

Is Malaysia's electronics strength fading?

It will be difficult for Malaysia's electronics sector, as well as the overall economy, to defy the global slowdown and this demands greater policy support



Source: shutterstock

-0.8%

August export growth

Year-on-year

Worse than expected

Palm oil exports saved the day

Malaysia's export growth surprisingly swung back to negative territory in August. A 0.8% year-on-year export contraction was below consensus estimates, which not only foresaw growth staying in positive territory but actually accelerating to 2.7% YoY from 1.7% in the preceding month.

Yet, the latest underperformance isn't a complete shocker -- denominated in local currency (Malaysian ringgit, or MYR), export growth has been flipping between low single-digit positives and negatives this year.

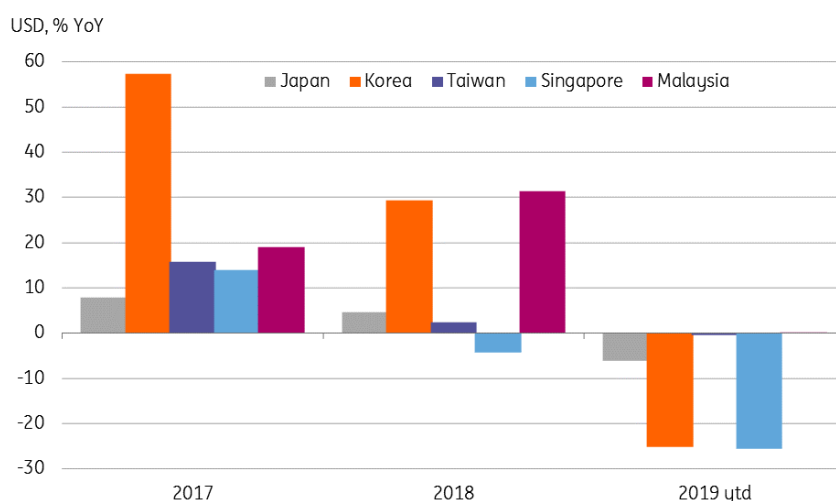
While they were a source of Malaysia's export strength for much of this year, electrical and electronics exports were a source of weak headline growth in August. There was a sharp slump in these exports to -7.4% YoY from +4.5% in July. Undoubtedly, much of this was from semiconductors (-5.9% vs. +10.3% in July). Oil and related exports continued to be weak (-12% vs. -6.5% in July), though other commodity exports like palm oil, with a 17% surge, saved the day.

Is electronics strength fading?

Malaysia's semiconductor exports have performed far better this year in the face of a global technology slump. Heavy-weights in the field, Korea and Singapore, have seen their exports plunge as much as 30% YoY in recent months.

The year-to-date performance puts Malaysia closer to Taiwan than other Asian exporters, though part of the recent improvement in Taiwan's electronics exports was seasonal, a boost from new smartphone launches in summer. If anything, we sense Malaysia's relative strength as a move up the electronics value chain. And if so, the outperformance should continue even if recent strength wears off in an entrenched global downturn.

Asian semiconductor exports



Source: Bloomberg, CEIC, ING

Strong external payments

Import growth of -12.5% YoY in August was far weaker than expected (consensus -8.0) and it reflects weak domestic demand. But a narrower August trade surplus of MYR 10 billion than July's MYR 14.3 billion was in line with consensus.

The MYR 92.5 billion trade surplus in the first eight months of 2019 was \$20.6 billion wider than a year ago, which, in turn, will translate to a wider current account surplus. Our forecast for a 2019 current surplus equivalent to 2.8% of GDP, up from 2.1% in 2018, remains on track. Furthermore, a wider current surplus also means a continued positive net trade contribution to GDP growth this year, supporting it at the 4.7% rate of 2018, at least.

More policy support

However, today's weak export data does reinforce the view that it's going to be difficult for the economy to continue to outperform, as global headwinds are getting stronger and this demands greater policy support.

While we maintain our view of one more 25 basis point rate cut by Bank Negara Malaysia in the current quarter, we also expect some policy support coming through in the 2020 Budget to be announced a week from today (11 October).