MANUFACTURING ACTIVITY PICKS UP CONSERVATIVELY IN 2H2020, OUTLOOK FOR 1H2021 REMAINS CHALLENGING

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KEY RESULTS:	
BUSINESS ACTIVITY – 2H2020 and OUTLOOK 2021	☑ Business activity picked up cautiously in 2H2020; 38% responded positively, 37% responded negatively ☑ Local sales and export sales improved in 2H2020, but remained weak ☑ Production costs in 2H2020 higher than 1H2020 and 2H2019 ☑ CAPEX picked up in 2H2020 but remains slow: 17% increased CAPEX, up from 10% in 1H2020, down from 26% in 2H2019 ☑ Local and export sales expected to remain flat in 1H2021 ☑ Cost of production to rise further in the next six months ☑ Employment in 2H2020 steady, expected to remain the same in 2021 ☑ New recruitment in 2021 mainly in operations, technical and marketing
MANPOWER AND RESKILLING/UPSKILLING	☑ 74% and 64% of respondents have not used the PENJANA HRDF and SOCSO PENJANA Kerjaya, respectively ☑ 34% of respondents willing to pay local workers up to 10% more than the foreign workers' salary for the same job ☑ In 2020, 40% and 41% of respondents increased salaries of their executives and non-executives, respectively, at quantum of less than 5% ☑ For 2021, most respondents will not be giving any or, if they do, the quantum will mostly be less than 5%
BUSINESS RECOVERY AND STRATEGIES	☑ Current business of 44% of respondents are at Covid levels, 30% at pre-Covid levels and 23% better than pre-Covid levels ☑ 27% of respondents still at Covid levels need 4-6 months and 24% need 1-2 years for business to recover to pre-Covid levels ☑ Majority of respondents did not have any issues at all when applying for targeted loan repayment assistance. ☑ 54% of the respondents believe Covid-19 Act 2020 not useful to them as the scope of the Act does not cover their businesses ☑ 40% of respondents of the view that the Covid-19 vaccination should be free for foreign workers ☑ 61% of respondents support re-introduction of GST, subject to improvements to the GST V1.0 ☑ 64% of respondents aware of RCEP FTA but need further information ☑ Further government assistance needed - reduction in corporate tax, discounts for electricity and natural gas, and extension of the targeted wage subsidy to all workers in all sectors

Indicators	FMM – MIER Business Conditions Index Values							
	Current (Compared to 6 months ago)				Looking Forward (Next 6 months)			
	1H2019	2H2019	1H2020	**2H2020**	2H2019	1H2020	2H2020	**1H2021**
Business conditions	78	90	31	**101**	101	88	76	**87**
Local sales	77	84	34	**88**	101	86	71	**74**
Export sales	73	91	41	**88**	101	87	69	**88**
Production volume	82	96	35	**101**	105	93	78	**91**
Capacity utilisation	82	97	38	**101**	105	95	78	**92**
Capital investment	103	109	61	**88**	108	105	83	**98**
Number of employees	96	102	82	**95**	105	104	93	**102**
Cost of production	153	144	130	**146**	134	142	133	**155**

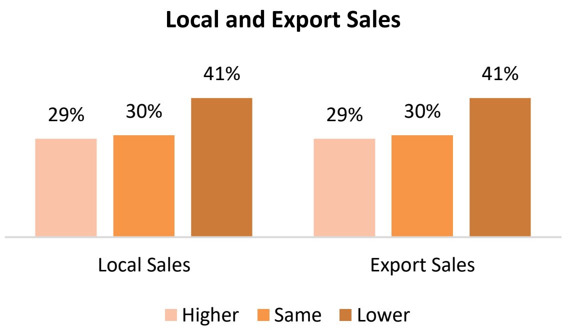
After a slow 1H2020 due to the onslaught of the Covid-19 pandemic, activity in the Malaysian manufacturing sector picked up slightly and cautiously in 2H2020. Most indicators registered readings below the 100-point threshold level of optimism, an indication that overall business conditions in 2H2020 had remained subdued. Manufacturers' outlook for their businesses in early 2021 is equally cautious. Except for cost of production and employment which are expected to trend up, the outlook for local and export sales, production, capacity utilisation and capital investment is cool going forward.

BUSINESS ACTIVITY PICKS UP SLIGHTLY

Manufacturing activity improved in 2H2020 from 1H2020. Reflecting this is the current index for business activity which surged 70 points from 1H2020 to 101 in 2H2020. Its slight breach past the 100-point demarcation level shows respondents' slight optimism of their businesses recently. 38% of the 652 respondents saw an increase in their business activity in 2H2020, while a similar proportion of 37% recorded theirs as lower and 25% were neutral on this.

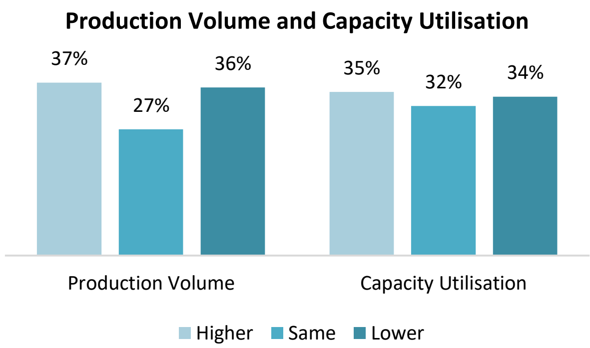
Local and Export Sales Pick Up But Remain Weak

The index for current local sales in 2H2020, at 88, is the same as the index for current export sales. Although both indexes had improved from 1H2020, their persistent stay below the optimism threshold shows that both sales in 2H2020 have remained generally weak. Most of those who sell locally (41%) reported lower sales, while 29% sold more and 30% saw no change in their sales lately. The same proportions were observed for those who export.



Production Volume and Capacity Utilisation Increase

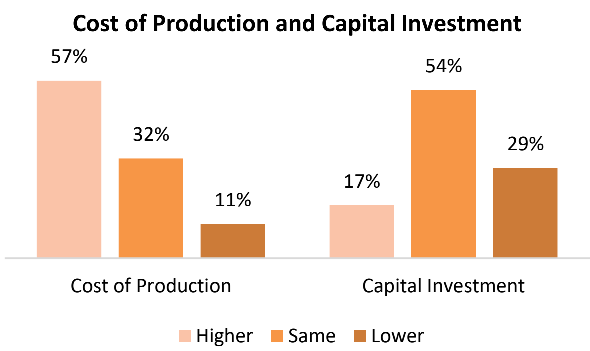
Production volume and capacity utilisation shifted cautiously higher in line with the slight pick-up in sales. The current indexes for both these indicators stood at 101 each in 2H2020, up from 1H2020. 37% of the respondents expanded their output recently, while 36% reduced theirs and 27% maintained the same volume as previously. Capacity utilisation was higher for 35%, and lower for 34%, of the respondents in 2H2020.



Cost of Production and Capital Investment Up

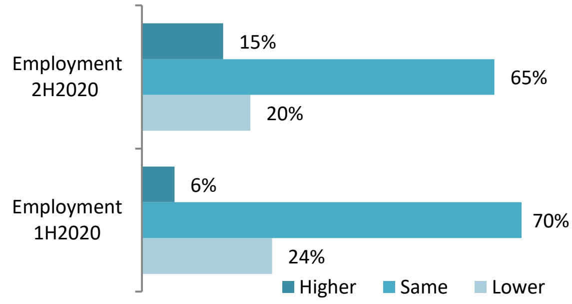
Production costs increased further in 2H2020. This is shown by the index for current cost of production which rose to 146 in 2H2020, up from 130 in 1H2020 and 144 in 2H2019. 57% of the respondents had to put up with costlier production costs in 2H2020, up from 46% and 53% in 1H2020 and 2H2019, respectively.

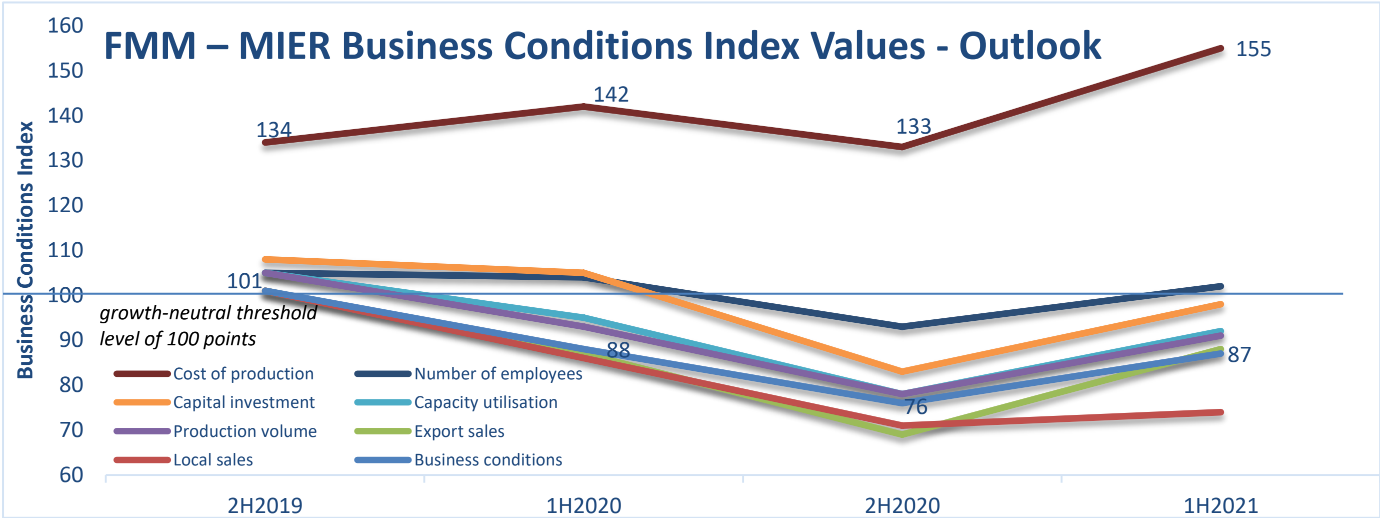
The latest current index for capital investment (CAPEX) improved from 1H2020. At 88, the index had gained 27 points over 1H2020, implying that CAPEX had increased in 2H2020 but its reading below the optimism threshold suggests that respondents are not optimistic yet to invest more for now. 17% increased their CAPEX in 2H2020, while 29% invested less, compared to 10% and 49% in 1H2020, respectively.



Hiring Picks Up in 2H2020

More jobs were available in the manufacturing sector recently, as reflected in the current index for employment which rose from 82 in 1H2020 to 95 in 2H2020. Its stay below the 100-point optimism benchmark denotes a continuing lack of job optimism in this sector, although sentiments have improved currently. 15% of the respondents had increased their headcount by end 2020, while 20% had retrenched theirs, compared to 6% and 24% in 1 H2020, respectively.



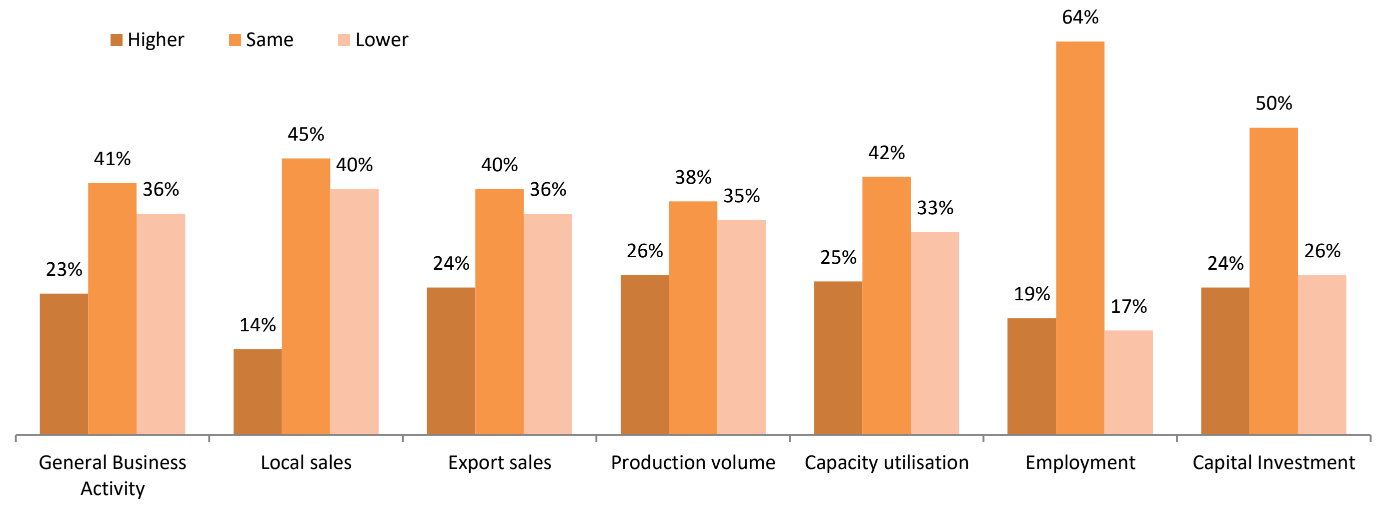


OUTLOOK FOR 1H2021 REMAINS CHALLENGING

The resurgence of the Covid-19 cases in the last quarter of 2020 has continued to pose challenges for both the government and businesses. With constrains on mobility and demand going forward, respondents are cautious on their business projections for 1H2021, as reflected in the latest forward-looking indicators of the survey. While most of these indicators have improved from the previous period, their persistent stay below the optimism threshold is an implication that cautiousness among manufacturers has continued to prevail in their business outlook for the next six months.

The expected index for business activity rose to 87 in the latest survey, and with its reading below the optimism threshold, it implies that respondents are cautiously hopeful of a pick-up in their businesses soon. 23% replied positively, while most (41%) do not foresee any change in their businesses in the coming months.

The prognosis for local and export sales in the next six months is equally subdued. Registering below the optimism threshold, both the expected indexes for local sales and export sales stood at 74 and 88, respectively, reflecting, once again, cautiousness on the part of the respondents. Favourable replies from 14% of those who sell locally and 24% of those who export indicate that export sales are expected to perform better than local sales in 1H2021.



The latest indexes for expected production volume and capacity utilisation are also below the optimism threshold. At 91 and 92, respectively, these are additional signs that respondents are cautiously projecting a pick-up in these aspects in 1H2021. 26% of the respondents are planning to increase their production volume soon, up from 24% in the previous survey. Those contemplating producing less fell to 35% from 46% previously, while 38% will likely maintain theirs at existing levels in the coming months. On capacity utilisation, 25% are considering increasing their capacities soon, little changed from the prior survey's 24%. 33% will lower theirs, down from 46% previously.

The expected cost of production index rose from the prior survey to 155 currently, an inference that production is likely to cost more in the coming months. This is projected by 62% of the respondents, up from 45% previously. Only 7% are anticipating otherwise.

CAPEX and employment are expected to shift higher in 1H2021, as shown by the expected indexes for capital investment and employment which increased from the preceding survey to 98 and 102 in the current survey, respectively. 24% of the respondents are planning to increase their CAPEX soon, while 26% will likely reduce theirs, compared to the prior survey's 19% and 36%, respectively. 19% of the respondents have new recruitment plans for 1H2021, while 17% will likely downsize theirs, compared to 16% and 23% previously, respectively.

MANPOWER AND RESKILLING/UPSKILLING

Current Employment

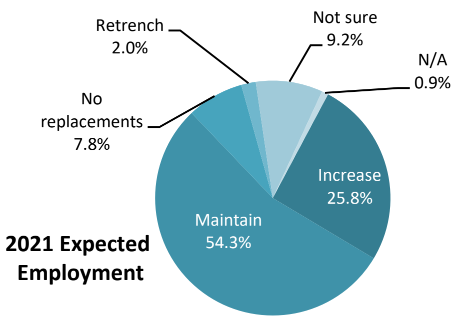
In light of the current pandemic situation, the survey seeks to understand respondents' current status of employment and uptake of the Government incentives under PENJANA and the 2021 Budget to support Human Resource and employment.

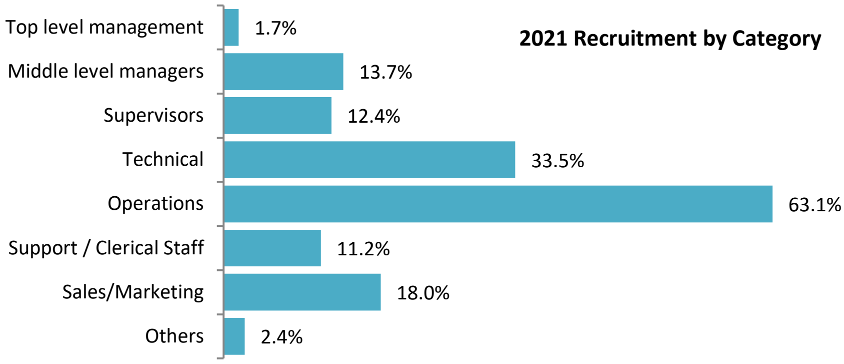
Results of the survey show that employment was generally steady in 2020. More than 68% of the 652 respondents have managed to maintain their existing workforce to date and only 3% have resorted to implementing retrenchment. 16% have increased their headcount, while close to 12% did not replace any of their employees.

Among those who expanded their workforce, majority (29%) estimated their increase at 6-10%, while 20% hired 1-5% more staff and 14% recruited 16-20% more employees. 9% increased their staff by 21-30%. Of those who retrenched, 21% retrenched 1-5% of their staff, while another 21% reduced theirs by 16-20% and 21% downsized their workforce by 51-100%.

Expected Employment in 2021

Going into 2021, employment in the manufacturing sector is expected to remain stable as well. 54% and 26% of the respondents will likely retain their existing workforce and hire more workers in 2021, respectively. Only 2% are contemplating retrenchment.





A breakdown of those planning to increase their workforce in 2021 shows that most are estimating an increase of up to 10%, while most of those planning to retrench are considering downsizing 20% of their staff.

In 2021, most of the recruitment will be in the operations category, followed by technical and sales/marketing. Less than 2% planned to hire top level managers. Other positions that will likely be employed are middle management personnel, supervisors and support/clerical staff, as indicated by 11-14% of the respondents.

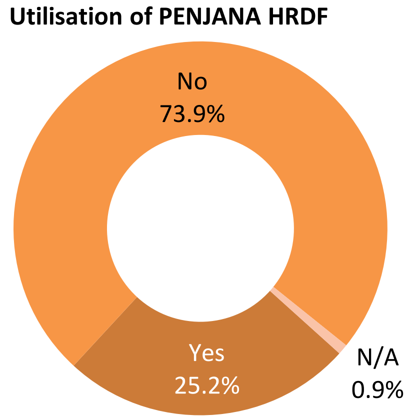
Retrenchment will affect mostly those employees in operations, support/clerical, as well as supervisory categories. Most of those planning to retrench will do so in 1H2021.

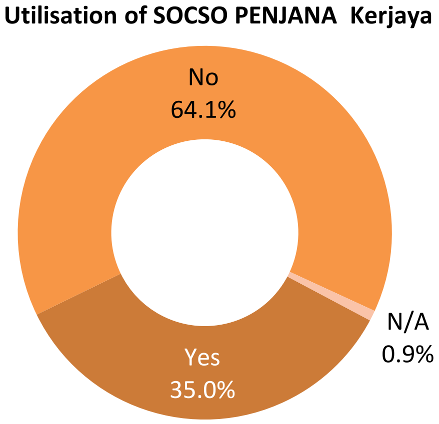
PENJANA HRDF and SOCSO PENJANA

Most respondents have not used the PENJANA HRDF and SOCSO PENJANA Kerjaya, with 74% and 64% attesting to this, respectively. This is mainly because they did not fulfill the criteria for eligibility. Non-awareness was the other reason cited for not using them, while some are awaiting their training approval from HRDF.

Of the 25% who have used the PENJANA HRDF, 53% have participated in "place and train", while 27% and 17% in Industry 4.0 and SME Development, respectively. Among the 35% who have used SOCSO PENJANA Kerjaya, 67% have participated in hiring (#MyApprentice/#HireMalaysia) and 32% in their training programme.

SOCSO PENJANA Kerjaya and PENJANA HRDF have benefitted 55% and 49% of the respondents that have used them, respectively, mainly in the hiring of more local workers, as well as the upskilling and reskilling of workers.





Foreign Worker Employment

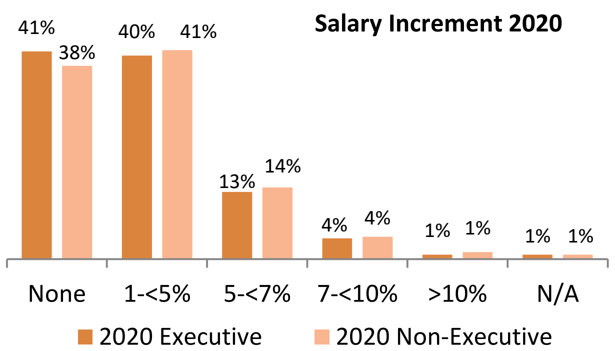
With the current restrictions on the employment of foreign workers (FWs) and the plan by the government to increase the levy via the multi-tier levy mechanism (higher rate for higher intake of FWs in total employment), most (45%) respondents are planning to hire more locals, while 38% will increase automation of their operations going forward.

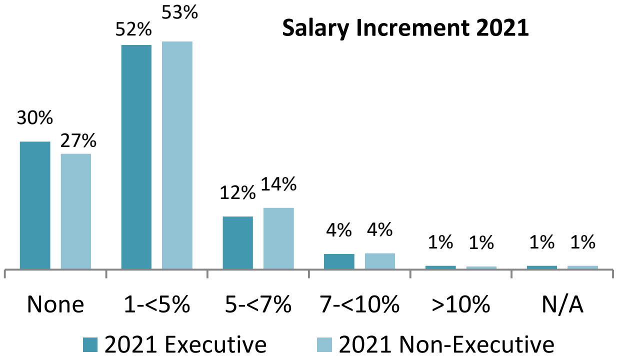
Given the reluctance of local workers to do certain works done by FWs, especially in the 3D sectors and processes, most (34%) respondents are willing to pay local workers up to 10% more than the FW salary for the same job. Another 25% of the respondents are willing to adjust salaries higher than the FW salary by 11%-20%, while 8% are agreeable to a hike of 21%-30%.

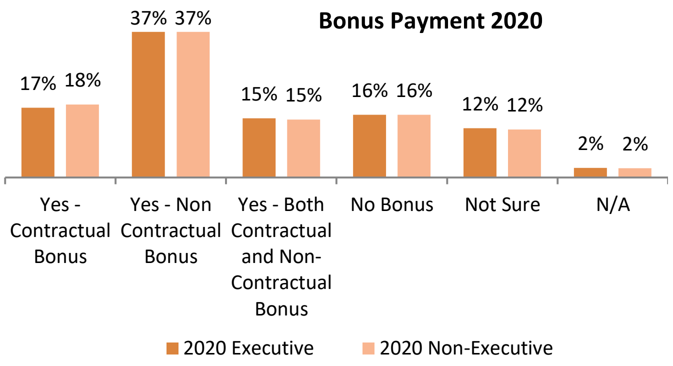
Salary Increment and Bonus Payout in 2020 and 2021

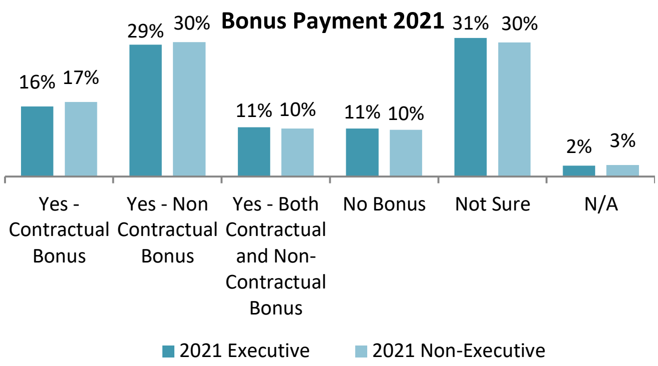
In 2020, 40% and 41% of the respondents increased the salaries of their executives and non-executives, respectively, at a quantum of less than 5%. Executives and non-executives of another 41% and 38% of the respondents, respectively, did not receive any increment at all. Of those who awarded increments, 13% raised the salaries of their executives by 5%-6%, while 14% granted the same quantum to their non-executives.

The situation is expected to remain the same for 2021, with most respondents either providing no increments at all or, if they do, the quantum will mostly be less than 5% as well. 12% and 14% of the respondents are planning increments of 5%-6% for their executives and non-executives, respectively.



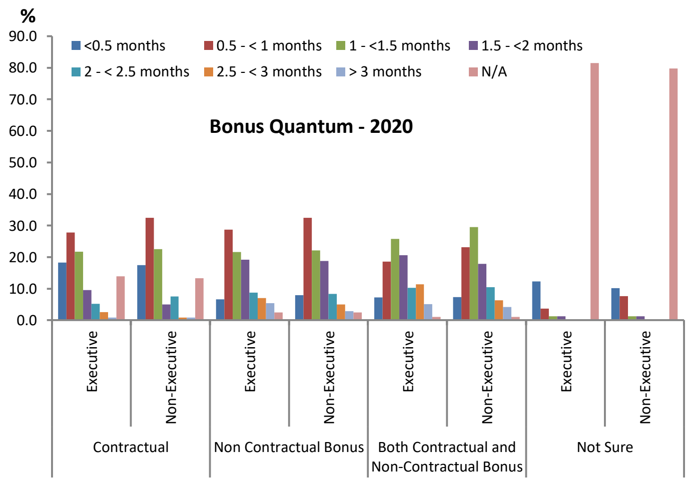


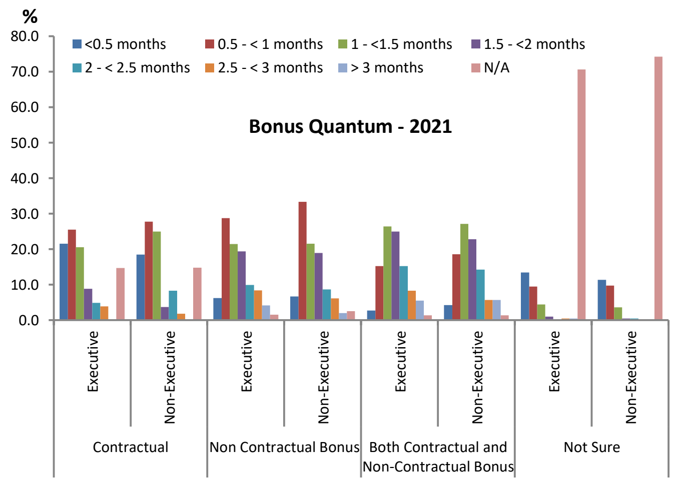




In 2020, non-contractual bonuses were awarded to executives and non-executives by 37% of the respondents, respectively. Contractual bonuses were also given to executives and non-executives by 17% and 18% of the respondents, respectively. Both contractual and non-contractual bonuses were also paid to executives and non-executives in 2020 by 15% of the respondents. But unlike 2020 where only 12% were undecided on whether to award bonuses or not, there were even more (30%) respondents now who are unsure if they could do so in 2021. In terms of quantum, most (19%-29%) paid their executives bonuses of 0.5 month to less than 1.5 months in 2020, regardless of whether the bonus is contractual, non-contractual, or both. The same quantum of bonus (contractual, non-contractual or both) was also paid to non-executives by 22%-33% of the respondents.

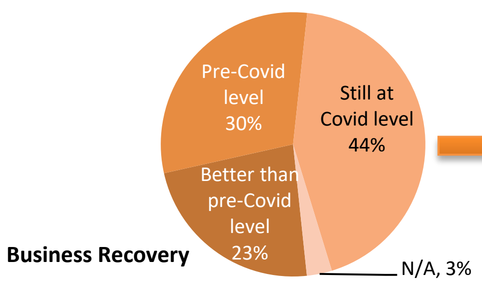
Bonus plans for 2021 are expected to be the same as in 2020. Among the respondents planning to award bonuses in 2021, most are considering a quantum of less than 0.5 month to not more than 1.5 months, be they contractual, non-contractual, or both, for executives and non-executives alike.

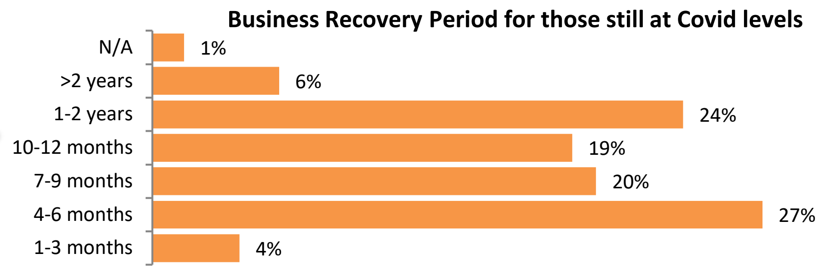




BUSINESS RECOVERY AND STRATEGIES

When asked about their business recovery currently, most respondents (44%) believed that they are still at the Covid level. While 30% opined that they are at the pre-Covid level, 23% said they are better now than pre-Covid level.

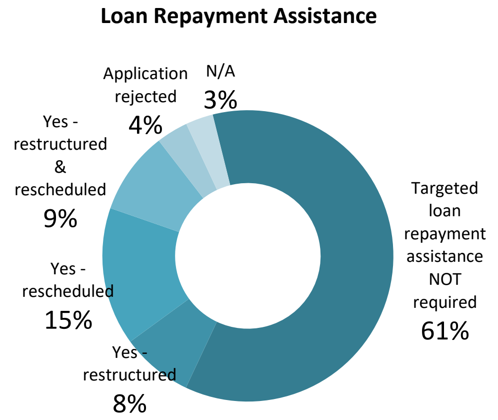




For those still at the Covid level, most (27%) said they need 4-6 months to recover their businesses to pre-Covid levels, while 24% will require 1-2 years and 20% need a recovery period of 7-9 months. Close to 4% believed they could return to pre-Covid levels in 1-3 months' time but 6% will need more than two years to do the same.

Targeted Loan Repayment Assistance

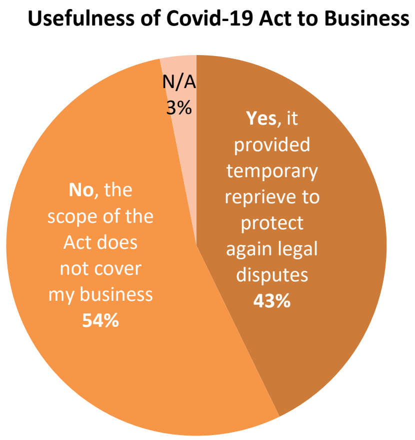
The automatic loan moratorium that ended in September 2020 was replaced with targeted repayment assistance until December 2020, with some banks even extending it beyond that. Most (61%) respondents do not require such assistance. Among those who do, 15% and 8% said they benefitted from the rescheduling, and restructuring of this assistance, respectively. 9% also benefitted from both the restructuring and rescheduling of their loan repayments.



Of the issues faced by those in their negotiations with banks, majority 49% did not face any issues at all. 13% felt that the process was too lengthy and tedious while rigid bank evaluation was faced by 12% of respondents and 6% cited tighter terms imposed by the banks.

Covid-19 Act 2020

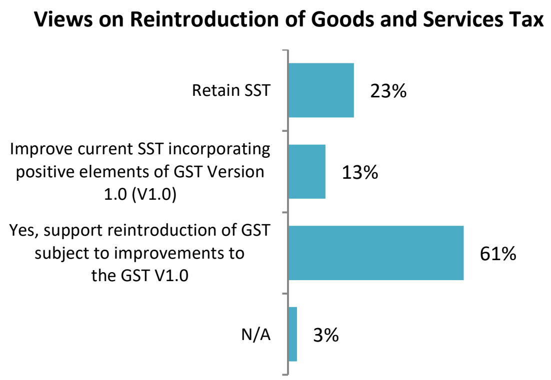
According to 54% of the respondents, the Covid-19 Act 2020 that was implemented on 23 October 2020 is not useful to them as the scope of the Act does not cover their businesses. 43% opined otherwise as it provided them temporary reprieve to protect against legal disputes.



As to who should bear the cost of the Covid-19 vaccination for foreign employees, most (40%) opined that it should be free for all. 24% felt that the cost should be partially subsidised by the government with the employer bearing the balance of the cost, while 21% suggested that the cost be borne by employers and it should be tax deductible. Only 5% were of the view that the employees should bear the full cost of the vaccination.

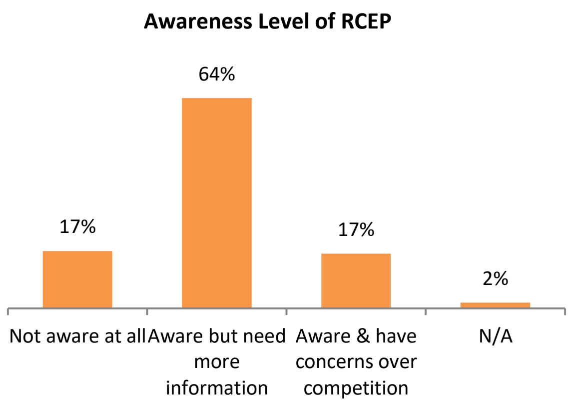
Goods and Services Tax (GST)

The Government is studying the re-introduction of the GST to replace the current Sales and Services Tax (SST). 61% are supportive of this initiative on condition that it is subject to improvements to the GST V1.0, but 23% think that the SST should be retained. Of the areas to improve, the GST refund process topped the list with 59% responses, while zero-rated goods and services, and Approved Trader Scheme and Approved Toll Manufacturing received 32% responses each.



Regional Comprehensive Economic Partnership (RCEP)

The RCEP, signed on 15 November 2020, is the world's largest Free Trade Agreement (FTA) consisting of ten ASEAN countries with China, Japan, South Korea, Australia and New Zealand. 64% of the respondents are aware of this FTA but they need further information on it. Although 17% are aware of the RCEP, they have concerns over competition and 18% are not aware of it.



In terms of the benefits of the RCEP, both market expansion and supply chain were ranked first and second by 77% of the respondents, while customs and trade facilitation ranked third with 75% responses. Lower or zero duties, mobility of manpower, more competitive prices and business opportunities, including joint ventures, are other areas that some respondents are looking at to benefit from the RCEP.

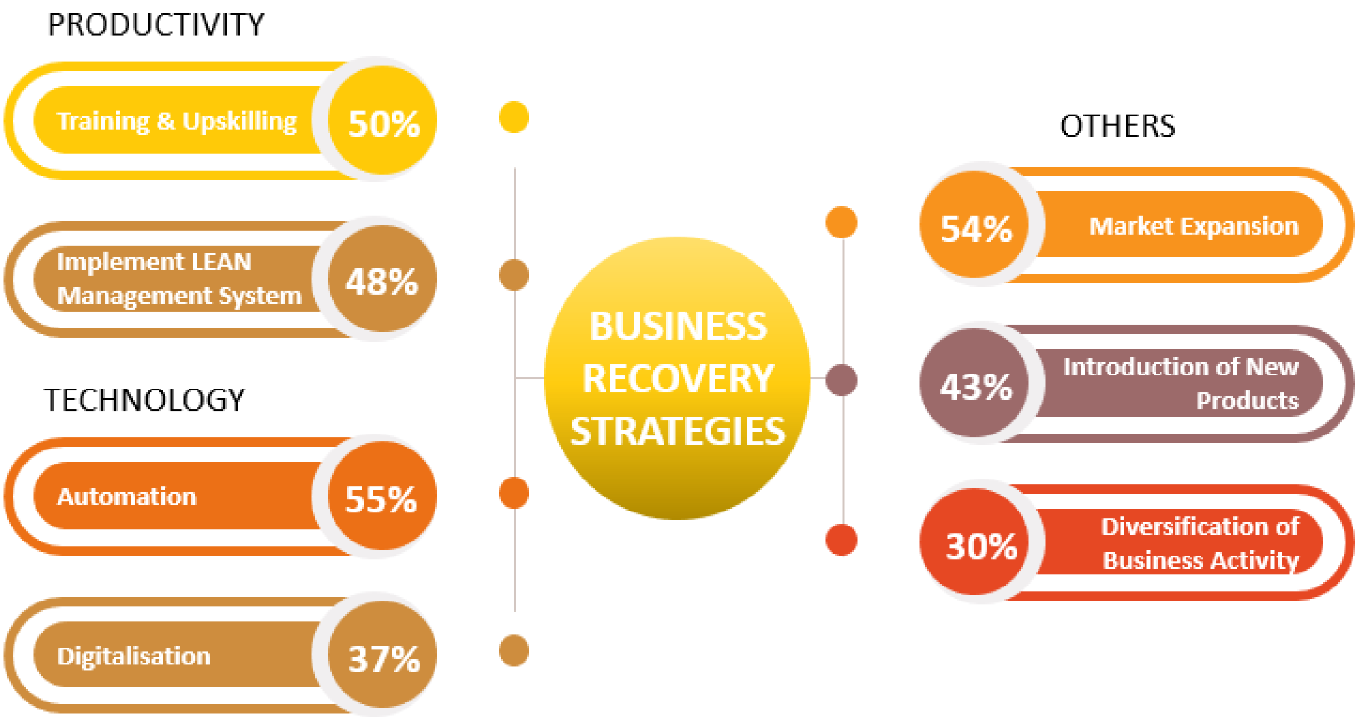
Strategies in the Next Six Months

Productivity-related strategies that respondents will undertake in 1H2021 will be mainly in training and upskilling, and implementation of lean manufacturing, as disclosed by 50% and 48% of the respondents, respectively. 28% will adopt flexi-hours and work from home, while another 28% will increase their technical staff.

Automation is the most popular technology-related strategy that 55% of the respondents will embark on in 1H2021, followed by digitalisation and Industry 4.0, with 37% and 28% responses, respectively. 23% will also establish channels for digital sales in the coming months. Among other strategies that will also be undertaken by respondents in 1H2021, market expansion is the most popular, with 54% votes. Introduction of new products will be implemented by 43% of the respondents, while 30% will diversify their business activity and 26% will deploy R&D and innovation. 25% will accelerate their key projects and 22% will expand their local supply chain in the next six months.

Of the many other forms of assistance that respondents require from the Government in 2021, a reduction in corporate tax was supported by 75% of the respondents, while 54% hoped for discounts for electricity and natural gas and 43% called for an extension of the targeted wage subsidy to all workers in all sectors. Additional export incentives, and lower regulatory and statutory costs were also suggested by respondents.

Business Strategies In The Next 6 Months



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 2H2020 received 652 responses, of which 67.2% were SMEs (based on full-time employees), with 164, 121 & 115 responses from Klang Valley, Johor & Perak respectively. The top three industries for responses were: Food, Beverage & Tobacco (15.2% of respondents); Chemicals & Chemical Products (14.7); and Electrical & Electronics (12.1%).

Federation of Malaysian Manufacturers (FMM)
Wisma FMM, No 3 Persiaran Dagang, PJU 9
Bandar Sri Damansara, 52200 Kuala Lumpur
Tel: 603-62867200 Fax: 603-62741266
Website: www.fmm.org.my
Enquiries: Business_Environment@fmm.org.my