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ECONOMICS

In this report:

Malaysia – Manufacturing remains under pressure

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Thursday, 02 September 2021

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Malaysia

Manufacturing remains under pressure

Manufacturing's performance remained in the contraction region for the third consecutive month, though August reading of 43.4 showed a modest improvement from July. This trend is well within expectation as manufacturers were impacted by uncertainties arising from Covid cases and the measures taken, plus domestic challenges and external demand.

Going forward, much will depend on the speed of vaccination; effectiveness of the vaccination; how best the current SOP can be simplified for easy understanding by the business and community; reopening of the economy with a lower risk of another lockdown; domestic issues; and external demand.

We expect 2H2021 to be more challenging, especially 3Q2021. We hope the economy will recover modestly in 4Q2021. With such a view, we project the economy to grow around 3.0%–3.5% for 3Q21 with the downside risk at 1.5%. This would mean the 2H of 2021 would hover around 0.5% (with the lower end at 0%) to achieve our full-year growth target.

A. Key Highlights

- The effects of MCO 3.0 continued into August. Although the headline IHS Markit Malaysia manufacturing Purchasing Managers' Index (PMI) remained in the contraction region of below 50 for the third consecutive month, August recorded 43.4, better than July's 40.1.
- The poor reading was due to a continued drag in output following weak demand with the rise in unemployment as well as shortages of inputs as a result of the MCO-induced disruption. New orders, which include exports, also fell.
- Overall confidence is seen to be weak. Uncertainties remained as Covid-19 cases were still high domestically and rising in key external markets, dampening external demand further. Higher input cost also weighed on confidence.

B. Key Takeaways

- Continued poor manufacturing performance is expected, given the uncertainties from the rising Covid cases and impact from the restrictive measures to contain the virus spread. It would certainly have an adverse bearing on the overall economic performance in 3Q of 2021.
- Even with the relaxation of the restrictive measures, some businesses are still reluctant to open in fear of another lockdown. Many are still struggling to understand and meet the SoP criteria driven by the categorisation of essential and non-essential services, thus still disrupting the supply chain.



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- Looking ahead, much will now depend on the speed of vaccination; effectiveness of the vaccination; how best the current SoP can be simplified for easy understanding by the business and community; re-opening of the economy with lower risk of another lockdown; domestic issues; and external demand.
- We expect 2H2021 to be more challenging, especially 3Q2021. We hope the economy will recover modestly in 4Q2021. With such a view, we project the economy to grow around 3.0%–3.5% for 3Q21 with the downside risk at 1.5%. This would mean the 2H of 2021 would hover around 0.5% (with the lower end at 0%) to achieve our full-year growth target.

Table 1: Key Manufacturing Data

	Aug'20	Sep	Oct	Nov	Dec	Jan'21	Feb	Mar	Apr	May	Jun	Jul	Aug
PMI	49.3	49.0	48.5	48.4	49.1	48.9	47.7	49.9	53.9	51.3	39.9	40.1	43.4
IP (y/y %)	-0.2	0.9	-0.6	-2.4	1.7	1.2	1.5	9.3	50.1	26.1	1.4	nm	nm
Mfg Output (y/y %)	2.2	4.3	2.4	2.0	4.1	3.5	4.5	12.7	68.0	29.8	-0.2	nm	nm
Export Oriented (y/y %)	3.8	5.6	2.8	2.6	4.7	4.6	5.8	12.4	52.8	25.3	8.7	nm	nm
Domestic Oriented (y/y %)	-0.8	1.4	1.3	0.9	3.0	1.5	1.8	13.4	110.9	41.1	-20.8	nm	nm
Mfg Sales (y/y %)	1.6	3.7	2.2	2.1	4.5	4.1	6.4	15.3	72.5	37.2	6.5	nm	nm
Leading Index (y/y %)	8.2	9.1	6.5	7.5	7.6	8.3	8.5	17.2	15.6	6.9	0.5	nm	nm
Coincident Index (y/y %)	-2.3	-1.2	-2.2	-1.9	-1.3	-2.2	-2.0	4.1	20.2	10.0	-3.0	nm	nm

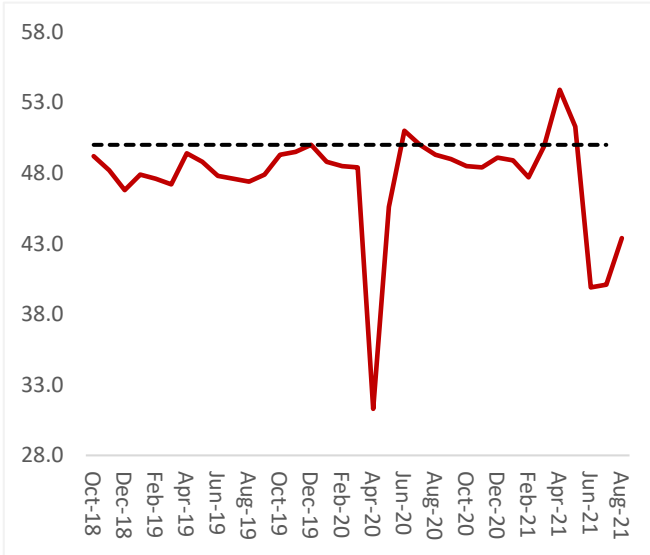
Source: CEIC/AmBank Research

Table 2: Regional Market Manufacturing PMI

	Aug'20	Sep	Oct	Nov	Dec	Jan'21	Feb	Mar	Apr	May	Jun	Jul	Aug
World	51.8	52.4	53.1	53.8	53.8	53.6	54.0	55.0	55.8	56.0	55.5	55.4	
Dev. Markets	51.2	52.1	52.8	53.8	54.8	55.2	56.5	58.5	59.3	59.8	59.5	59.8	
Euro Area	51.7	53.7	54.8	53.8	55.2	54.8	57.9	62.5	62.9	63.1	63.4	62.8	
Asia	51.2	51.7	52.5	53.3	52.6	51.9	51.8	51.9	52.9	52.4	51.4	51.0	
ASEAN	49.0	48.3	48.6	50.0	50.8	51.4	49.7	50.8	51.9	51.8	49.0	44.6	44.5
US	53.1	53.2	53.4	56.7	57.1	59.2	58.6	59.1	60.5	62.1	62.1	63.4	
Germany	52.2	56.4	58.2	57.8	58.3	57.1	60.7	66.6	66.2	64.4	65.1	65.9	
UK	55.2	54.1	53.7	55.6	57.5	54.1	55.1	58.9	60.9	65.6	63.9	60.4	
Japan	47.2	47.7	48.7	49.0	50.0	49.8	51.4	52.7	53.6	53.0	52.4	53.0	52.7
China	53.1	53.0	53.6	54.9	53.0	51.5	50.9	50.6	51.9	52.0	51.3	50.3	49.2
India	52.0	56.8	58.9	56.3	56.4	57.7	57.5	55.4	55.5	50.8	48.1	55.3	
Taiwan	52.7	55.8	54.9	56.6	60.5	62.2	57.4	67.0	64.2	61.9	55.3	59.9	58.3
Thailand	50.0	49.6	51.1	50.7	52.3	48.5	47.2	49.2	49.7	46.4	48.9	48.0	48.5
S.Korea	48.5	49.8	51.2	52.9	52.9	53.2	55.3	55.3	54.6	53.7	53.9	53.0	51.2
Indonesia	50.8	47.2	47.8	50.6	51.3	52.2	50.9	53.2	54.6	55.3	53.5	40.1	43.7
Philippines	47.3	50.1	48.5	49.9	49.2	52.5	52.5	52.2	49.0	49.9	50.8	50.4	46.4
Vietnam	45.7	52.2	51.8	49.9	51.7	51.3	51.6	53.6	54.7	53.1	44.1	45.1	40.2
Malaysia	49.3	49.0	48.5	48.4	49.1	48.9	47.7	49.9	53.9	51.3	39.9	40.1	43.4

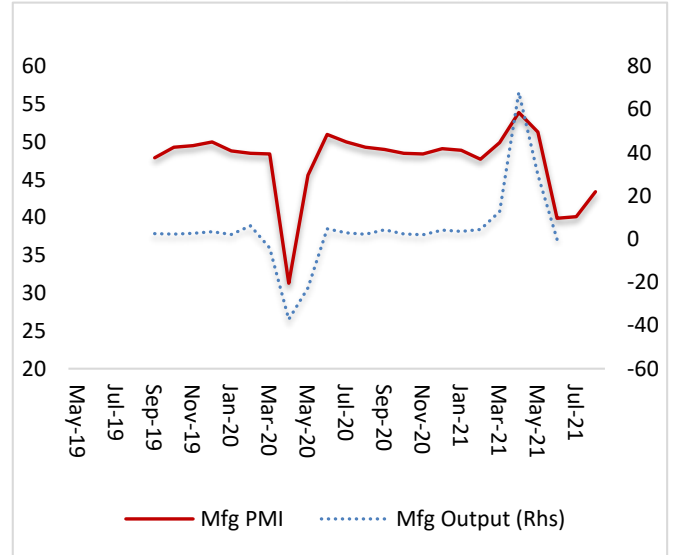
Source: CEIC/AmBank Research; Note: US = Markit PMI

Chart 1: Malaysia PMI



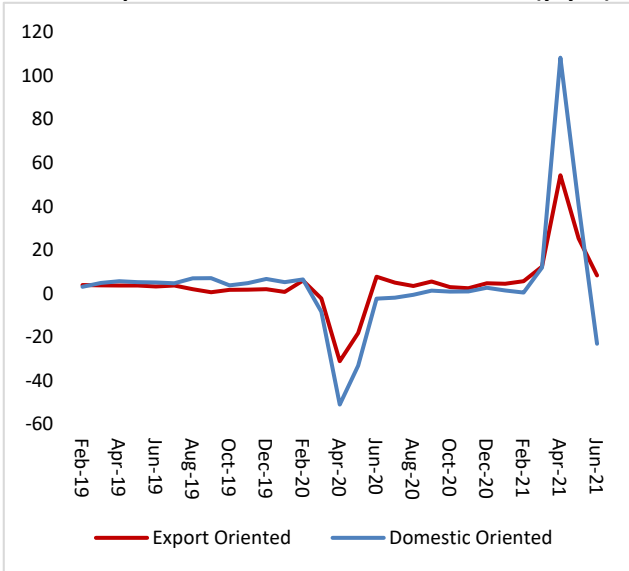
Source: CEIC/AmBank Research

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



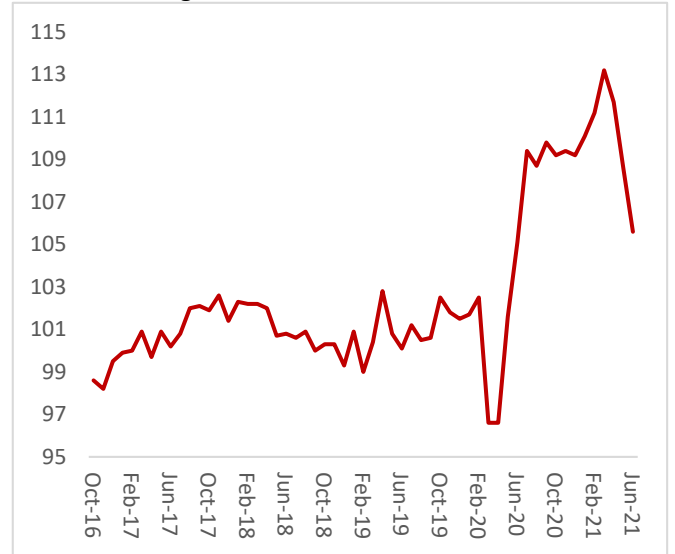
Source: CEIC/AmBank Research

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



Source: CEIC/AmBank Research

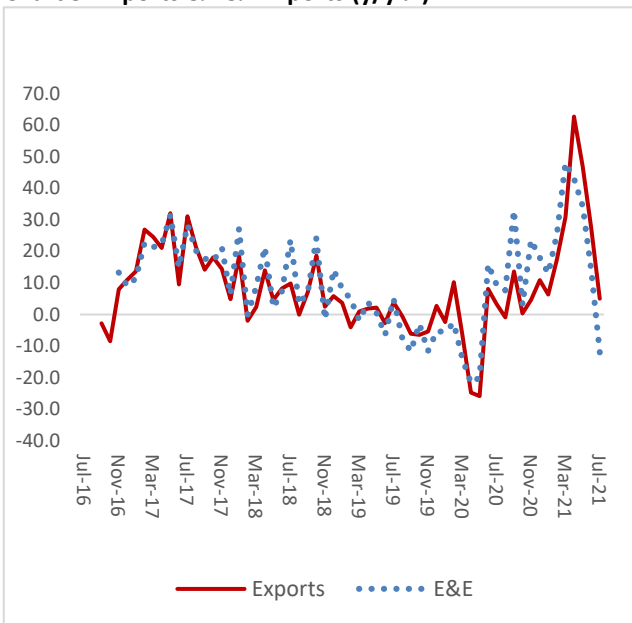
Chart 4: Leading Index



Source: CEIC/AmBank Research

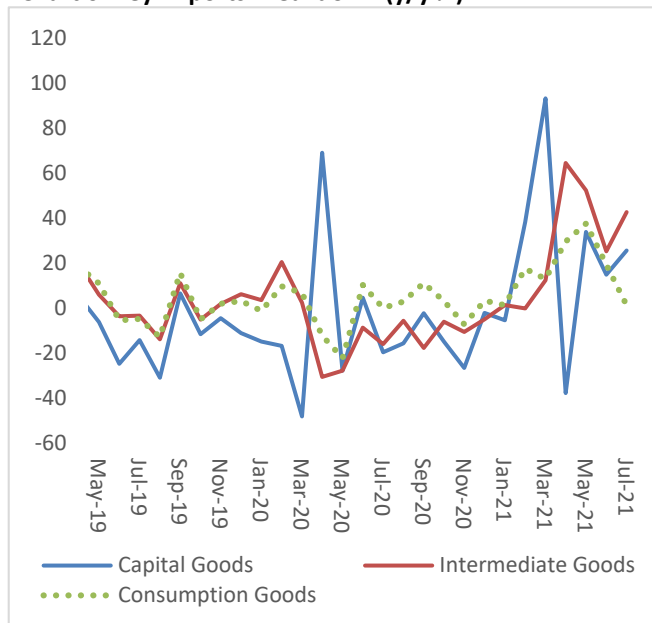


Chart 5: Exports & E&E Exports (y/y %)



Source: CEIC/AmBank Research

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



Source: CEIC/AmBank Research



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