Federation of Malaysian Manufacturers

PRESS RELEASE

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FMM-MIER Business Conditions Survey 1H2021 Reveals Manufacturing Activity Plummeted in 1H2021 and Sluggish Outlook for 2H2021

Kuala Lumpur, September 1, 2021 – The nineteenth edition of the FMM-MIER Business Conditions Survey, a bi-annual collaboration between the Federation of Malaysian Manufacturers (FMM) and the Malaysian Institute of Economic Research (MIER), revealed that 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.

The survey, which drew 687 respondents nationwide, was conducted from July 16, 2021 to August 16, 2021 and tracked business confidence via the FMM-MIER Business Conditions Index (FMM BCI) covering the actual performance in 1H2021 and outlook for 2H2021.

BUSINESS ACTIVITY WANES

Manufacturers reported that business activity had declined tremendously in the first six months of 2021. The general business activity index plunged far below the 100-point optimism threshold to 65, losing 36 points from 2H2020. 54% of the 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 performed worse than export sales in 1H2021. Reflecting this are the latest indexes for current local and export sales which dropped to 56 and 71, respectively, from 2H2020. 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 but 49% were hit by lower sales.

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. 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. Another 16% increased theirs.

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. Only 7% reduced their costs.

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.

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.

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 their firms 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.

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.

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 the remaining 63% will maintain their workforce.

IMPACT OF THE COVID-19 NRP & EMCO ON BUSINESS OPERATIONS – Due to the restrictions in business operations 48% of those respondents in the essential sector were affected 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. As a result, 44% opined that their businesses can be sustained for 1-6 months only. 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.

Due to the lockdowns and manpower capacity restrictions on business and operations, 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.

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. This was followed by continuing with the existing Covid-19 SOPs, even when all employees are fully vaccinated and continuing with periodic testing of all workers. 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 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. 13.2% of the respondents have had to resort to pay cuts, while another 34.2% are contemplating implementing pay cuts.

MINIMUM WAGE REVIEW – In view of the on-going review of the minimum wages 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) – With the enhancement of the WSP, 25% did not think the WSP4.0 made any difference to them, but 38% were able to cover more employees 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 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.).

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