BUSINESS CONDITIONS REBOUND IN 2H2021, HIGHER MOMENTUM EXPECTED IN 1H2022

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KEY RESULTS:	
BUSINESS ACTIVITY – 2H2021 and OUTLOOK 1H2022	☑ Higher business activity in 2H2021 ☑ Local sales and export sales pick up on higher demand ☑ Production cost increases further ☑ Production volume and capacity gear higher ☑ CAPEX and employment beef up in 2H2021; to increase further in 1H2022 ☑ Higher local and export sales projected for 1H2022 ☑ Another increase in cost of production expected in 1H2022 ☑ The top 3 increases of production costs: cost of materials, labour and logistics
ECONOMIC AND BUSINESS RECOVERY AND POTENTIAL RISKS TO GROWTH IN 2022	☑ 31% of respondents confident of Malaysia's economic recovery in 2022 ☑ 54% of respondents to implement domestic investment or re-investment soon ☑ 61% of respondents confident of business recovery in 2022, with 32% optimistic of recovery better than pre-Covid levels ☑ Labour shortages, supply chain disruptions and the Covid-19 pandemic most potential risks to growth in 2022 within the domestic economy ☑ 71% of respondents not impacted by ending of bank moratorium in March 2022 ☑ Employees of 78% of respondents work from office from 1 January 2022
OTHERS	☑ 63% and 65% of respondents increase salaries of executives and non-executives by 1-7% in 2021, respectively ☑ Non-contractual bonus in 2021 awarded by more respondents, most at a quantum of 0.5-<1.5 months ☑ 72% of respondents not agreeable to minimum wage being raised to RM1,500 ☑ 47% of respondents at 11-40% automation of warehousing and material handling ☑ 42% of respondents have completed and received their Certificate for Accommodation (CFA), 20% pending endorsement/approval from local councils ☑ 60% of respondents not impacted by the recent floods, 31% indirectly impacted, 9% directly impacted ☑ Total company losses of those directly impacted by the floods estimated at more than RM220 mil, and more than RM238 mil for those affected indirectly ☑ 67% respondents to undertake training and upskilling in 1H2022, 74% to adopt Industry 4.0 and 65% to embark on automation

The manufacturing sector ended the year 2021 on a positive note as economic activities resumed with the easing of containment measures and recovery of global demand for manufactured goods. Both current and forward-looking indicators in the latest survey picked up pace from 1H2021, an indication that confidence among manufacturers generally improved in 2H2021, and the sector is poised for further strengthening of its recovery momentum in 1H2022.

Indicators	FMM – MIER Business Conditions Index Values							
	Current (Compared to 6 months ago)				Looking Forward (Next 6 months)			
	1H2020	2H2020	1H2021	2H2021	2H2020	1H2021	2H2021	1H2022
Business conditions	31	101	65	107	76	87	60	122
Local sales	34	88	56	94	71	74	51	113
Export sales	41	88	71	96	69	88	68	111
Production volume	35	101	61	105	78	91	62	122
Capacity utilisation	38	101	59	101	78	92	60	117
Capital investment	61	88	78	105	83	98	81	125
Number of employees	82	95	82	99	93	102	87	121
Cost of production	130	146	165	174	133	155	166	179

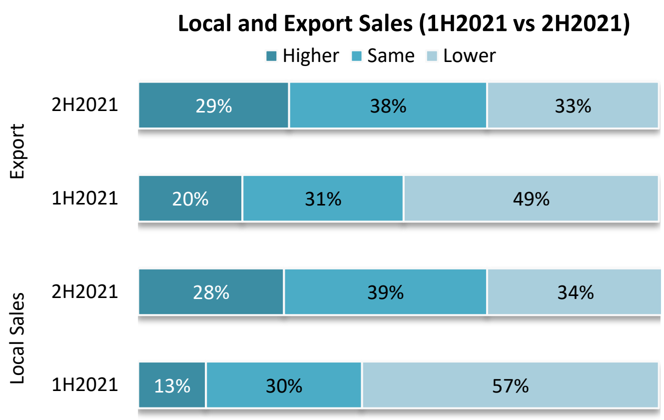
BUSINESS ACTIVITY INCREASES

Manufacturing activity rose in 2H2021, as reflected in the general business activity index which, at 107, had gained 42 points from 1H2021. Its surge past the 100-point optimism threshold suggests that the level of respondents' confidence on their businesses had improved substantially in the past six months.

36% of the 702 respondents in 2H2021 replied favourably, while 35% did not see any change in their business activity, up from the prior period's 19% and 27%, respectively. Negative responses had also shrunk to 29%, almost halving the 54% tabulated in 1H2021.

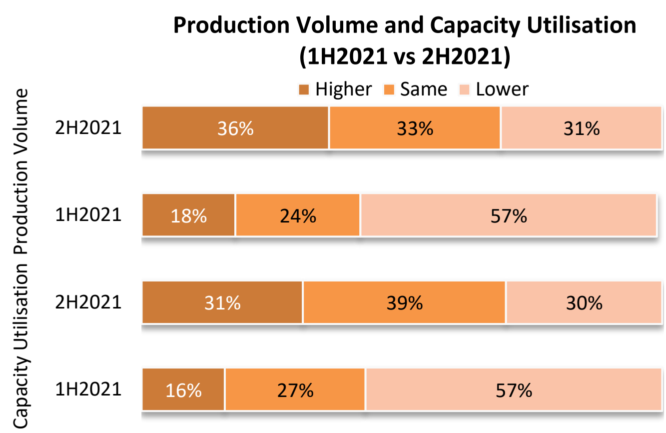
Local Sales and Export Sales Pick Up

Local sales performed as well as export sales in 2H2021. Attesting to this is the latest current local sales index which rose to 94 from 56 in 1H2021, while the index for current export sales climbed to 96 from 71 previously. 39% and 38% of the respondents managed to maintain their local sales and export sales, respectively, in 2H2021, up from 30% and 31% in 1H2021, respectively. Those who sold more domestically rose to 28%, more than doubling the 13% in 1H2021. Among those who export, 29% reported higher sales in 2H2021, up from the previous period's 20%.



Production Volume and Capacity Utilisation Expand

Production and capacity utilisation rose in tandem with sales in recent months. With the indexes for both these indicators soaring above the optimism level in 2H2021, it infers that the demand for manufactured goods has grown markedly during this period. The current index for production volume rose to 105 from 61 previously, with 36% having increased their production in 2H2021, doubling that of 1H2021. The index for current capacity utilisation also climbed to 101 from 59 in 1H2021, with 31% of the respondents reporting higher capacities in 2H2021, up from 16% in the prior period.



Production Cost Rises Further

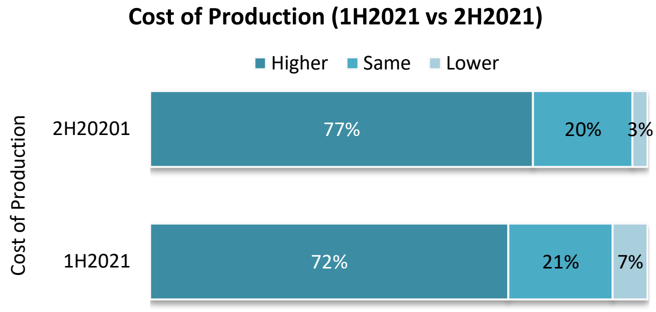
Manufacturing cost rose again in 2H2021, as reflected in the index for the current cost of production which, at 174, is the highest reading since the inception of this survey in 1H2012. An all-time high of 77% of the respondents reported higher production costs in 2H2021, while only 3% were able to reduce their costs, the lowest proportion received in this series.

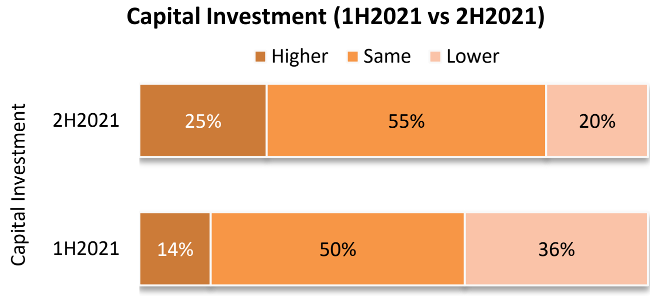
Capital Investment Pumps Up

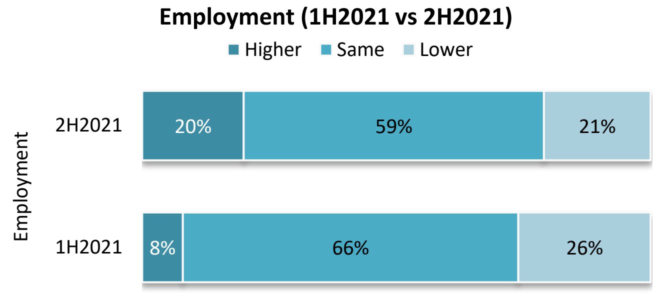
The current index for capital investment shifted higher above the optimism threshold to 105 from 78 previously, implying that CAPEX has grown lately. Such expenditure rose for one-quarter of the respondents in 2H2021, up from 14% in 1H2021 and 17% in 2H2020. Another 55% have maintained their CAPEX for now, while 20% have cut down on their capital budgets, compared to 50% and 36% in 1H2021, respectively.

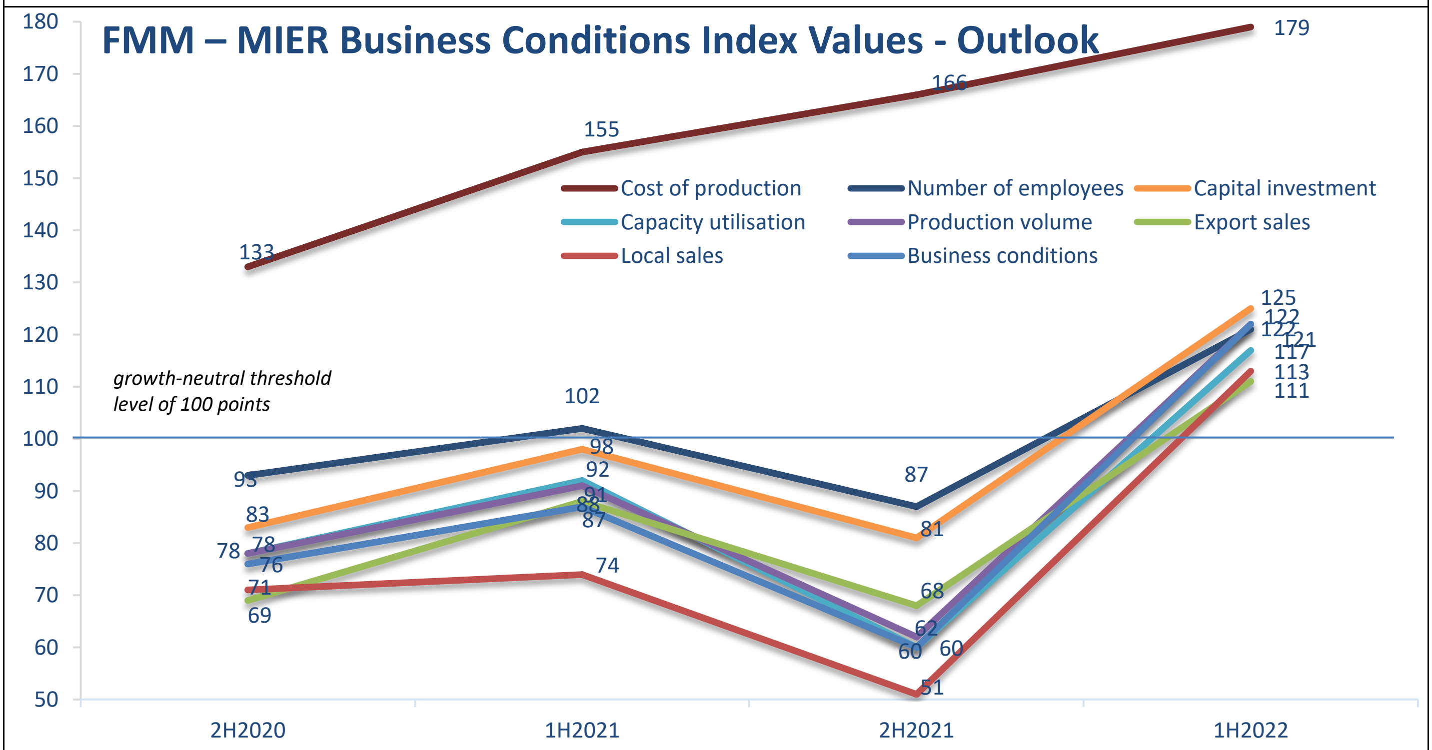
Hiring Resumes

The current index for employment rose to 99 from 82 previously, indicating that manufacturing recruitment has picked up recently. 20% of the respondents increased their headcount in 2H2021, up from 8% in 1H2021. While 59% have maintained their headcount for now, 21% downsized their workforce, compared to 66% and 26% in 1H2021, respectively.







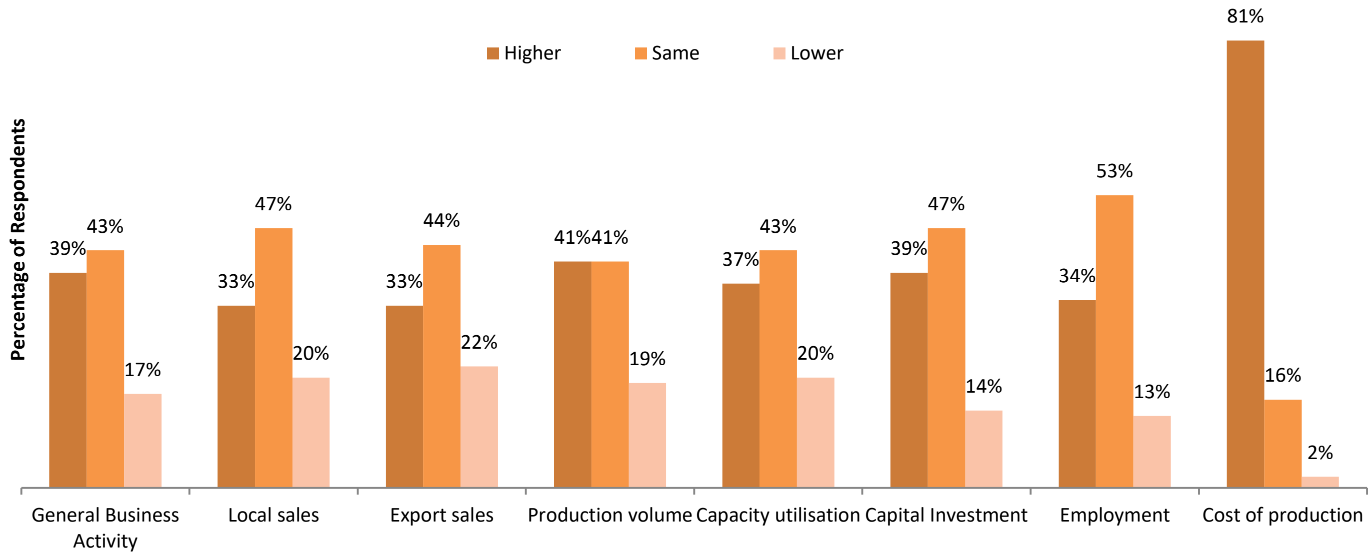


SANGUINE OUTLOOK FOR 1H2022

Heading into 2022, growing external demand is expected to bolster recovery in the manufacturing sector amid continuing domestic and external headwinds. All forward-looking indicators are back in the black with readings above the threshold level of optimism, portending that the near-term prognosis for the manufacturing sector is positive moving forward.

The latest expected business activity index soared to 122 from 60 previously, implying that business activity is expected to gain further momentum in the next six months. 39% of the respondents believed that business activity will pick up soon, up from 15% in the prior period. Only 17% were pessimistic in this aspect, which is in sharp contrast to the 55% who replied similarly in the previous survey.

The indexes for expected local and export sales also improved considerably from the prior survey. At 113 and 111, respectively, it shows that expectations among respondents on their sales outlook are looking up in the coming months, both locally and globally. 33% of those who sell locally and 33% of those who export are optimistic of higher sales soon, up from 10% and 18% in the prior survey, respectively.



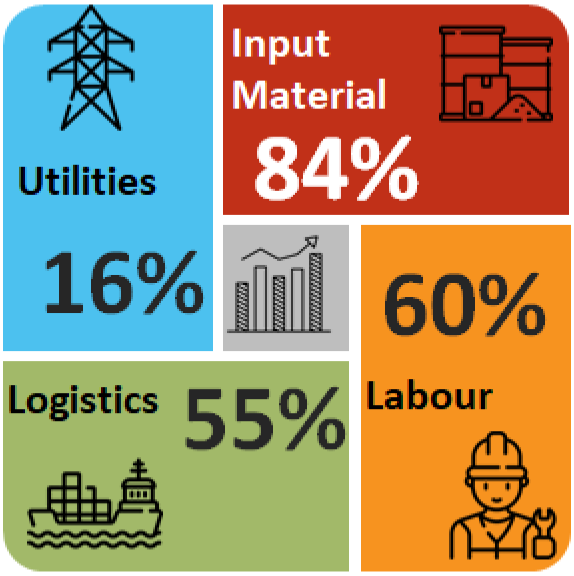
The latest expected indexes for production and capacity utilisation rose to 122 and 117, respectively, from 62 and 60 previously, suggesting that higher production and capacity are in the pipeline in anticipation of better demand in the months ahead. 41% and 37% of the respondents are planning to step up their production and capacities soon, respectively, up from 17% and 15% previously.

The expected index for cost of production rose to an all-time high of 179, an implication that production cost is set for another increase in 1H2022, as envisaged by 81% of the respondents. Another increase was observed for the expected index for capital expenditure. At 125, the index this time has gained 44 points from the preceding survey, a connotation that a rise in CAPEX is imminent in the coming months as well. 39% of the respondents will likely increase their CAPEX soon, up from 18% previously.

Recruitment is expected to beef up in early 2022, as depicted by the index for expected employment which rose to 121 from 87 previously. 34% are planning to expand their workforce soon, while 13% are contemplating downsizing, compared to 12% and 25% previously, respectively.

TOP INCREASES OF COST OF PRODUCTION

The top three increases of production costs in 2H2021 were cost of input materials, labour and logistics. Cost of materials topped the list of increase, with 84% of the respondents citing it. While labour costs (headcount change; salaries & wages; and sub-contract costs) were confirmed by 60% of the respondents, logistics (mainly due to freight rates) received 55% responses. Higher cost of utilities (electricity, energy/fuel, natural gas and water) was also noted by 16% of the respondents, while only 9% and 6% had to put up with higher overheads, and maintenance and repairs, respectively.

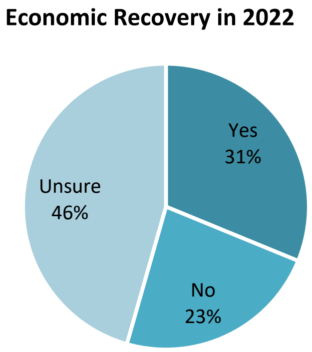


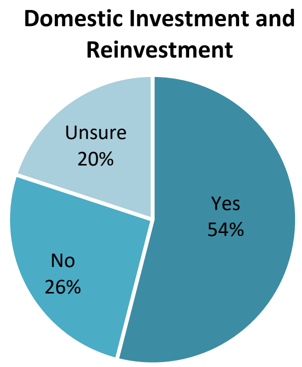
ECONOMIC RECOVERY IN 2022
In terms of the country's economic recovery, 31% are confident of a recovery in 2022, while 46% are unsure and 23% responded negatively.

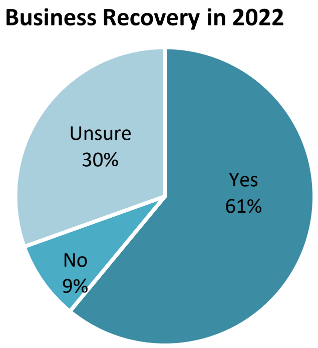
DOMESTIC INVESTMENT/RE-INVESTMENT
Respondents were asked if they will carry out domestic investment or re-investment such as adding in more advanced machines and expanding operations, including building additional factories, etc. 54% replied favourably, while 26% do not have such plans for now, and 20% are currently unsure.

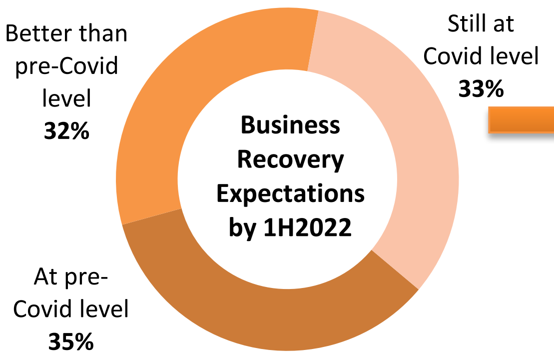
BUSINESS RECOVERY IN 2022
Insofar as their own business recovery is concerned, 61% are confident of this eventuality in 2022, while 30% were unsure about it. Only 9% were pessimistic.

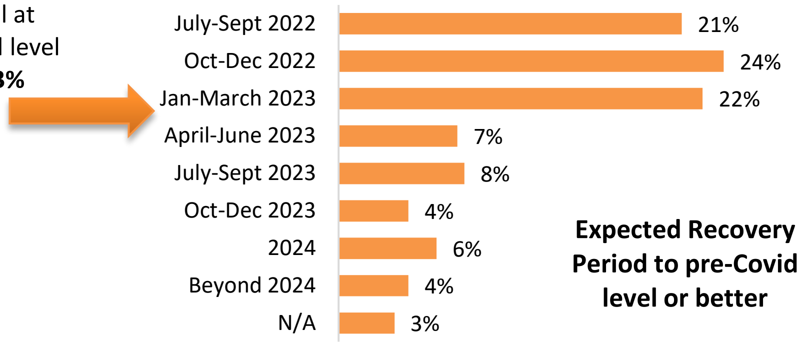
Among those who responded positively, 35% believed that their businesses will recover to pre-Covid levels in 2022, while 32% are even optimistic that their recovery will be better than pre-Covid levels. 33% are reportedly still at Covid levels but they are expecting their businesses to recover to pre-Covid levels, or better, from 2H2022 to March 2023. 24% believed their recovery to be in 4Q2022, while 22% and 21% are looking at 1Q2023 and 3Q2022, respectively.











POTENTIAL RISKS TO GROWTH IN 2022
Labour shortages have been voted by most (63%) respondents as the potential risk to growth in 2022 within the domestic economy, followed by supply chain disruptions (59% responses) and the Covid-19 pandemic (50%). High freight rates and inflation were pointed out by 49% and 43% of the respondents, respectively. Only 25% cited the domestic political climate as a potential risk.

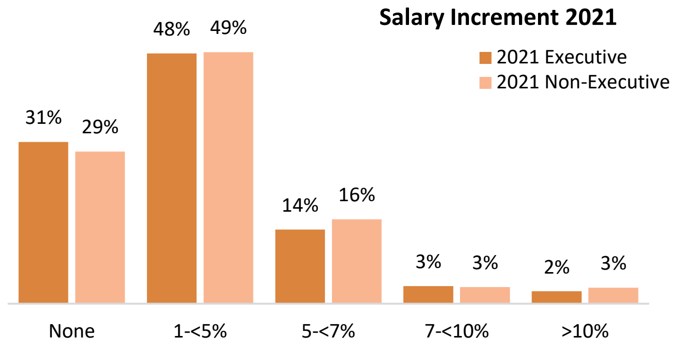
IMPACT OF END OF BANK MORATORIUM ON BUSINESS SUSTAINABILITY
According to 71% of the respondents, the ending of the bank moratorium in March 2022 will have no impact on them. For those who will be impacted, 12% will likely undertake business merger and acquisition to sustain their business, while 11% and 10% are contemplating retrenchment and business closure, respectively.

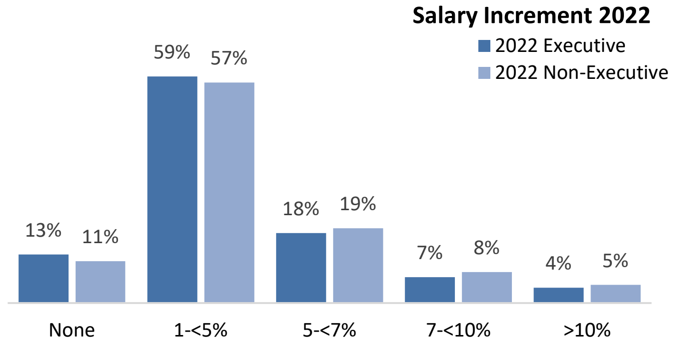
WORKING FROM OFFICE (WFO) vs WORKING FROM HOME (WFH)
Effective 1 January 2022, employees of more than three quarters of the respondents are back to working from the office (WFO). 59% estimated the proportion of their employees WFO at >80-100%, while 9% of the respondents have >50%-80% of their staff WFO. Another 10% reported that 40-50% of their employees are working from the office.

SALARY INCREMENT AND BONUS PAYOUT IN 2021 AND 2022

Salary increments, if any, in 2021 for both executives and non-executives were mainly at a quantum of less than 5%. This was disclosed by 48% and 49% of the respondents who increased the salaries of their executives and non-executives by 1-<5% in 2021, respectively. Increments of 5-<7% were awarded to executives by another 14% of the respondents, while 16% reported the same quantum for their non-executives. 31% and 29% of the respondents have not raised the salaries of their executives and non-executives in 2021, respectively.

For 2022, respondents will be more generous as most are planning salary increments of 1-7% for all staff. A breakdown shows that 59% and 57% of the respondents are considering increments of 1-<5% for their executives and non-executives, respectively. 18% are looking at an increase of 5-<7% for their executives, with the same being contemplated by 19% for their non-executives.



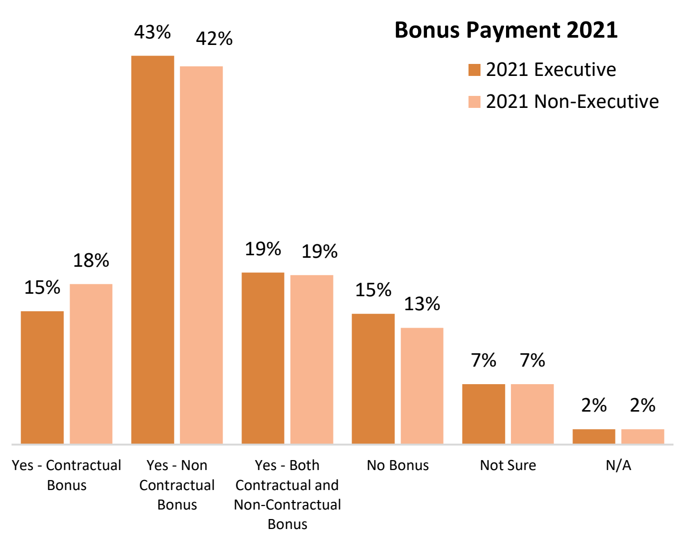


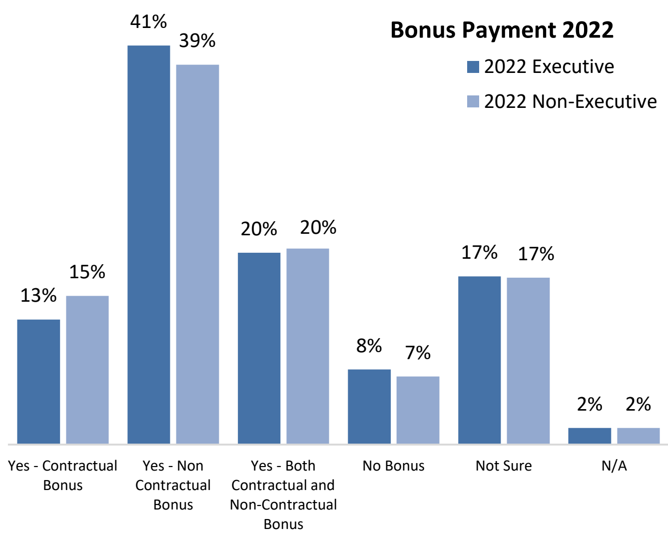
In 2021, non-contractual bonuses are being paid by more respondents than contractual ones. Executives of 43% of the respondents are awarded non-contractual bonuses in 2021, of which a quantum of 0.5-<1.5 months is being paid by 54% of the respondents. The same bonus is also given by 42% of the respondents to their non-executive staff. Among them, 59% are paying bonuses of 0.5-<1.5 months.

Contractual bonuses in 2021 are also awarded to executives by 15% of the respondents at a quantum of 0.5-<1.5 months by 59% of the respondents. This bonus is similarly awarded by 18% of the respondents to their non-executives, with 55% among them paying a quantum of 0.5-<1.5 months.

Both contractual and non-contractual bonuses are also awarded by 19% of the respondents in 2021, at a quantum of 0.5-<2 months by 60% and 65% of the respondents for executives and non-executives, respectively.

Bonus plans for 2022 are expected to be lower than 2021. In 2022, 13% and 15% of the respondents planned to reward their executives and non-executives contractual bonuses, respectively, down from 15% and 18% in 2021, respectively. Non-contractual bonuses are on the agenda of 41% of the respondents for their executives in 2022, while 39% are contemplating the same for their non-executives, compared to 43% and 42% in 2021, respectively. Both contractual and non-contractual bonuses are also expected to be given by 20% of the respondents to executive and non-executive staff in 2022. In terms of quantum, most are planning the same 0.5-<2 months for 2022, as they did in 2021.



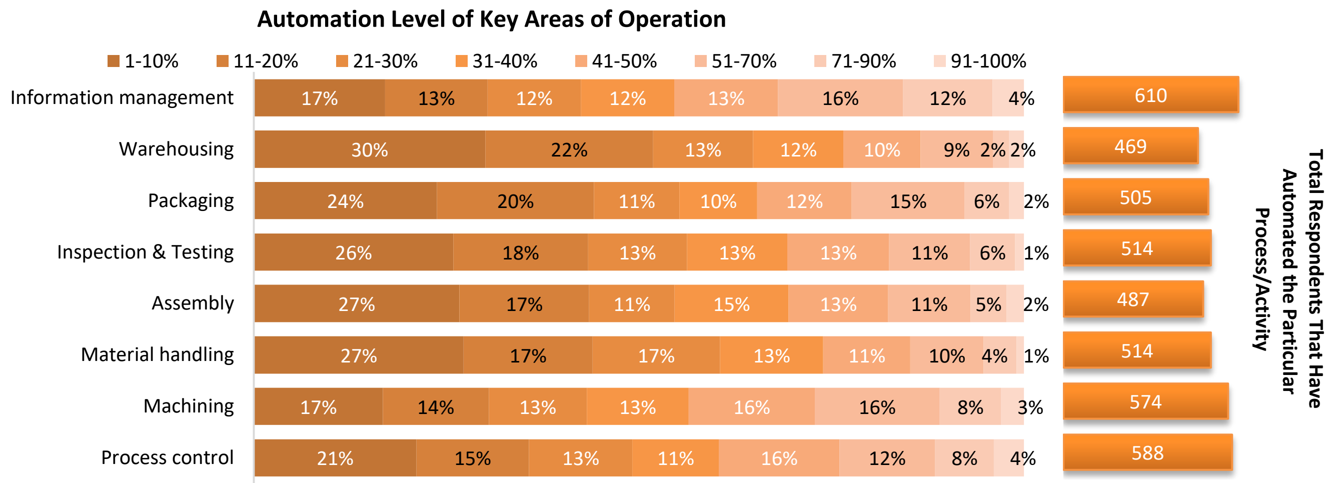


MINIMUM WAGE (MW)
A review of the minimum wage is due in 2022. When asked if they agree to an increase in minimum wage to RM1,500 from the current rate of RM1,200, a clear majority of 72% of the respondents replied negatively. Of this proportion, most (39%) opined that RM1,300 is a more acceptable rate, while 33% suggested that the current RM1,200 be maintained instead for now. 26% agreed to the proposed new rate of RM1,500.

PROGRESS ON AUTOMATION
Findings of the 2H2019 revealed that most operational activities are automated up to 40%, namely, assembly, inspection and testing, material handling, packaging, process control and warehousing. Two years on, as Covid-19 pandemic has accelerated the pace of automation amongst the industry, respondents were asked for an update on the extent to which their operations are automated.

Automation of operations in 2H2021 has generally remained the same as in 2H2019. 65.2% of the respondents are automated up to 40% to date, little changed from the 65.1% tabulated two years ago. Automation of 41-50% was reported by 13.5% of the respondents this time, compared to 13.9% in 2H2019. Those whose automation is at 51-100% totalled 15.1% currently, relative to 15.9% in 2H2019.

By activity, most of them are still in the early stage of automation (1-10%), especially warehousing, material handling and assembly, as disclosed by 27-30% of the respondents who are involved in such activities. Those who estimated the automation of their warehousing and material handling activities at 11-40% totalled 47% each. Automation of information management, machining and process control at 41-90% was also reported by 41%, 40% and 36% of the respondents, respectively. Among those activities which are automated at 91-100%, process control and information management topped the list, as indicated by 4% of respondents.



COMPLIANCE TO ACT 446
Companies providing accommodation for their employees were given until end of December 2021 to submit their application for the Certificate for Accommodation (CFA) under the Employees' Minimum Standards of Housing and Amenities Act 1990 (Act 446). About 58% of the respondents are subject to this Act.

On the status of their application, 42% of those who have to comply to the Act maintained that they have completed and received the CFA, while 20% confirmed that their application is pending endorsement/approval from the local councils. Another 18% have submitted their CFA application online with all supporting documents and awaiting audit by the Labour Department, but 16% have yet to submit their application. Only 4% were found to be non-compliant after the audit process and given time to rectify the related non-compliance accordingly.

RECENT FLOOD SITUATION
According to 60% of the respondents, the recent floods that hit several states in Peninsular Malaysia have not impacted them. 31% were indirectly impacted, while the companies of 9% of the respondents were affected directly.

Most of the companies that were directly impacted by the floods reported the following: damage to property, assets and goods (65% responses), employees unable to report for work due to damage to their homes (63%) and halt in production for damage assessment, cleaning and repair works. Losses in replacement and repair of plants, machinery and equipment were reported by 47% of the respondents, while 37% had to deal with business losses due to production delays and supply chain disruptions.

For those who were indirectly impacted, majority of them faced supply chain disruptions due to suppliers/warehouse/third party logistic providers being affected by the floods (66% responses). Employees of 56% of the respondents were also unable to report for work due to their homes being affected by the floods, while 48% were affected by closure of roads, including those leading to the ports and airports, which delays their production. 31% suffered business losses due to production delays and supply chain disruptions.

Direct Impact (62 respondents) - RM220 million estimated losses

- Damage to property, assets and goods (65% responses)
- Employees unable to report for work due to damage to their homes (63%)
- Halt in production for damage assessment, cleaning and repair works (56%)
- Losses in replacement and repair of plants, machinery and equipment (47%)
- Business losses due to production delays and supply chain disruptions 37%)

Indirect Impact (219 respondents) - RM238 million estimated losses

- Supply chain disruptions due to suppliers/warehouse/third party logistic providers affected (66%)
- Employees unable to report for work due to their homes being affected by the floods (56%)
- Closure of roads, including those leading to the ports and airports, which delays their production (48%)
- Suffered business losses due to production delays and supply chain disruptions (31%)

Total losses to companies that were indirectly impacted by the floods were higher than those who were affected directly. For those affected indirectly, total losses were estimated at more than RM238 million, with most reporting losses of >RM5,000 – RM50,000 and >RM100,000 - RM500,000. For those who were directly impacted, total losses amounted to more than RM220 million, with most facing losses of >RM100,000 - RM500,000 and >RM1 million – RM5 million.

BUSINESS STRATEGIES/ACTION IN THE NEXT 6 MONTHS

In the first six months of 2022, the most popular productivity-related strategy/action that most respondents will undertake is training and upskilling, with 67% expressing this interest. 45% will increase their technical workers and 43% will implement lean manufacturing, while 13% will allow flexi-hours and employees to work from home. Where technology-related strategies are concerned, 74% of the respondents are planning to adopt Industry 4.0 in the coming months, while 65% and 44% are considering automation and digitalisation, respectively. Other strategies that respondents are planning to undertake include market expansion (61% responses), new product introduction (48%responses), deployment of research and development and innovation (28%), expansion of local supply chain (26%); business diversification (26%).

Productivity

- Upskilling & Reskilling (67%)
- Increase Technical Workers (45%)
- Lean Manufacturing (43%)
- Flexi Work Arrangements (13%)

Technology

- Industry 4.0 adoption (74%)
- Automation (65%)
- Digitalisation (44%)

Others

- Market expansion (61%)
- Introduce new products (48%)
- Deploy R&D and innovation (28%)
- Expand supply chain & business diversification (26% each)

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 2H2021 was conducted from January 5 to February 10, 2022 and received 702 responses, of which 67.1% were SMEs (based on full-time employees), with 249, 105 & 98 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 (12.3%).

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