The State of the Nation: Export growth set to normalise next year

THE October external trade data announced last week was a boost to business and public confidence as the stellar numbers indicate that Malaysia's economy is on the road to recovery, but economists caution that moving into 2022, growth will normalise as the high base effect kicks in. For the remaining two months of 2021, growth is expected to be decent.

Last Monday, the **Department of Statistics Malaysia** announced that exports reached a new high of RM114.4 billion in October 2021, expanding at an impressive 25.5% compared to the previous year.

October marked the second consecutive month of export growth, trending above 20% year on year (y-o-y) as in September, exports expanded 24.7% y-o-y to RM110.8 billion.

For the cumulative 10-month period, exports have breached RM1 trillion, totalling RM1.003 trillion.

Senior Minister and International Trade and Industry Minister Datuk Seri Mohamed Azmin Ali pointed out that at the 10-month mark, cumulative exports for 2021 have already exceeded overall exports in 2020. Moreover, they have surpassed the highest annual value ever recorded in 2018.

Total trade for October amounted to a new record of RM202.6 billion, while imports jumped 27.9% y-o-y to also reach a new high of RM88.2 billion. As exports outpaced imports, the trade surplus widened by 17.9% to RM26.2 billion in October, the largest monthly trade surplus in Malaysia's history, slightly outpacing September's surplus of RM26.1 billion.

The cumulative trade surplus for the 10 months increased by 39.2% to RM202.6 billion.

October data showed that there was a broad-based expansion in the exports of manufacturing (up 23.3% y-o-y), agriculture (28.9%) and mining (66%).

CGS-CIMB Research observed in a recent client note that Malaysia's diversified economic structure has placed the country in a sweet spot, as it benefits from the commodity price rally and buoyant demand for manufactured goods.

The expansion of manufacturing exports was contributed by petroleum products, followed by manufacture of metal, electrical and electronic (E&E) products, chemical and chemical products, palm oil-based manufactured products and machinery, equipment and parts.

With two months remaining for the year, export demand is expected to continue to grow at a decent rate, says Lee Heng Guie, executive director of the Associated Chinese Chambers of Commerce and Industry of Malaysia's Socio-Economic Research Centre.

There have been early indications that export growth will sustain going by November 2021's flash composite purchasing managers index (PMI) for major economies. Maybank Investment Bank Research pointed out that the PMI showed sustained economic expansion in the US and UK, as well as a pick-up in the European Union, Japan and Australia.

"Overall, flash composite PMIs for these major economies suggest sustained momentum in global manufacturing and services activities. Thus, the world economy and Malaysia's external demand in November 2021 [is expected to sustain] after the slide in global composite PMI from 58.5 in May 2021 to 52.5 in August 2021 ended with the pickups to 53.3 and 54.5 in September 2021 and October 2021," said the research house in a report.

Sunway University economics professor Yeah Kim Leng projects another more than 20% rise in export growth in November and a single-digit growth in December.

"Besides the base effect whereby gross exports fell by 0.8% and 1.1% for two consecutive years in 2019 and 2020, this year's sterling export growth can be attributed to the global economic recovery led by the advanced economies, China and several other Asian countries.

"Another indicator of sustained export momentum in the coming months is the strong increases in monthly imports which continue to mirror the export surge. Intermediate goods account for slightly over 70% of retained imports and their continuing rise indicates sustained production in the months ahead to meet both domestic and external demand," he comments.

While trade has surpassed expectations this year, the outlook for 2022 is still uncertain. One thing that should be expected is the moderation in export growth.

"What is likely to happen in 2022 with regard to export growth numbers is that it will moderate to a single-digit expansion, similar to what took place in 2017," says Yeah, adding that this expectation is barring any major shock such as a pandemic resurgence that may arise from the new Omicron variant.

Lee estimates exports to grow at 1.8% in 2022, while UOB Global Economics and Market Research pegs it at 2%. Yeah is far more optimistic, pencilling in a growth of 8%.

The Omicron variant that was first detected in South Africa has raised concerns around the world. UOB points out that the emergence of the new Covid-19 variant could worsen the existing global supply bottlenecks and pose a threat to global demand if it proves to be more contagious and severe than the Delta strain.

The World Health Organisation has declared that the Omicron variant poses a "very high" global risk while there are concerns over existing vaccines' ability to adequately protect against this new viral threat.

It was reported that Malaysia detected its first Omicron case on Dec 2.

Many are also concerned that advanced economies and China may experience slower growth ahead as ultra-loose monetary policies and fiscal stimulus programmes that have supported economies through the pandemic come to an end on rising inflation risks.

Notably, China's 3Q2021 economic growth came in below expectations and was weaker than in previous quarters.

Domestically, the issue of foreign labour shortages and rising raw material costs are hurdles for companies that are ramping up their production even as the economy is near to full reopening, says UOB. “If the government is able to ratify the Regional Comprehensive Partnership by end-December or early next year, it would help to catalyse Malaysia’s trade sector next year as the agreement will help Malaysian businesses access a larger market in 15 countries that contribute up to one third of global GDP.”

https://www.theedgemarkets.com/article/state-nation-export-growth-set-normalise-next-year