Economic Research, Strategic Management

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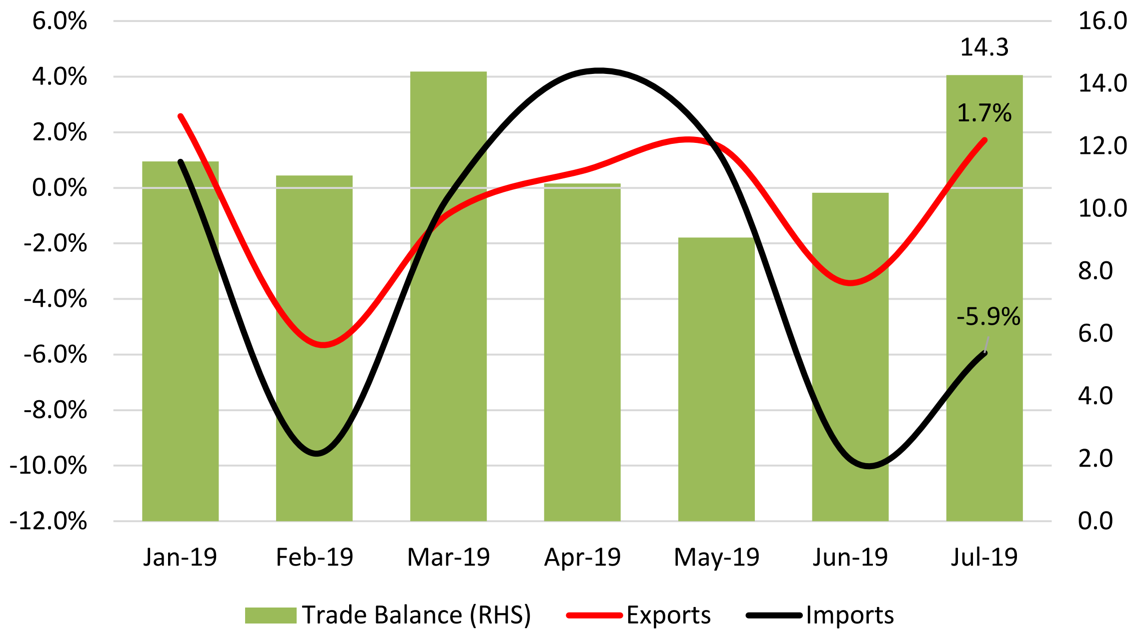
Exports growth surprised on the upside in July

Facts

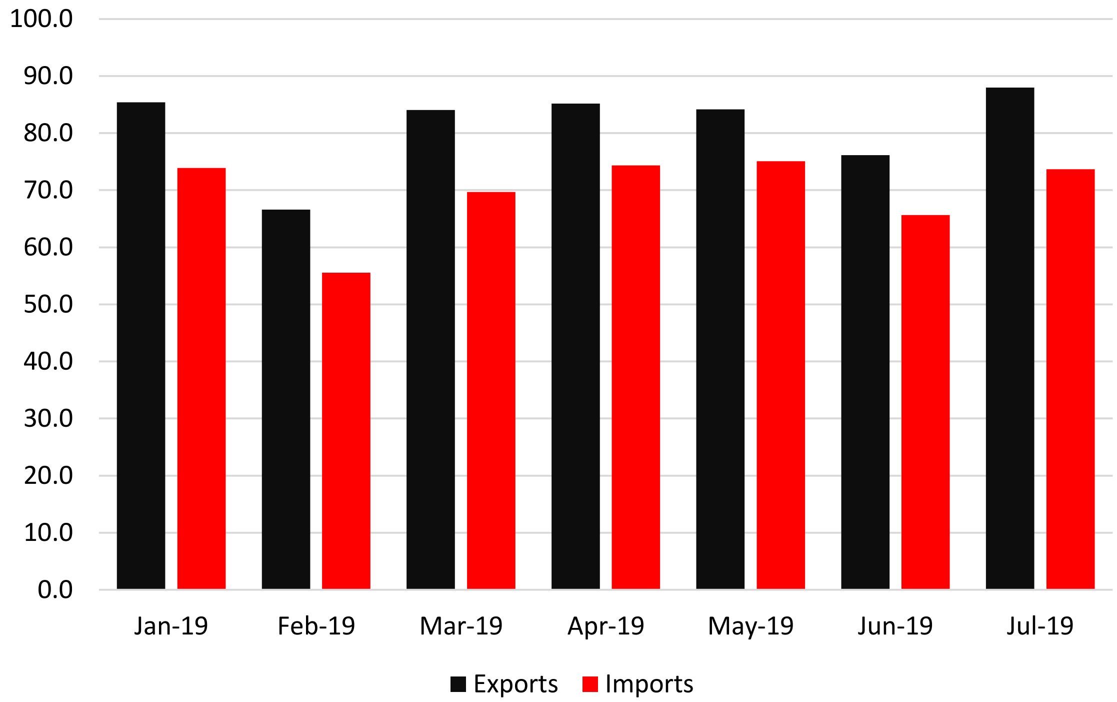
- ✓ Malaysian exports rebounded by 1.7% year-on-year (y-o-y) in July (June: -3.4%), beating the consensus at -2.5% (Bank Islam: -6.0%). The positive growth was primarily driven by higher exports in Liquefied Natural Gas (July: 31.3% vs. June: 5.5%), Heating & Cooling Equipment & Parts (July: 20.0% vs. June: 1.1%), Machinery, Appliances & Parts (July: 6.0% vs. June: -10.9%), as well as Electrical & Electronic Products (July: 4.5% vs. June: -6.5%). These items hold 49.7% of total exports.
- ✓ Within the E&E products, the Telecommunications Equipment Parts & Accessories (July: 27.0% vs. June: 15.1%), Electronic Integrated Circuits (July: 10.3% vs. June: -5.6%) and Piezo Electric Crystals & Parts (July: 28.5% vs. June: 19.9%) expanded at a fast rate during July.
- ✓ Nonetheless, exports of Crude Petroleum plummeted sharply by 45.7% in July after posted a strong growth of 31.7% in the preceding month. By the same token, Optical & Scientific Equipment (July: -2.3% vs. June: -5.2%), Professional, Scientific & Controlling Instruments (July: -0.6% vs. June: -4.2%) and Rubber Gloves (July: -7.5% vs. June: -17.6%) remained in the contraction zone for two straight month.
- ✓ With regards to the export's destination, shipments to Singapore, China, Hong Kong, Germany and Vietnam returned to positive territory in July, growing by 3.1% (June: -1.2%), 3.8% (June: -10.7%), 2.5% (June: -25.2%), 4.0% (June: -17.1%) and 6.4% (June: -17.1%) respectively. In contrast, overseas sales to European Union (July: -2.8% vs. June: 0.7%), Japan (July: -6.3% vs. June: -13.6%), Thailand (July: -2.4% vs. June: -4.4%) and Australia (July: -14.8% vs. June: -11.2%) edged down during July.
- ✓ On imports, it contracted by 5.9% in July albeit at a softer pace as compared to -9.8% in the previous month. This was underpinned by decline in imports of Capital (July: -13.9% vs. June: -24.4%), Intermediate (July: -3.4% vs. June: -3.0%) and Consumption Goods (July: -5.0% vs. June: -5.3%). Consequently, the trade surplus widened from RM10.5 billion in June to RM14.3 billion in July.
- ✓ Cumulatively, total exports deteriorated by 0.4% in 7M2019 from a positive growth of 7.8% in 7M2018. Similarly, total imports tumbled to 2.6% in 7M2019 from 5.0% growth in same period last year. Given that, the trade surplus balance widened from RM70.5 billion in 7M2018 to RM81.6 billion in 7M2019.

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



Source: CEIC

Chart 2: Exports and Imports (RM Billion)



Source: CEIC

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

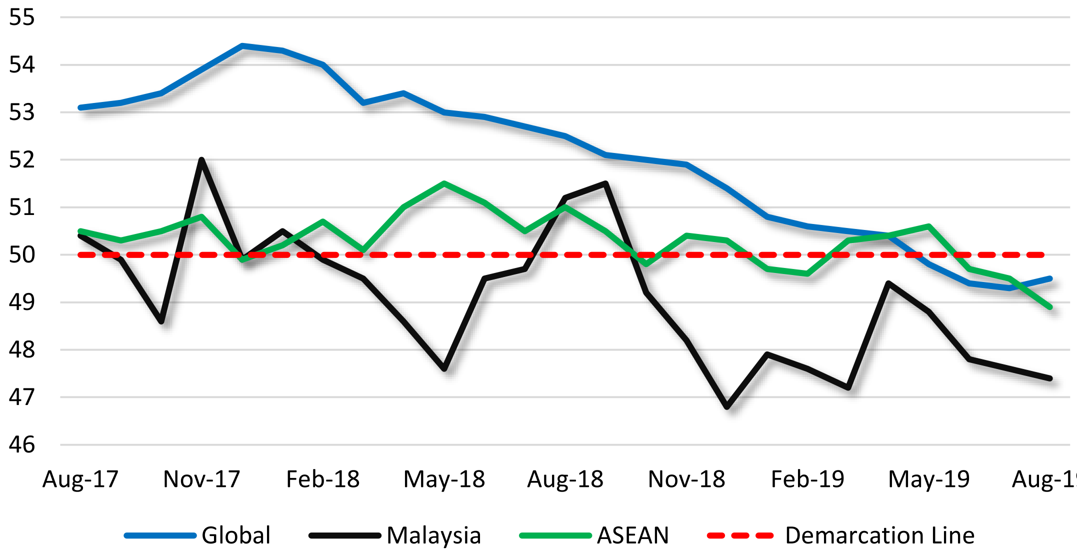
Y-o-Y (%)	Mar-19	Apr-19	May-19	Jun-19	Jul-19	7M2018	7M2019
Export	-0.9%	0.6%	1.5%	-3.4%	1.7%	7.8%	-0.4%
Import	-0.3%	4.2%	1.4%	-9.8%	-5.9%	5.0%	-2.6%
Trade Balance (RM billion)	14.4	10.8	9.1	10.5	14.3	70.5	81.6
Export by Product							
Machinery, Appliances and Parts	-9.1%	0.7%	14.8%	-10.9%	6.0%	1.4%	-1.2%
Electrical & Electronic Products	-1.9%	3.9%	0.6%	-6.5%	4.5%	12.7%	2.0%
Palm Oil, Includes Crude and Processed	-10.2%	-14.8%	7.8%	2.2%	-9.9%	-10.0%	-8.4%
Liquefied Natural Gas	17.2%	26.3%	-5.2%	5.5%	31.3%	-10.2%	18.5%
Petroleum Products	16.2%	22.3%	-15.5%	8.4%	3.2%	11.5%	-4.9%
Crude Petroleum	-33.5%	-34.6%	-20.0%	31.7%	-45.7%	27.2%	-21.1%
Optical and Scientific Equipment	17.7%	17.8%	3.7%	-5.2%	-2.3%	13.1%	3.0%
Professional, Scientific & Controlling Instruments	21.5%	21.5%	3.6%	-4.2%	-0.6%	14.3%	5.0%
Rubber Gloves	-0.8%	3.8%	10.0%	-17.6%	-7.5%	7.2%	-2.0%
Heating and Cooling Equipment and Parts	-22.4%	3.6%	23.4%	1.1%	20.0%	-10.6%	-2.0%
Export by Country							
Singapore	-7.8%	9.1%	-2.7%	-1.2%	3.1%	-0.3%	0.2%
China	11.8%	-6.8%	-1.6%	-10.7%	3.8%	11.7%	0.3%
European Union	-4.8%	-8.6%	-6.2%	0.7%	-2.8%	7.7%	-2.2%
United States	-3.6%	3.1%	11.7%	8.4%	7.9%	1.7%	4.0%
Japan	-13.2%	6.1%	6.3%	-13.6%	-6.3%	-7.7%	-4.8%
Thailand	15.3%	0.8%	7.3%	-4.4%	-2.4%	13.2%	4.4%
Hong Kong	-11.6%	-0.1%	3.2%	-25.2%	2.5%	76.1%	-7.4%
Australia	4.1%	4.2%	-13.0%	-11.2%	-14.8%	-6.1%	-6.5%
Germany	-13.4%	0.8%	-27.2%	-17.1%	4.0%	13.0%	-8.4%
Vietnam	16.6%	16.7%	5.8%	-17.1%	6.4%	28.2%	0.1%
Philppines	0.7%	-0.8%	39.9%	50.8%	17.0%	-0.4%	13.7%
Import by End-Use							
Capital Goods	-11.9%	5.7%	-6.2%	-24.4%	-13.9%	-1.0%	-9.8%
Intermediate Goods	3.2%	20.3%	6.5%	-3.0%	-3.4%	-6.5%	2.8%
Consumption Goods	10.5%	18.9%	10.9%	-5.3%	-5.0%	1.4%	3.1%

Source: CEIC

Our view

Exports performance in August has been fairly decent and this has been supported by the strong performance in E&E amidst softer demand conditions in the global market. Be that as it may, Malaysia IHS Markit Purchasing Manager's Index (PMI) continued to fall from 47.6 points in July to 47.4 points in August. It has been 11 months of contraction since October last year, indicating slower performance and weaker business sentiment in the manufacturing sector. According to the IHS Markit survey, challenging demand conditions persisted in August following ongoing global trade tensions, which have led to a weakening global economic expansion. With the additional tariffs imposed by the US and China following their unresolved trade disputes, this could potentially add more risks to the global economy and disrupt movement of goods and services along the supply chain.

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



Sources: Bloomberg

Such narratives was also in tandem with the recent profit guidance by the major semiconductor players in Malaysia. For instance, Inari Amertron Berhad profit after tax (PAT) fell by 42.7% to RM38.3 million in the current quarter ended 30 June 2019 compared to RM66.9 million recorded in the corresponding quarter ended 30 June 2018.[1] This was contributed by the slower revenue gains recorded following lower turnover during quarter under review. Similarly, Unisem (M) Berhad recorded a consolidated revenue of RM311.9 million and net profit of RM 14.2 million in 2Q2019, a decline of 9.1% and 54.2% respectively against the corresponding quarter in 2Q2018.[2] Again, the decrease in revenue and net profit were mainly attributable to lower sales volume. As such, the management expects that the uncertainties originating from the global trade war will continue in the second half of 2019.

Taking into account the softer demand globally, **we revised our exports growth for 2019 to between 0.5% - 1.0% from the previous projection of 2.3% (2018: 7.3%).**

[1] file:///F:/Current%20Account%20Balance%20300119/2019%20Reports/July/Inari%20Financial%20Result%20Q4%20201_9.pdf
[2] https://www.unisemgroup.com/wp-content/uploads/2019/08/NewsRelease-Q2-2019-US.pdf

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