

Exports continued to fall by 5.5% in November 2019

Facts

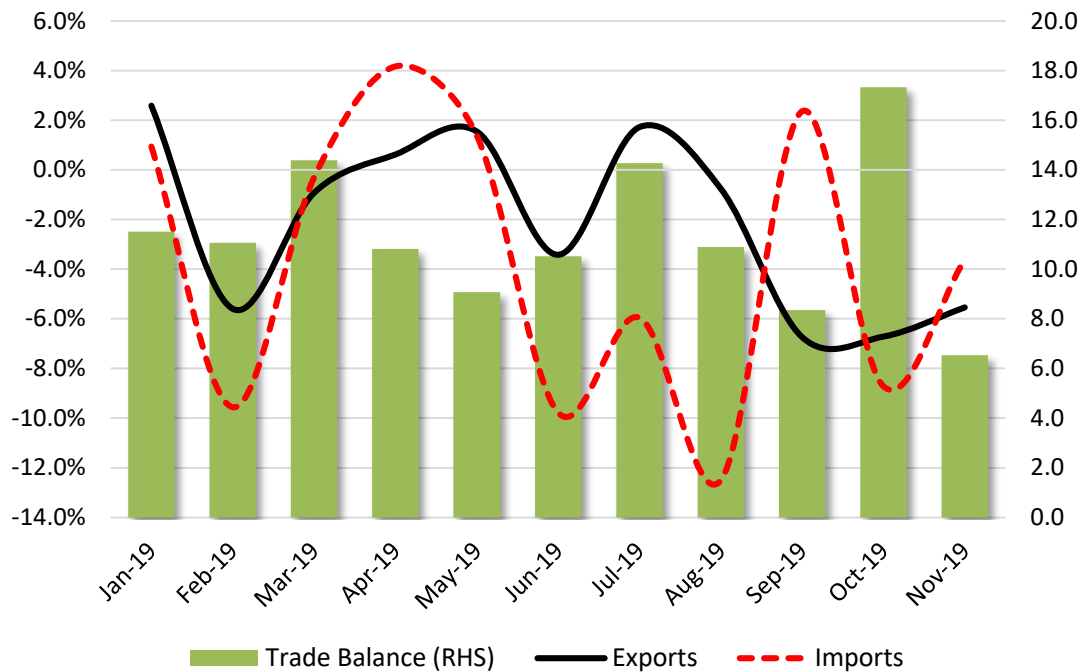
- Malaysia's exports dropped by 5.5% year-on-year (y-o-y) in November last year albeit at slower pace as compared to 6.7% contraction in the preceding month (Consensus: 0.0% vs. Bank Islam: 0.5%). The decline was primarily driven by the Electrical & Electronic (E&E) Products (Nov 2019: -11.6% vs. Oct 2019: -3.2%), Liquefied Natural Gas (Nov 2019: -35.9% vs. Oct 2019: -17.1%), Petroleum Products (Nov 2019: -19.0% vs. Oct 2019: -27.2%), Crude Petroleum (Nov 2019: -23.4% vs. Oct 2019: -50.5%) and Palm Oil, Includes Crude & Processed (Nov 2019: -2.6% vs. Oct 2019: -9.3%).
- Within E&E, the decline was led by Telecommunications Equipment, Parts & Accessories (Nov 2019: -15.7% vs. Oct 2019: 3.4%), Electrical Apparatus & Parts (Nov 2019: -6.4% vs. Oct 2019: 0.0%) and Thermionic Valves & Tubes, Photocells (TT) (Nov 2019: -12.0% vs. Oct 2019: 1.0%). Further breakdown showed that the Electronic Integrated Circuits dropped sharply by 17.6% after posted positive growth of 0.4% previously.
- Meanwhile, higher exports were seen in Machinery, Appliances & Parts and Rubber Gloves with both products growing at a rate of 6.2% (Oct 2019: 3.5%) and 1.0% (Oct 2019: -14.1%) respectively during the month. However, shipment of Optical & Scientific Equipment, Professional, Scientific & Controlling Instruments, as well as Heating & Cooling Equipment & Parts moderated by 11.9% (Oct 2019: 17.6%), 12.7% (Oct 2019: 19.7%) and 5.5% (Oct 2019: 25.5%) respectively in November 2019.
- Exports performance by destination showed that shipment to Singapore, Japan, Thailand, Hong Kong and Vietnam plummeted by 12.5% (Oct 2019: 4.1%), 16.0% (Oct 2019: -20.1%), 14.6% (Oct 2019: -18.2%), 21.1% (Oct 2019: 0.1%) and 11.0% (Oct 2019: -1.9%) respectively in November 2019. On the contrary, exports to China and Philippines rebounded by 4.1% (Oct 2019: -11.0%) and 3.7% (Oct 2019: -2.3%) respectively in November 2019.
- Total imports fell by 3.6% in November 2019 (Oct 2019: -8.7%). This mainly contributed by contraction in the capital goods (Nov 2019: -4.3% vs. Oct 2019: -11.5%) while the intermediate goods (Nov 2019: 1.8% vs. Oct 2019: -5.1%) and consumption goods (Nov 2019: 1.9% vs. Oct 2019: -5.0%) have turned around during November. As such, the trade balance reduced from RM17.3 billion in October 2019 to RM6.5 billion in November 2019.
- Cumulatively, total exports for 11M2019 declined by 2.1% after recorded 7.5% expansion in the previous year. Total imports also fell by 3.9% in 11M2019 from 5.5% growth registered in 11M2018. Consequently, trade surplus widened from RM112.8 billion in 11M2018 to RM124.7 billion in 11M2019.

Table 1: External Trade (Y-o-Y %)

Y-o-Y (%)	Jul-19	Aug-19	Sep-19	Oct-19	Nov-19	11M2018	11M2019
Export	1.7%	-0.8%	-6.7%	-6.7%	-5.5%	7.5%	-2.1%
Import	-6.0%	-12.5%	2.4%	-8.7%	-3.6%	5.5%	-3.9%
Trade Balance (RM billion)	14.3	10.9	8.4	17.3	6.5	112.8	124.7
Export by Product							
Machinery, Appliances and Parts	6.0%	7.6%	6.8%	3.5%	6.2%	0.7%	1.3%
Electrical & Electronic Products	4.5%	-7.4%	-12.2%	-3.2%	-11.6%	10.9%	-2.0%
Palm Oil, Includes Crude and Processed	-10.8%	16.7%	-6.6%	-9.3%	-2.6%	-12.3%	-5.9%
Liquefied Natural Gas	31.3%	-11.2%	-1.8%	-17.1%	-35.9%	1.7%	0.5%
Petroleum Products	3.2%	7.7%	-14.7%	-27.2%	-19.0%	17.2%	-8.9%
Crude Petroleum	-45.7%	-40.2%	-45.8%	-50.5%	-23.4%	32.1%	-28.5%
Optical and Scientific Equipment	-2.3%	-12.3%	12.8%	17.6%	11.9%	12.7%	4.8%
Professional, Scientific & Controlling Instruments	-1.6%	-13.1%	15.4%	19.7%	12.7%	15.8%	6.1%
Rubber Gloves	-7.5%	-5.0%	-3.2%	-14.1%	1.0%	11.7%	-3.6%
Heating and Cooling Equipment and Parts	20.0%	17.4%	5.4%	25.5%	5.5%	-13.1%	2.6%
Export by Country							
Singapore	3.5%	-7.2%	-11.6%	4.1%	-12.5%	2.6%	-2.4%
China	3.8%	-2.8%	-3.0%	-11.0%	4.1%	11.5%	-1.3%
European Union	-2.8%	5.3%	-10.8%	-5.2%	-4.3%	4.3%	-2.8%
United States	7.9%	6.8%	6.6%	2.7%	6.5%	1.4%	4.6%
Japan	-6.3%	2.5%	-1.7%	-20.1%	-16.0%	-7.1%	-6.7%
Thailand	-2.4%	-8.4%	-4.3%	-18.2%	-14.6%	13.2%	-1.8%
Hong Kong	2.5%	-15.4%	-26.5%	0.1%	-21.1%	60.6%	-10.4%
Australia	-14.8%	-27.4%	-19.5%	-50.3%	-8.2%	1.6%	-15.7%
Germany	4.0%	-13.0%	-6.1%	-3.1%	-2.0%	7.4%	-7.6%
Vietnam	6.4%	24.7%	-5.4%	-1.9%	-11.0%	26.5%	0.1%
Philippines	17.0%	-1.8%	-4.2%	-2.3%	3.7%	1.7%	7.8%
Import by End-Use							
Capital Goods	-14.0%	-30.9%	7.0%	-11.5%	-4.3%	-0.7%	-10.8%
Intermediate Goods	-3.4%	-13.8%	11.1%	-5.1%	1.8%	-4.0%	0.6%
Consumption Goods	-5.0%	-12.8%	15.1%	-5.0%	1.9%	2.5%	1.2%

Source: CEIC, Bank Islam

Chart 1: Exports (y-o-y %), Imports (y-o-y %) & Trade Balance (RM billion)



Source: CEIC, Bank Islam

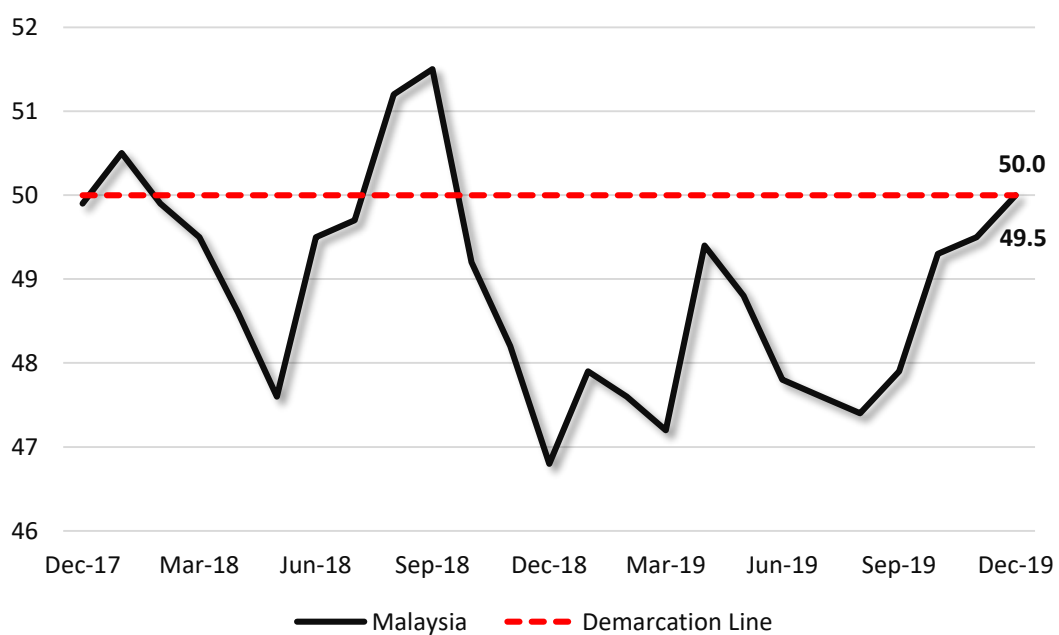
Our view

The latest exports print represents the fourth consecutive month of contraction, signaling poor performance in the external sector especially the E&E related sector. The contraction in the trade figure was not unique as other jurisdiction also experiencing a similar fate. Tech heavy countries such as South Korea has seen its exports contracted for thirteen months in a row whereby its Semiconductor exports which accounted for 15.9% of total exports fell by 17.7% in December 2019 (Nov 2019: -30.8%). Similarly, Singapore's Non-Oil Domestic Exports (NODX) has fallen for 9 straight months with electronic exports (16% of total domestic exports) declined by a massive 23.3% in November 2019 (Oct 2019: -16.4%). Additionally, Malaysia's import of capital goods was in the red during October and November, suggesting that investment activities have remained lukewarm. Machinery & Equipment for Specialised Industry declined by 6.3% in November 2019 (Oct 2019: -1.8%) and the contraction has been ongoing throughout the year except in May. As such, businesses are not upgrading their production capacity as they have been very cautious on final demand prospects.

Despite that, the latest Purchasing Manager's Index (PMI) for Malaysia has been quite forthcoming. The PMI rose to 50.0 points in December (Nov 2019: 49.5 points) after enduring fourteen months of contraction since October 2018. The slight turnaround suggests business optimism has improved albeit gradually. According to the survey, the expansion was supported by the fastest increases in the goods production following higher demand conditions and new orders. As such, this has boosted the confidence among the manufacturers to consider buying more inputs for production activities.

Apart from that, the trade negotiation between the US and China is progressing well. The phase one deal is expected to be signed on 15 January and President Trump has suggested that he would be travelling to Beijing “at a later date” to begin talks on phase two deal. On the same note, China is expected to increase purchases of Americans farm goods and making new commitments on intellectual property, forced technology transfer and currency.¹ Such gesture is definitely a step in the right direction to ensure the trade tension will continue to be deescalated. However, such developments would need to happen progressively in order to instill confidence among the businesses and investing community.

Chart 2: Malaysia Manufacturing Purchasing Manager’s Index (PMI), points



Sources: Bloomberg

All in all, we maintained our **export growth forecast at -1.5% in 2019 (2018: 7.5%)**, following slower trend in the global demand resulting from the protectionist trade policy among the major economies. **For 2020, we expect nominal exports would grow between 1.8% to 2.0%** due to the low base effect as well as improvement in tech related exports. The World Semiconductor Trade Statistics (WSTS) has put 5.9% growth forecast for global semiconductor sales from an estimated 12.8% contraction in 2019. Sales of Integrated Circuits (ICs) which forms the bulk of global semiconductor sales are envisaged to expand by 5.2% (2019E: -16.0%). Such forecast is in line with the expected rollout of 5G network which will benefit Malaysia’s E&E sector.

¹ <https://tefd.theedgemarkets.com/2019/TEP/20191216h1j4lk.pdf>

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