Malaysia Manufacturing PMI

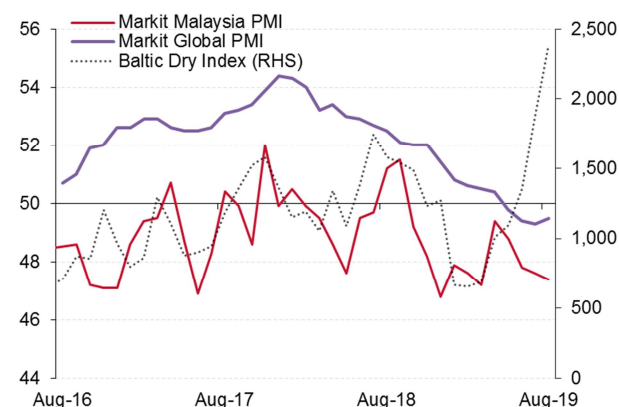## Deteriorates further in August, while business optimism improves

OVERVIEW

- **Manufacturing condition worsened marginally in August,** remaining in a contractionary mode for the eleventh consecutive month. The deterioration in the Purchasing Manager's Index (PMI) was attributable to rocky demand conditions and growing cost pressures. August's PMI reading stood at 47.4, below July's 47.6.

- **Soft demand conditions persisted, prompting continued deceleration in production activities.** The weakness was led by external demand, as the elevated global trade tensions weighed on economic expansions of major export markets. However, the slowdown in output was partially weathered by new product launches during the month.

Table 1: ASEAN countries ranked by Manufacturing PMI

	PMI	Change signal
Myanmar	52.0	Modest increase
Philippines	51.9	Modest increase
Vietnam	51.4	Modest increase
Thailand	50.0	Stagnant
Indonesia	49.0	Marginal decrease
Malaysia	47.4	Modest decrease
Singapore	42.9	Solid decrease

Source: IHS Markit, Kenanga Research

- **New export orders endured further slowdown, exerting a downward pressure to the overall new orders index.** Of note, companies cited stiff competition, reduced orders from external clients and trade war concerns as drags to overall sales performance.

- **Nonetheless, manufacturers remained upbeat with regards to their domestic and external sales prospects in the next 12 months,** with the confidence index spiked to its highest since October 2013. The optimism was underscored by planned promotional activity, upcoming new products launches, steady workflow in the pipeline and better sales forecast, which subsequently encouraged firms to expand their operating capacities by **increasing hiring activities, for the first time in three months.**

- **Input cost rose in August,** amid unfavourable Ringgit's movement against the greenback (USDMYR Aug:4.19; Jul: 4.12), increase in commodity prices and shortages of several raw materials. In response to the aforementioned factors, firms raised selling prices at the fastest pace in nine months.

- **Manufacturing activity slumped across regions.** In the advanced economies, manufacturing sector retained its contractionary mode in the Eurozone (47.0), marking the second-steepest decline since April 2013, led by Germany (43.5) and on the back of continued decrease in production and new orders. In the US, the sector registered its lowest growth since September 2009 (50.3), amid lacklustre new orders, providing a clear indication of softer economic growth in the 3Q19. In the ASEAN region, the manufacturing sector declined at the steepest pace since November 2015 (48.9), given falling output and new business inflows, especially in Singapore (42.9) and Malaysia. In contrast, China's manufacturing sector experienced a marginal expansion (50.4), owing to increase in production and stable new orders. In spite of this, pessimism among manufacturers with regards to business outlook prevailed, with the sentiment index edged down to amongst the lowest on record, largely attributable to concerns on the US-China trade negotiations.

- Overall, **we retain our cautiously optimistic outlook on manufacturing conditions in light of heightened risk from the external sector.** With the recent introduction of new tariffs by both the US and China on imports of each other's goods and continued oscillation between escalation and de-escalation of tensions, **a substantive trade deal remains far from sight.** 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.
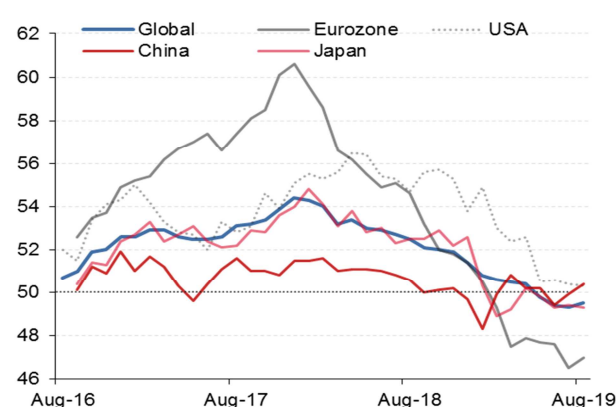
Graph 1: Global & Malaysia Manufacturing PMI

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	*Aug-18*	Mar-19	Apr-19	May-19	Jun-19	Jul-19	**Aug-19**
Markit Malaysia PMI	49.4	49.4	*51.2*	47.2	49.4	48.8	47.8	47.6	**47.4**
New Orders*			*Up*	Down	Up	Up	Down	Up	**Down**
Output*			*Up*	Down	Up	Down	Down	Up	**Down**
Employment*			*Up*	Flat	Up	Flat	Flat	Down	**Up**
Stocks of Purchases*			*Up*	Down	Down	Down	Down	Down	**Down**
Markit Global PMI	53.1	52.8	*52.6*	50.5	50.4	49.8	49.4	49.3	**49.5**
Baltic Dry Index	1,150	1,339	*1,579*	689	1,011	1,096	1,354	1,868	**2,378**
DoS Leading Index	118.9	118.7	*118.9*	117.0	119.9	117.9	117.6	-	**-**

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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