

30 August 2021



ECONOMICS

In this report:

Malaysia – Need to intensify fight against Delta variant

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Malaysia

Need to intensify fight against Delta variant

Slower exports growth in July by 5.0% y/y was due to softer manufacturing shipments which were affected by the contraction of the E&E segment from MCO 3.0.

To boost our economy and trade, we will need more extensive efforts to fight Covid-19's Delta variant. It is likely to further slow the rebound, as firms and employees are still being held back from returning to office.

The Delta variant and the regional supply chain disruption will consequently extend the slide in growth. We expect 2021's full year exports to grow 15% supported partly by a low base, benefits from pre-MCO 3.0 and firm commodity prices.

A. Highlights

- July's trade data showed exports growing by 5.0% y/y to RM97.32 billion, the 11th consecutive month of expansion since September 2020. Imports rose by 24.0% y/y to RM83.64 billion. This brings the average exports and imports for the first seven months to 28.1% y/y and 22.6% y/y respectively.
- Trade performance continued its growth momentum, up 13% y/y to RM180.96 billion, marking the sixth consecutive month of double-digit growth since February 2021.
- Manufacturing shipments grew 2.3% y/y in July from 25.8% y/y in June, marking the weakest in 11 months due to poor E&E, which fell by 12.2% y/y from 14.2% y/y in June, its first contraction since May 2020.
- But manufacturing exports were backed by higher shipments of petroleum products, palm oil and palm oil-based agriculture products as well as chemicals and chemical products driven by robust external demand.
- Meanwhile, the strong imports performance was driven by intermediate and capital goods, up 42.7% y/y and 25.6% y/y in July compared to 25.3% y/y and 14.9% y/y in June, respectively. Consumption goods rose at a slower pace by 1.3% y/y in July from 19.3% y/y dragged by the decline in durable consumer goods, which dropped 22.2% y/y (June: +21.8% y/y).

B. Key Takeaways

- Foreign demand has propelled export economies such as China, South Korea and Malaysia. But that engine is showing signs of slowing. In China, both private and official manufacturing Purchasing Managers' Indexes fell to their lowest levels in over a year in July, suggesting that domestic and overseas demand were cooling off.
- To improve our economy and trade, we will need to intensify efforts to fight the Delta variant. It is disrupting the momentum rather than causing pronounced economic weakness, and there is a good chance that it will be short-lived.
- Given the region's tightly integrated supply chains, factory shutdowns in one country can cause problems elsewhere. Even if the immediate threat of the virus subsides in a few, short months, its economic impact may linger for quite some time and Malaysia will feel the pinch.



- And if the Delta variant continues to spread fast in Asia while vaccination rollouts fall behind, it can lead to a string of longer term economic impacts. Hence, our exports are expected to face headwinds, including supply-chain uncertainties, in the coming months.
- The Delta variant is likely to further slow the rebound, as firms and employees are held back from returning to office. It will consequently will extend the slide in growth.
- With the region including Malaysia serving as a base for global manufacturing, lockdowns have already hampered output. This is clearly reflected in our E&E segment. The surge of Covid-19 cases resulted to MCO 3.0 and it has impacted the semiconductor supply chain. Disruptions could prolong the supply chain uncertainty well into 2022 due to workers' shortage arising from this pandemic and strong global demand. This would dash any hopes of recovery in 2H21. Additionally, it will worsen the already-strained global supply chains amid surging shipping costs and shortages of some components.
- Despite the slower growth now, a recovery is still underway. We expect 2021's full year exports to grow 15% supported partly by a low base, benefits from pre-MCO 3.0 and firm commodity prices.

Table 1: Key External Trade Data YoY (%)

	Jul'20	Aug	Sep	Oct	Nov	Dec	Jan'21	Feb	Mar	Apr	May	Jun	Jul
X y/y (RM)	3.2	-0.9	13.6	0.4	4.7	10.9	6.3	17.4	30.9	62.7	47.0	27.2	5.0
M y/y (RM)	-8.6	-6.4	-3.6	-5.9	-8.9	1.7	1.1	12.1	17.5	22.9	48.4	32.1	24.0
X y/y (USD)	-0.1	-0.9	14.5	1.3	5.7	13.4	7.5	20.8	36.8	71.7	54.4	31.5	6.5
M y/y (USD)	-11.6	-6.3	-2.8	-5.1	-8.0	4.0	2.1	15.4	22.9	29.7	55.9	36.6	25.8
X-M RMBbn	25.3	14.8	21.9	22.3	17.1	20.7	16.6	17.9	24.2	20.4	13.8	22.3	13.7
X-M US\$bn	5.9	3.5	5.3	5.4	4.2	5.1	4.1	4.4	5.9	4.9	3.3	5.4	3.3

Source: CEIC/AmBank Research

Table 2: Imports by End Use YoY (%)

	Jul'20	Aug	Sep	Oct	Nov	Dec	Jan'21	Feb	Mar	Apr	May	Jun	Jul
Imports	-8.6	-6.4	-3.6	-5.9	-8.9	1.7	1.1	12.1	17.5	22.9	48.4	32.1	24.0
Capital Import	-19.6	-15.6	-2.2	-14.9	-26.6	-2.1	-5.4	38.3	93.3	-37.7	33.9	14.9	25.6
Intermediate Import	-16.0	-5.6	-17.7	-6.0	-10.6	-5.0	1.4	-0.1	12.4	64.6	52.4	25.3	42.7
Consumption Import	0.1	2.9	11.2	3.1	-7.2	3.3	1.3	17.6	13.0	29.7	37.6	19.3	1.3
Re-exports	12.9	8.5	38.6	-4.9	18.0	22.9	7.5	64.9	3.7	10.9	56.1	61.2	2.0

Source: DOS/CEIC/AmBank Research

Table 3: Major Exports Markets YoY (%)

	Jul'20	Aug	Sep	Oct	Nov	Dec	Jan'21	Feb	Mar	Apr	May	Jun	Jul
China	14.2	24.3	41.9	5.1	13.2	13.6	25.8	35.5	46.5	27.7	17.3	18.5	-8.1
Singapore	4.1	0.8	13.6	2.2	16.0	19.2	5.0	13.3	32.8	55.1	46.2	15.1	9.0
US	28.7	16.1	22.1	25.6	24.6	18.2	18.4	25.9	67.2	128.8	46.3	32.1	-1.1
Hong Kong	1.5	0.3	31.9	-15.0	27.4	30.1	8.9	33.3	39.1	0.8	20.6	6.5	-11.0
Japan	-1.8	-10.5	-10.5	-5.1	4.3	14.9	-1.8	-2.4	12.3	57.4	51.6	17.9	11.4
Thailand	-9.2	-22.7	-0.6	-9.0	-13.8	-0.6	-5.3	1.8	29.4	41.0	29.5	25.6	-1.5
Vietnam	-4.9	-6.2	6.1	-3.8	-12.3	-8.3	52.7	33.3	101.1	86.2	52.9	37.4	12.7
Taiwan	-4.7	-9.3	-1.6	-30.0	5.2	-12.6	1.1	10.4	18.6	41.2	28.3	14.8	-10.0
India	-7.7	-19.7	-4.5	17.6	1.1	59.9	-19.6	25.0	70.7	289.1	403.2	88.7	7.4
ROK	11.5	3.6	-1.4	-13.0	-18.1	-1.5	-24.5	-7.6	0.0	17.0	33.1	8.4	-5.1

Source: CEIC/DOS/AmBank Research



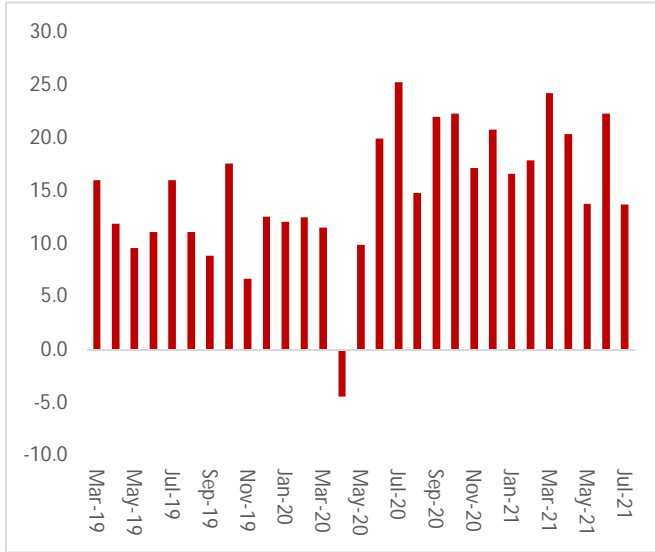
Table 4: Exports by Sector and Sub-Sector

Sector and Sub-Sector	Value RM mil (Fob)			Share (%)	Val RMmil (FOB)	% y/y	Value RM mil (Fob)		
	Jul-20	Jun-21	Jul-21				J-Jul 20	J-Jul 21	Share (%)
MANUFACTURING	81,022	91,303	82,847	85.1	1,824.8	2.3	465,074	592,181	86.7
Electrical & Electronic Products (E&E)	39,546	37,159	34,742	41.9	(4,803.7)	(12.1)	205,935	248,455	42.0
Petroleum Products	6,004	9,592	10,366	12.5	4,362.0	72.7	39,152	52,770	8.9
Chemical And Chemical Products	3,846	6,623	5,394	6.5	1,548.3	40.3	29,108	38,894	6.6
Rubber Products	4,010	7,260	4,545	5.5	534.4	13.3	19,620	46,004	7.8
Manufacture Of Metal	3,381	4,942	4,042	4.9	661.1	19.6	20,254	31,210	5.3
Optical & Scientific Equipment	4,168	4,075	3,763	4.5	(405.2)	(9.7)	22,349	26,172	4.4
Machinery, Equipment And Parts	3,807	4,131	3,472	4.2	(334.8)	(8.8)	22,285	27,115	4.6
Palm Oil-Based Manufactured Products	1,671	3,121	2,989	3.6	1,317.9	78.9	12,216	17,202	2.9
Iron And Steel Products	2,031	1,970	2,027	2.4	(4.0)	(0.2)	13,633	14,906	2.5
Processed Food	1,925	1,940	1,959	2.4	34.2	1.8	11,975	13,468	2.3
Manufacture Of Plastics	1,116	1,425	1,207	1.5	90.4	8.1	7,557	9,076	1.5
Transport Equipment	1,509	943	1,189	1.4	(319.6)	(21.2)	11,699	9,041	1.5
Textiles, Apparels And Footwear	1,238	1,201	1,155	1.4	(83.1)	(6.7)	7,513	8,849	1.5
Wood Products	1,563	987	854	1.0	(709.4)	(45.4)	8,427	9,375	1.6
Non-Metallic Mineral Products	649	794	785	0.9	135.3	20.8	4,433	6,007	1.0
Paper & Pulp Products	528	729	702	0.8	174.1	33.0	3,722	4,725	0.8
Jewellery	243	308	269	0.3	25.3	10.4	1,956	3,172	0.5
Beverages & Tobacco	217	148	135	0.2	(81.5)	(37.6)	1,430	1,371	0.2
Other Manufactures	3,569	3,955	3,252	3.9	(316.9)	(8.9)	21,810	24,369	4.1
AGRICULTURE	6,556	8,806	8,473	8.7	1,917.2	29.2	38,293	50,789	7.4
Palm Oil and Palm-Based Products	4,744	7,069	6,697	79.0	1,952.9	41.2	27,316	38,230	75.3
Natural Rubber	248	343	352	4.1	103.9	42.0	1,762	2,471	4.9
Other Vegetables Oil	344	330	290	3.4	(54.2)	(15.7)	1,641	2,102	4.1
Sawn Timber & Moulding	307	154	195	2.3	(112.1)	(36.5)	1,733	1,736	3.4
Seafood, fresh, chilled or frozen	209	187	189	2.2	(19.4)	(9.3)	1,316	1,376	2.7
Sawlog	54	73	59	0.7	5.2	9.6	293	324	0.6
Other Agriculture	650	650	690	8.1	40.9	6.3	4,233	4,550	9.0
MINING	4,773	4,963	5,649	5.8	875.8	18.3	36,550	37,299	5.5
Liquefied Natural Gas (LNG)	1,889	2,386	3,208	56.8	1,319.4	69.9	20,229	19,125	51.3
Crude Petroleum	1,974	1,911	1,839	32.6	(134.8)	(6.8)	11,081	11,764	31.5
Metalliferous Ores and Metal Scrap	707	189	302	5.3	(405.0)	(57.3)	3,240	3,397	9.1
Tin	89	179	116	2.0	26.6	29.8	787	1,345	3.6
Crude Fertilizers And Crude Minerals	114	117	103	1.8	(11.6)	(10.2)	687	861	2.3
Condensates and other petroleum oil	0	173	82	1.4	81.7	nm	515	790	2.1
Other Mining	1	8	0	0.0	(0.4)	(62.9)	10	16	0.0
Others	331	414	352	0.4	20.8	6.3	2,504	2,632	0.4
Total Exports	92,682	105,487	97,321	100.0	4,638.6	5.0	542,421	682,901	100.0

Source: DOS/AmBank Research

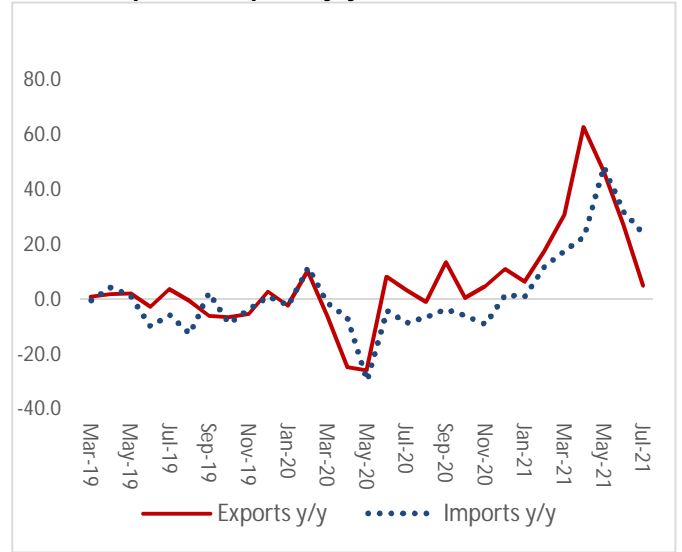


Chart 1: Trade Balance (RM bil)



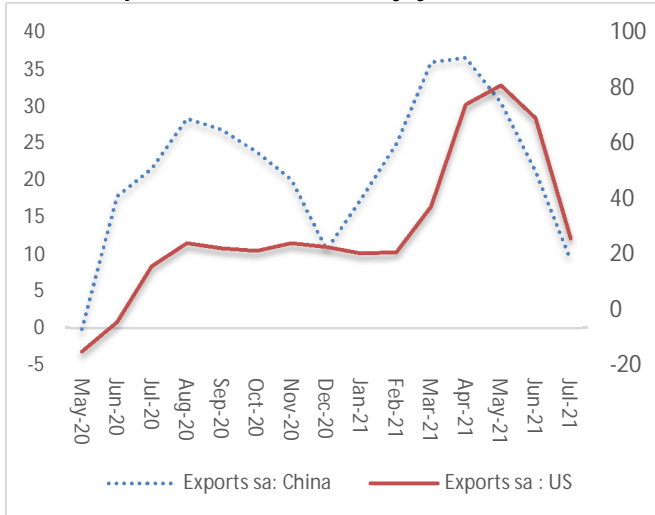
Source: CEIC/AmBank Research

Chart 2: Exports & Imports (y/y %)



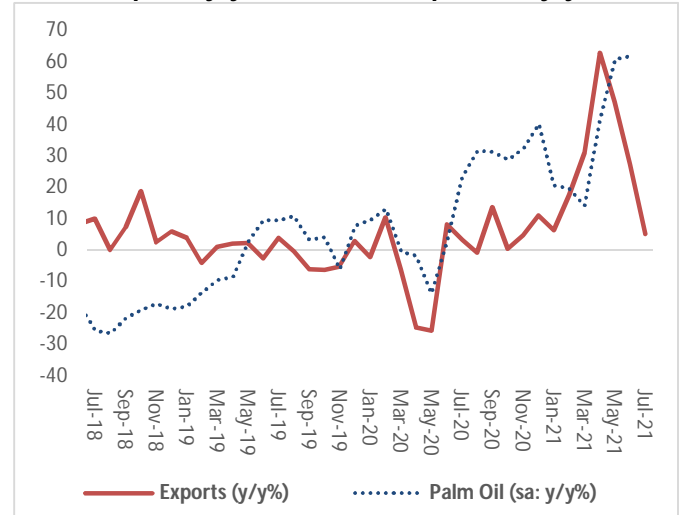
Source: CEIC/AmBank Research

Chart 3: Exports to US & China (sa: y/y %)



Source: CEIC/AmBank Research

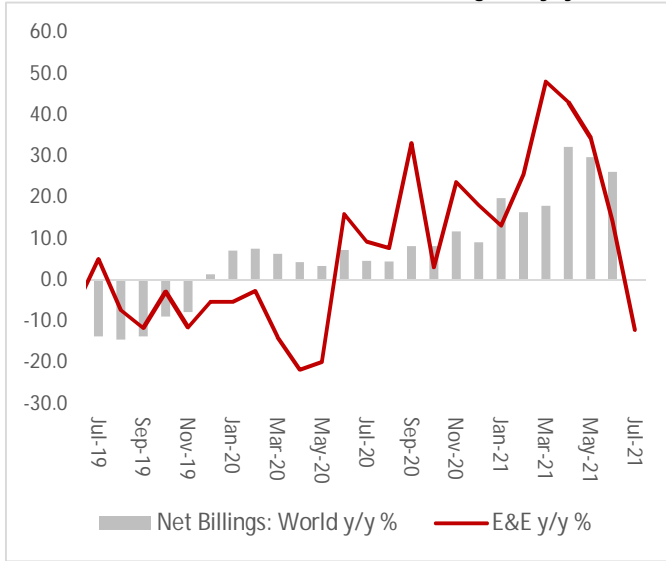
Chart 4: Exports (y/y %) & Palm Oil Exports (sa: y/y %)



Source: CEIC/AmBank Research

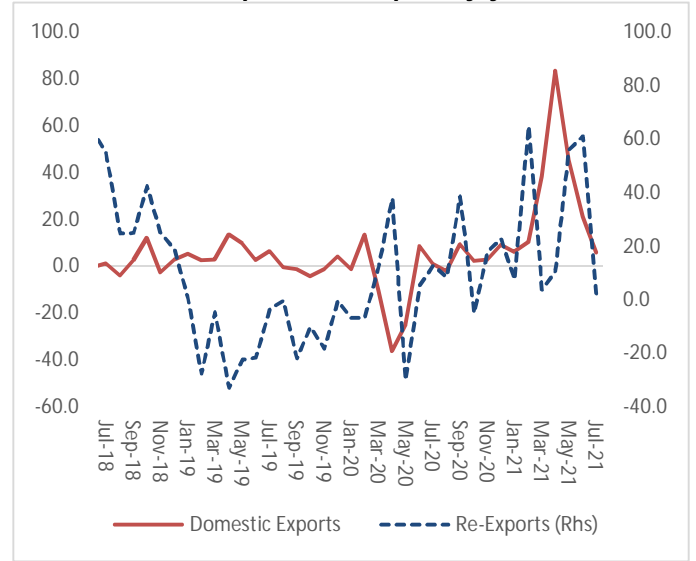


Chart 5: E&E and Semiconductor Net Billings (sa y/y %)



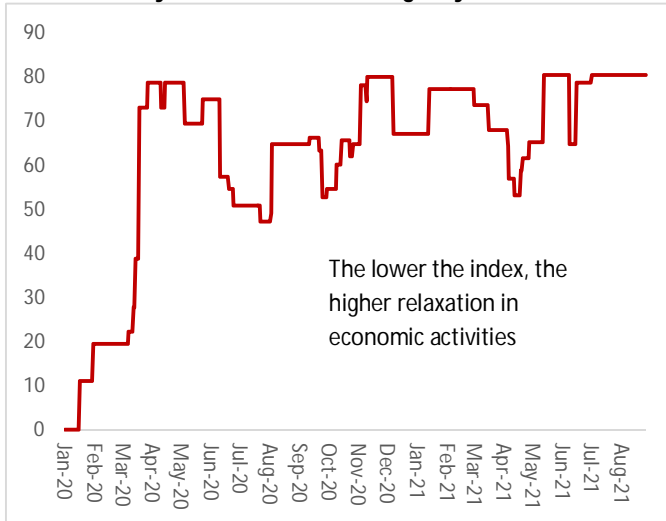
Source: CEIC/AmBank Research

Chart 6: Domestic Exports & Re-exports (y/y%)



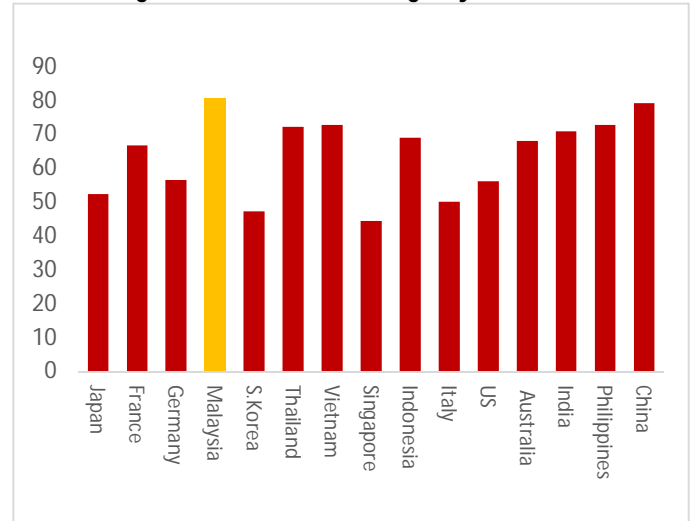
Source: CEIC/AmBank Research

Chart 7: Malaysia Government Stringency Index



Source: CEIC/AmBank Research

Chart 8: Regional Government Stringency Index



Source: CEIC/AmBank Research; Data as at 26 Aug 21



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