FMM – MIER Business Conditions Survey

MANUFACTURING ACTIVITY PLUMMETS IN 1H2021, SLUGGISH OUTLOOK FOR 2H2021

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KEY RESULTS:	
BUSINESS ACTIVITY – 1H2021 and OUTLOOK 2H2021	☑ Business activity slows down considerably in 1H2021 ☑ Local sales and export sales weak ☑ Cost of production rises again ☑ Output, capacities, CAPEX and hirings shift lower ☑ Local and export sales expected to remain weak in 2H2021 ☑ Costlier production anticipated in coming months ☑ Slowdown in CAPEX, production volume and recruitment expected in 2H2021
IMPACT OF THE COVID-19 NRP & EMCO ON BUSINESS OPERATIONS	☑ The NRP restrictions have limited the sustainability of 44% of businesses to be between 1 to 6 months ☑ The lockdowns under NRP have caused 55% of respondents to have their orders cancelled due to their inability to deliver, and 40% to have their 2H2021 order contracts reviewed ☑ Most respondents opined that the most effective exit strategy from the pandemic is to ensure all employees are fully vaccinated, including booster shots in 2022, and require all new employees to be vaccinated before commencing work
IMPACT ON EMPLOYMENT	☑ 56% of respondents reduced manpower cost by freezing headcount, removing non-contractual allowances and benefits, reducing workdays/week, imposing forced annual leave and prohibiting part-time work/outsourcing (Top 5 measures) ☑ For those contemplating pay-cuts, possible pay-cut of 5-20% for top management and management, and 10% for executives and non-executives
OTHERS	☑ 38% of respondents called for a moratorium on minimum wage increase for the next 1.5 years ☑ 38% of respondents able to cover more employees under the WSP4.0 with the relaxed condition ☑ Corporate tax reduction topped the list of other assistance required from the Government

Indicators	FMM – MIER Business Conditions Index Values							
	Current (Compared to 6 months ago)				Looking Forward (Next 6 months)			
	2H2019	1H2020	2H2020	1H2021	1H2020	2H2020	1H2021	2H2021
Business conditions	90	31	101	**65**	88	76	87	**60**
Local sales	84	34	88	**56**	86	71	74	**51**
Export sales	91	41	88	**71**	87	69	88	**68**
Production volume	96	35	101	**61**	93	78	91	**62**
Capacity utilisation	97	38	101	**59**	95	78	92	**60**
Capital investment	109	61	88	**78**	105	83	98	**81**
Number of employees	102	82	95	**82**	104	93	102	**87**
Cost of production	144	130	146	**165**	142	133	155	**166**

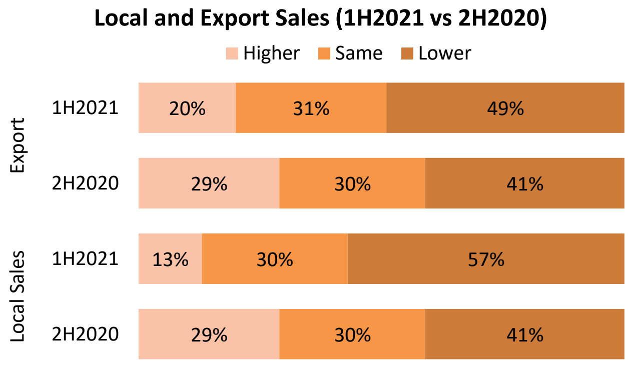
Business activity plummeted in 1H2021 amid a tightening of the Covid-19 lockdowns which put further strains on the manufacturing sector. Except for cost of production, all the other current and forward-looking indicators in the latest survey registered lower than 2H2020, a sign that 1H2021 had posed to be a very challenging period for manufacturers and this is expected to continue for the rest of 2021 as well.

BUSINESS ACTIVITY WANES

Manufacturers reported that business activity had declined tremendously in the first six months of 2021. This is shown by the general business activity index which had plunged far below the 100-point optimism threshold to 65 currently, losing 36 points from 2H2020. 54% of the 687 respondents reported a drop in their business activity in 1H2021, up from 37% in 2H2020. With 19% notching up their business activity, this proportion represents only half of the prior period's 38%.

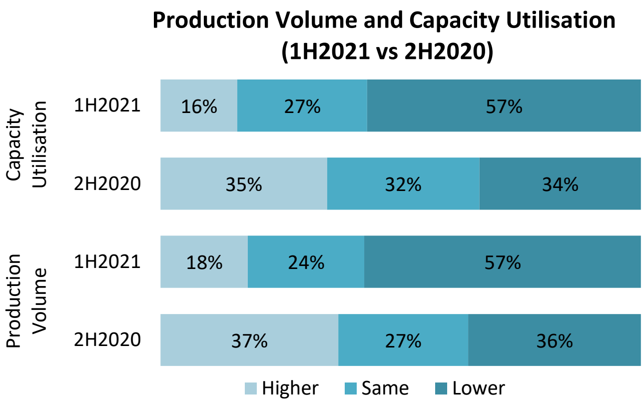
Local Sales Weaker Than Export Sales

Local sales performed worse than export sales in 1H2021. Reflecting this are the latest indexes for current local and export sales which, at 56 and 71, respectively, had lost 33 and 27 points from 2H2020, respectively. 57% of those who sell locally reported lower sales, while only 13% sold more in recent months. Among those who export, 20% enjoyed higher sales this time, but 49% were hit by lower sales, up from 41% previously.



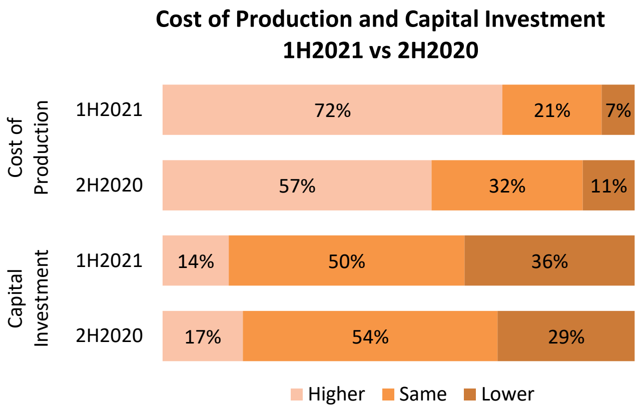
Production Volume and Capacity Utilisation Decline

Slower sales had taken a toll on production and capacity utilisation, as shown by the current indexes for both indicators which had fallen below the optimism level by a wide margin from 2H2020. While the index for current production volume fell to 61 from the prior period's 101, the index for current capacity utilisation plunged to 59, declining 42 points from 2H2020. 57% cut down on their production in 1H2021, while 18% increased their volume, compared to 36% and 37% in 2H2020, respectively. Capacity utilisation also shifted lower for 57% of the respondents this time, up from 34% in 2H2020. Another 16% increased theirs, down from 35% previously.



Production Cost Rises Further

Cost of production rose again in recent months, as depicted by the index for current production cost that surged to 165 from 146 in 2H2020. 72% of the respondents had to put up with higher costs in 1H2021, the highest tabulated since 2H2016. Only 7% reduced their costs, the lowest since 2H2018.

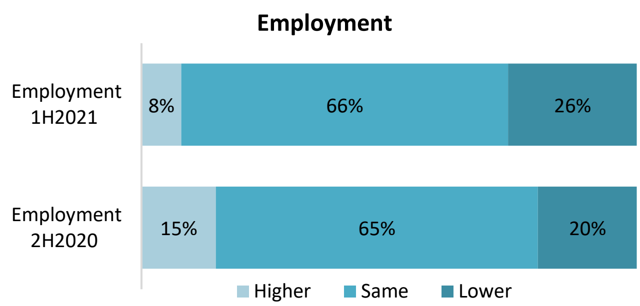


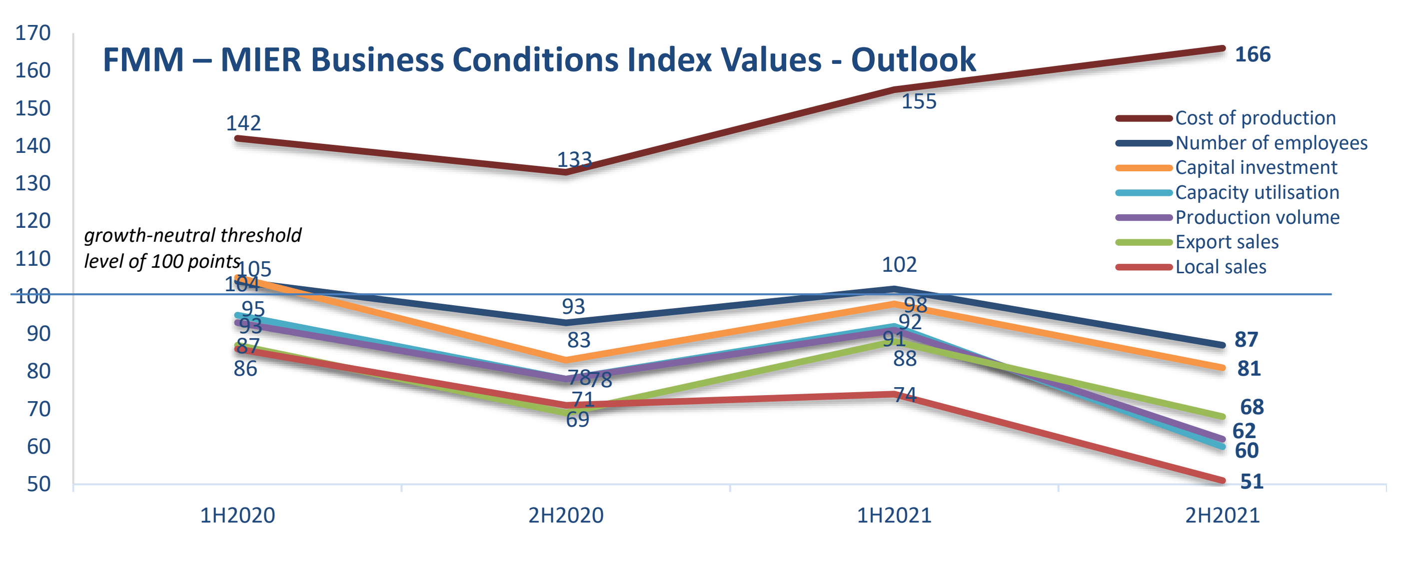
Capital Investment Sags

Capital investment (CAPEX) remained cautious in 1H2021. The index for capital investment fell to 78 from 88 in 2H2020, pointing to a decline in CAPEX in recent months. 36% downscaled theirs, while half of the respondents maintained that their CAPEX had remained unchanged for now. Only 14% pumped in more capital, down from 17% in 2H2020.

Less Active Recruitment

The current index for employment fell to 82 from 95 previously, an inference that job intake in the manufacturing sector has been rather passive in 1H2021. 26% reduced their workforce in 1H2021, while 8% hired more, compared to 20% and 15% in 2H2020, respectively.





CLOUDY OUTLOOK FOR 2H2021

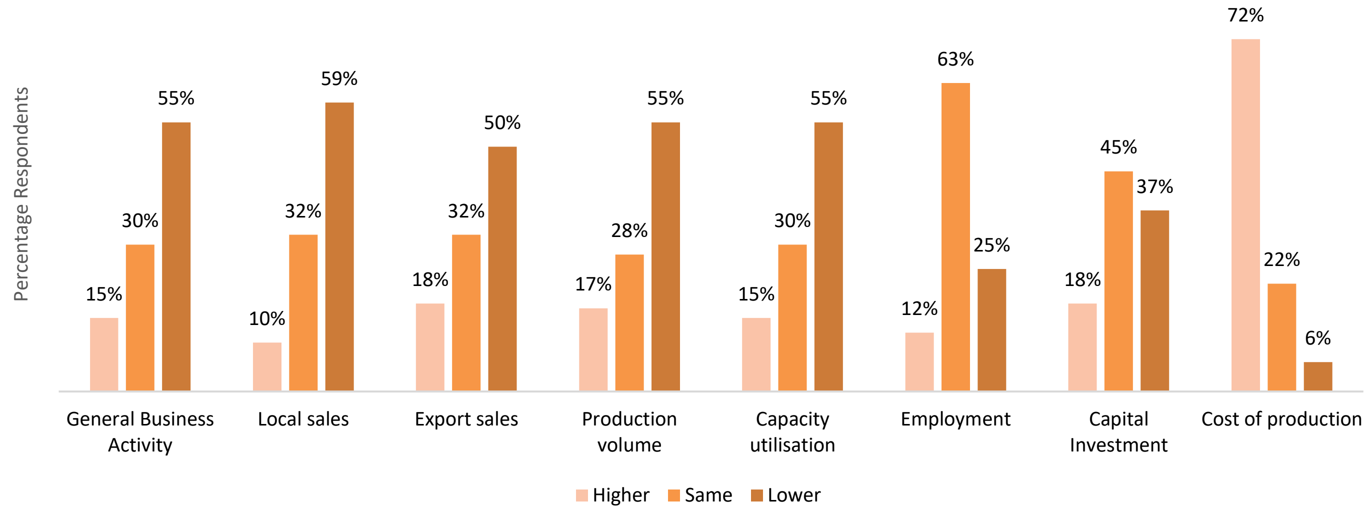
The current business conditions are expected to continue into 2H2021 as the Covid-19 pandemic continues to cast uncertainties on the economy and prospects of businesses going forward. While production costs are expected to climb higher, all the other indicators have posted readings below the demarcation level of optimism, a connotation that the outlook for the manufacturing sector is lacklustre in the coming months.

Business activity for 2H2021 is expected to remain as slow as in 1H2021. The index for expected business activity fell to 60 from 87 points previously, with 55% of the respondents anticipating their business to be equally slow for the rest of the year. Only 15% are positive that their business will pick up soon.

The expected indexes for both local and export sales declined to 51 and 68, respectively, an implication that domestic and external demand will likely remain weak in the coming months as well. 59% of the respondents are forecasting poor local sales in 2H2021, with the same expectations from half of those who export.

Weak sales are dampening the outlook for production and capacity utilisation. Both the expected indexes for these indicators fell from the previous survey to 62 and 60, respectively, suggesting that a decrease in production and capacity utilisation can be expected in 2H2021. 55% of the respondents are planning to reduce their production and capacities soon, while 17% and 15% will likely increase, respectively.

The expected index for cost of production has risen again. At 166, it infers that production will be costlier soon, with 72% of the respondents projecting this for 2H2021. A slowdown in CAPEX is in the pipeline for now, as shown by the expected index for capital expenditure which dipped to 81 in the latest survey. While 37% of the respondents are contemplating cutting back on their CAPEX soon, 18% are considering increasing theirs before the year is out.



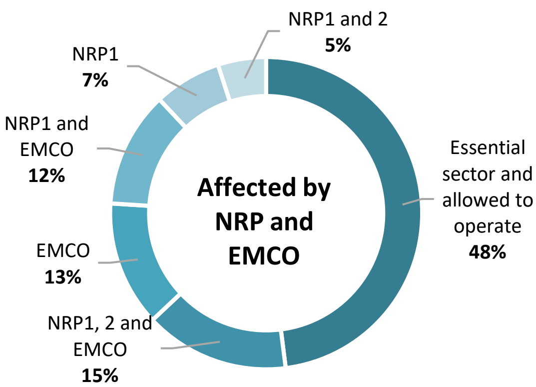
Employment is expected to remain flat in the coming months, as indicated by the index for expected employment which, at 87, had sunk below the optimism threshold this time. This implies that jobs in the manufacturing sector will be harder to come by in the coming months. A quarter of the respondents intend to reduce their workforce, while 12% are planning to increase their headcount and 63% will maintain their headcount for now.

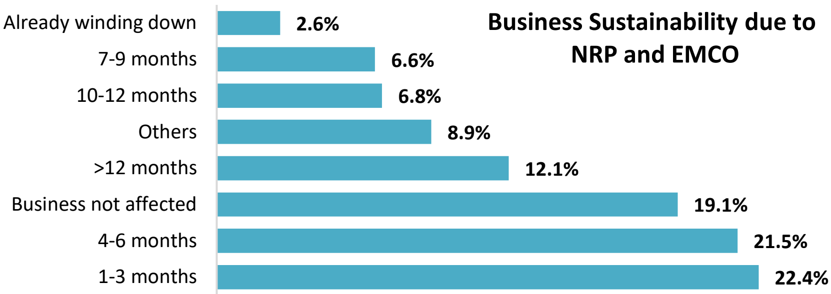
IMPACT OF THE COVID-19 NRP & EMCO ON BUSINESS OPERATIONS

Results of the survey show that Phases 1 and 2 under the National Recovery Plan (NRP) and/or the Enhanced Movement Control Order (EMCO) which restricted business operations, have affected most (48%) of those respondents in the essential sector despite being allowed to operate. Another 15% were affected by the NRP1, 2 and EMCO, while 13% were affected by the EMCO alone. The NRP1 and EMCO also affected another 12% of the respondents.

Due to the impact of the NRP Phase 1, Phase 2 and EMCO on their business, 44% of the respondents opined that their businesses can be sustained for 1-6 months. Among them, 22.4% estimated their business sustainability at 1-3 months, while another 21.5% believed that their businesses can sustain for 4-6 months. A sustainability period of more than 12 months is the assessment of another 12% of the respondents. Only 19% were not affected at all.

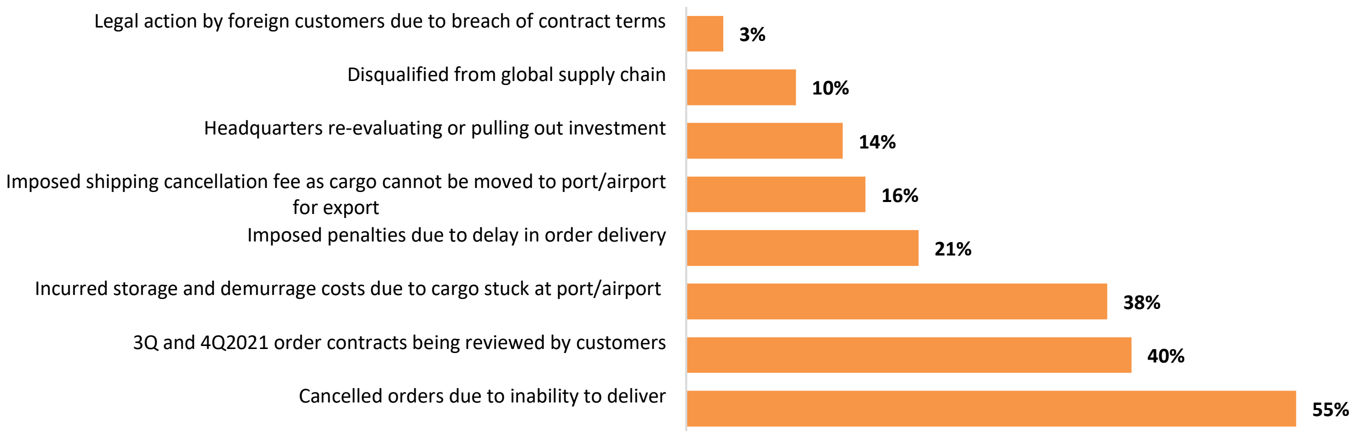
Some respondents also shared the following comments: their business sustainability is impacted by the reduced capacity operation and frequent changes in the SOPs by the government; non-operation by their suppliers have impacted their company's operation despite having approval to operate; and their operations are being sustained by funds from their headquarters abroad.





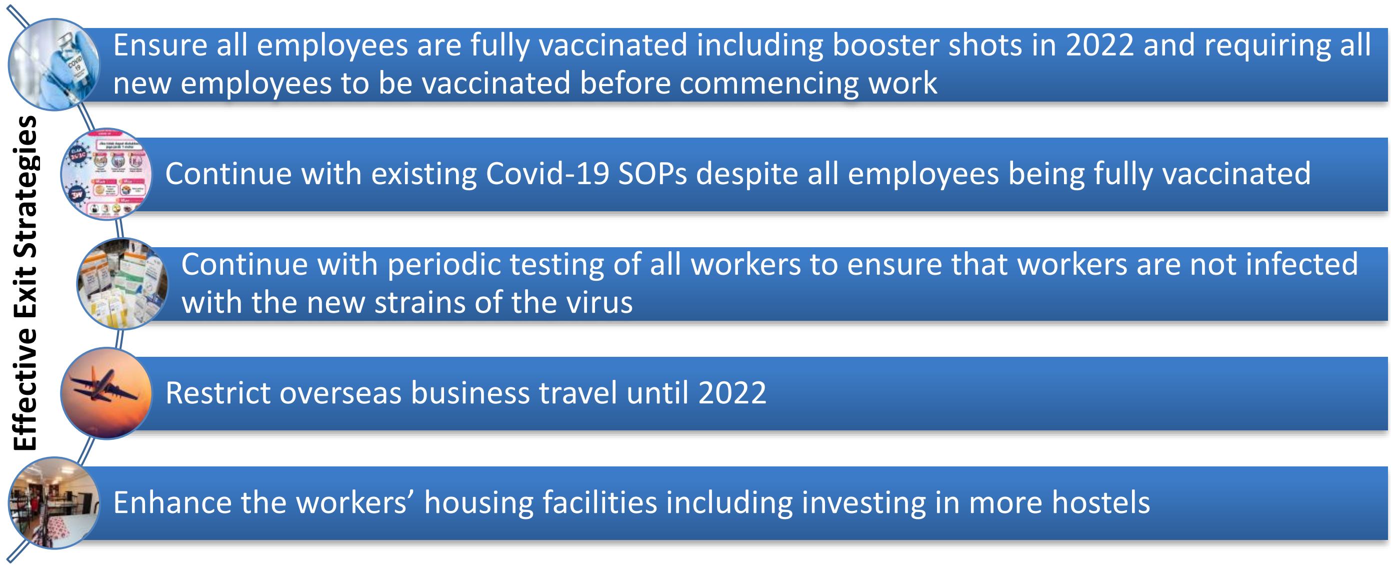
Impact of Lockdowns and Manpower Capacity Restrictions on Business and Operations

Since the lockdowns on 12 May 2021, 55% of the respondents had had their orders cancelled due to their inability to deliver, while 40% had their 2H2021 order contracts reviewed and 38% had to incur storage and demurrage costs for their cargoes which were stuck at the port/airport. Penalties due to delays in order deliveries were imposed on 21% of the respondents and 16% had to pay shipping cancellation fees as their cargoes could not be moved to the port/airport for export.



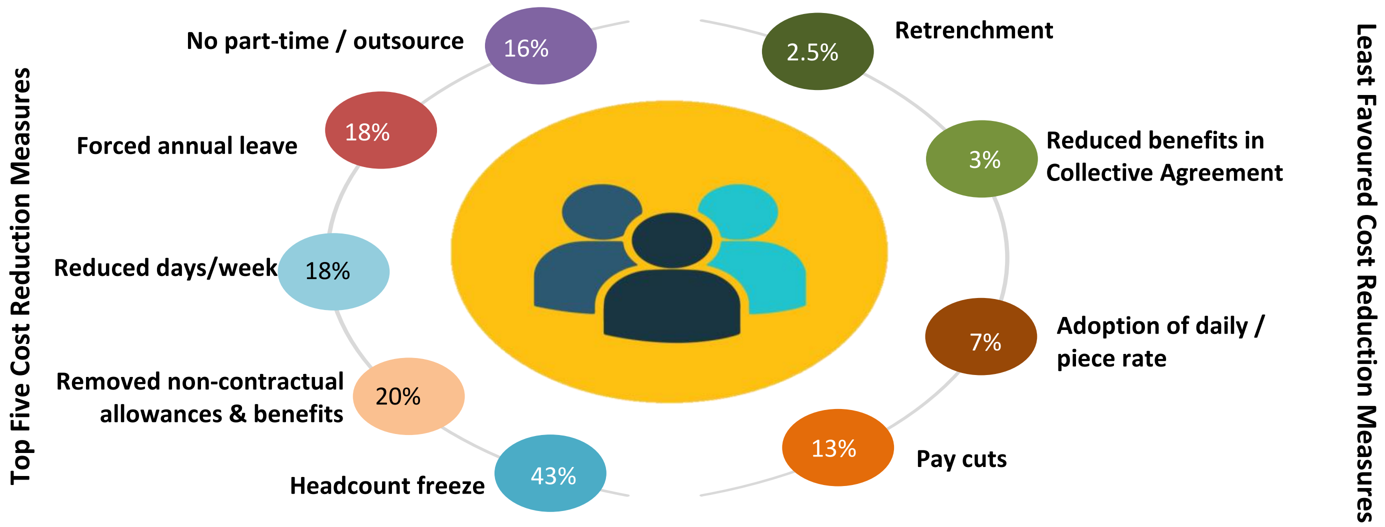
Effective Exit Strategy from Covid-19 Pandemic on Business Operations

On the key elements of an effective exit strategy from Covid-19 pandemic, including having to accept Covid-19 as an endemic in their business operations, majority of the respondents opined that employers should ensure that all their employees are fully vaccinated, including booster shots in 2022, as well as require all new employees to be vaccinated before commencing work. The second most popular strategy indicated by respondents was to continue with the existing Covid-19 SOPs, even when all employees are fully vaccinated. This was followed by the suggestion that periodic testing of all workers should be continued to ensure that they are free from the new strains of the virus. Other strategies noted included the restriction on overseas business travel until 2022 and enhancement of workers' housing facilities, including investment in more hostels.



IMPACT ON EMPLOYMENT

The current situation had driven 56% of the respondents to reduce their manpower cost. Among the many cost reduction measures adopted, the top five undertaken by respondents were headcount freeze, followed by the removal of non-contractual allowances and benefits, reduction in workdays/week, forced annual leave and prohibition on part-time work/outsourcing. The three least favoured measures were, namely, the adoption of daily/piece rate, reduction of benefits in collective agreement and retrenchment.

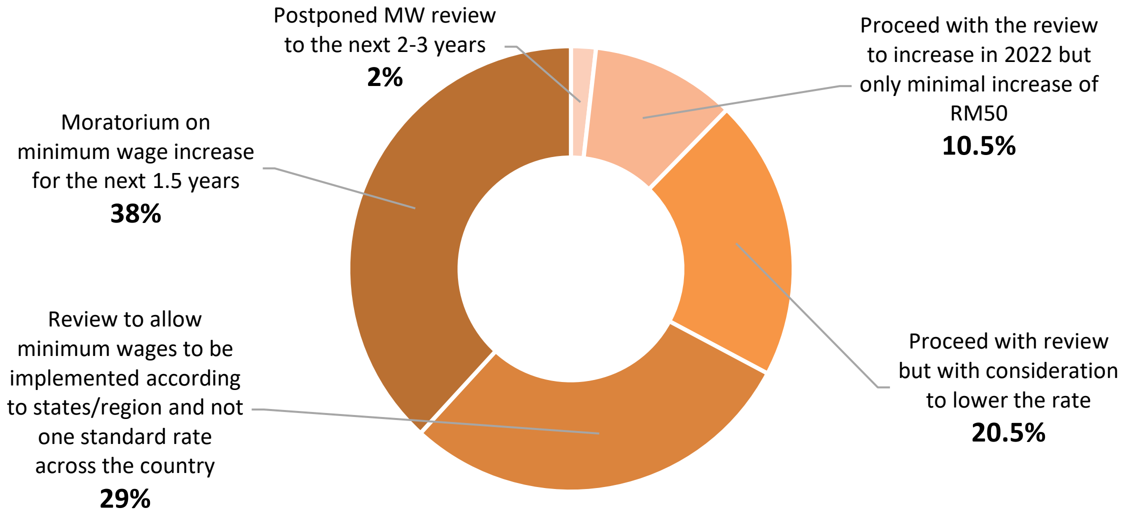


In terms of retrenchment, only 2.5% of the respondents had resorted to doing this in June 2021, while 6.7% will be making this move between August-December 2021 and 3.6% are considering this measure for 2022 and beyond. Of those planning to retrench soon, most will reduce their headcount by up to 20%.

While 13.2% of the respondents have had to resort to pay cuts, another 34.2% are contemplating implementing pay cuts. Among the latter, 52% and 56.6% are mulling over a quantum of 5%-10% and 11%-20% reduction for those in top management and management, respectively. Pay-cuts of up to 10% will likely be implemented by 67.1% on their executives, while 74.4% are considering the same proportion for their non-executives.

MINIMUM WAGE REVIEW

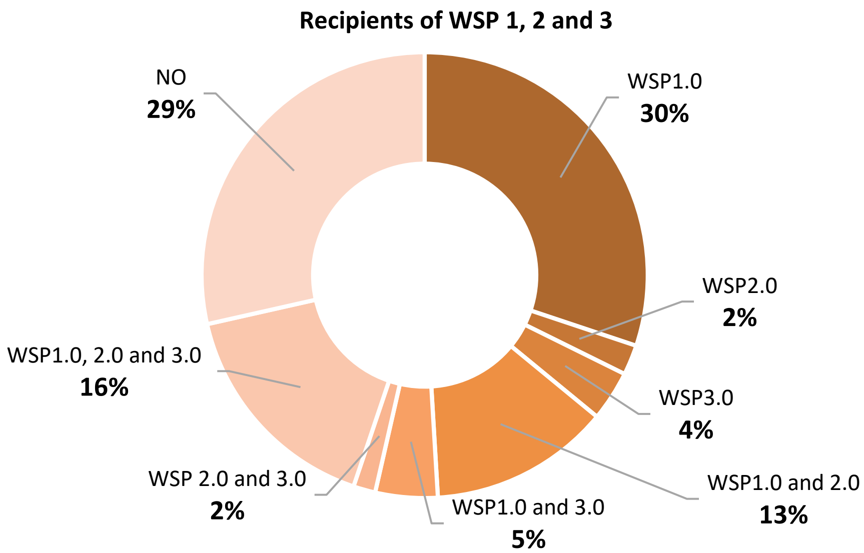
The Government is currently reviewing the minimum wages as the law provides for a review at least once every two years. The last increase in minimum wages was in February 2020. Most (38%) of the respondents believed that there should be a moratorium on minimum wage increase for the next 1.5 years, while 29% opined that the review should allow for minimum wages to be implemented according to states/region and not a blanket standard rate for all. About 20.5% agreed that the review should proceed to increase in 2022, but at a lower rate, while 10.5% suggested a minimal increase of RM50.

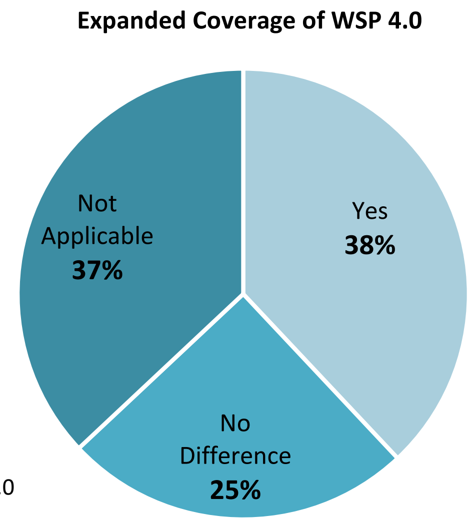


WAGE SUBSIDY PROGRAMME (WSP4.0)

The WSP4.0 announced under the PEMULIH Package has been enhanced with the lifting of the cap on qualifying employees as all employees are now eligible regardless of wages. Depending on the size of the company, it will cover a maximum of 500 employees at a subsidy rate of RM600 per employee. Most (30%) of the respondents were recipients of the WSP1.0, while 13% and 16% received WSP1.0-2.0, as well as WSP1.0-3.0, respectively. 29% did not receive any of the WSP.

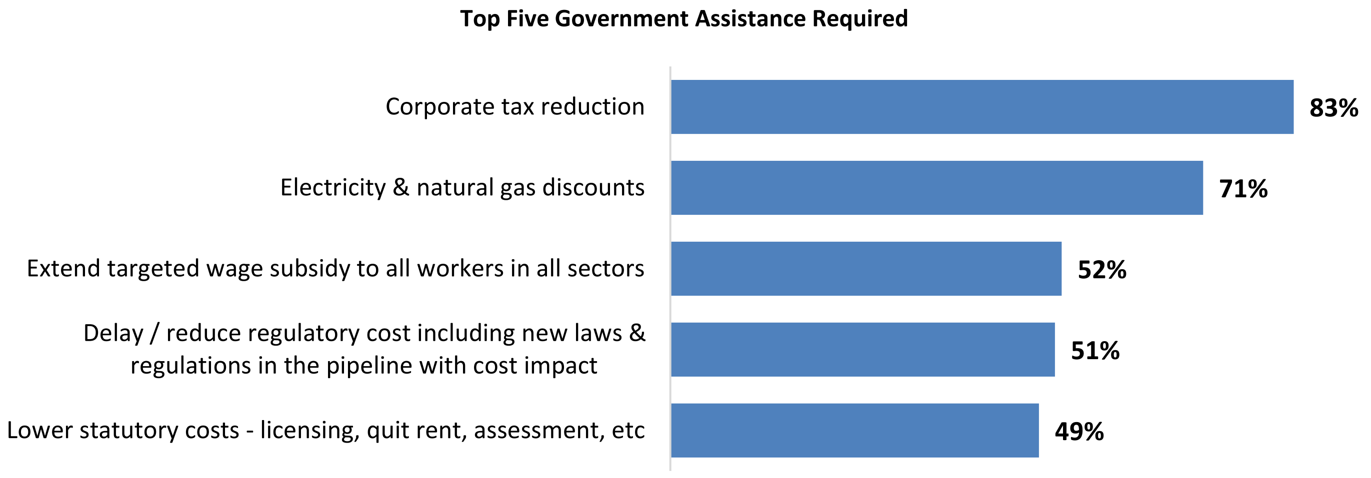
In terms of coverage, 25% did not think the WSP4.0 made any difference to them, but 38% were able to cover more employees under it with the relaxed condition. Most of them estimated the increase in the WSP payment over total salary per month under the WSP4.0 to be up to 10%. The WSP4.0 is not applicable to 37% of the respondents.





OTHER GOVERNMENT ASSISTANCE REQUIRED

When asked what other assistance respondents require from the Government in 2021/2022, corporate tax reduction topped the list, followed by electricity and natural gas discounts and extension of targeted wage subsidy to all workers in all sectors. Delay/reduction in regulatory cost, including new laws and regulations in the pipeline with cost impact ranked fourth on the list, while the fifth most popular suggestion was the lowering of statutory costs (licensing, quit rent, assessment, etc.).



The FMM-MIER Business Conditions Index (FMM-MIER BCI) is a collaborative effort between FMM and the Malaysian Institute of Economic Research (MIER). Business condition is the general state of an economy affecting business viability. The FMM-MIER BCI uses the current level of business activity as a proxy for current business conditions, compared to six months ago.

Index values range from 0 to 200 points. A value above the growth-neutral threshold level of 100 points indicates an improvement or positive outlook, while that below the threshold indicates a worsening or negative outlook.

The FMM – MIER Business Conditions Survey 1H2021 received 687 responses, of which 68.3% were SMEs (based on full-time employees), with 225, 103 & 101 responses from Klang Valley, Johor & Perak respectively. The top three industries for responses were: Food, Beverage & Tobacco (15.1% of respondents); Chemicals & Chemical Products (15%); and Electrical & Electronics (12.4%).

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