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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 fell 5.3% in February. Surprised on the downside

Facts

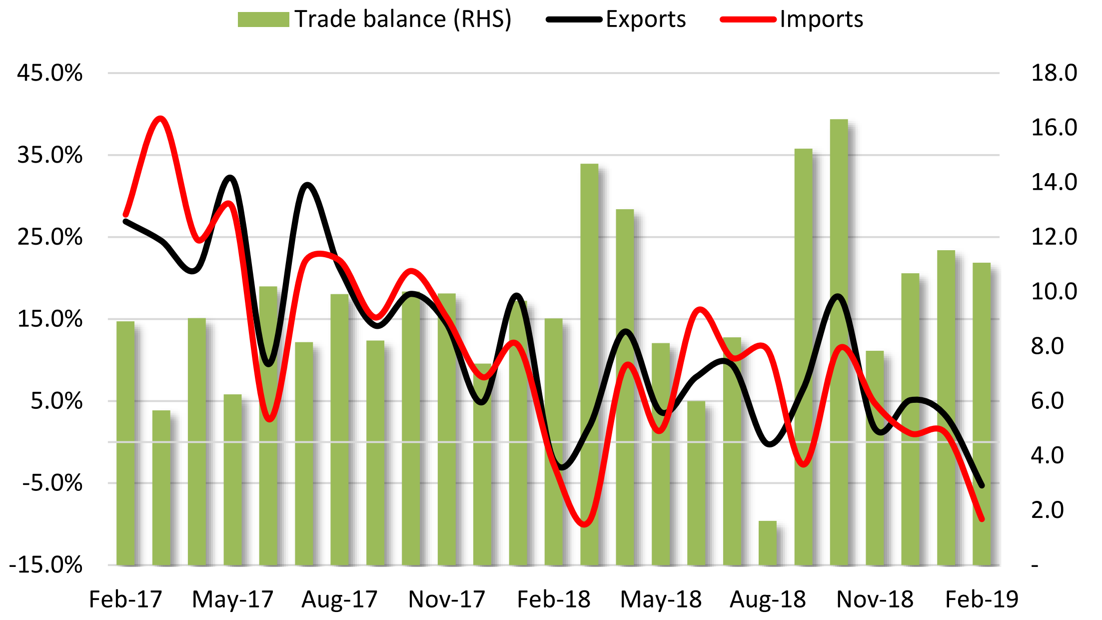
- Total exports fell sharply by 5.3% year-on-year (y-o-y) in February 2019 from 3.1% growth in the preceding month (Consensus: 2.3%, Bank Islam: 3.0%). This was predominantly driven by the fall in the palm oil related products (crude & processed) which declined by -13.4% in February, representing 10 consecutive months of contraction since May 2018. According to Malaysian Palm Oil Board (MPOB), Crude Palm Oil (CPO) exports volume have recorded slower growth of 6.2% in February to 1.32 million MT from 14.1% growth in the preceding month. As such, the decline in palm oil related exports was amplified by lower CPO spot prices with average selling prices stood at RM2,082 per MT in February versus RM2,490 per MT in the same period last year.
- Apart from CPO, Petroleum Products (Feb: -30.9% vs. Jan: -29.9%) and Crude Petroleum (Feb: -21.8% vs. Jan: 1.1%) were recording negative growth, suggesting that commodities exports have the main factors for dismal export performance during February.
- Meanwhile, the Electrical and Electronic Products (E&E) which accounted the largest shares (38.8%) in the total export posted 4.9% growth in February (Jan: 8.2%), mitigating the overall fall in exports. Within the E&E industry, Electronic Integrated Circuits exports have been decent, growing at 11.0% in February from 8.7% previously. Similarly, Telecommunication Equipment, Parts & Accessories have also been growing at a respectable rate of 16.4%, the third consecutive months of double digit growth.
- Within the trading partners, exports to China, Singapore, US, Hong Kong and Vietnam registered negative growth of 1.6% (Jan: 9.1%), 2.9% (Jan: 5.3%), 8.9% (Jan: 9.4%), 13.8% (Jan: -7.3%) and 20.5% (Jan: -8.6%) respectively. Meanwhile, export growth to the European Union and Philippines softened by 3.7% (Jan: 4.3%) and 3.4% (Jan: -7.4%) in February respectively.
- On the same note, total import growth shrank 9.4% in February attributed by negative growth in all goods. The import of capital, intermediate and consumption goods were all contracted by 14.9% (Jan: -3.2%), 2.8% (Jan: -0.8%) and 11.6 % (Jan: 3.3%) respectively. Consequently, the trade surplus narrowed marginally from RM11.5 billion in January to RM11.1 billion in February.
- Cumulatively, total exports for 2M2019 recorded negative growth of 0.8%, which was in stark contrast to 7.8% growth in 2M2018. Similarly, total imports contracted to 3.8% in 2M2019 from 4.7% expansion in the same period last year. Given that, the trade surplus balance widened from RM18.7 billion in 2M2018 to RM22.6 billion 2M2019.

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

Y-o-Y%	Nov-18	Dec-18	Jan-19	Feb-19	2M2018	2M2019
Export	1.6%	5.1%	3.1%	-5.3%	7.6%	-0.8%
Import	4.7%	1.0%	1.0%	-9.4%	4.7%	-3.8%
Trade balance (RM bn)	7.8	10.7	11.5	11.1	18.7	22.6
Export by product						
Machinery, Appliances and Parts	-0.4%	7.4%	-1.6%	-6.6%	1.3%	-4.0%
Electrical & Electronic Products	-1.7%	14.2%	8.2%	4.9%	13.6%	6.8%
Palm Oil, Includes Crude and Processed	-18.6%	-24.4%	-17.3%	-13.4%	-6.8%	-15.5%
Liquefied Natural Gas	26.4%	-2.7%	37.5%	8.6%	-1.9%	24.9%
Petroleum Products	49.0%	-1.4%	-29.9%	-30.9%	14.9%	-30.4%
Crude Petroleum	17.7%	21.5%	-1.1%	-21.8%	1.5%	-11.3%
Optical and Scientific Equipment	10.4%	14.6%	6.9%	-17.4%	14.8%	-4.8%
Professional, Scientific & Controlling Instruments	14.1%	18.2%	12.0%	-19.1%	16.7%	-3.3%
Rubber Gloves	10.9%	20.6%	-3.3%	3.0%	7.4%	-0.2%
Heating and Cooling Equipment and Parts	-13.5%	-12.4%	-22.0%	1.0%	-10.4%	-11.3%
Export by country						
Singapore	7.1%	12.4%	5.3%	-2.9%	1.3%	1.7%
China	3.9%	-0.3%	9.1%	-1.6%	3.2%	4.2%
EU	-7.7%	-4.9%	4.3%	3.7%	5.2%	4.0%
US	-2.7%	13.5%	9.4%	-8.9%	6.0%	0.5%
Japan	-8.9%	-6.4%	-5.0%	-2.9%	-7.8%	-4.1%
Thailand	3.7%	9.6%	17.1%	-4.1%	6.7%	7.3%
Hong Kong	17.5%	25.8%	-7.3%	-13.8%	10.0%	-0.2%
Australia	-14.1%	27.2%	-10.3%	-0.4%	43.5%	-14.1%
Germany	-6.3%	-10.6%	-1.2%	1.1%	1.8%	-2.8%
Vietnam	39.0%	5.1%	-8.6%	-20.5%	96.5%	-9.9%
Philippines	-0.9%	13.0%	-7.6%	3.4%	-5.4%	-5.6%
Import by end-use						
Capital	-2.1%	-21.8%	-3.2%	-14.9%	1.0%	-8.6%
Intermediate	-0.4%	2.8%	-0.8%	-2.8%	-8.2%	-1.7%
Consumption	1.2%	5.7%	3.3%	-11.6%	11.1%	-3.4%

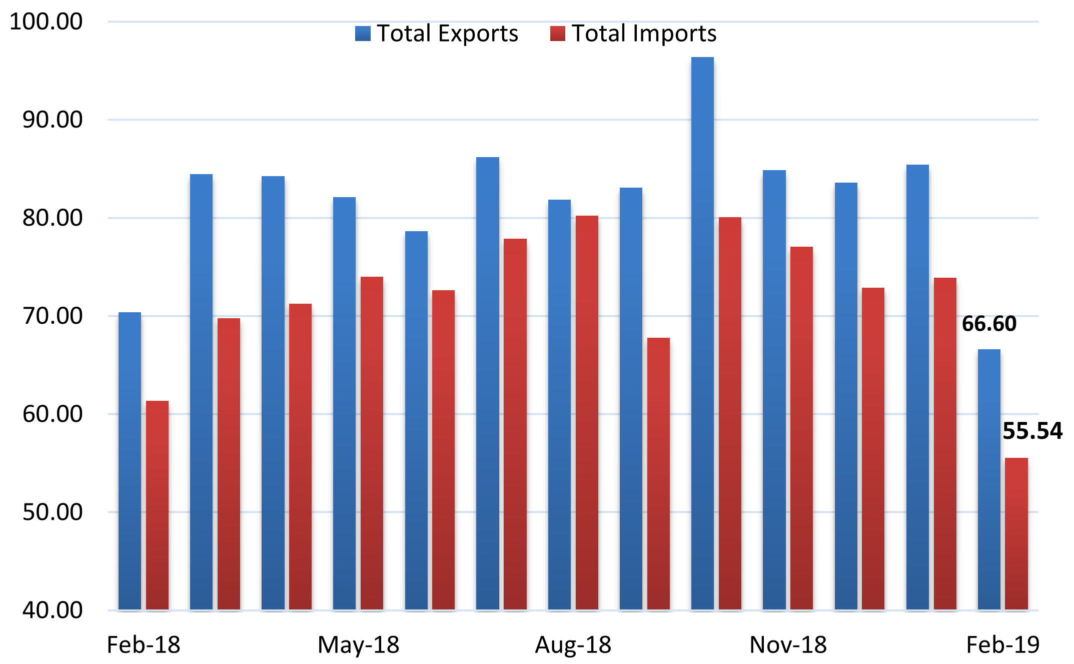
Source: CEIC

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



Source: CEIC

Chart 2: Exports and Imports (RM Billion)



Source: CEIC

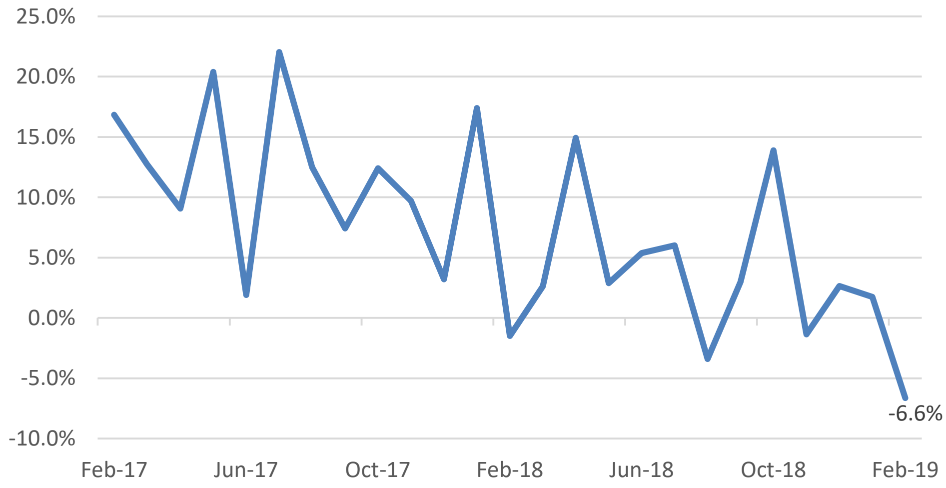
Our view

The fall in the February's exports was a negative surprise to us. While festivities such as the Chinese New Year celebration on the 5th and 6th February may have an impact as factories would be closed for operation, the sharp decline in the Export Volume Index (EVI) by 6.6% y-o-y in February (Jan: 1.7%) suggests external demand is really not forthcoming. Such trend is also in tandem with the JP Morgan Global Purchasing Managers Index (PMI) which has been sustained at 50.6 points during February (Jan: 50.6), pretty much at the border line between contractionary and expansionary zone (see Chart 3). Therefore, the decline has reinvigorated our conviction that 2019 growth will be very challenging as foreign demand has been weak thus far. **As such, we maintained our 2019 export growth at 4.0% (2018: 6.8%).**

The decline in the total import growth was also quite disturbing as it also implied that domestic economy is also not really growing fast enough. In particular, negative growth in the capital goods imports by 14.9% indicates that businesses are not expanding their productive capacity. Again, the recent fall in Malaysia's manufacturing PMI to 47.2 points in March suggests manufacturers were very cautious in their business outlook. Apart from lower inflation rate expected this year, the status quo for the US Federal Fund Rate (FFR) which currently stands at 2.50% has provided the additional policy lever. The OPR is effectively has 75 basis points (bps) buffer against the FFR of which the BNM could play around should it decides to provide monetary stimulus to the economy.

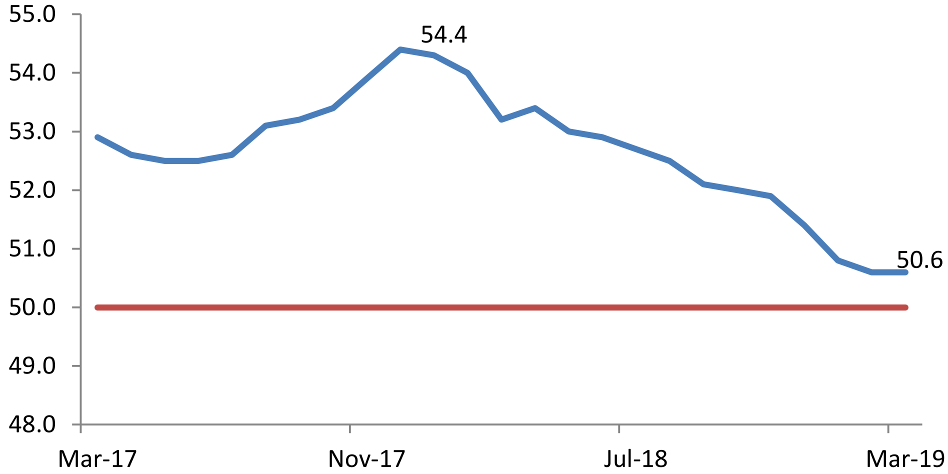
Such dynamics **has bolstered our case for the reduction in the Overnight Policy Rate (OPR) by 25 bps** in the upcoming Monetary Policy Committee (MPC) meeting on 7 May 2019.

Chart 3: Export Volume Index (EVI) y-o-y%



Source: CEIC

Chart 4: JP Morgan Global Purchasing Managers Index (PMI) for manufacturing



Sources: IHS Markit & Bloomberg