Malaysia Manufacturing PMI

Slowdown extends into June on tapered external demand

OVERVIEW

- **Manufacturing condition worsened in June,** remaining in a contractionary mode for the ninth consecutive month. The deterioration in the Purchasing Manager's Index (PMI) was attributable to challenging demand conditions, particularly at the external front. June's PMI reading stood at 47.8, below May's 48.8.
- **Softer demand conditions prompted the deceleration in production activities,** with the index decreasing for the second successive month. The weakness was mainly attibutable to external demand, with countries such as Australia, Germany, Singapore and other Asian economies being highlighted as the key sources of weakness.

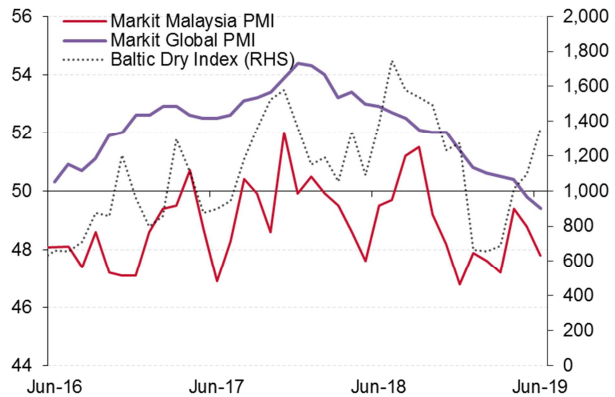
Table 1: ASEAN countries ranked by Manufacturing PMI

	PMI	Change signal
Myanmar	53.0	Solid increase
Vietnam	52.5	Modest increase
Philippines	51.3	Modest increase
Thailand	50.6	Marginal increase
Indonesia	50.6	Marginal increase
Malaysia	47.8	Modest decrease
Singapore	42.9	Solid decrease

Source: IHS Markit, Kenanga Research

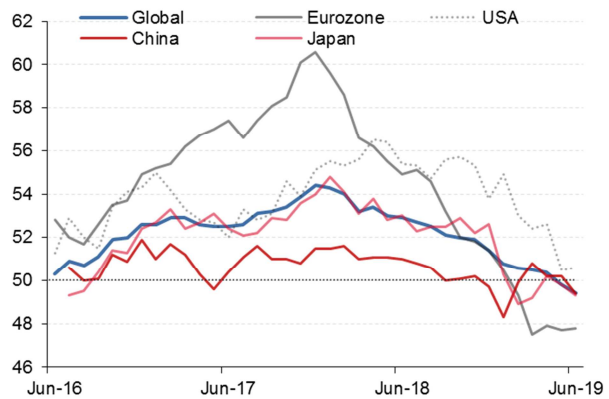
- **Consequently, new export orders endured a steeper decline, exerting a downward pressure to the overall new orders index.** Of note, companies opined that the competition for sales was stiffer in June, hence leading to the difficulties in attracting new business.
- **Nonetheless, manufacturers remained upbeat with regards to their domestic and external sales prospects in the next 12 months,** with the outlook for output spiked to its highest since October 2013, trending up for the fourth consecutive month. The optimism was underscored by planned capacity expansions and better underlying sales forecast, which subsequently encouraged firms to enhance their marketing, sales and investment initiatives. Additionally, **employment was unchanged since May,** as some firms employed additional staff to enhance efficiency, while some opted to reduce headcounts as part of their cost-cutting measures.
- **Input cost eased in June, but remained the second highest level in 2019,** amid slight appreciation of the Ringgit against the greenback (4.16; May: 4.17). Selling prices were left broadly unchanged, as firms decided to absorb the relatively high cost, to avoid further depletion in demand. This was in line with the sustained inflation growth (May: 0.2%) observed in the recent three months and reiterated our view of a benign inflation outlook in 2019 (0.7%; 2018: 1.0%), against the backdrop of global growth slowdown and elevated uncertainties arising from the US-China trade dispute and the US-Iran conflict.
- **Manufacturing activity slumped further across regions.** In the advanced economies, manufacturing sector retained its contractionary mode in the Eurozone, marking the third-steepest decline in six years on the back of continued decrease in new goods orders. In the US, the sector expanded at the second-slowest pace since September 2009 amid weaker production growth. In the ASEAN region, the manufacturing sector fell into contraction for the first time in four months given minimal expansion in output and decreasing employment, especially in Thailand and the Philippines. Similarly in China and Taiwan, the manufacturing sector experienced a steeper deterioration, owing to declines in total sales, export orders and production.
- Overall, **we retain our cautiously optimistic outlook on manufacturing conditions in light of heightened risk from the external sector.** While the US and China have recently agreed on a temporary trade truce, deferring new tariffs on USD300b of Chinese goods, **uncertainty on whether an actual trade deal could be finalised remains large.** In line with this, 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 softer 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	*Jun-18*	Jan-19	Feb-19	Mar-19	Apr-19	May-19	**Jun-19**
Markit Malaysia PMI	49.4	49.4	*49.5*	47.9	47.6	47.2	49.4	48.8	**47.8**
New Orders*			*Down*	Down	Down	Down	Up	Up	**Down**
Output*			*Down*	Down	Down	Down	Up	Down	**Down**
Employment*			*Up*	Up	Flat	Flat	Up	Flat	**Flat**
Stocks of Purchases*			*Down*	Down	Down	Down	Down	Down	**Down**
Markit Global PMI	53.1	52.8	*53.0*	50.8	50.6	50.5	50.4	49.8	**49.4**
Baltic Dry Index	1,150	1,339	*1,385*	668	658	689	1,011	1,096	**1,354**
DoS Leading Index	118.9	118.7	*118.5*	118.8	116.2	117.0	120.0	-	**-**

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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