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Bumpy road ahead as exports disappoint

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Performance below the 7.4% forecast by economists

ECONOMY

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> An analyst

PETALING JAYA: The mixed trade data for Jan 2023 has signalled a bumpy road ahead for exporters and the Malaysian economy in general.

Exports performance disappointed the market, after it grew by only 1.6% year-on-year (y-o-y) in Jan 2023, well below the 7.4% forecast by a Reuters poll of 10 economists.

The exports growth was also the slowest since Nov 2020.

Amid global recession fears, the country's trade, exports and imports have also shrunk in Jan 2023 on a month-on-month (m-o-m) basis, even though all three categories registered the highest monthly value for the month of January.

While the International Trade and Industry Ministry (Miti) blamed January's shorter working days and long festive holidays for the contraction, it is noteworthy that Malaysia's exports have shown signs of weakness in recent times.

As the technical low-base effect wears off and major economies are facing a slowdown in demand, economists said Malaysia's trade performance is on the path of normalisation.

"It is not possible to repeat 2022's robust trade performance this year. Our imports in January also grew well below the market prediction and this is the second consecutive month whereby our imports have contracted month-on-month.

"Since a significant portion of our imports comes from intermediate goods, it signals that perhaps, our manufacturers are affected by a slowdown in demand," according to an analyst.

In Jan 2023, Malaysian exports rose by 1.6% y-o-y to RM112.84bil, according to Miti yesterday.

This was achieved on the back of strong exports of petroleum products, liquefied natural gas (LNG) as well as electrical and electronics (E&E) products.

Miti also reported a 2.3% increase in imports to RM94.67bil, which narrowed Malaysia's trade surplus by 2.1% y-o-y to RM18.16bil.

However, on a month-on-month basis, the country's trade, exports, imports and trade surplus in Jan 2023 contracted by 11.8%, 14.4%, 8.6% and 35.5% respectively as compared to Dec 2022.

Malaysia's manufacturing exports, representing 84.2% of total exports, saw a marginal 0.1% decrease y-o-y to RM94.97bil due to lower shipments of manufactures of metal, rubber products as well as iron and steel products.

However, there was an expansion in the exports of petroleum products and electrical and electronic products, as well as mining and agriculture goods.

Trade with Asean contributed 26.6% to Malaysia's total trade, rising by 5.6% y-o-y to RM55.26bil. Exports grew by 10.7% to RM34.1bil, the 18th consecutive month of double-digit growth.

This was underpinned by higher exports of petroleum products and E&E products.

Within Asean, Singapore is the biggest contributor to exports. Exports to the city-state increased by 19% y-o-y to RM17.92bil.

It is noteworthy, however, exports to Singapore, China and the United States - Malaysia's top three export markets - saw double-digit contraction month-on-month.

Exports to Singapore dropped by 13.9% m-o-m, while exports to China and the United States declined by 16.6% m-o-m and 22% m-o-m.

Collectively, the three countries contribute almost 40% of Malaysia's exports.

MIDF Research, in a note yesterday, highlighted that exports to most major markets weakened year-on-year in Jan 2023, either expanded at slower pace or even declined.

"In particular, shipments to China fell further by 11.9% y-o-y as China bought less palm oil and palm oil-based products, manufactures of metal, petroleum products, and iron and steel products.

"Despite China's economic reopening, we opine the weak trade to certain extent was due to the effect of the Chinese New Year holiday which fell in Jan 2023, compared to Feb last year.

"Meanwhile, exports to the United States also declined by 0.6% y-o-y, the first annual contraction after 17 consecutive months of expansion.

"The reduced shipments to the United States was dragged down by lower exports of manufactured goods, particularly wood products, iron and steel products, rubber products and machinery, equipment and parts," it said.

Looking ahead, MIDF Research kept a cautious view that Malaysia's trade outlook this year may be weaker than expected, constrained by possible downside risks such as protracted fall in global demand, elevated inflation, and escalation of geo-political tensions and trade war.

Despite weaker-than-expected trade figures in Jan 2023, the research house maintained its projection for both exports and imports to expand slower this year at 9.2% y-o-y and 9.5% y-o-y, respectively.

It said that the moderation in growth will reflect the effect of high base last year, but the positive growth indicates continued rise in external demand for E&E and commodities, particularly petroleum and palm oil.

"As price effect has been affecting palm oil exports, we foresee the relatively lower oil prices will also affect mining goods exports at least until the first half of 2023.

"Meanwhile, we believe Malaysia, like other trading nations, will benefit from the recovery in external demand from China, which is expected to increase as China reopens its economy after strict lockdowns last year.

"In addition, trade with free-trade-agreement countries will also grow boosted by the ratification of the Regional Comprehensive Economic Partnership and the Comprehensive and Progressive Agreement for Trans-Pacific Partnership," it added.

Economist Aimi Zulhazmi Abdul Rashid told *StarBiz* that exporters would have to brace for a rough ride in the coming months.

The weaker-than-expected exports data in Jan 2023 is a sign of global slowdown, which in turn is caused by the interest rate hike by the US Federal Reserve.

The higher cost of funds have dampened the global growth and trade activities, according to Aimi Zulhazmi.

The associate professor at Universiti Kuala Lumpur's Business School said the rate hikes affected the capital markets globally, including the foreign exchange market.

"Higher interest rates means increased value of US dollar that translates into more expensive purchases or imports, hence slowing the global demand for trades and challenging commodities' prices," he said.