Dr. Mohd Afzanizam Abdul Rashid | Chief Economist | 03-2088 8075 | afzanizam@bankislam.com.my
Shafiz Jamaluddin | Economic Analyst| 03-2088 8399 | shafiz@bankislam.com.my
Nor Jannah Abdullah | Economic Analyst| 03-2782 1417 | norjannah@bankislam.com.my

Exports dropped further by 6.8% in September

Facts

- ✓ Malaysian exports fell steeply by 6.8% year-on-year (y-o-y) in September (August: -0.8%, Consensus: 0.0%, Bank Islam: -0.4%). This was contributed by the sharp contraction in Electrical & Electronic (E&E) Products (September: -12.2% vs. August: -7.4%), Crude Petroleum (September: -45.8% vs. August: -40.2%), Petroleum Products (September: -14.7% vs. August: 7.7%), as well as Palm Oil, Includes Crude & Processed (September: -6.6% vs. August: 16.7%). Additionally, Liquefied Natural Gas (September: -1.8% vs. August: -11.2%) and Rubber Gloves (September: -3.2% vs. August: -5.0%) plummeted albeit at a softer pace as compared to the preceding month. These items accounted for 58.1% of the total exports.
- ✓ Within the E&E products, Thermionic Valves & Tubes, Photocells (September: -11.9% vs. August: -4.0%), Electronic Integrated Circuits (September: -15.8% vs. August: -5.9%) and Piezo Electric Crystals & Parts (September: -6.4% vs. August: -4.9%) grew negatively in September. On top of that, Parts & Accessories for Office Machine continued to drop for eleven consecutive months since November last year (September: -18.7% vs. August: -30.7%). These products contributed about 61.0% from the total E&E exports.
- ✓ In contrast, Optical & Scientific Equipment and Professional, Scientific & Controlling Instruments reversing the negative growth previously, growing by 12.8% (August: -12.3%) and 15.4% (August: -13.1%) respectively in September. As such, these have cushioned the overall downturn in export performance. Similarly, modest growth was seen in exports of Machinery, Appliances & Parts and Heating & Cooling Equipment & Parts, registering at 6.9% (August: 7.6%) and 5.4% (August: 17.4%) respectively in September.
- ✓ With regards to the export's destination, shipments to Singapore, European Union (EU), Hong Kong, Australia declined at a significant degree by 11.7% (August: -7.2%), 10.8% (August: 5.3%), 26.5% (August: -15.4%) and 19.5% (August: -27.4%) respectively. On the other hand, exports to the United States (US) softened by 6.6% in September as compared to 6.8% in August.
- ✓ On imports, it rebounded to 2.4% growth in October after declining by 12.5% in the previous month. This was underpinned by recovery in imports of Capital (September: 7.3% vs. August: -30.9%), Intermediate (September: 11.1% vs. August: -13.8%) and Consumption Goods (September: 15.1% vs. August: -12.8%). As such, the trade surplus narrowed from RM10.9 billion in August to RM8.3 billion in September.

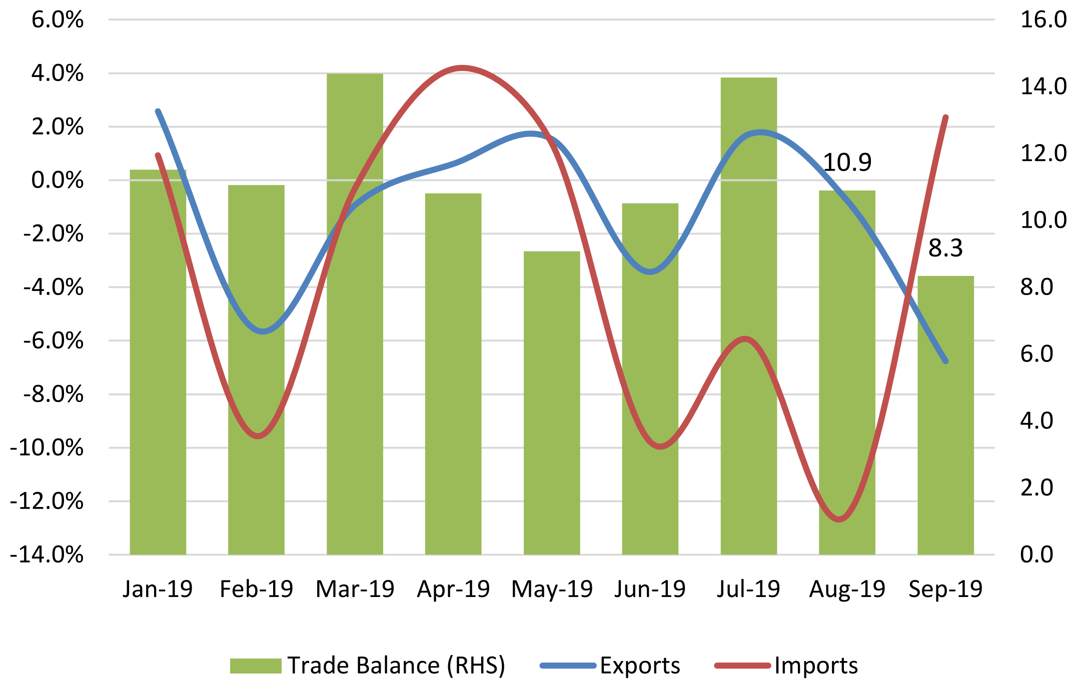
- ✓ In the 3Q2019, total exports contracted to -1.9% as compared to -0.4% in the preceding quarter. By the same token, total imports slumped to -5.8% in 3Q2019 from -1.4% in the previous quarter. Given that, the trade surplus balance widened from RM30.4 billion in the 2Q2019 to RM33.5 billion in 3Q2019. For the first nine months, total exports declined by 1.1% from 6.8% growth in the same period last year. Similarly, total imports fell 3.3% (9M2018: 4.9%) which resulted in widening of trade surplus balance of RM100.9 billion between January and September this year (9M2018: RM87.5 billion).

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

Y-o-Y (%)	May-19	Jun-19	Jul-19	Aug-19	Sep-19	9M2018	9M2019
Export	1.5%	-3.4%	1.7%	-0.8%	-6.8%	6.8%	-1.1%
Import	1.4%	-9.8%	-6.0%	-12.5%	2.4%	4.9%	-3.3%
Trade Balance (RM billion)	9.1	10.5	14.3	10.9	8.3	87.5	100.9
Export by Product							
Machinery, Appliances and Parts	14.8%	-10.9%	6.0%	7.6%	6.9%	0.5%	0.6%
Electrical & Electronic Products	0.6%	-6.5%	4.5%	-7.4%	-12.2%	10.9%	-0.8%
Palm Oil, Includes Crude and Processed	7.8%	2.2%	-10.8%	16.7%	-6.6%	-11.6%	-5.8%
Liquefied Natural Gas	-10.0%	6.1%	31.3%	-11.2%	-1.8%	-7.3%	9.6%
Petroleum Products	-15.5%	6.9%	3.2%	7.7%	-14.7%	11.6%	-5.0%
Crude Petroleum	-20.0%	31.7%	-45.7%	-40.2%	-45.8%	33.7%	-25.9%
Optical and Scientific Equipment	3.7%	-5.2%	-2.3%	-12.3%	12.8%	13.0%	2.3%
Professional, Scientific & Controlling Instruments	3.5%	-4.4%	-1.6%	-13.1%	15.4%	15.9%	3.5%
Rubber Gloves	10.0%	-19.8%	-7.5%	-5.0%	-3.2%	9.7%	-2.8%
Heating and Cooling Equipment and Parts	23.4%	1.1%	20.0%	17.4%	5.4%	-12.4%	0.5%
Export by Country							
Singapore	-2.7%	-1.2%	3.5%	-7.2%	-11.7%	0.4%	-2.0%
China	-1.6%	-10.7%	3.8%	-2.8%	-3.0%	9.1%	-0.4%
European Union	-6.2%	0.7%	-2.8%	5.3%	-10.8%	5.2%	-2.4%
United States	11.7%	8.4%	7.9%	6.8%	6.6%	1.1%	4.6%
Japan	6.3%	-13.6%	-6.3%	2.5%	-1.7%	-9.1%	-3.8%
Thailand	7.3%	-4.4%	-2.4%	-8.4%	-4.3%	13.1%	2.1%
Hong Kong	3.2%	-25.2%	2.5%	-15.4%	-26.5%	70.1%	-10.7%
Australia	-13.0%	-11.2%	-14.8%	-27.4%	-19.5%	-1.3%	-10.8%
Germany	-27.2%	-17.1%	4.0%	-13.0%	-6.1%	8.6%	-8.6%
Vietnam	5.8%	-17.1%	6.4%	24.7%	-5.4%	23.7%	1.9%
Philppines	39.9%	50.8%	17.0%	-1.8%	-4.2%	0.9%	9.6%
Import by End-Use							
Capital Goods	-6.1%	-24.5%	-14.0%	-30.9%	7.3%	-0.6%	-11.5%
Intermediate Goods	6.0%	-3.6%	-3.4%	-13.8%	11.1%	-5.1%	1.1%
Consumption Goods	10.5%	-5.6%	-5.0%	-12.8%	15.1%	2.0%	1.8%

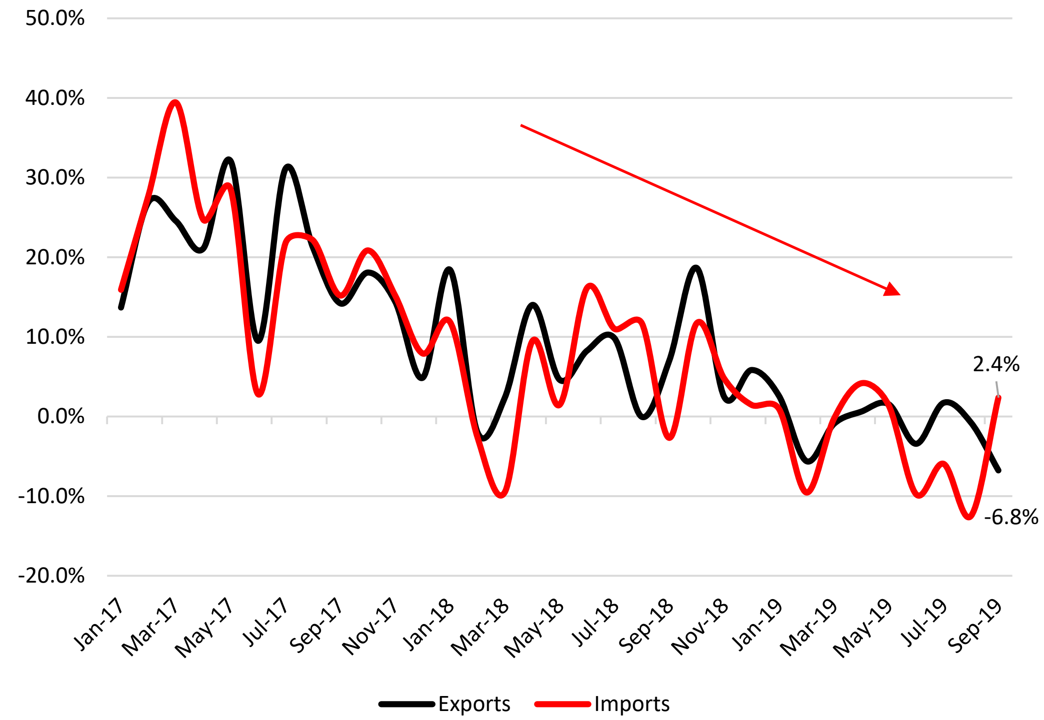
Sources: CEIC, DOSM

Chart 1: Exports and Imports (y-o-y %), Trade Balance (RM Billion)



Source: CEIC

Chart 2: Exports and Imports (RM Billion)



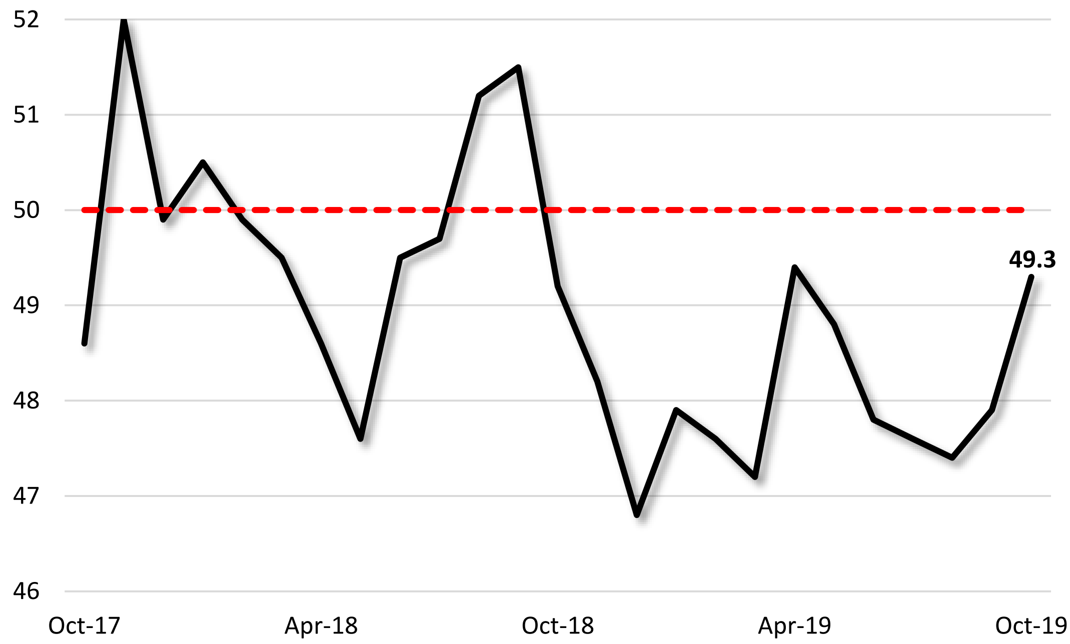
Source: CEIC

Our view

The latest data series on GDP from major economies have vindicated our view that the global economy has been lukewarm. The US GDP during the 3Q2019 came in at 1.9% quarter-on-quarter (q-o-q) seasonally adjusted annualised rate (SAAR) in the 3Q2019. While the US growth was slightly moderate, the heart of the economy which is the Personal Consumption Expenditure (PCE) has been decelerating quite sharply from 4.6% in the 2Q2019 to 2.9% growth in the 3Q2019. Similarly, Singapore's economy has been flat during the September quarter. According to the Ministry of Trade and Industry (MTI), Singapore's GDP growth has remained subdued at 0.1% year-on-year (y-o-y) in the 3Q2019 (2Q2019: 0.1%).

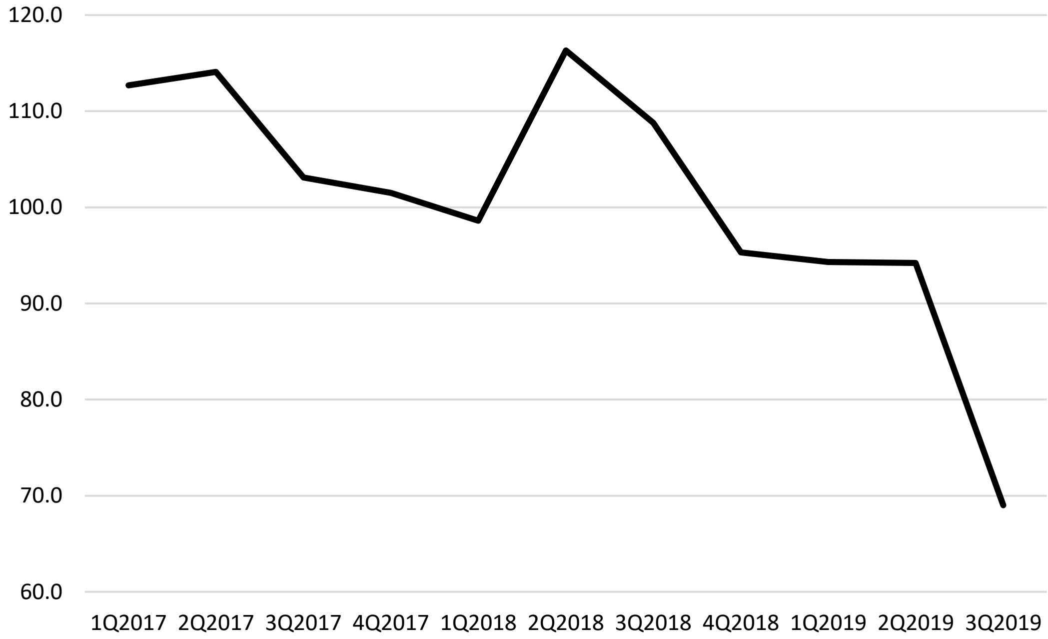
Apart from that, businesses sentiments were also weak as reflected by the IHS Markit Malaysia Manufacturing Purchasing Manager's Index (PMI). Albeit improving from 47.9 points in September to 49.3 points in October, it has been lingering below the 50-point reading for thirteen consecutive months since October last year. This indicates that the business confidence have remained pessimistic for protracted period. Also, the Business Condition Index (BCI) has plummeted from 94.2 points in the 2Q2019 to 69.0 points in the 3Q2019. According to the Malaysian Institute of Economic Research (MIER), respondents from the survey has been saying their sales have decreased further, domestic and external orders have declined, production volume is sluggish and capacity utilization rate has dropped. As such, firms may not incline to increase capital expenditure in the foreseeable future in light of weak business prospects.

Chart 3: Malaysia Manufacturing Purchasing Manager's Index (PMI), points



Sources: Bloomberg

Chart 4: MIER Business Condition Index (BCI), points

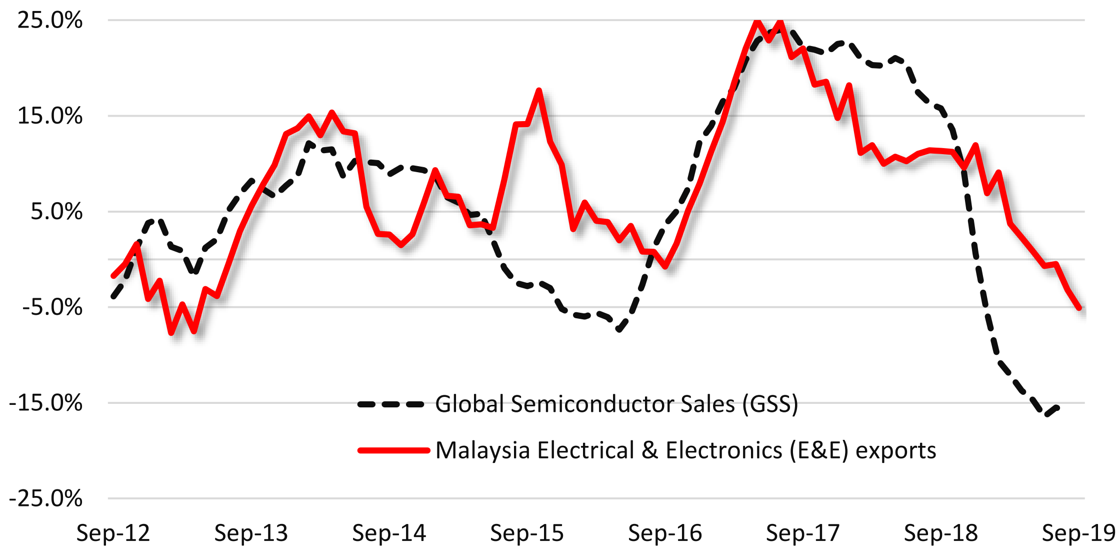


Source: MIER, CEIC

Despite all the gloom and doom, there seems to be a silver lining in the horizon (but perhaps, long way to go). According to the International Data Corporation (IDC), worldwide smartphone shipments are expected to decline by 2.2% from 1.402 billion units in 2018 to 1.371 billion units in 2019. However, IDC is of the view that the market would recover in the 2H2020, increasing by 3.2%. The improvement would be mostly driven by the expected launch of several 5G mobile devices.

At the moment, the Global Semiconductor Sales (GSS) performance continue to decline at a rate of 15.9% y-o-y in August, extending the 15.5% drop in the preceding month. It has been eight consecutive months of slump, suggesting that the global semiconductor industry continued to experience a period of slowing sales in 2019. By extension, Malaysia's E&E exports would remain weak in the near term given close relationship with GSS performance of 75.8%.

Chart 5: Global Semiconductor Sales (GSS) vs. Malaysia's E&E exports 3 months moving average y-o-y%



Source: CEIC

Such notion is in line with the latest profit guidance from the industry players. For instance, Unisem (M) Berhad which is one of the main players in the semiconductor industries mentioned that the decline of its revenue in 3Q2019 was mainly attributable to lower sales volume. As such, the directors expect that the group performance to remain challenging for the remaining period to the end of the financial year.[1]

All in all, such narratives **have bolstered our conviction for the reduction in the Overnight Policy Rate (OPR) by 25 bps to 2.75%** in the upcoming Monetary Policy Committee (MPC) meeting on 5 November 2019.

[1] https://www.unisemgroup.com/wp-content/uploads/2019/10/Unisem20Q320201920results.pdf