

Malaysia's export sector in peril amid downgrades and hurdles

The sector is expected to continue its descent before potentially bottoming out towards the year's end

by RUPINDER SINGH

MALAYSIA'S export sector is navigating treacherous waters in 2023, as economists revise their full-year export forecasts in response to a steeper-than-expected contraction in August.

The country's exports took a significant hit, plummeting by 18.6% in August — an alarming decline not witnessed since May 2020.

This marked the sixth consecutive month of contraction, marking the longest declining streak since late 2008.

Simultaneously, imports faced their sharpest decline since May 2020, falling by 21.2%.

However, this dismal performance surprisingly resulted in a trade surplus of RM17.3 billion for the month.

Export Forecasts Slashed

Given that Malaysia's exports have underperformed over the past three months amid ongoing headwinds, UOB Global Economics and Market Research has downgraded its full-year export outlook to -9% for 2023 from -7% previously.

The lingering influence of high base effects from previous years continues to challenge the headline export performance, obstructing a swift recovery.

Echoing this sentiment, BIMB Securities Research emphasises the persisting global headwinds and sustains its outlook of export contraction for the majority of the latter half of 2023 (2H23).

"Overall, Malaysia's export outlook remains troubled, and we continue to expect more contractions for a few more months before improving in the later part of 2H23," it said.

Gazing into the horizon, BIMB Securities Research anticipates exports to continue its descent over the ensuing months before potentially bottoming out towards the year's end.

A multitude of metrics assessing export orders point towards a more substantial pullback in foreign demand.



Pic by Muihd Amin Nahanarul

The sombre outlook is underpinned by several contributory factors including an elevated cost of living, waning corporate appetite for inventory accumulation and a discernible shift in consumer preferences

Consequently, a further downgrade in forecasts is warranted, with both exports and imports now expected to fall at sharper rates of -7% and -7.5%, respectively.

This adjustment is a response to recent data reflecting the persistent frailty in international trade.

Persistent Economic Challenges

Public Investment Bank (PublicInvest) Research anticipates a persistently challenging economic environment for Malaysia, particularly when considering the GDP breakdown of real exports and imports.

This scenario, according to PublicInvest Research, is poised to persist in a downward trajectory for the remainder of the year.

PublicInvest Research attributes this trend to a broader economic landscape characterised by diminishing orders that confront businesses, both domestically and on the international stage.

A critical indicator of this situation is the business sentiment index, which has consistently remained below the crucial threshold of 100.

This index registered at a modest 82.4 in the second quarter of 2023 (2Q23), in stark contrast to the 95.4 figure observed in 1Q23.

"In essence, our prognosis points toward a contraction in both export and import figures, with anticipated declines of -6.3% and -9.2%, respectively, for the current year," it said.

PublicInvest Research said the sombre outlook is underpinned

by several contributory factors, including an elevated cost of living, waning corporate appetite for inventory accumulation and a discernible shift in consumer preferences towards increased expenditure on services in the post-Covid-19 era.

Global Semiconductor Woes

PublicInvest Research further anticipates that Malaysia's manufacturing output will closely follow monthly global semiconductor sales, which have entered a cyclical downturn.

In July, these sales posted a year-on-year negative growth rate of 11.8%.

The World Semiconductor Trade Statistics forecasts a more substantial double-digit decline of -10.3% (US\$515 billion [RM2.42 trillion]) in the global semiconductor market for 2023, following a modest growth of +3.3% in 2022.

Despite this challenging landscape, it's worth noting that a robust recovery is on the horizon in 2024, with an estimated growth rate of 11.8%.

Gloomy Global Trade Prospects

However, PublicInvest Research cautiously highlights that the global trade outlook for 2H23 is decidedly pessimistic, with unfavourable factors outweighing the positive.

Insights gleaned from the International Monetary Fund Economic Outlook further underscore this perspective, as it anticipates a decline in world trade growth.

The decline is expected to drop from +5.2% in 2022 to a meagre +2% in 2023, followed by a modest recovery to +3.7% in 2024.

These figures fall well below the 2000-2019 average of +4.9%.

This contraction reflects not only the trajectory of global demand but also a significant shift towards the domestic services sector in trade composition. Additionally, PublicInvest Research notes the persistent effects of US dollar appreciation, which hamper trade due to widespread product invoicing in US dollars, coupled with an increase in trade barriers, further contributing to this subdued outlook.

PublicInvest Research main-

tains the viewpoint that the enduring impacts of stringent monetary policies will continue into 2024, intricately interweaving and exacerbating the existing contours of the global economic landscape.

Bright Spots on The Horizon

On a more optimistic note, BIMB Securities Research suggests that rebounding global energy prices and currency weakness could serve as silver linings to the overall export performance from the price-earnings perspective in the coming months.

Similarly, CGS-CIMB Research notes several potential upsidesto trade performance in the coming months.

Notably, it said China has recently unveiled a series of measures aimed at propping up its economy.

These measures include a reduction in banks' reserve ratios for the second time in 2023, alongside policies designed to lower mortgage rates and cut taxes for families.

While primarily focused on improving China's domestic consumption, CGS-CIMB Research said this economic recovery may inadvertently help Malaysia stem further declines in its export demand.

Additionally, it said Malaysia's palm oil production has started to pick up from its nadir in April 2023 and is expected to continue its recovery.

This recovery is driven by two key factors: The foreign labour force reaching optimal capacity and the absence of the dry weather conditions that adversely affected production in 2Q23.

For the oil and gas sector, it believes that the production decline in 2Q23 could potentially improve in 2H23 following fewer major unscheduled shutdowns.

Meanwhile, it pointed out that the recent manufacturing Purchasing Managers' Index (PMI) data in major markets such as the US, the European Union (EU) and China has shown a nascent rebound in August 2023.

While this may imply a one-off occurrence, CGS-CIMB Research said it could also be an early signal of a turnaround.

It's important to note, however, that PMIs in the US and the EU still remain well below the 50-threshold, indicating a general weakness in activity, it said.