

Malaysia External Trade

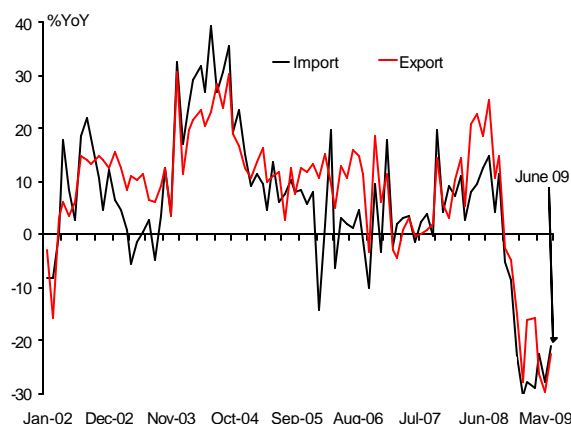
June exports fell 22.6% YoY, the slowest contraction in three months

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HIGHLIGHTS

- **Exports declined 22.6% YoY in June, the slowest contraction in three months on pick up in global demand as recession eases.** While it was sharply better than consensus' median of -25.0%, it was slightly higher than our estimate of -22.1%. **The improvement in exports was due to the MoM expansion of 5.1%, reaching a value of RM45.1b, its highest this year.** Meanwhile, imports registered a larger MoM increase of 9.4% MoM, to yield the slowest contraction for the year at 20.8%. As a result, the trade surplus narrowed to RM9.1b from RM10.0b in May.
- **The higher MoM gain in exports was broad-based led by continued demand recovery of electronics and electrical (E&E) goods which grew at an estimated 4.5% MoM.** Meanwhile, **non-E&E exports registered an increase of 5.5%** on mainly higher receipts from chemicals and chemical products, machinery, appliance and parts as well as enlarged demand from petroleum and palm oil.
- The large MoM rebound in imports in June could bode well for overall trade performance in the coming months as it was across the board in all the major sub-sectors led by strong pick up of purchase of intermediate goods. This could potentially suggest continued recovery in E&E orders as well as better domestic demand going forward.
- Despite the 6.4% QoQ gain in 2Q09, its annual contraction remains sharply higher at 26.3% as exports peaked middle of last year. Hence, we estimate real **GDP to contract by no less than 5.0% in 2Q09.** With global economic activities showing steady improvements, exports should start to pick up from 3Q09 onwards. Though it is still too early to determine the pace of the recovery, it will remain weak as it may take a longer time to the address structural weakness in the global economy. However, **judging by the speed of recovery in the emerging economy led by China and India, the prospects in 2H09 would likely be better. Hence, we expect exports to turn positive in 4Q09.** This would lend support to our projection that **GDP may grow by at least 2.0% in 2H09 and tie in with our whole year forecast of -1.3%.**

Exports and Imports on the Mend



Source: Dept of Statistics, Kenanga Research

Improving. Overall Malaysia trade performance improved further in June on pick up in global demand as recession eases. It was up for the fifth successive month and the highest since February at 7.0% MoM. **Total exports increased by 5.1% MoM to yield a contraction of 22.6% YoY in June, the slowest contraction in three months.** While it was sharply better than consensus' median (compiled by *Bloomberg*) of -25.0%, it was slightly higher than our estimate of -22.1%. **In absolute terms, exports reached RM45.1b, its highest this year.** Meanwhile, imports registered a larger MoM increase of 9.4% MoM, to yield the slowest contraction for the year at 20.8%. As a result, the trade surplus narrowed to RM9.1b from RM10.0b in May.

Broad-based exports recovery. Though on YoY basis, the contraction in exports growth remained relatively large, the breakdown in monthly growth appeared somewhat encouraging. **The higher MoM gain in exports was broad-based led by continued demand recovery of electronics and electrical (E&E) goods which grew at an estimated 4.5% MoM.** As a result, it helped to ease E&E's YoY contraction to about 17.1% from -27.2% in May. Meanwhile, **non-E&E exports registered an increase of 5.5%** on mainly higher receipts from chemicals and chemical products, machinery, appliance and parts as well as enlarged income from petroleum and palm oil.

Asia demand supports exports. Exports to China, now the second single largest export destination or about 11.6% of total exports, rose 5.4% MoM.

Table 1: Malaysia External Trade Growth Trend

		2006	2007	2008	Jun-08	Dec-08	Jan-09	Feb-09	Mar-09	Apr-09	May09	Jun-09	Jan-Jun-08	Jan-Jun-09
Total Trade	%YoY	10.5	3.8	6.8	15.8	-18.5	-29.0	-21.2	-21.8	-24.6	-28.9	-21.8	12.2	-24.7
Trade Balance	RMBil.	108.2	100.4	142.0	15.5	11.5	8.1	12.1	12.5	7.4	10.0	9.1	67.5	59.2
Export	%YoY	10.3	2.7	9.6	18.9	-14.9	-27.8	-16.0	-15.7	-26.3	-29.7	-22.6	14.8	-23.5
E&E	%YoY	6.2	-5.5	-3.6	5.8	-26.9	-34.5	-16.6	-20	-23.2	-27.2	-17.1	0.1	-20.9
	Shr	47.7	43.6	38.5	38.4	37.0	35.9	37.0	39.0	41.3	41.5	41.2	38.2	39.4
Others	%YoY	14.4	10.9	19.5	28.3	-5.9	-23.5	-15.6	-22.6	-28.4	-31.4	-26.1	27.6	-24.9
	Shr	52.3	56.4	61.5	61.6	63.0	64.1	63.0	61.0	58.7	58.5	58.8	61.8	60.6
Import	%YoY	10.8	5.0	3.3	12.5	-22.8	-30.4	-27.6	-29.0	-22.4	-27.8	-20.8	7.5	-27.4
Capital	%YoY	7.5	6.3	2.0	14.1	-12.4	-13.8	-6.2	-21.8	2.6	-27.5	-15.6	16.7	-13.0
	Shr	13.6	13.8	13.6	12.9	15.6	16.0	15.9	16.9	20.2	14.6	13.7	13.9	15.7
Intermediate	%YoY	8.9	6.9	5.6	11.6	-27.3	-36.1	-33.8	-35.0	-26.8	-30.0	-23.2	9.4	-30.9
	Shr	69.8	71.0	72.6	72.5	68.5	65.8	67.7	66.2	67.9	68.7	70.3	72.2	68.0
Consumption	%YoY	13.4	3.3	11.2	32.4	9.5	-22.1	11.2	6.9	-6.9	-12.0	-4.8	14.4	-6.4
	Shr	5.8	5.7	6.1	6.1	8.3	7.1	8.9	8.5	7.7	7.3	7.3	6.1	7.7

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

Meanwhile, exports to Japan, the fourth biggest, surged 25.7% MoM. Meanwhile, exports to US, which has since dropped to third placing, grew by just 1.1% MoM, hardly convincing enough to reaffirm our belief that its economic recovery is on a firm footing.

Imports up across the board. The large MoM rebound in imports in June could bode well for overall trade performance in the coming months as it was across the board in all the major sub-sectors led by strong pick up of purchase of intermediate goods. It jumped 11.8% MoM which help ease its contraction to 23.2%, the lowest in seven months. This could potentially suggest continued recovery in E&E orders as well as better domestic demand going forward. Meanwhile, purchase of capital goods rebounded 2.9% MoM after plunging 29.6% in May while consumption goods rebounded strongly charting 9.1% MoM gains after two successive months of contraction. Nonetheless, imports will recover faster than exports as domestic economy appears to be more resilient than the global economy.

Outlook

Set for 2H09 turnaround. Despite the 6.4% QoQ gain in 2Q09, its annual contraction remains sharply higher at 26.3% due to the base effect as exports peaked middle of last year. Hence, we estimate real

GDP to contract by no less than 5.0% in 2Q09.

With global economic activities showing steady improvements, exports should start to pick up from 3Q09 onwards. Though it is still too early to determine the pace of the recovery, it will remain weak as it may take a longer time to address structural weaknesses in the global economy. However, **judging by the speed of recovery in the emerging economy led by China and India, the prospects in 2H09 would likely be better. Hence, we expect exports to turn positive in 4Q09.** Coupled with a pick up in domestic demand, the improvement in exports would lend support to our projection that **GDP may grow by at least 2.0% in 2H09 after a contraction of about 5.0% in 1H09 and tie in with our whole year forecast of -1.3%.**



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Published and printed by:

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