KENANGA RESEARCH

Economic Viewpoint

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Malaysia External Trade

July exports fell less than expected as E&E demand improved

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HIGHLIGHTS

- **Exports declined 22.8% YoY in July, less than previously expected as demand for electronics and electrical (E&E) goods continues to improve amidst the still nascent global economic recovery.** It was better than consensus' median of -24.4% and our estimate of -25.8%. From the preceding month, it grew 8.4%, its third consecutive month of increase and the highest since March this year. Meanwhile, imports registered a larger increase of 14.1% MoM, to yield the slowest contraction for the year at 16.0%. As a result, the trade surplus narrowed to RM7.1b from RM9.1b in June.

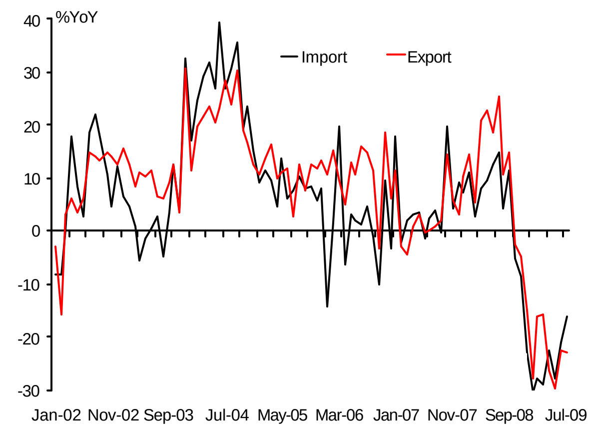
- **The large MoM gain in exports was largely attributed to the steady expansion in demand for E&E goods**. It jumped 11.0% MoM in July which help to lessen its YoY decline to 15.8% from 17.1% in June. Meanwhile, non-E&E exports registered an estimated increase of 6.5% MoM on higher receipts largely from chemicals and chemical products, palm oil and petroleum.

- As factories continue to replenish stocks to increase production, imports continue to expand as reflected in the higher monthly purchase of intermediate goods (+11.6% MoM). This could also suggest better external demand outlook for the next three to six months. Furthermore the large MoM increase in purchase of capital (+22.9% MoM) and consumption (12.2%) goods reflects rising domestic demand.

- Exports should start to pick up from 3Q09 onwards as global economic recovery continues to pick up. In the absence of a firmer demand recovery from US, we expect Malaysia's exports to be driven by demand from East Asia, largely from China, as well as from Europe. **Barring any unforeseen circumstance we expect exports to turn positive in 2Q09, lending support for a better overall growth performance in 2H09. With growth projected to rebound by no less than 2.3% in 2H09 from -5.2% in 1H09, we maintain our 2009 GDP projection at -1.3%.**

A less severe contraction. Much to the market and our surprise Malaysia's **exports declined 22.8% YoY in July, less severe than previously expected**. It was better than consensus' (compiled by *Bloomberg*) median forecast of -24.4% and our estimate of -25.8%. **In spite of the still nascent global economic recovery, the surprising outcome was due to continued improvement in global demand for electronics and electrical (E&E).** On a MoM basis, exports grew 8.4%, its third consecutive month of increase and the highest since March this year. Meanwhile, imports registered a larger increase of 14.1% MoM, to yield the slowest contraction for the year at 16.0%. As a result, the trade surplus narrowed to RM7.1b from RM9.1b in June.

Exports and Imports On the Mend



Source: Dept of Statistics, Kenanga Research

...thanks to E&E gains. As in the preceding three months, **the large MoM gain in exports was largely attributed to the steady expansion in demand for E&E goods**. It jumped 11.0% MoM in July which help to lessen its YoY decline to 15.8% from 17.1% in June. According to the Semiconductor Industry Association (SIA), worldwide chip sales grew 5.3% in July, its fifth-consecutive month of sequential increases reflecting improving demand and sales of consumer products such as netbook PCs and cell phones.

Non-E&E exports fell sharper. Meanwhile, non-E&E exports registered an estimated increase of 6.5% MoM on higher receipts largely from chemicals and chemical products, palm oil and petroleum. On YoY-basis, it fell sharper by 27.8% compared with 26.1% in June, reflecting largely the impact of peak commodity prices last year. Given that prices of major commodities had remained buoyant in 3Q08, we reckon that exports' contraction may linger and slow to abate.

Table 1: Malaysia External Trade Growth Trend

		2006	**2007**	**2008**	*Jul-08*	Jan-09	Feb-09	Mar-09	Apr-09	May-09	Jun-09	**Jul-09**	**Jan-Jul-08**	**Jan-Jul-09**
Total Trade	%YoY	10.5	3.8	6.8	*15.8*	-29.0	-21.2	-21.8	-24.6	-28.9	-21.8	-19.9	13.5	-23.9
Trade Balance	**RMbil.**	**108.2**	**100.4**	**142.0**	***15.5***	**8.1**	**12.1**	**12.5**	**7.4**	**10.0**	**9.1**	**7.8**	**81.9**	**67.0**
Export	**%YoY**	**10.3**	**2.7**	**9.6**	***18.9***	**-27.8**	**-16.0**	**-15.7**	**-26.3**	**-29.7**	**-22.7**	**-22.8**	**14.8**	**-23.3**
E&E	%YoY	6.2	-5.5	-3.6	*5.8*	-34.5	-16.6	-2.0	-23.2	-28.1	-16.9	-15.8	2.1	-20.2
	Shr	*47.7*	*43.6*	*38.5*	*38.4*	*35.9*	*37.0*	*39.0*	*41.3*	*41.5*	*41.2*	*42.2*	*38.4*	*39.9*
Others	%YoY	14.4	10.9	19.5	*28.3*	-23.5	-15.6	-22.6	-28.4	-31.4	-26.1	-27.8	28.6	-25.2
	Shr	*52.3*	*56.4*	*61.5*	*61.6*	*64.1*	*63.0*	*61.0*	*58.7*	*58.5*	*58.8*	*57.8*	*61.6*	*60.1*
Import	**%YoY**	**10.8**	**5.0**	**3.3**	***12.5***	**-30.4**	**-27.6**	**-29.0**	**-22.4**	**-27.8**	**-20.9**	**-16.0**	**9.4**	**-24.7**
Capital	%YoY	7.5	6.3	2.0	*14.1*	-13.8	-6.2	-21.8	2.6	-27.3	-14.6	-7.1	13.3	-12.1
	Shr	*13.6*	*13.8*	*13.6*	*12.9*	*16.0*	*15.9*	*16.9*	*20.2*	*14.6*	*13.7*	*14.8*	*13.8*	*15.4*
Intermediate	%YoY	8.9	6.9	5.6	*11.6*	-36.1	-33.8	-35.0	-26.8	-30.0	-23.5	-20.6	11.1	-29.2
	Shr	*69.8*	*71.0*	*72.6*	*72.5*	*65.8*	*67.7*	*66.2*	*67.9*	*68.7*	*70.3*	*68.7*	*72.5*	*68.1*
Consumption	%YoY	13.4	3.3	11.2	*32.4*	-22.1	11.2	6.9	-6.9	-12.0	-5.6	-9.2	17.1	-6.9
	Shr	*5.8*	*5.7*	*6.1*	*6.1*	*7.1*	*8.9*	*8.5*	*7.7*	*7.3*	*7.3*	*7.2*	*6.2*	*7.6*

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

Recovery process to continue. As factories continue to replenish stocks to increase production, imports continue to expand as reflected in the higher monthly purchase of intermediate goods (+11.6% MoM). Rising monthly purchase of intermediate goods could also suggest better external demand outlook for the next three to six months. Furthermore the large MoM increase in purchase of capital (+22.9% MoM) and consumption (12.2%) goods reflects rising domestic demand. Given the prevailing trend, imports will recover faster than exports as domestic economy appears to be more resilient than the global economy.

Outlook

Exports to improve in 2H09. Exports should start to pick up from 3Q09 onwards as global economic recovery continues to pick up. In the absence of a firmer demand recovery from US, we expect Malaysia's exports to be driven by demand from East Asia, largely from China, as well as from Europe. **Barring any unforeseen circumstance we expect exports to turn positive in 2Q09, lending support for a better overall growth performance in 2H09. With growth projected to rebound by no less than 2.0% in 2H09 from -5.2% in 1H09, we maintain our 2009 GDP projection at -1.3%.**

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