

Malaysia Manufacturing PMI

Muted manufacturing conditions in July

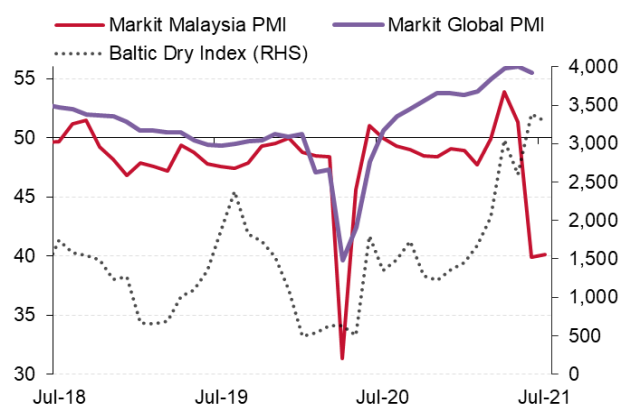
- Manufacturing PMI inched up to 40.1 in July (Jun: 39.9) but remained at a contraction level (below 50-level)**
 - Manufacturing recovery was hindered by the extended nationwide Full Movement Control Order (FMCO) amid a surge in COVID-19 infections, which significantly disrupted demand and consumer confidence.
- Output and orders fall on renewed movement restrictions**
 - Subdued domestic and external demand as well as weak consumer confidence as a result of the movement restrictions. Nonetheless, the pace of decline in export sales was softer than a drop in total new orders, mainly supported by strong demand from Europe and the US.
- Renewed optimism despite COVID-19 headwinds**
 - The degree of optimism was modest but relatively an improvement from June's record low on hopes that movement restrictions would be fully lifted in the coming year.
 - Employment level was broadly stable in July as firms increased hiring in line with additional capacity to prepare for future orders. However, firms reported difficulty in hiring foreign workers.
- Cost pressure persisted due to ongoing raw materials shortages and higher freight costs**
 - Input costs rose for 14 straight months which led to higher output prices as manufacturers partially passed higher costs onto clients. Nonetheless, the rate of inflation was the softest in five months.
- Mixed manufacturing conditions among major and regional economies**
 - China (50.3; Jun: 51.3): slipped to a 15-month low as demand fell for the first time in 12 months due to higher raw material costs which eventually capped sales volume.
 - US (63.1; Jun: 62.1): flash manufacturing PMI rose to a record high driven by solid domestic demand, but supply chain problems and cost pressures remained a constrain for manufacturers.
- Less sanguine over the manufacturing outlook in the near term as the COVID-19 situation worsens**
 - The unabated surge of COVID-19 cases amid fears of the Delta strain and prolonged movement restrictions to contain the spread of the virus would likely impede demand and the supply chain in the near term.
 - Nonetheless, we expect the manufacturing sector to recover towards the 4Q21 as most economic sectors will gradually reopen in line with the National Recovery Plan. This will also be supported by export-oriented manufacturing sub-sectors such as E&E and rubber gloves due to strong external demand and sustain expansion.
 - Against this backdrop, we retain the value-added manufacturing growth forecast at 7.9% (2020: -2.6%), but we trim our 2021 GDP growth forecast to 4.0-5.0% (preliminary) from 5.0-6.0% (2020: -5.6%) as the current COVID-19 development, and the prolonged movement restrictions would likely weigh on domestic demand.

Table 1: ASEAN countries ranked by Manufacturing PMI

	Jun-21	Jul-21	Change signal
Philippines	50.8	50.4	Marginal increase
Thailand	49.5	48.7	Marginal decrease
Vietnam	44.1	45.1	Modest decrease
Indonesia	53.5	40.1	Solid decrease
Malaysia	39.9	40.1	Solid decrease
Myanmar	41.5	33.5	Solid decrease
Singapore	50.1	N/A	N/A

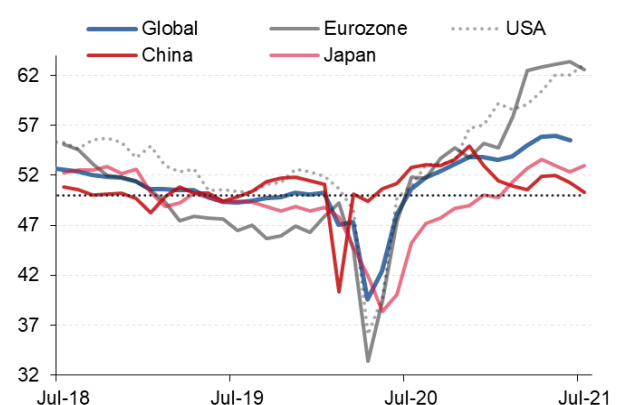
Source: IHS Markit, Kenanga Research

Graph 1: Global & Malaysia Manufacturing PMI



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

Graph 2: Global PMI Trend



Source: Bloomberg, IHS Markit, Kenanga Research

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Table 2: Malaysia PMI Trend

	2019	2020	Jul-20	Feb-21	Mar-21	Apr-21	May-21	Jun-21	Jul-21
Markit Malaysia PMI	48.4	49.1	50.0	47.7	49.9	53.9	51.3	39.9	40.1
New Orders*			Flat	Down	Down	Up	Up	Down	Down
Output*			Up	Down	Down	Up	Down	Down	Down
Employment*			Down	Down	Up	Down	Down	Down	Flat
Stocks of Purchases*			Down	Down	Down	Up	Down	Down	Down
Markit Global PMI	50.0	49.2	50.6	53.9	55.0	55.9	56.0	55.5	N/A
Baltic Dry Index	1,260	1,230	1,350	1,675	2,046	3,053	2,596	3,383	3,292
DoS Leading Index (% YoY)	0.0	3.5	8.1	8.5	17.2	15.7	6.9	N/A	N/A

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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