

2 April 2021



ECONOMICS

In this report:

Malaysia – Firms gear towards better recovery

KINDLY REFER TO THE LAST PAGE OF THIS PUBLICATION FOR IMPORTANT DISCLOSURES

Dr. Anthony Dass
Chief Economist/Head
anthony-dass@ambankgroup.com
03-20322972

Munesh Nair Muralidharan
Economist
munesh-nair@ambankgroup.com
03-20362255

Nur Iman Binti Mohamed Azhar
Economist
iman-azhar@ambankgroup.com
03-20363020

Malaysia

Firms gear towards better recovery

Local manufacturing PMI posted its highest reading since July 2020 at 49.9 in March from 47.7 in February, pointing to stabilized operating conditions during the month as manufacturers prepare for better times ahead.

The evidence of an improving manufacturing sentiment came after firms reportedly increased their payrolls. However, firms continued to face supply chain disruption with both input and output prices skyrocketing to a four-year high.

Looking ahead, the spill-overs from an improving global demand amid tech upcycle, better business and consumer sentiments, and a gradual return to normalization are set to benefit the manufacturing sector in 2021. As such, we have raised our GDP projection to 5.5%–6.0% (BNM: 6.0%-7.5%).

- Local manufacturing PMI posted its highest reading since July 2020 at 49.9 in March from 47.7 in February, pointing to stabilized operating conditions during the month as manufacturers prepare for better times ahead. Nonetheless, the PMI remains under the contraction region for the eighth consecutive month.
- The evidence of improving manufacturing sentiment came after firms reportedly increased their payrolls which led to the employment sub-index jumping to the expansionary region for the first time since April 2019. Notably, the demand for labour was bolstered by the firms' preparation for future orders that required higher capacity. As at January, the employment in manufacturing sector stood at 2.2 million or 2.4% y/y.
- The improvement in the health of the sector was supported by a decent pick-up in new orders and output levels, both of which expanded to a large magnitude since October 2020 and January 2021, respectively.
- Meanwhile, new export orders remained tepid as some firms reported returning orders in Asia and the Americas. We noticed that the subdued new export orders index coincides with softening manufacturing exports for two consecutive months at -3.8% m/m in February and -3.1% m/m in January 2021. However, we think the impact may only be temporary due to the global second-wave Covid-19 impact at the start of 2021.
- Nonetheless, firms continued to experience challenges in sourcing and delivering raw materials which resulted in shortages and delays following the restrictive measures that stretched the supply chain to some degree.

- As a result, the firms' input and output prices skyrocketed to a four-year high, reflecting the increase in a broad variety of raw material prices and higher freight cost. They also sought to partially pass down the cost to their clients. This also coincides with February's manufacturing factory gate price, which rose 1.5% y/y (Jan'20: 1.1%), the highest since November 2017.
- The positive growth recorded in manufacturing PMI prints is in line with our Asean peers. Similarly, Indonesia and Thailand unveiled their March manufacturing PMI which rose once again to 53.2 and 48.8, as compared to 50.9 and 47.2, respectively in February.
- Looking ahead, the spill-overs from an improving global demand amid tech upcycle, better business and consumer sentiment, and a gradual return to normalization are set to benefit the manufacturing sector in 2021. Also, the declining domestic Covid-19 cases followed by the government's decision to ease SOP restrictions in the manufacturing sector should help reduce production constrains. As such, we have raised our GDP projection to 5.5%–6.0% (BNM: 6.0%-7.5%).

Table 1: Key Manufacturing Data

	Mar'20	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan'21	Feb	Mar
PMI	48.4	31.3	45.6	51.0	50.0	49.3	49.0	48.5	48.4	49.1	48.9	47.7	49.9
IP (y/y %)	-5.1	-32.1	-21.8	-0.4	1.3	-0.2	0.9	-0.6	-2.4	1.7	1.2	nm	nm
Mfg Output (y/y %)	-4.1	-37.2	-22.6	4.7	2.9	2.2	4.3	2.4	2.0	4.1	3.5	nm	nm
Export Oriented (y/y %)	-2.2	-31.0	-18.1	7.8	5.1	3.5	5.5	3.0	2.5	4.7	4.5	nm	nm
Domestic Oriented (y/y %)	-8.3	-50.9	-33.1	-2.3	-1.8	-0.6	1.4	0.9	1.0	2.7	1.4	nm	nm
Mfg Sales (y/y %)	-3.0	-33.0	-20.4	4.2	1.9	1.6	3.7	2.2	2.1	4.5	4.1	nm	nm
Leading Index (y/y %)	-3.8	-6.0	0.8	5.0	8.1	8.2	9.1	6.5	7.5	7.6	8.2	nm	nm
Coincident Index (y/y %)	-2.3	-16.3	-9.4	-2.4	-2.2	-2.3	-1.2	-2.2	-1.9	-1.3	-2.2	nm	nm

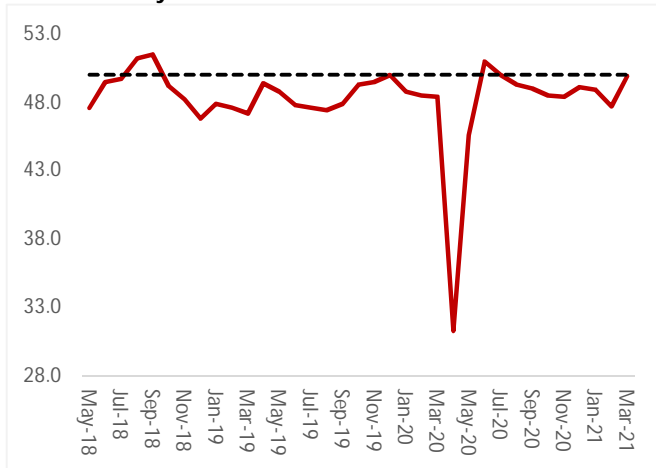
Source: CEIC/AmBank Research

Table 2: Regional Markit Manufacturing PMI

	Mar'20	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan'21	Feb	Mar
World	47.3	39.6	42.4	48.0	50.6	51.8	52.4	53.1	53.8	53.8	53.6	53.9	55.0
Developed Markets	45.9	36.8	39.6	46.4	49.8	51.2	52.1	52.8	53.8	54.8	55.2	56.5	58.5
Euro Area	44.5	33.4	39.4	47.4	51.8	51.7	53.7	54.8	53.8	55.2	54.8	57.9	62.4
ASEAN	43.4	30.7	35.5	43.7	46.5	49.0	48.3	48.6	50.0	50.8	51.4	49.7	nm
United States	48.5	36.1	39.8	49.8	50.9	53.1	53.2	53.4	56.7	57.1	59.2	58.6	59.1
Germany	45.4	34.5	36.6	45.2	51.0	52.2	56.4	58.2	57.8	58.3	57.1	60.7	66.6
United Kingdom	47.8	32.6	40.7	50.1	53.3	55.2	54.1	53.7	55.6	57.5	54.1	55.1	58.9
Japan	44.8	41.9	38.4	40.1	45.2	47.2	47.7	48.7	49.0	50.0	49.8	51.4	52.7
China	50.1	49.4	50.7	51.2	52.8	53.1	53.0	53.6	54.9	53.0	51.5	50.9	50.6
India	51.8	27.4	30.8	47.2	46.0	52.0	56.8	58.9	56.3	56.4	57.7	57.5	nm
Taiwan	55.8	43.7	42.2	46.0	49.8	52.7	55.8	54.9	56.6	60.5	62.2	57.4	67.0
Thailand	46.4	35.8	41.3	42.5	45.3	50.0	49.6	51.1	50.7	52.3	48.5	47.2	49.2
South Korea	44.2	41.6	41.3	43.4	46.9	48.5	49.8	51.2	52.9	52.9	53.2	55.3	55.3
Indonesia	45.3	27.5	28.6	39.1	46.9	50.8	47.2	47.8	50.6	51.3	52.2	50.9	53.2
Philippines	39.7	31.6	40.1	49.7	48.4	47.3	50.1	48.5	49.9	49.2	52.5	52.5	nm
Vietnam	41.9	32.7	42.7	51.1	47.6	45.7	52.2	51.8	49.9	51.7	51.3	51.6	53.6
Malaysia	48.4	31.3	45.6	51.0	50.0	49.3	49.0	48.5	48.4	49.1	48.9	47.7	49.9

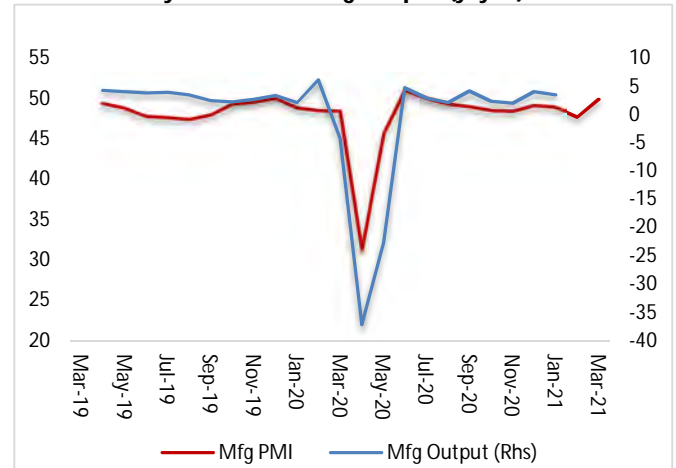
Source: CEIC/AmBank Research; Note: US = Markit PMI

Chart 1: Malaysia PMI



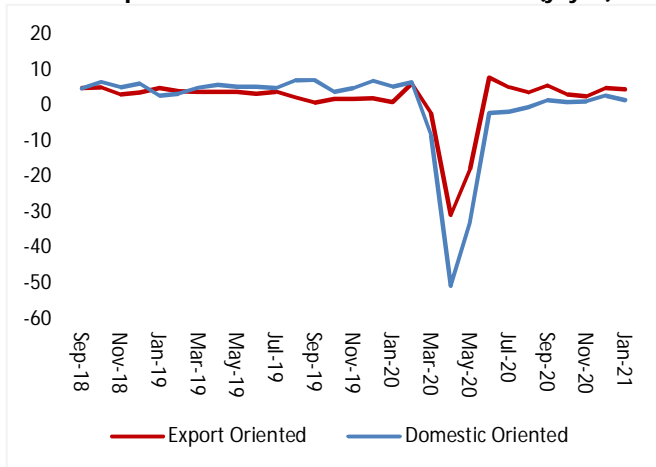
Source: CEIC/AmBank Research

Chart 2: Malaysia PMI and Mfg Output (y/y %)



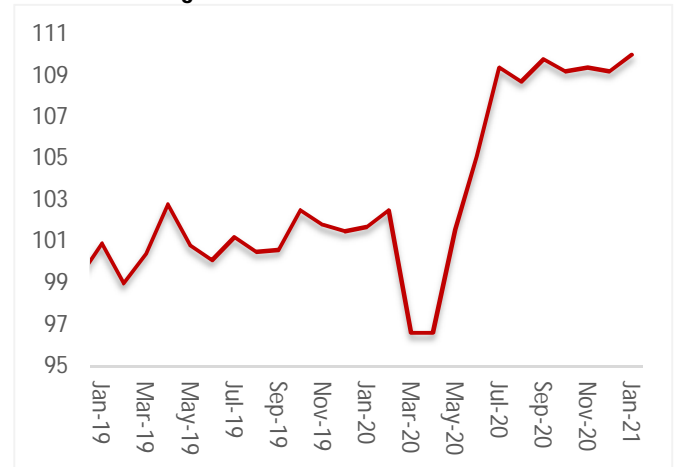
Source: CEIC/AmBank Research

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



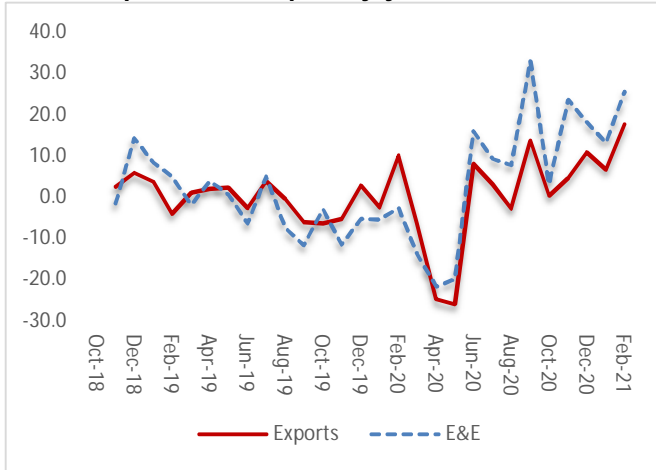
Source: CEIC/AmBank Research

Chart 4: Leading Index



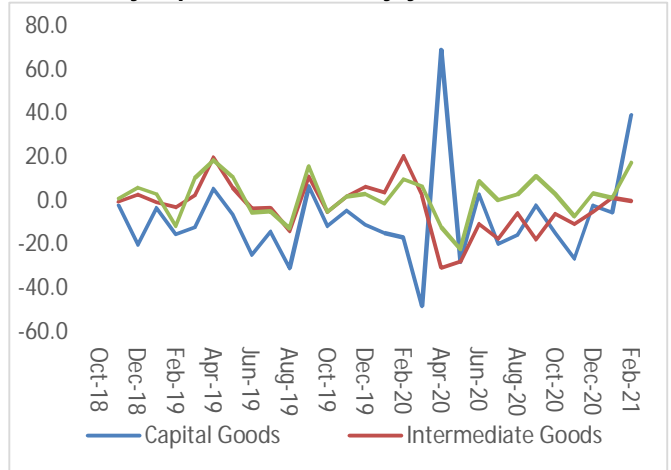
Source: CEIC/AmBank Research

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



Source: CEIC/AmBank Research

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



Source: CEIC/AmBank Research

DISCLOSURE AND DISCLAIMER

This report is prepared for information purposes only and it is issued by AmBank (M) Berhad (“AmBank”) without regard to your individual financial circumstances and objectives. Nothing in this report shall constitute an offer to sell, warranty, representation, recommendation, legal, accounting or tax advice, solicitation or expression of views to influence any one to buy or sell any real estate, securities, stocks, foreign exchange, futures, investment or other products. AmBank recommends that you evaluate a particular investment or strategy based on your individual circumstances and objectives and/or seek financial, legal or other advice on the appropriateness of the particular investment or strategy.

The information in this report was obtained or derived from sources that AmBank believes are reliable and correct at the time of issue. While all reasonable care has been taken to ensure that the stated facts are accurate and views are fair and reasonable, AmBank has not independently verified the information and does not warrant or represent that they are accurate, adequate, complete or up-to-date and they should not be relied upon as such. All information included in this report constitute AmBank’s views as of this date and are subject to change without notice. Notwithstanding that, AmBank has no obligation to update its opinion or information in this report. Facts and views presented in this report may not reflect the views of or information known to other business units of AmBank’s affiliates and/or related corporations (collectively, “AmBank Group”).

This report is prepared for the clients of AmBank Group and it cannot be altered, copied, reproduced, distributed or republished for any purpose without AmBank’s prior written consent. AmBank, AmBank Group and its respective directors, officers, employees and agents (“Relevant Person”) accept no liability whatsoever for any direct, indirect or consequential losses, loss of profits and/or damages arising from the use or reliance of this report and/or further communications given in relation to this report. Any such responsibility is hereby expressly disclaimed.

AmBank is not acting as your advisor and does not owe you any fiduciary duties in connection with this report. The Relevant Person may provide services to any company and affiliates of such companies in or related to the securities or products and/or may trade or otherwise effect transactions for their own account or the accounts of their customers which may give rise to real or potential conflicts of interest.

This report is not directed to or intended for distribution or publication outside Malaysia. If you are outside Malaysia, you should have regard to the laws of the jurisdiction in which you are located.

If any provision of this disclosure and disclaimer is held to be invalid in whole or in part, such provision will be deemed not to form part of this disclosure and disclaimer. The validity and enforceability of the remainder of this disclosure and disclaimer will not be affected.