

## **Fitch unit says Malaysian wallets still thin due to Covid-19 curb effects, predicts longer retail recovery into 2022**

KUALA LUMPUR, Nov 22 — With the exception of certain sectors, retail sales in Malaysia have yet to recover to pre-pandemic levels this year, Fitch Solutions Country Risk & Industry Research said today.

The international research company, a subsidiary of the Fitch Group, said the government's Covid-19 movement restrictions made a significant impact on the capacity of retail operations and disposable household incomes and as such, sees retail recovery extending into the better part of next year.

“Data on consumer spending showed that while top line retail sales are still below pre-Covid-19 levels, some categories are outperforming. Additionally, there is evidence that Covid-19 has accelerated the formalisation of the retail market in Malaysia,” it said in a statement today.

Fitch Solutions said its data showed that purchasing dynamics have changed over the last 19 months, as the pandemic had economic and psychological impact on consumers.

“Over 2021, retail sales grew 4.3 per cent but this is overstated by the low base effect created in 2020, after retail sales contracted by 5.3 per cent. This high frequency data suggests that retail sales in Malaysia have still not recovered to pre-Covid-19 levels.

“Comparing retail sales in 2021 to that of 2019, sales remain 1.2 per cent... Malaysian authorities have continued to implement stringent restrictions over 2021, largely in sync with rising Covid-19 cases. Higher vaccination rates are needed for these two to be decoupled and allow for a broader recovery in retail sales from 2022 onwards,” it said.

Supermarkets, hypermarkets and department stores

Sales in the non-specialised retail category — which covers convenience stores, supermarkets, department stores and hyper markets — has been positive, albeit not as good as specialised food, drink and tobacco stores.

In January to September of 2020, retail sales through this avenue grew 1.8 per cent year to year, compared to 2021, at just 0.6 percent which was more stagnant, but still at a much higher level than that of 2019, the pre-Covid-19 environment.

Comparing 2021 sales to that of 2019, retail sales through this channel was 2.4 per cent higher than pre-Covid-19 levels.

However, comparing retail sales through the specialised (predominantly informal) and non-specialised (more formalised) channels highlights how Covid-19 has impacted consumer spending in the last two years.

“In 2019, non-specialised stores accounted for 38 per cent of total retail sales. Despite both these formats allowed to operate during Covid-19 restrictions, albeit within the essential categories, non-specialised stores increased their share to 41 per cent of retail sales for the same period over 2020.

"While coming down slightly, non-specialised stores accounted for 40 per cent in 2021, suggesting that consumer spending is shifting towards this avenue," Fitch Solutions said.

#### Food, drink and tobacco

The food, drink and tobacco category has been one the best performing sectors in the country.

Consumer spending at the beginning of the pandemic was largely into essential items, to make sure their needs were met during period of lockdowns and restrictions.

"With Malaysia experiencing increasingly worse waves of the virus over 2021, this emphasis continued into the year, with sales growing 4.1 per cent for the January to September period.

"This category's performance is emphasised when comparing 2021 sales to that of 2019, the pre-Covid-19 environment. Over this period, retail sales of food, drink and tobacco through specialised stores grew 9.5 per cent," the research firm said.

#### Household goods and consumer electronics

The consumer electronics category has been another outperforming sector, covering sales of computers, video game consoles, telecommunication equipment, audio and video equipment.

In the first three quarters of 2020, sales of these items decreased by 7.5 per cent but as consumers adjusted to spending more time at home, it grew 9.5 per cent in 2020, and consequently, sales over 2021 were 1.3 per cent higher compared to 2019, the pre Covid-19 environment.

But sales of household goods has performed poorly over this period, contracting by 11.6 per cent in 2020, as physical stores selling these items were forced to close under the strictest restriction levels.

"While sales did somewhat rebound over 2021, growing 9.5 per cent, this was mainly a result of a low base from 2020. Comparing 2021 to pre Covid-19 levels, sales of these items over 2021 were still down 3.7 per cent from sales in 2019. Despite still having some attractive fundamentals, we believe this trend has been significantly impacted by the economic realities of Covid-19 on household disposable income levels," Fitch Solutions said.

#### Cultural and recreation goods

Cultural and recreational goods were the worst performing sector over this period, down 14.3 per cent in sales over 2020. Despite posting growth of 8.9 per cent over 2021, retail sales are still 6.7 per cent lower than that of pre-Covid-19 levels in 2019.

Under this segment, the **Malaysian Department of Statistics** adds the sale of both big-ticket (fishing equipment, camping goods, boats, bicycles and related), as well as smaller items (office supplies, books, newspapers, stationary, musical records).

As with the sale of household goods, many of these operations were not permitted to open during the strictest of restrictions. Additionally, the impact that Covid-19 had on disposable incomes in the country has meant that consumers cut back significantly on big-ticket items.

“While we still hold the view that there was an increase in sales of smaller cultural and recreational items, it was not enough to offset the drop in sales on big-ticket items.”

<https://www.malaymail.com/news/money/2021/11/22/fitch-unit-says-malaysian-wallets-still-thin-due-to-covid-19-curb-effects-p/2022755>