

2 September 2020



ECONOMICS

In this report:

Malaysia – Weak foreign demand limits recovery

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Wednesday, 02 September 2020

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Malaysia

Weak foreign demand limits recovery

The headline manufacturing PMI in August showed that sector activities slowed down slightly to 49.3 versus 50 in July – a slip from the threshold between expansion and contraction. Weak foreign demand remained the key source of moderation in business activities in August with heightened efforts by firms to reduce staffing levels.

All in all, the manufacturing sector is moving towards stabilization with key indicators such as output and new order much higher than the peak of Covid-19 pandemic in April and May. However, the ramification from the ongoing stringency measures and lower demand from overseas market and concerns over the second wave risk continued to limit the performance of the sector. Hence, caution is still warranted in assessing the likely production trend.

- The headline manufacturing PMI in August showed that sector activities slowed down slightly to 49.3 versus 50 in July – a slip from the threshold between expansion and contraction. Still, the first two months average of third quarter sits at 49.7 compared to 42.6 in 2Q2020. This implies that the worst is behind us.
- Weak foreign demand remained the key source of moderation in business activities in August amidst ongoing restrictions in a number of export markets. At the same time, the lack of capacity pressure in the manufacturing sector, as well as heightened efforts to reduce costs led firms to scale back employment. As a result, staffing levels fell to the lowest since the survey began in July 2012, which in our view bodes ill for a quick domestic demand recovery.
- Besides, firms continued to face shortages of material and matters regarding imported goods due to the ongoing supply chain disruption albeit some signs of easing pressure. Nevertheless, the impact of raw material shortages was notably reflected in our intermediate and capital goods imports, down 17.3% y/y and -19.7% y/y, respectively in July.
- Nevertheless, the softer momentum in the manufacturing sector resonated among some of Asean peers as well – including Vietnam (45.7); and the Philippines (47.3). In contrast, Thailand and Indonesia reported an improved in their operating conditions at 50 and 50.8, respectively.

- All in all, the manufacturing sector is moving towards stabilization with key indicators such as output and new order much higher than the peak of Covid-19 pandemic in April and May. However, the ramification from the ongoing stringency measures and lower demand from overseas market and concerns over the second wave risk continued to limit the performance of the sector. Hence, caution is still warranted in assessing the likely production trend.

Table 1: Key Manufacturing Data

	Aug'19	Sep	Oct	Nov	Dec	Jan'20	Feb	Mar	Apr	May	Jun	Jul	Aug
PMI	47.4	47.9	49.3	49.5	50.0	48.8	48.5	48.4	31.3	45.6	51.0	50.0	49.3
IP (y/y %)	1.9	1.5	0.1	2.1	1.3	0.6	6.2	-4.9	-32.0	-21.6	-0.4	nm	nm
IP (m/m %)	-0.3	-0.3	3.3	-1.0	0.7	0.6	-6.7	-0.2	-30.5	18.9	26.2	nm	nm
Export Oriented (y/y %)	2.0	0.6	1.7	1.8	2.0	0.8	6.0	-2.2	-31.0	-18.0	7.8	nm	nm
Export Oriented (m/m %)	-2.6	2.0	3.4	-3.8	0.8	-0.8	-6.0	0.6	-30.8	23.8	33.1	nm	nm
Domestic Oriented (y/y %)	7.0	7.1	3.8	4.8	6.7	5.2	6.5	-8.3	-50.9	-33.1	-2.3	nm	nm
Domestic Oriented (m/m %)	1.1	-4.1	-1.3	0.1	2.1	2.9	-8.0	-4.8	-47.5	37.2	47.3	nm	nm
Mfg Sales (y/y %)	4.5	2.9	2.4	2.5	5.2	2.4	7.6	-3.0	-33.0	-20.4	4.1	nm	nm
Mfg Sales (m/m %)	-0.3	0.2	2.1	-1.7	1.5	-1.0	-5.7	-1.0	-31.2	18.1	30.4	nm	nm
Leading Index (y/y %)	-0.2	0.6	1.9	1.3	1.9	0.7	1.7	-3.7	-5.7	0.6	4.5	nm	nm
Leading Index (m/m %)	-0.6	0.0	1.5	-0.4	-0.3	0.1	-0.8	-5.0	0.2	4.9	3.7	nm	nm
Coincident Index (y/y %)	2.6	2.2	2.0	2.5	2.4	2.0	3.4	-3.6	-19.3	-11.0	-3.1	nm	nm
Coincident Index (m/m %)	0.4	-0.3	0.4	0.3	0.2	0.2	0.7	-6.9	-15.6	10.7	8.7	nm	Nm

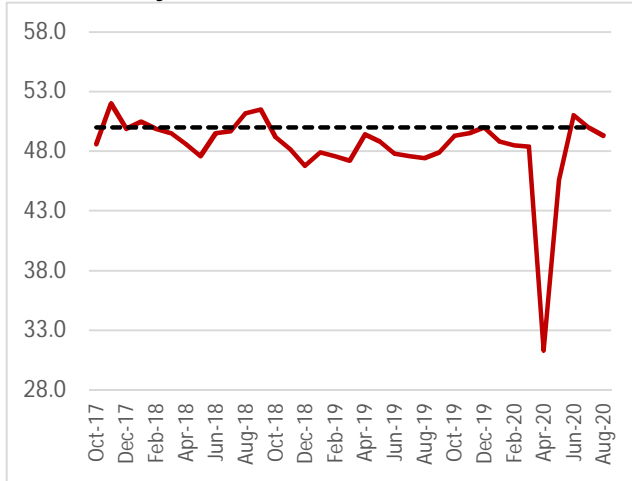
Source: CEIC/AmBank Research

Table 2: Regional Markit Manufacturing PMI

	Aug'19	Sep	Oct	Nov	Dec	Jan'20	Feb	Mar	Apr	May	Jun	Jul	Aug
World	49.5	49.8	49.8	50.3	50.1	50.3	47.1	47.3	39.6	42.4	47.9	50.3	51.8
Dev. Markets	48.7	48.6	48.6	49.5	49.1	49.8	49.5	45.9	36.8	39.5	46.4	49.8	51.2
Euro Area	47.0	45.7	45.9	46.9	46.3	47.9	49.2	44.5	33.4	39.4	47.4	51.8	51.7
ASEAN	48.9	49.1	48.5	49.2	49.7	49.8	50.2	43.4	30.7	35.5	43.7	46.5	49.0
US	50.3	51.1	51.3	52.6	52.4	51.9	50.7	48.5	36.1	39.8	49.8	50.9	53.1
Germany	43.5	41.7	42.1	44.1	43.7	45.3	48.0	45.4	34.5	36.6	45.2	51.0	52.2
UK	47.4	48.3	49.6	48.9	47.5	50.0	51.7	47.8	32.6	40.7	50.1	53.3	55.2
Japan	49.3	48.9	48.4	48.9	48.4	48.8	47.8	44.8	41.9	38.4	40.1	45.2	47.2
China	50.4	51.4	51.7	51.8	51.5	51.1	40.3	50.1	49.4	50.7	51.2	52.8	53.1
India	51.4	51.4	50.6	51.2	52.7	55.3	54.5	51.8	27.4	30.8	47.2	46.0	52.0
Thailand	49.8	50.1	49.5	49.7	51.2	49.6	49.7	46.4	35.8	41.3	42.5	45.3	50.0
S. Korea	49.0	48.0	48.4	49.4	50.1	49.8	48.7	44.2	41.6	41.3	43.4	46.9	48.5
Indonesia	49.0	49.1	47.7	48.2	49.5	49.3	51.9	45.3	27.5	28.6	39.1	46.9	50.8
Philippines	51.9	51.8	52.1	51.4	51.7	52.1	52.3	39.7	31.6	40.1	49.7	48.4	47.3
Vietnam	51.4	50.5	50.0	51.0	50.8	50.6	49.0	41.9	32.7	42.7	51.1	47.6	45.7
Malaysia	47.4	47.9	49.3	49.5	50.0	48.8	48.5	48.4	31.3	45.6	51.0	50.0	49.3

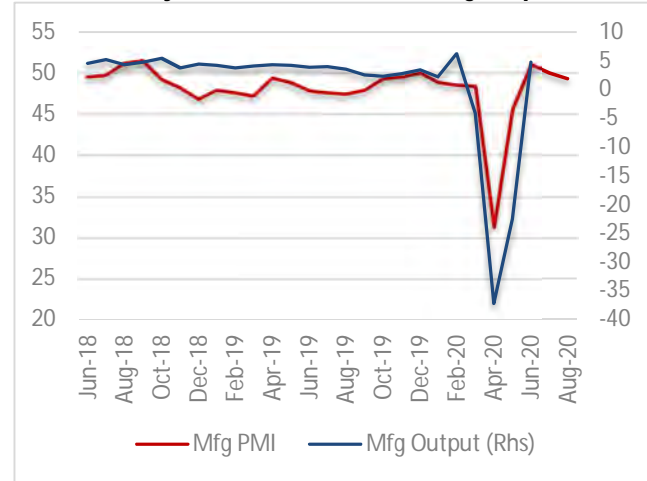
Source: CEIC/AmBank Research; Note: US = Markit PMI

Chart 1: Malaysia PMI



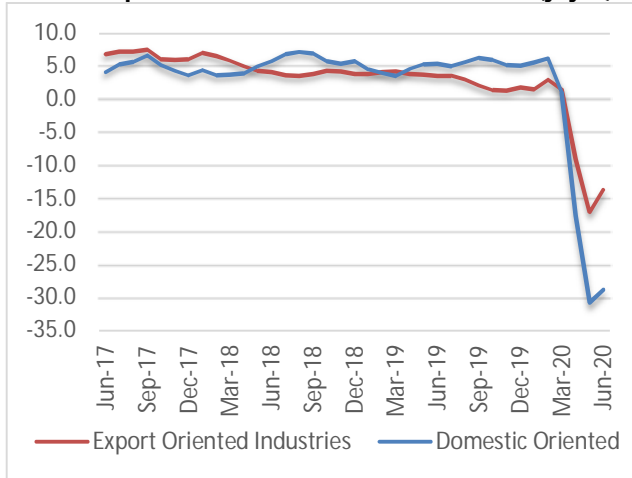
Source: CEIC/AmBank Research

Chart 2: Malaysia PMI and Manufacturing Output



Source: CEIC/AmBank Research

Chart 3: Export & Domestic-Oriented Industries (y/y %)



Source: CEIC/AmBank Research

Chart 4: Leading index (y/y %)



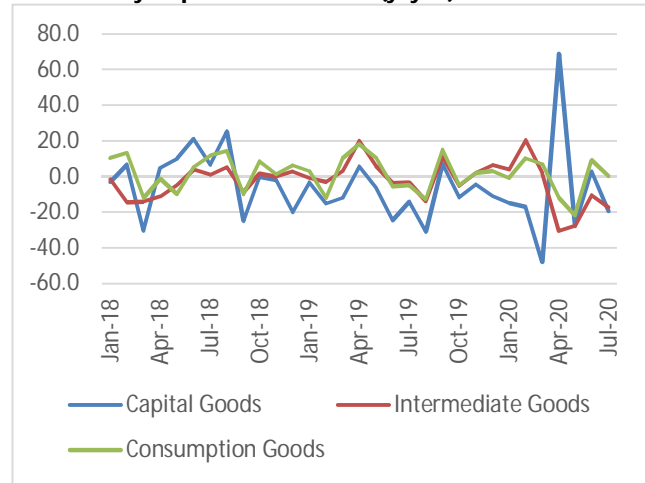
Source: CEIC/AmBank Research

Chart 5: Exports & E&E Exports (y/y %)



Source: CEIC/AmBank Research

Chart 6: Key Imports Breakdown (y/y %)



Source: CEIC/AmBank Research

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