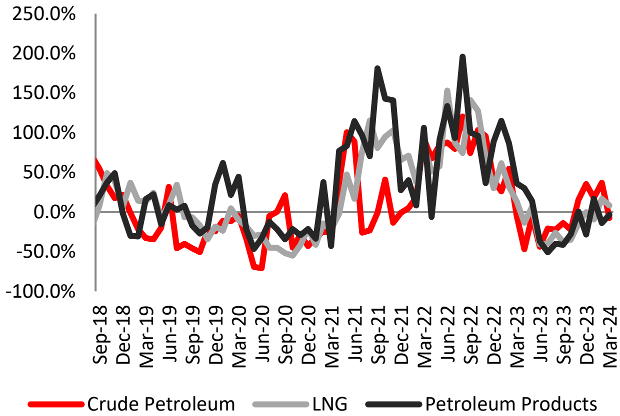
Note: Latest available data as of Feb-24
Source: Macrobond, MIDFR

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



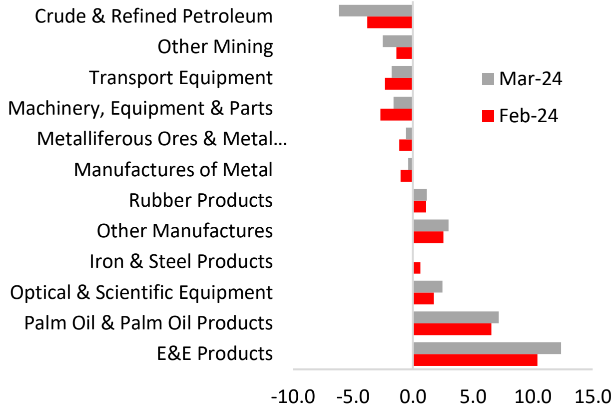
Source: Macrobond, MIDFR

Chart 7: Exports of Mining Goods (YoY%)



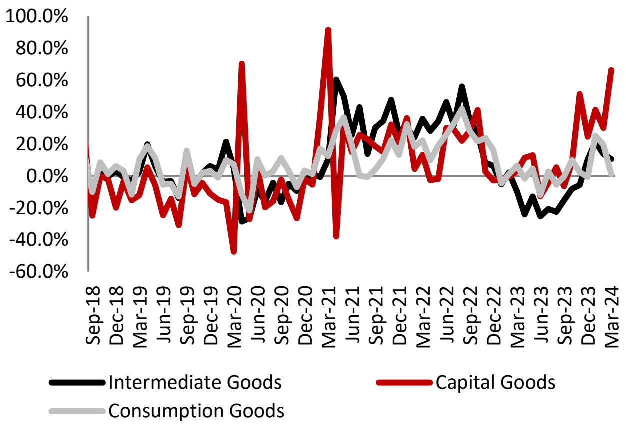
Source: Macrobond, MIDFR

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



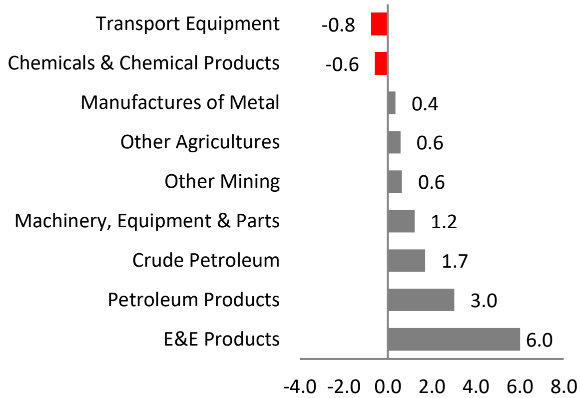
Source: Macrobond, MIDFR

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



Source: Macrobond, MIDFR

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



Source: Macrobond, MIDFR

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