

Malaysia External Trade

August exports takes a breather, fell larger than expected

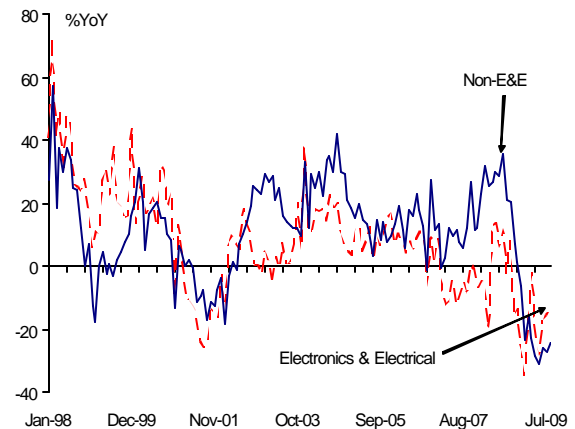
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HIGHLIGHTS

- **Exports declined at larger-than-expected pace of 19.8% YoY in August, as demand for electronics and electrical (E&E) goods as well as major commodities took a breather after three sequential months of strong growth.** It was worse than consensus' median of -17.8% and our estimate of -17.0%. On MoM-basis, it fell by 2.0%, after three consecutive months of expansion in external demand. Similarly, imports registered a larger decline of 6.6% MoM, bumping up its contraction to 18.6% from -16.2% in July. As a result, the trade surplus widened to RM9.6b from RM7.8b in July.
- **The surprising MoM drop in exports was largely attributed to declines in non-E&E shipments.** It fell by 3.3% MoM to yield a YoY contraction of 24.2% mainly on decline in major commodities such as palm oil and LNG. Meanwhile, E&E exports also declined MoM albeit marginally by 0.3%. As a result its share to total exports rose to 43.0% from 42.3% in July.
- On the import front, the sharper decline was largely due to bigger MoM contraction in all its major subsectors in particular purchase of capital (-9.7%) and intermediate goods (-5.9%). Apart from two preceding months of double-digit growth, the long festive holidays in August might have contributed to the decline – an indication that it's taking a breather amidst the frenetic inventory build-up pace.
- In spite of August's poor trade performance, we believe that it may not derail exports' growth rebound going forward. Supported by steady global economic recovery trend we expect that exports might register a marginal YoY growth after four successive quarters of contraction. This would in turn support our view that GDP growth would turn positive in 4Q09. **Coupled with the impact of improvement in domestic demand, we expect GDP to rebound to between 3.0%-4.0% in 4Q09.**

Exports fell larger-than-expected. After three successive months of better-than-expected gains it appears that Malaysia's external trade activity is taking a break. **Exports declined at larger-than-expected pace of 19.8% YoY in August, as demand for electronics and electrical (E&E)**

E&E Exports Recovering Faster Than Non-E&E



Source: Dept of Statistics, Kenanga Research

goods as well as major commodities took a breather after three sequential months of strong growth. It was worse than consensus' median of -17.8% (compiled by *Bloomberg*) and our estimate of -17.0%. On MoM-basis, it fell by 2.0%, after three consecutive months of expansion in external demand. Similarly, imports registered a larger decline of 6.6% MoM, bumping up its contraction to 18.6% from -16.2% in July. As a result, the trade surplus widened to RM9.6b from RM7.8b in July.

Exports fell on larger non-E&E decline. The surprising MoM drop in exports was largely attributed to declines in non-E&E shipments. It fell by 3.3% MoM to yield a YoY contraction of 24.2% mainly on decline in major commodities such as palm oil and Liquid Natural Gas (LNG). Palm oil, which constitute about 6.2% of total exports, dropped 13.5% MoM to yield a contraction of 31.1% YoY while LNG fell 16.1% MoM, resulting in a sharp 47.6% YoY contraction. However, crude petroleum, accounting for 5.5% of total exports, surged 43.5% MoM to yield the slowest YoY contraction since November last year at 24.2%.

E&E exports relatively intact. Meanwhile, E&E exports also declined MoM albeit marginally by 0.3%. As a result its share to total exports rose to 43.0% from 42.3% in July. **We believe that the E&E demand recovery is intact based on the guidance by Semiconductor Industry Association (SIA).** According to SIA, worldwide chip sales grew 5.0% MoM in August, its sixth-consecutive month of sequential increase on the back of continuing


Table 1: Malaysia External Trade Growth Trend

		2006	2007	2008	Aug-08	Feb-09	Mar-09	Apr-09	May-09	Jun-09	Jul-09	Aug-09	Jan-Aug-08	Jan-Aug-09
Total Trade	%YoY	10.5	3.8	6.8	7.8	-21.2	-21.8	-24.6	-28.9	-21.9	-20.0	-19.3	12.7	-23.3
Trade Balance	RMBil.	108.2	100.4	142.0	12.6	12.1	12.5	7.4	10.0	9.1	7.8	9.6	94.5	76.6
Export	%YoY	10.3	2.7	9.6	10.7	-16.0	-15.7	-26.3	-29.7	-22.7	-22.9	-19.8	16.1	-22.8
E&E	%YoY	6.2	-5.5	-3.6	-2.5	-16.6	-2.0	-23.2	-28.1	-16.9	-15.8	-13.1	1.4	-19.2
	Shr	47.7	43.6	38.5	39.7	37.0	39.0	41.3	41.5	41.2	42.2	43.0	38.5	40.3
Others	%YoY	14.4	10.9	19.5	21.5	-15.6	-22.6	-28.4	-31.4	-26.1	-27.8	-24.2	27.7	-25.1
	Shr	52.3	56.4	61.5	60.3	63.0	61.0	58.7	58.5	58.8	57.8	57.0	61.5	59.7
Import	%YoY	10.8	5.0	3.3	4.4	-27.6	-29.0	-22.4	-27.8	-20.9	-16.2	-18.6	8.7	-23.9
Capital	%YoY	7.5	6.3	2.0	-8.2	-6.2	-21.8	2.6	-27.3	-14.6	-7.1	-7.6	9.8	-11.8
	Shr	13.6	13.8	13.6	12.6	15.9	16.9	20.2	14.6	13.7	14.8	14.3	13.6	15.2
Intermediate	%YoY	8.9	6.9	5.6	12.8	-33.8	-35.0	-26.8	-30.0	-23.5	-20.6	-23.7	11.4	-28.5
	Shr	69.8	71.0	72.6	74.0	67.7	66.2	67.9	68.7	70.3	68.7	69.4	72.7	68.4
Consumption	%YoY	13.4	3.3	11.2	9.2	11.2	6.9	-6.9	-12.0	-5.6	-9.2	0.6	15.9	-6.3
	Shr	5.8	5.7	6.1	5.7	8.9	8.5	7.7	7.3	7.3	7.2	7.1	7.2	7.5

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

recovery of consumer spending specifically on notebook PC and cell phones.

Imports taking a break. On the import front, the sharper decline was largely due to bigger MoM contraction in all its major subsectors in particular purchase of capital (-9.7%) and intermediate goods (-5.9%). Meanwhile, in spite of an 8.1% MoM contraction, imports of consumption goods registered a positive 0.6% YoY growth it's first since March this year. Apart from two preceding months of double-digit growth, the long festive holidays in August might have contributed to the overall decline in imports – an indication that it's taking a breather amidst the frenetic inventory build-up pace.

4Q09. With growth projected to rebound by no less than 2.0% in 2H09 from -5.2% in 1H09, we maintain our GDP projection at -1.3% for the whole of 2009. 

Outlook

A better 2H09. In spite of August's poor trade performance, we believe that it may not derail exports' growth rebound going forward. Supported by steady global economic recovery trend we expect that exports might register a marginal YoY growth after four successive quarters of contraction. This would in turn support our view that GDP growth would turn positive in 4Q09. **Coupled with the impact of improvement in domestic demand, we expect GDP to rebound to between 3.0%-4.0% in**

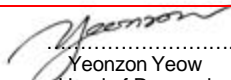
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