

## Economists stay cautious about Malaysia's external trade on China slowdown, Ukraine war

KUALA LUMPUR (April 18): Economists remain cautious with regard to Malaysia's external trade performance going forward, even as exports beat economists' estimates in March to record a 25.4% year-on-year (y-o-y) growth to RM131.6 billion from RM105 billion. Exports grew 16.8% y-o-y in February.

They have pointed to the need to closely watch China's extended lockdown and its zero-Covid-19 strategy, as well as geopolitical risks such as the ongoing Russia-Ukraine war.

On Monday (April 18), the **Department of Statistics Malaysia (DOSM)** announced that import growth also accelerated to 29.9% y-o-y in March to RM104.9 billion from RM80.8 billion (from +18.3% in February). This brought the trade surplus to RM26.7 billion from RM19.8 billion in February.

In a statement, DOSM chief statistician Datuk Seri Dr Mohd Uzir Mahidin said March trade surplus widened by 10.3% y-o-y to RM26.7 billion to mark the 23rd consecutive month of trade surplus since May 2020. Total trade value grew 27.3% y-o-y to RM236.6 billion.

"March import value surpassed the RM100 billion mark for the first time ever in line with the surge in intermediate goods (purchases), signifying a positive sign [for] domestic economic activity," he added.

UOB Global Economics and Markets Research economists Julia Goh and Loke Siew Ting said March export growth was higher than their estimate of 9% y-o-y and Bloomberg consensus of 10.4% y-o-y.

"Given the export strength to date, we have raised our full-year export growth forecast to 8%, from 2% previously, albeit mindful of prevailing risks from geopolitical risks, China's zero-Covid-19 policy, ongoing supply chain disruptions and tighter global financial conditions.

"The risk of second order impact on Malaysia from the Russia-Ukraine conflict has emerged following the expansion of sanctions on Russia and potential escalation of the Ukraine conflict," they added.

They see Malaysia being affected by higher cost pressures and via indirect trade channels especially if growth prospects of its key trading partners like the US, the European Union and China are impacted by the heightened geopolitical risks.

UOB's sensitivity analysis suggested that a 1% drop in global trade translates into a 1.2% decline in Malaysia's trade, a 0.9% drop in exports and a 1.1% decline in imports.

"From a statistical point of view, year-ago high base effects suggested that Malaysia's export growth momentum will soften over the course of the year. The sharp pickup in March reversed the downtrend since its last peak in November 2021.

"The upturn in March could be partly attributed to pickup following seasonal effects in January-February, higher export and import prices due to the commodity price surge, and potential trade diversification," said Goh and Loke.

MIDF Research said March exports were lifted by robust growth of electrical and electronics (E&E) and commodity-based products, in particular palm oil, palm oil-based products, petroleum products, liquefied natural gas and crude petroleum.

The research firm viewed that the external trade numbers continued to surprise on the upside in March 2022, driven by the jump in mining exports on top of stronger E&E exports.

"This shows that Malaysia, as a commodity-exporting country, stands to benefit from the higher commodity prices.

"However, we are still cautious about the outlook going forward given the extended lockdown and slowdown in China and ongoing Russia's military action in Ukraine," it said.

MIDF Research said the near-term outlook for production and trade can be constrained by prolonged disruption in the global supply chain and increased inflationary pressures.

"Nevertheless, we opine the continued expansion in global demand for E&E and commodities will support overall exports outlook. Moreover, the reopening of economies will facilitate growing trade activities this year.

"With concerns over the near-term outlook, we maintain our growth forecasts for exports and imports at 7.8% and 9.6%, respectively," it added.

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