

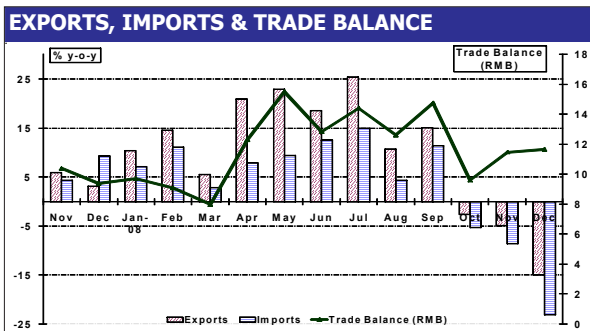
Trade

December Exports - the steepest drop in seven years

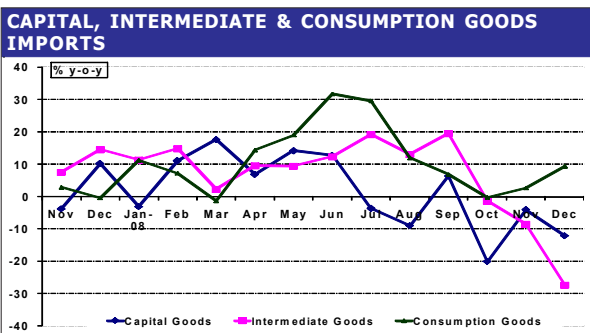
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MALAYSIA'S EXTERNAL TRADE (%yoy)			
% y-o-y	Imports	Exports	Trade Balance (RMb)
2005	8.5	11.0	99.78
2006	10.8	10.3	108.19
2007	5.0	2.8	100.34
2008	3.3	9.6	142.01
Sept-08	11.4	15.0	14.74
Oct-08	-5.3	-2.6	9.62
Nov-08	-8.6	-4.9	11.49
Dec-08	-23.1	-14.91	11.70
1Q-08	6.8	9.9	26.83
2Q-08	9.9	20.8	40.64
3Q-08	10.1	16.8	41.76
4Q-08	-12.3	-7.5	32.77

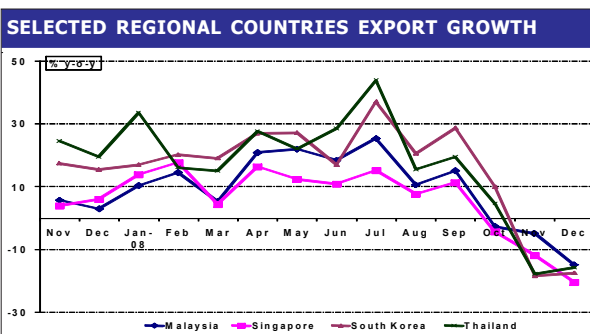
Source : Bank Negara Malaysia & Department of Statistics Malaysia



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- Exports contracted by 14.9% yoy in Dec, the steepest drop in seven years. Imports were also down during the month, falling by 23.1% yoy, leaving a trade surplus of RM11.7 billion. The trade figure in Dec came worse than expected due to diminishing global demand for electronics items, which plunged by 26% yoy. The persistent slump in export number is widely expected given the shorter working hours and factory shutdown. Exports of non-electronics items, such as crude petroleum, palm oil, refined petroleum products, all together registered further contraction as commodity prices dropped from its record high in July last year.
- Imports in Dec were also much worse than expected, which recorded double-digit contraction. Intermediate goods imports faltered by more than 27% yoy, signaling more downward slide for exports over the coming months. The slump in capital goods imports, which posted a reduction since Oct 08 indicates that business activities will going to slow early of this year. On a positive note, consumption activity remains healthy as imports for consumption goods increased for the second consecutive month in Dec 08.
- The drop in Malaysia's external trade followed the declining trend experienced by other key exporter in the region. South Korea and Taiwan were among the countries which posted record declines in shipments from abroad. China's exports also plunged 17.5% yoy, the sharpest drop since 1998, adding to the threat of more job losses and intensifying pressure to boost its slumping economic growth. Be that as it may, the narrowing trade deficit in the US that indicates imports are deteriorating at a faster pace than the fall in exports could later on greatly affect trade dependent economies including Malaysia. This is in line with recent view from MITI which predicted exports for 2009 to decline for the first time in eight years amid weaker demand from the US, Japan and Europe.
- We foresee that the export slump will continue, possibly leading to a contraction in the 1Q09 GDP. While the 4Q08 GDP is expected to grow virtually at nearly 0%, we remain vigilant of an early contraction for the final quarter of last year on the back of a record plunge in manufacturing output and exports during the 4Q08. Over the coming months, the decline in the leading index for the second consecutive month in Nov 08 indicates that the economy may be heading towards a sharp slowdown in the 1H09. Having said that, any recovery will only happen during the 2H09 as the impact from 75 bps cuts in the OPR coupled with the second stimulus package, expected to be announced on March 10, are likely to take effect during the second half of this year. In the event of rising unemployment rate, this will hurt domestic demand, hence putting more downward pressure on GDP growth which is likely to grow at only between 1.0-1.5% level for this year.