

Malaysia Manufacturing PMI

Manufacturing activity improves slightly in September but remains under pressure

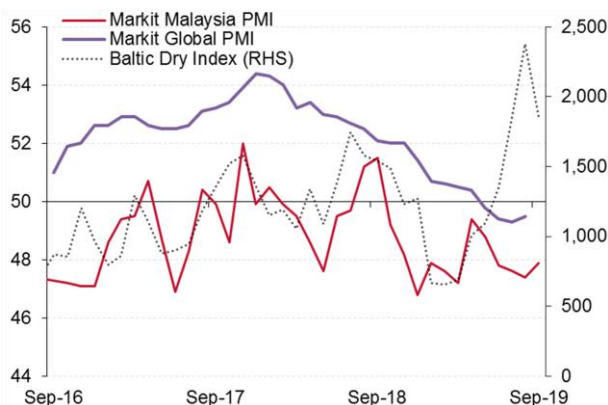
- Manufacturing activity continued to struggle in September but at a softest pace since May**, signalling improvement driven by an increase in new orders and output indices amid challenging business environment. But September's PMI reading stood at 47.9, up marginally from August level of 47.4, and remained in contractionary mode for the twelve straight months.
- According to IHS report, **output index rose in September** due to new product developments and resilient demand supported by existing customers. Besides, **stocks of finished goods rose** to a four-month high in September. On the external front, demand remained fragile, evidenced by a **fall in orders from key export markets**. However, **backlogs declined for a thirteenth straight month** as firms were reported to focus on productivity gains and utilise old stock to finish work.
- Nonetheless, **manufacturers remained optimistic on improved production growth over the next 12-months**, albeit moderating compared to the preceding month. Heightened risk over the global economic environment and geopolitical tensions are to blame for the anaemic outlook.
- Meanwhile, the report states that **manufacturers are under pressure over input cost**, although the rate of input price inflation slowed, and the ringgit strengthened on MoM. Average MYR appreciated by 0.1% MoM in September (Aug: -1.5%) to 4.1855 against the USD. However, most firms kept their selling prices unchanged during the month. This backed our inflation outlook that CPI growth to remain benign in 2H19 with 2019 growth rate projected to slow to 0.7% (2018: 1.0%).
- Mix global manufacturing activity trend.** In the advanced economies, German Flash Manufacturing PMI dropped to a reading of 41.4 (Aug: 43.5) signalling the sharpest decline in business conditions since the depths of the global financial crisis in 2009. Overall, Flash Manufacturing PMI in Eurozone fell to 45.6 in September (Aug: 47.0), the lowest in 7-years which prompted the European Central Bank (ECB) to cut its deposit rate to a new record low of -0.5% and relaunched monetary stimulus in the same month. Bucking the trend, Flash US Manufacturing PMI recovered to 51.0 (Aug: 50.3) the highest reading since April, signalling modest overall improvement in the manufacturing sector. ASEAN manufacturing PMI deteriorated for the fourth straight months in September, remaining in contraction mode though its headline rose to 49.1 (Aug: 48.9) weighed by the decline in production and reduced new orders. Vietnamese manufacturing production dipped in September amid a further slowdown in new order as trade tensions starting to bite its manufacturing sector. Meanwhile, China's manufacturing sector saw a modest improvement in overall operating conditions with PMI reading at 51.4 in September (Aug: 50.4) driven by a faster rise in total new work thanks to the domestic market as trade conflicts still restrained overseas demand.
- Overall, we remain cautiously optimistic on the manufacturing sector as uncertainties in the global economy brought about by the trade feud and growth slowdown in the major economies may weigh on domestic growth due to Malaysia's high exposure to external trade. Should there is a clarity and concrete deal between the US and China, as both are expected to resume trade talks in the second week of October, we expect the domestic manufacturing activities to recover. While uncertainties and weakness in the external sector likely to persist, **we forecast GDP growth to moderate to 4.5% in 2019 (2018: 4.7%)**.

Table 1: ASEAN countries ranked by Manufacturing PMI

	PMI	Change signal
Myanmar	52.9	Modest increase
Vietnam	50.5	Marginal increase
Philippines	51.8	Modest increase
Thailand	50.6	Modest increase
Indonesia	49.1	Marginal decrease
Malaysia	47.9	Modest decrease
Singapore	n/a	n/a

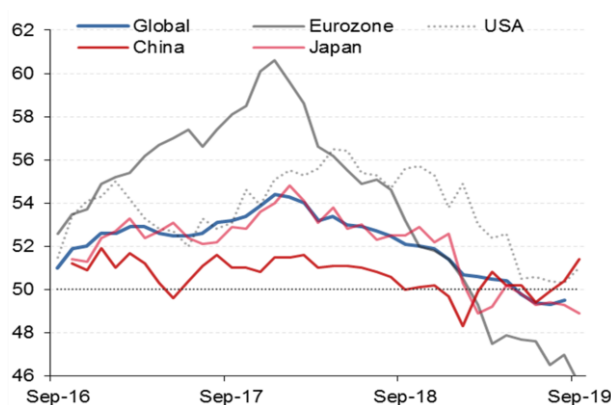
Source: IHS Markit, Kenanga Research

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

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Table 1: Malaysia Industrial Production Trend

	2017	2018	Sep-18	Apr-19	May-19	Jun-19	Jul-19	Aug-19	Sep-19
Markit Malaysia PMI	49.4	49.4	51.5	49.4	48.8	47.8	47.6	47.4	47.9
New Orders*			Up	Up	Up	Down	Up	Down	Up
Output*			Up	Up	Down	Down	Up	Down	Up
Employment*			Up	Up	Flat	Flat	Down	Up	Up
Stocks of Purchases*			Down	Down	Down	Down	Down	Down	Up
Markit Global PMI	53.1	52.8	52.1	50.4	49.8	49.4	49.3	49.5	n/a
Baltic Dry Index	1,150	1,339	1,540	1,011	1,096	1,354	1,868	2,378	1,857
DoS Leading Index	118.9	118.7	118.2	119.9	117.9	-	-	-	

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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