

# Sluggish export growth

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The Edge 12/09/05

**O**n Thursday, the Asian Development Bank revised downward its forecast of Malaysia's gross domestic product growth to 5.1% from 5.7%. The ADB said the reasons were extended weakness in the global semiconductor industry, soft external trade and slower construction activity in the country.

Indeed, July's trade figures bear out the ADB's view. July's exports of RM43.6 billion grew only 2.9% compared with the same month last year. In June, exports grew 11.7% compared with June last year, and economists had projected exports to grow 9% in July. So the export figures released by the Ministry of International Trade and Industry last Monday were disappointing, to say the least.

The slump in exports was due to weaker numbers in the electrical and electronics (E&E) sector which grew at just 2.6% year-on-year (y-o-y) in July, compared with 11.6% in June. Malaysia is a major exporter of E&E products, and July's E&E exports totalling RM22.03 billion accounted for more than half (50.5%) of all exports.

Meanwhile, imports grew 7.5% to RM37.64 billion, compared with July last year. Imports had grown 6% y-o-y in June.

As a result of much lower exports, the trade surplus narrowed to RM5.96 billion in July from RM7.7 billion in June.

Total exports from January to July expanded by 10.7% to RM296.91 billion over the same period last year, while imports grew 8.7% to RM243.08 billion. The trade surplus for the same period grew 20.5% to RM53.83 billion.

July's export growth is the slowest since February 2002, raising the spectre of weaker third quarter economic growth.

Hamdan Yusoff, economist at TA Securities Bhd, says the slowing E&E growth is due to the overall downtrend in the global E&E sector.

"There's been some improvement but it's nothing compared to what we've been used to in 2004. Furthermore, the improvement hasn't been captured by our exporters. We're now seeing some sectors improving, like home electronics led by consumption-driven recovery in Japan and the US, as consumers see growth in wage levels," he says.

That should lead to improvement in industrial electronics which are driven by the business segment. But it will be some time before it catches up with consumer home electronics, adds Hamdan.

Seow Choong Liang, head of research at K&N Kenanga Bhd, sees two reasons for the sluggish growth in exports.

"The E&E and semiconductor cycle last peaked in the second quarter last year, so year-on-year figures are declining because we're comparing with a high base. Secondly, the low level of new investments — in 2004, it was just 5% of GNP [gross national product] compared to above 20% of GNP in the early 1990s. A lot of the investments have to do with replacement of capacity and upgrades, and not expansion. It's not trickling down to increased output from Malaysian manufacturers which in turn drives export growth," he explains.

According to the Semiconductor Industry Association, global semiconductor sales registered 6.5% growth in the first half of this year over the same period last year. In July, global semiconductor sales declined 0.03% y-o-y. The association projected 6% growth for this year.

Seow foresees stronger recovery in the semiconductor industry in the second half of next year when cheaper broadband 3G phones come into the picture and new applications such as WiMax take off.

"If that takes off, it'll be the start of another up-cycle for semiconductors. If it hits the streets by Christmas 2006, it will have to be shipped out by the third quarter of 2006. It should be quite interesting by then," he explains.

For now however, Seow says it will be single-digit growth for exports for the rest of the year although E&E exports in the third quarter should be higher than the second quarter as production and shipments build up ahead of festive sales in the fourth quarter. However, at this point, the strength of third quarter growth is still uncertain, he adds.

Hamdan says exports will have a tough time ahead. He expects single-digit growth for the rest of the third quarter but double-digit growth to

emerge in the fourth quarter as the E&E cycle bottoms out at the beginning of the quarter, translating into higher exports.

The declining Industrial Production Index, from 3.2% y-o-y to 0.9% in July, is another indication of lower exports in the offing, he adds.

In other sectors, exports of chemicals and chemical products declined 7% y-o-y to RM2.06 billion while palm oil exports contracted sharply by 18.5% to RM1.66 billion.

Higher crude oil prices offset some of the negative growth in exports. Exports of crude petroleum which contributed 5.8% of total exports rose 44.5% y-o-y to RM2.53 billion, while liquefied natural gas, which contributed 3.6% of total exports, increased 23.9% y-o-y to RM1.57 billion.

On a positive note, imports of capital goods increased 17.6%, indicating that businesses are still investing in expansion of capacity.

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## IPI-exports gap closes

