

Malaysia External Trade

September exports fell 24.2% as E&E demand fell further

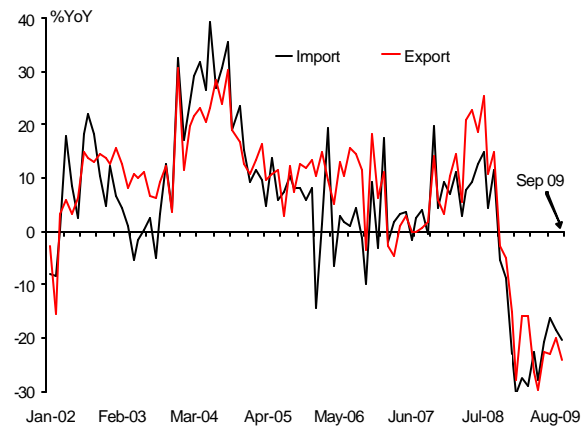
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HIGHLIGHTS

- **Exports fell at bigger-than-expected pace of 24.2% YoY in September, as shipments of electronics and electrical (E&E) goods and major commodities continue to fall.** It was worst than consensus' median estimate of -21.0% and our estimate of -20.7%. On MoM-basis, it fell by 1.1%, its second straight month of decline. Meanwhile, imports fell 0.7% MoM to yield a smaller contraction of 20.2%. As a result, the trade surplus narrowed to RM9.3b from RM9.6b in August.
- **The further MoM contraction in exports was largely attributed to bigger declines in E&E shipments as well as major commodities.** E&E exports fell 2.8% MoM, resulting in an enlarged YoY contraction of 23.2%, the biggest since May this year. Meanwhile, non-E&E exports registered a bigger YoY fall of 24.9% due mainly to declines in shipments of crude oil as well as iron and steel products.
- On the import front, its MoM decline was less severe at -0.7% compared with the -6.6% in the preceding month. This is because, imports of intermediate goods, which account for 71.0% of total imports, registered MoM gains of 1.6% while both capital and consumption goods fell. **The monthly gain in intermediate imports bodes well for exports as it indicates an inventory buildup in anticipation for bigger orders going forward.**
- Following weaker-than-expected August and September data, overall exports declined by 22.3% in 3Q09. Though better than 2Q09 (-26.3%), the contraction was higher than what we had earlier anticipated. In spite of that, we expect exports to turn positive in 4Q09 supported by steady global economic recovery trend and higher energy prices. **Nonetheless, this has prompted us to lower our 2H09 GDP forecast to +0.9% from our earlier +2.1%. Hence, our whole year GDP projection is now adjusted to -2.1% from -1.3%.**

Another larger-than-expected fall. While we were expecting a rebound in external demand exports continue to fall for the second straight month reaffirming our concern that GDP decline could be bigger than we had earlier anticipated. **Exports fell**

Malaysia Exports and Imports Growth Trend (%YoY)



Source: Dept of Statistics, Kenanga Research

at bigger-than-expected pace of 24.2% YoY in September, as shipments of electronics and electrical (E&E) goods and major commodities continue to fall. It was worst than consensus' median estimate (compiled by *Bloomberg*) of -21.0% and our estimate of -20.7%. On MoM-basis, it fell by 1.1%, its second straight month of decline. Meanwhile, imports fell 0.7% MoM to yield a smaller contraction of 20.2%. As a result, the trade surplus narrowed to RM9.3b from RM9.6b in August. In the first nine months of this year, exports fell 23.0% while imports plunged 23.5%.

Enlarged E&E decline. The further MoM contraction in exports was largely attributed to bigger declines in E&E shipments as well as major commodities. E&E exports fell 2.8% MoM, resulting in an enlarged YoY contraction of 23.2%, the biggest since May this year. The enlarged YoY contraction was also due to the base effect as it registered a strong 9.9% MoM gain in the same period last year. The MoM decline was also in spite of improving global semiconductor sales. The Semiconductor industry Association (SIA) announced an increase of 8.2% MoM in global chip sales in September. **Given the latest guidance by the SIA, we believe that the E&E demand recovery remains intact going forward.** It said that sales are running well ahead of the worst-case scenarios projected early in the year, and it is optimistic that total sales for 2009 will be better than its mid-year forecast. Meanwhile, non-E&E exports registered a bigger YoY fall of 24.9% due mainly to declines in

Table 1: Malaysia External Trade Growth Trend

		2006	2007	2008	Sep-08	Mar-09	Apr-09	Ma y-09	Jun-09	Jul-09	Aug-09	Sep-09	Jan-Sep-08	Jan-Sep-09
Total Trade	%YoY	10.5	3.8	6.8	13.4	-21.8	-24.6	-28.9	-21.9	-20.0	-19.3	-22.4	12.8	-23.2
Trade Balance	RMBil.	108.2	100.4	142.0	14.7	12.5	7.4	10.0	9.1	7.8	9.6	9.3	109.2	85.9
Export	%YoY	10.3	2.7	9.6	15.0	-15.7	-26.3	-29.7	-22.7	-22.9	-19.8	-24.2	16.0	-23.0
E&E	%YoY	6.2	-5.5	-3.6	5.6	-2.0	-23.2	-28.1	-16.9	-15.8	-13.1	-23.2	2.0	-19.8
	Shr	47.7	43.6	38.5	41.7	39.0	41.3	41.5	41.2	42.2	43.0	42.3	38.9	40.6
Others	%YoY	14.4	10.9	19.5	22.9	-22.6	-28.4	-31.4	-26.1	-27.8	-24.2	-24.9	27.1	-25.1
	Shr	52.3	56.4	61.5	58.3	61.0	58.7	58.5	58.8	57.8	57.0	57.7	61.1	59.4
Import	%YoY	10.8	5.0	3.3	11.4	-29.0	-22.4	-27.8	-20.9	-16.2	-18.6	-20.2	9.0	-23.5
Capital	%YoY	7.5	6.3	2.0	10.6	-21.8	2.6	-27.3	-14.6	-7.1	-7.6	-23.8	9.9	-13.4
	Shr	13.6	13.8	13.6	13.9	16.9	20.2	14.6	13.7	14.8	14.3	13.3	13.6	15.4
Intermediate	%YoY	8.9	6.9	5.6	20.9	-35.0	-26.8	-30.0	-23.5	-20.6	-23.7	-24.3	12.4	-28.0
	Shr	69.8	71.0	72.6	74.9	66.2	67.9	68.7	70.3	68.7	69.4	71.0	73.0	68.6
Consumption	%YoY	13.4	3.3	11.2	7.0	6.9	-6.9	-12.0	-5.6	-9.2	-1.9	-0.5	14.8	-5.2
	Shr	5.8	5.7	6.1	5.6	8.5	7.7	7.3	7.3	7.2	7.1	7.0	6.0	7.5

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

shipments of crude oil as well as iron and steel products.

Intermediate imports remain strong. On the import front, its MoM decline was less severe at -0.7% compared with the -6.6% in the preceding month. This is because, imports of intermediate goods, which account for 71.0% of total imports, registered MoM gains of 1.6% while both capital and consumption goods fell. **The monthly gain in intermediate imports bodes well for exports as it indicates an inventory buildup in anticipation for bigger orders going forward.** This is in line with the SIA outlook as stated in the preceding paragraph as intermediate goods largely comprise of E&E components.

Outlook

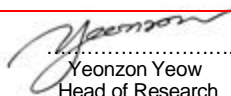
Lowering expectation. Following weaker-than-expected August and September data, overall exports declined by 22.3% in 3Q09. Though better than 2Q09 (-26.3%), the contraction was higher than what we had earlier anticipated. Hence this could mean that 3Q09 GDP could fall by no less than 1.0% as oppose to our earlier forecast of a flat or slightly positive growth.

A better 2H09. In spite of the bigger-than-expected drop in 3Q09, our outlook for the 2H09 remains intact. We expect exports to turn positive in 4Q09 supported by steady global economic recovery trend as well as a boost from higher energy prices. Nonetheless, the lower 3Q09 GDP estimate **has prompted us to lower our 2H09 GDP forecast to +0.9% from our earlier +2.1%, Hence, our whole year GDP projection is now adjusted to -2.1% from -1.3%.**

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