

Malaysia Manufacturing PMI

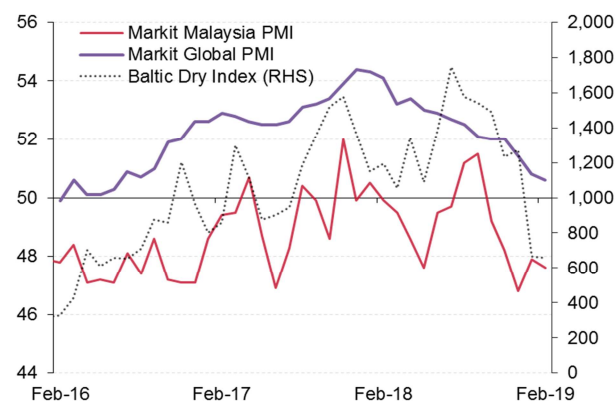
Sharper slowdown in February on weak demand

Economics
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OVERVIEW

- Manufacturing condition deteriorated for the fifth sequential month in February**, dragging the sector into a steeper contraction, due mainly to lower production and plateauing demand, both domestically and externally. February PMI stood at 47.6, below January's 47.9.
- New orders tumbled at among the fastest paces since the initiation of the survey in July 2012, reflecting a broad-based slowdown in demand.** Demand softened amid the ongoing economic slowdown in key export markets including China and the US, due to the structural rebalancing and negative spillovers from the US-China trade war for the former, and unwinding of fiscal stimulus for the latter. Portraying the aforementioned factors, new export orders fell, particularly as orders from the Asian regions slowed. The slowdown reiterated our less sanguine outlook, mainly on export activities in the coming months.
- Lacklustre demand condition prompted the fall in production activities, scaling down in inventories and stagnant employment growth.** Given less orders coming in, output fell at an accelerated rate, with elevated scale down of inventories, reflecting second-fastest rate in input purchases since June 2017, emphasising firms' pessimistic view on the sector's prospect. Several factory shutdowns were also reported, resulting in reduced employment. However, this was zeroed out by increase in headcounts at some firms, amid capacity expansions.
- Operating expenses softened marginally in December, associated with fractionally lower input prices amid favourable ringgit movements.** As such, selling prices remained broadly sustained, marking an end to price increases for the past eight months. This was in line with our projection of a modest inflation growth in 2019, within a range of 1.0-1.5% in 2019 (2018: 1.0%), against the backdrop of weaker global growth and the ongoing trade dispute, which may translate into slowdown in domestic activities and lower crude oil prices. These will partially offset inflationary pressure emanating from cost-push inflation, driven by floating of domestic fuel prices in 2Q19 and low base effect arising from the tax holiday period in June to August 2018.
- Mixed manufacturing conditions were observed across regions.** In the advanced economies, growth in the manufacturing activity moderated. US manufacturing PMI extended lower from 54.9 to 53.0 in February, an 18-month low, citing slower expansions of output and new orders. According to IHS Markit, business confidence dipped to its second-lowest since November 2016, due to trade war-related concerns and domestic political uncertainty. Within Asia, Thailand's manufacturing sector fell into contraction at 49.9 from 50.2 previously, with firms' cautious stance portrayed through slash in input purchases and stocks level. Similarly, in the Philippines, the sector eased sharply to a 6-month low, led by the softest rise in new orders for the past seven months. Bucking the trend, China's manufacturing sector improved from 48.3 to 49.0, with increased output and new orders, mainly underpinned by domestic demand. Overall, manufacturing activity in ASEAN remained in contraction, edging down to 49.6 from 49.7 in the preceding month.
- Global demand to continue its downtrend in 2019.** We expect external demand to dwindle in the coming months as new exports orders were weak across the region and the Baltic Dry Index continued to edge lower, reflecting softer demand for raw materials. Increasing evidence of a slowdown in major export markets, including China and the US, also strengthened our downbeat view of trade activities. Along with an expectation of slower domestic demand, **GDP growth is projected to moderate to 4.5% in 2019 from 4.7% in 2018.**

Graph 1: Global & Malaysia Manufacturing PMI



Graph 2: Global PMI Trend – Cooling Down

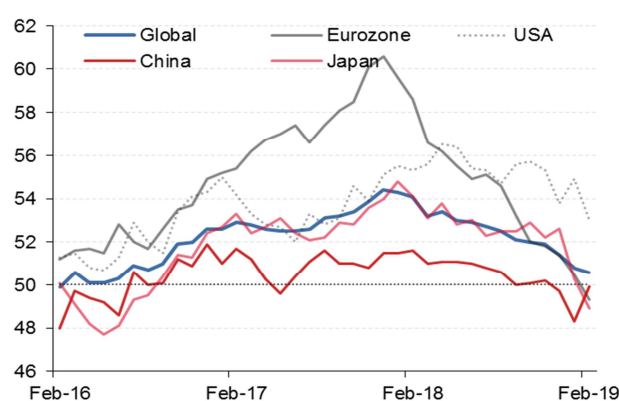


Table 1: Malaysia Industrial Production Trend

	2017	2018	Feb-18	Sept-18	Oct-18	Nov-18	Dec-18	Jan-19	Feb-19
Markit Malaysia PMI	49.4	49.4	49.9	51.5	49.2	48.2	46.8	47.9	47.6
New Orders*			Down	Up	Down	Down	Down	Down	Down
Output*			Down	Up	Down	Down	Down	Down	Down
Employment*			Down	Up	Up	Up	Flat	Up	Flat
Stocks of Purchases*			Down	Down	Down	Down	Down	Down	Down
Markit Global PMI	53.1	52.8	54.1	52.2	52.0	52.0	51.4	50.8	50.6
Baltic Dry Index	1,150	1,339	1,192	1,540	1,490	1,231	1,271	668	658
DoS Leading Index	118.9	118.7	119.6	117.9	118.7	119.0	117.3	-	-

Source: IHS Markit, Bloomberg, CEIC, Dept. of Statistics, Kenanga Research

*The "Up/Down/Flat" movements for sub-indicators are based on IHS Markit's own reports. Detailed and historical data are available on a subscription basis only.

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