

Malaysia External Trade

May exports fell 29.7% YoY, bringing closer to its base as E&E showed MoM demand up tick

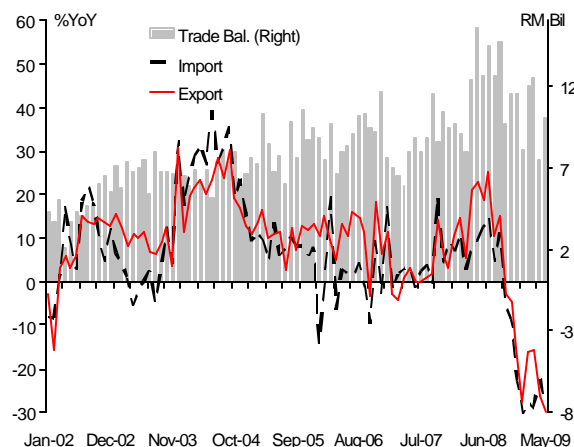
Wan Suhaimie
Economist
wansuhaimi@kenanga.com.my
Tel: 603-2161 9657

HIGHLIGHTS

- **Exports fell 29.7% YoY in May, the sharpest drop in its eight continuous months of declines.** It was slightly worse than consensus' median of -29.2% and our estimate of -28.3%. **However, on MoM basis, exports rebounded 4.5% after it declined by 5.7% in April.** Meanwhile, imports registered a MoM decline of 2.3% to yield a YoY contraction of 27.8%. Due to imports monthly decline, the trade surplus widened to RM10.0b from RM7.4b in April.
- In spite of exports' monthly gain its sharp YoY contraction was mainly due to the higher base effect made worst by the sharp drop of commodity prices from last year's record high. **Nonetheless the main contributor to the higher MoM gain was the continued demand recovery of electronics and electrical (E&E) goods which grew at an estimated 4.7% MoM.** Meanwhile, **non-E&E exports also registered an increase of 4.3%** on the back of mainly higher revenue from petroleum and palm oil.
- The MoM decline in imports was across the board in all its major sub sectors. **Purchase of capital goods fell by almost 30.0% MoM while consumption and intermediate goods declined by 7.0% and 1.3% respectively.** The less severe drop in imports of intermediate goods could signal a seasonal recovery for E&E demand in 2H09.
- Given that last year's commodity driven boom peaked in 2Q08, we would expect the contraction in exports to remain large in the 2Q09 in excess of -20.0%. **This would translate into a contraction in GDP growth which we estimate could fall by no less than 5.0% in 2Q09.** Although some "green shoots" have appeared as a result of the impact of monetary easing and pump priming, we still see pockets of weaknesses in the global economy. Nonetheless we remain sanguine about 2H09 recovery. Hence, **we project GDP to grow by at least 2.0% in 2H09. On average, this will tie in with our whole year GDP forecast of -1.3%.**

Larger decline. Malaysia's annual trade performance still reels from the base effect as it has to contend with last year's commodity boom which peaked in June 2008. Hence, **exports fell 29.7%**

Exports, Imports, & Trade Balance Trend



Source: Dept of Statistics, Kenanga Research

YoY in May, the sharpest drop in its eight continuous months of declines. It was slightly worse than consensus' median (compiled by *Bloomberg*) of -29.2% and our estimate of -28.3%. **However, on MoM basis, exports rebounded 4.5% after it declined by 5.7% in April.** Meanwhile, imports registered a MoM decline of 2.3% to yield a YoY contraction of 27.8%. Due to imports monthly decline, the trade surplus widened to RM10.0b from RM7.4b in April.

E&E rebounded. Despite exports' monthly gain its sharp YoY contraction was mainly due to the higher base effect made worst by the sharp drop of commodity prices from last year's record high. **Nonetheless the main contributor to the higher MoM gain was the continued demand recovery of electronics and electrical (E&E) goods which grew at an estimated 4.7% MoM.** On YoY basis, however, E&E exports continued its eight-month slide, declining 28.1%. On a positive note, exports of E&E products to the US increased by 7.7% MoM in May. However, against May 2008 it fell sharply by 39.8%.


Non-E&E exports rise. Meanwhile, **non-E&E exports also rebounded from the previous month, registering an increase of 4.3%** after declining by 9.2% in April on the back of mainly higher revenue from petroleum and palm oil. Petroleum exports jumped 30.0% MoM in May as crude prices remained above US\$60/barrel after languishing below US\$45/barrel for the first four months of the year. However, on a YoY basis, it remains in the doldrums

Table 1: Malaysia External Trade Growth Trend

		2006	2007	2008	May08	Nov-08	Dec-08	Jan-09	Feb-09	Mar-09	Apr-09	May-09	Jan-May-08	Jan-May-09
Total Trade	%YoY	10.5	3.8	6.8	16.7	-6.6	-18.5	-29.0	-21.2	-21.8	-24.6	-28.9	11.5	-25.3
Trade Balance	RMbil.	108.2	100.4	142.0	15.5	11.5	11.5	8.1	12.1	12.5	7.4	10.0	54.6	50.1
Export	%YoY	10.3	2.7	9.6	22.9	-4.9	-14.9	-27.8	-16.0	-15.7	-26.3	-29.7	14.8	-23.5
E&E	%YoY	62	-5.5	-3.6	13.8	-13.4	-26.9	-34.5	-16.6	-3.2	-23.2	-28.1	-0.5	-22.1
	Shr	47.7	43.6	38.5	40.5	39.6	37.0	35.9	37.0	39.0	41.3	41.4	38.3	39.0
Others	%YoY	14.4	10.9	19.5	30.0	1.7	-5.9	-23.5	-15.6	-22.1	-28.4	-30.8	27.0	-24.4
	Shr	52.3	56.4	61.5	59.5	60.4	63.0	64.1	63.0	61.0	58.7	58.6	61.7	61.0
Import	%YoY	10.8	5.0	3.3	9.4	-8.6	-22.8	-30.4	-27.6	-29.0	-22.4	-27.8	7.5	-27.4
Capital	%YoY	7.5	6.3	2.0	34.8	-4.0	-12.4	-13.8	-6.2	-21.8	2.6	-27.5	17.2	-12.7
	Shr	13.6	13.8	13.6	14.5	14.0	15.6	16.0	15.9	16.9	15.9	14.6	14.1	16.1
Intermediate	%YoY	8.9	6.9	5.6	7.4	-8.5	-27.3	-36.1	-33.8	-35.0	-26.8	-30.0	9.0	-32.4
	Shr	69.8	71.0	72.6	70.9	72.3	68.5	65.8	67.7	66.2	67.9	68.7	72.1	67.4
Consumption	%YoY	13.4	3.3	11.2	15.1	2.6	9.5	-12.5	-4.3	8.2	-0.2	-10.9	8.7	-3.9
	Shr	5.8	5.7	6.1	5.9	6.5	8.3	8.0	7.5	8.5	7.7	7.3	-6.6	7.7

Source: Dept of Statistics, Kenanga Research. Shr. = share to total exports or imports, E&E = Electronics & Electrical goods

plunging 57.1%. Palm oil exports also grew by 1.2% MoM but fell 34.4% YoY.

least 2.0% in 2H09. On average, this will tie in with our whole year GDP forecast of -1.3%. 

Imports fell across the board. The MoM decline in imports was across the board in all its major sub sectors. **Purchase of capital goods fell by almost 30.0% MoM while consumption and intermediate goods declined by 7.0% and 1.3% respectively.** The less severe drop in imports of intermediate goods could signal a seasonal recovery for E&E demand in 2H09.

Outlook

Nearing the bottom. Given that last year's commodity driven boom peaked in 2Q08, we would expect the contraction in exports to remain large in the 2Q09 in excess of -20.0%. **This would translate into a contraction in GDP growth which we estimate could fall by no less than 5.0% in 2Q09.** Hence, this would mean that the exports down cycle could have reached its base in June.

Glimmer of hope in 2H09. Although some "green shoots" have appeared as a result of the impact of monetary easing and pump priming, we still see pockets of weaknesses in the global economy. Nonetheless we remain sanguine about 2H09 recovery. Hence, **we project GDP to grow by at**

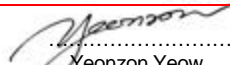
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KENANGA INVESTMENT BANK BERHAD (15678-H)

8th Floor, Kenanga International, Jalan Sultan Ismail, 50250 Kuala Lumpur, Malaysia

Telephone: (603) 2166 6822 Facsimile: (603) 2166 6823 Website: www.kenangaresearch.com


Yeonzon Yeow
Head of Research