Malaysia Manufacturing PMI

Continue to slowdown in May on weak external demand

Economics
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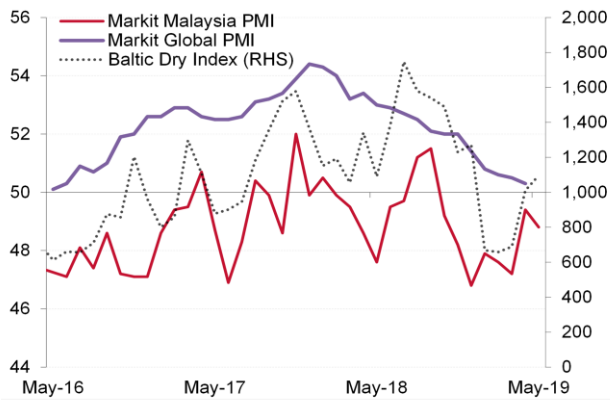
OVERVIEW

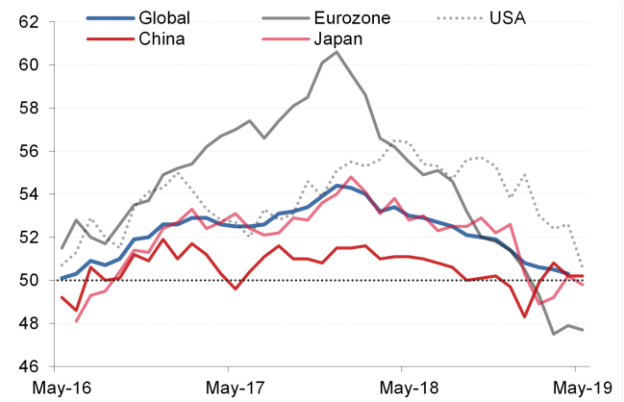
- Manufacturing condition continued to decline in May, remaining in a contractionary mode for eight straight months. The poor Purchasing Manager's Index (PMI) reading was attributable to weak external demand as the escalating US-China trade tension continue to worsen the impact on global value chain. May's PMI reading stood at 48.4, below 49.4 in April.
- **Lacklustre demand conditions from oversea market weighing on production activities.** According to the Markit PMI survey report on Malaysia, output remained under pressure mainly due to challenging demand conditions from the export market. However, Malaysian manufacturers were reported to be most upbeat towards future output volumes since 2013, mainly due to new product launches and expectation of stronger demand going forward. Additionally, manufacturing employment was generally stable as some firms employed additional staff due to projects in the pipeline, while some opted not to replace the vacant position. Nevertheless, purchasing activity and backlogs of work declined in May, mainly due to manufacturers' effort to reduce outstanding business and cost control.
- **New orders registered its fastest rise since the third quarter of last year** despite headwind from weak demand. However, by export sales, new orders growth returned to a contraction in May arising from slower demand from Europe, USA, Thailand and Indonesia as trade war further escalates.
- **Operating costs increased at the fastest pace in May, driven by inflationary pressure from the weak Ringgit.** This has exerted inflationary pressure on raw material price, leading overall costs to rise. As a reference, the Ringgit has fallen by 5.0% YoY in May against USD. Subsequently, output prices rose at the fastest pace in six months and may perk up the subdued Consumer Price Index in the near term. This is in line with our projection of a modest inflation growth of 1.0-1.5% in 2019 (2018: 1.0%), against the backdrop of global growth slowdown particularly from China and the advanced economies, reeling on the impact of the trade war between the US and China. However, we foresee an uptick in inflationary pressure in the 2H19 driven by the impact of policy measures specifically the new mechanism of floating domestic fuel prices and low base effect arising from the tax holiday period in June to August last year.
- **Relatively weak manufacturing conditions were observed across regions on the back of lacklustre demand and the impact of trade war.** In the advanced economies, the US PMI dove to the lowest level (50.6; Apr: 52.6) since September 2009 on trade war concerns alongside signs of slower domestic growth. Meanwhile, Eurozone retained a contraction, with a reading of 47.7 (Apr: 47.9), marking the second-steepest decline in six years on the back of a continued drop in new orders and output. In the ASEAN region, Vietnamese manufacturers recorded softer improvement in business conditions driven by the growth of output and new orders, though there was an issue in the supply of labour, dragging Vietnam's PMI reading only slightly to 52.0 in May (Apr: 52.5). Meanwhile, China's factory sector showed a small improvement as manufacturing activity was slightly better than expected with a slightly higher reading of 50.2 beating market expectation of 50.0 amid domestic headwinds and the on-going tit-for-tat US-China trade spat.
- Overall, **we retain our cautiously optimistic outlook on manufacturing conditions in light of heightened risk from the external sector** despite the average PMI reading going into the 2Q19 might show the highest reading since 3Q18, while Baltic Dry Index moving in an uptrend (1,096; Apr: 1,011) for three consecutive months. Nonetheless, we expect GDP growth to moderate to 4.5% in 2019 from 4.7% in 2018 on the back of growth moderation in key export markets alongside an expectation of slower domestic demand.

Graph 1: Global & Malaysia Manufacturing PMI



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

Graph 2: Global PMI Trend – Cooling Down



Source: Bloomberg, IHS Markit, Kenanga Research

Table 1: Malaysia Industrial Production Trend

	2017	2018	*May-18*	Dec-18	Jan-19	Feb-19	Mar-19	Apr-19	**May-19**
Markit Malaysia PMI	49.4	49.4	*47.6*	46.8	47.9	47.6	47.2	49.4	**48.8**
New Orders*			Down	Down	Down	Down	Down	Up	**Up**
Output*			Down	Down	Down	Down	Down	Up	**Down**
Employment*			Down	Flat	Up	Flat	Flat	Up	**Flat**
Stocks of Purchases*			Down	Down	Down	Down	Down	Down	**Down**
Markit Global PMI	53.1	52.8	*53.1*	51.4	50.8	50.6	50.5	50.3	**-**
Baltic Dry Index	1,150	1,339	*1,090*	1,271	668	658	689	1,011	**1,096**
DoS Leading Index	118.9	118.7	*118.2*	117.4	118.9	116.3	117.1	-	**-**

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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