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Amid growth, pessimism remains for manufacturers

THERE is still a level of pessimism among manufacturers despite the economy reopening, although the drop in August was much softer compared to the earlier months due to the impact of the lockdown on business operations.

"The outlook is lacklustre with production costs expected to climb higher and all indicators posting readings below the demarcation level of optimism. Local and export sales are expected to remain weak, while the slowdown in production and capacity is expected to continue. Capital expenditure and recruitment are also expected to slow down," Federation of Malaysian Manufacturers (FMM) president Tan Sri Soh Thian Lai told The Malaysian Reserve (TMR).

The IHS Markit Purchasing Managers' Index (PMI) for Malaysia in August 2021 still recorded a reading below 50 at 43.4, albeit higher than the 40.1 reading in July, he noted.

"This level of pessimism was also echoed in the FMM-MIER (Malaysian Institute of Economic Research) Business Conditions Survey 1H2021 conducted from July 16 to Aug 16, 2021, where the weak business conditions in the first half of 2021 (1H21) were expected to continue into the 2H21 as the Covid-19 pandemic continues to cast uncertainties on the economy and prospects of firms going forward," Soh added.

As businesses start resuming operations and increasing their capacity, he said they are faced with other challenges to support their growth — mainly in manpower shortages of both skilled and unskilled workers, and increasing costs of production including higher sea freight rates which are a major constraint to expanding exports.

Malaysia's manufacturing sales in August 2021 stood at RM126.5 billion, a growth of 6.8% compared to the same month in 2020, influenced by the opening of more economic sectors in line with the transition phases of the National Recovery Plan. The sales value increased 5.5% against the previous month, according to the Monthly Manufacturing Statistics — August 2021 by the Department Of Statistics Malaysia.

Chief statistician Datuk Seri Dr Mohd Uzir Mahidin said the growth in sales value was driven by the petroleum, chemical, rubber and plastic products subsector (31.4%), especially in the manufacture of coke and refined petroleum products industries.

"The expansion was also attributed to the food, beverages and tobacco subsector (7%), supported by the manufacture of food products industries, as well as the electrical and electronic (E&E) products subsector (6.9%), mainly in the manufacture of computer, electronic and optical products industries.

“Sales value for export-oriented industries, which accounted for 75.3% of total sales value, recorded an increase of 14.3% (RM95.2 billion), while domestic-oriented industries posted a decline of 10.8% in August 2021 compared to the same month in 2020,” he said in a statement.

Soh said these sectors were probably in a better position to increase their capacity given that they were already operating earlier, albeit at a reduced capacity, and had orders in hand which they were now able to fulfil as a higher manpower capacity was allowed to return to work.

Penang chief minister’s special investment advisor Datuk Seri Lee Kah Choon said there is also a surge in demand for electronic products due to new technologies such as the Internet of things, automation, 5G and artificial intelligence.

“With the above as background, Penang as a global E&E hub producing 8% of global E&E products is well positioned to reap the benefit of this surge in global demand.

“Going forward, I believe Penang’s economic performance will continue to hold for the rest of 2021,” he told TMR.

Penang has consistently played an important role in the economic wellbeing of Malaysia, contributing more than 30% of Malaysia’s total export value. Penang’s E&E exports make up 60% of Malaysia’s total exports.

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