



From the Desk
of the
Chief Economist

BANK ISLAM

MANUFACTURING PMI: THE MOMENTUM HAS EASED DURING JULY 2021

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ECONOMIC RESEARCH

DR. MOHD AFZANIZAM ABDUL RASHID

ADAM MOHAMED RAHIM

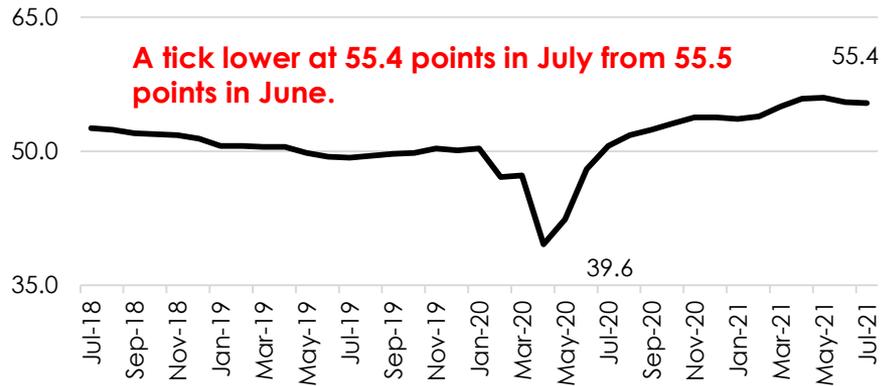
SHAFIZ BIN JAMALUDDIN

NOR JANNAH ABDULLAH

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GLOBAL MANUFACTURING REMAINED IN EXPANSIONARY LEVEL ALBEIT AT A SLOWER PACE

J.P. Morgan Global Manufacturing PMI, points



Sources: Bloomberg, IHS Markit

Countries' Manufacturing PMI

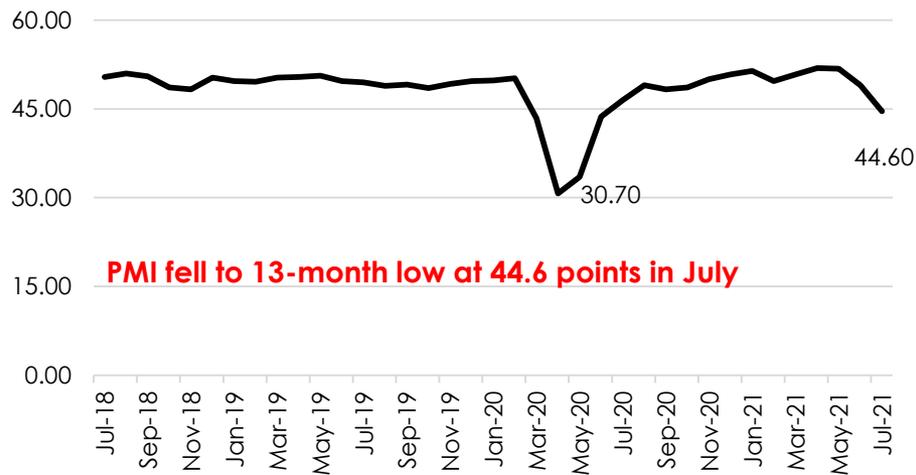
	Manufacturing PMI, points			
	May-21	Jun-21	Jul-21	12-month average
Global	56.0	55.5	55.4	53.9
U.S.	62.1	62.1	63.4	57.6
U.K	65.6	63.9	60.4	57.6
Germany	64.4	65.1	65.9	60.0
Eurozone	63.1	63.4	62.8	57.6
ASEAN	51.8	49.0	44.6	49.4
Malaysia	51.3	39.9	40.1	48.2
Thailand	47.8	49.5	48.7	49.2
Singapore	50.7	50.8	51.0	49.7
China	52.0	51.3	50.3	52.2
India	50.8	48.1	55.3	54.4
Philippines	49.9	50.8	50.4	50.1

Sources: Bloomberg, IHS Markit

- ✓ The J.P. Morgan Manufacturing Purchasing Manager's Index (PMI) continued to expand during first 7 months this year with the latest reading stood at 55.4 points in July (June: 55.5 points). In addition, advanced economies such as the U.S. and Germany increased further to 63.4 points (June: 62.1 points) and 65.9 points (June: 65.1 points) respectively in July.
- ✓ As for ASEAN countries, the PMI tended to underperform as these countries were badly impacted by the surge of Covid-19 cases combined with successive rounds of restriction measures being implemented. For instance, Manufacturing PMI for Malaysia, Indonesia and Thailand contracted at 40.1 points (June: 39.9 points), 40.1 points (June: 53.5 points) and 48.7 points (June: 49.5 points) respectively during July.
- ✓ On a different note, Singapore and Philippines were the only two ASEAN countries that recorded positive growth in July at 51.0 points (June: 50.8 points) and 50.4 points (June: 50.8 points).
- ✓ These demonstrates the economic recovery remains uneven with businesses have become wary on the state of the economic conditions.

GLOBAL MANUFACTURING REMAINED IN EXPANSIONARY LEVEL ALBEIT AT A SLOWER PACE (CONT'D)

ASEAN Manufacturing PMI, points



PMI fell to 13-month low at 44.6 points in July

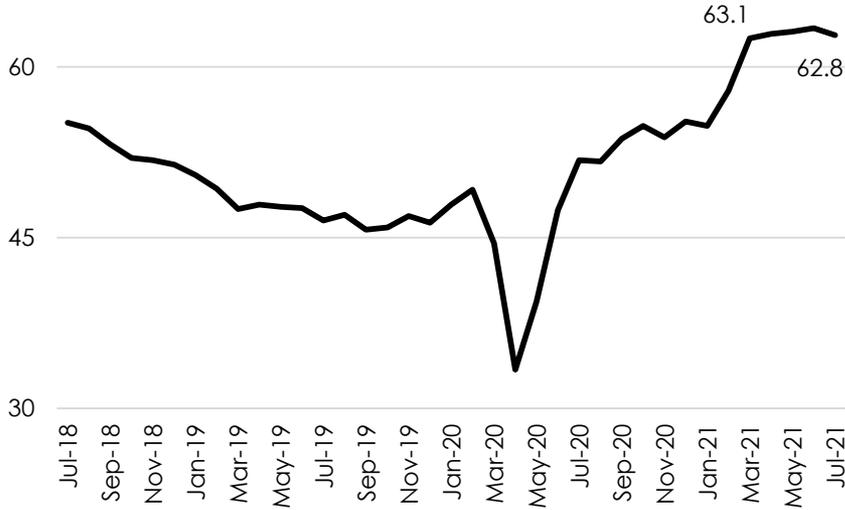
Index Summary:

Index	Jun-21	Jul-21	Interpretation
PMI	55.5	55.4	Improvement, slower rate
Output	54.4	54.3	Growth, slower rate
New Orders	55.7	55.3	Growth, slower rate
News Export Orders	53.2	52.7	Growth, slower rate
Future Output	66.1	64.2	Growth expected, weaker sentiment
Employment	52.6	52.7	Growth, faster rate
Input Prices	70.7	71.2	Inflation, faster rate
Output Prices	60.8	60.3	Inflation, slower rate

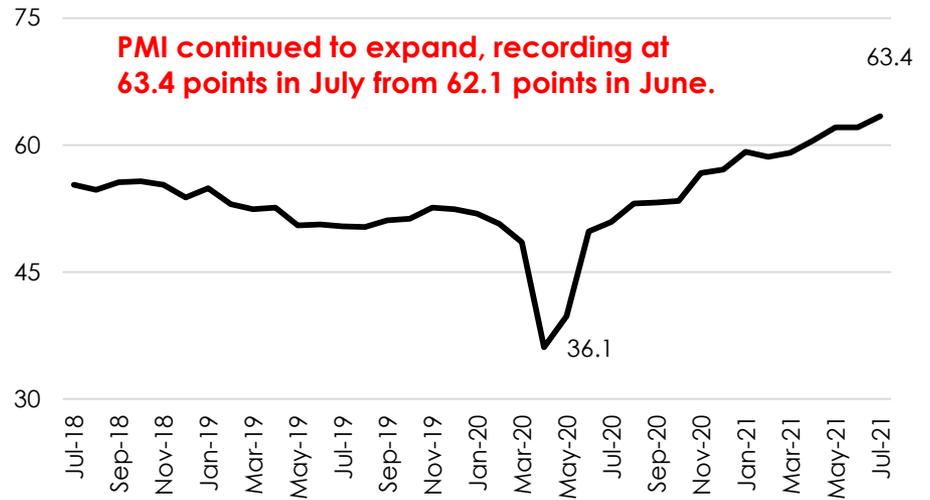
Source: IHS Markit

- ✓ Generally, global output and new orders remained on the positive note but the momentum has eased notably in few countries such as the U.K., France and China.
- ✓ Nevertheless, the U.S. and Germany continued to record stronger growth in output and new order while intense supply chain pressures remained apparent in July amid pent-up demand. These factors are driving up the input prices in light of scarce material supply.
- ✓ On the other hand, production activities in ASEAN countries shrank at a fastest pace since May last year on the back of ongoing restriction measures which severely weighed on the business activities.
- ✓ In light of this, the manufacturers have trimmed staff levels as business confidence remained subdued.
- ✓ As such, growth in manufacturing appears somewhat mixed while the Delta variant wave in ASEAN could put a lid on production capacity in coming months.

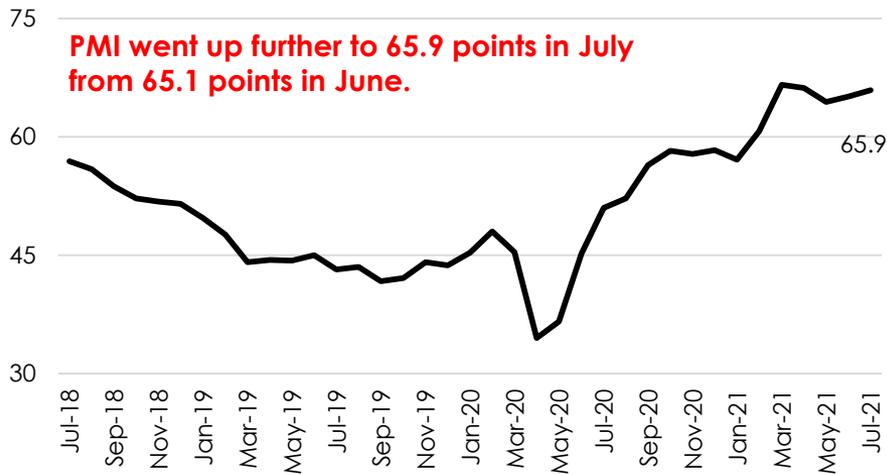
Eurozone Manufacturing PMI, points



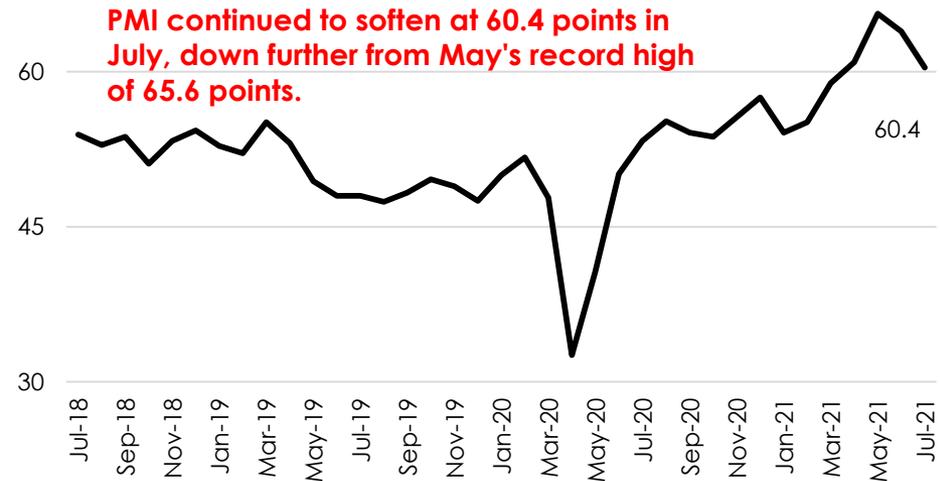
The U.S. Manufacturing PMI



Germany Manufacturing PMI, points

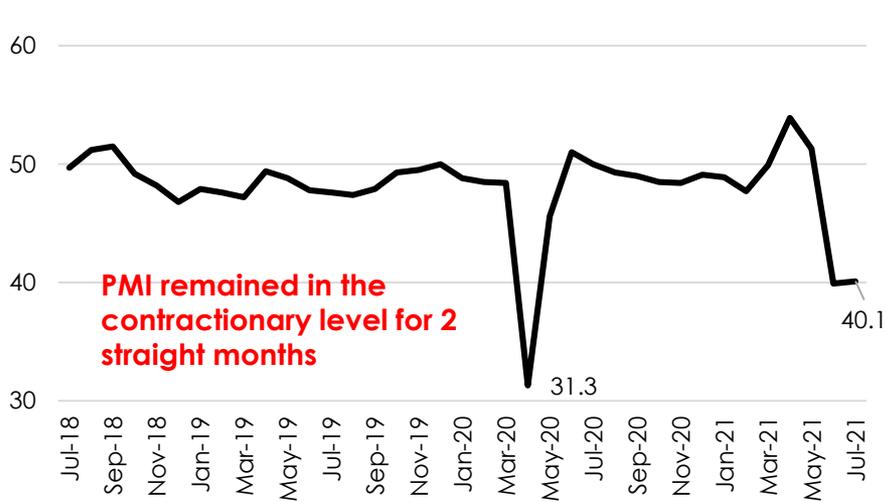


The U.K. Manufacturing PMI, points

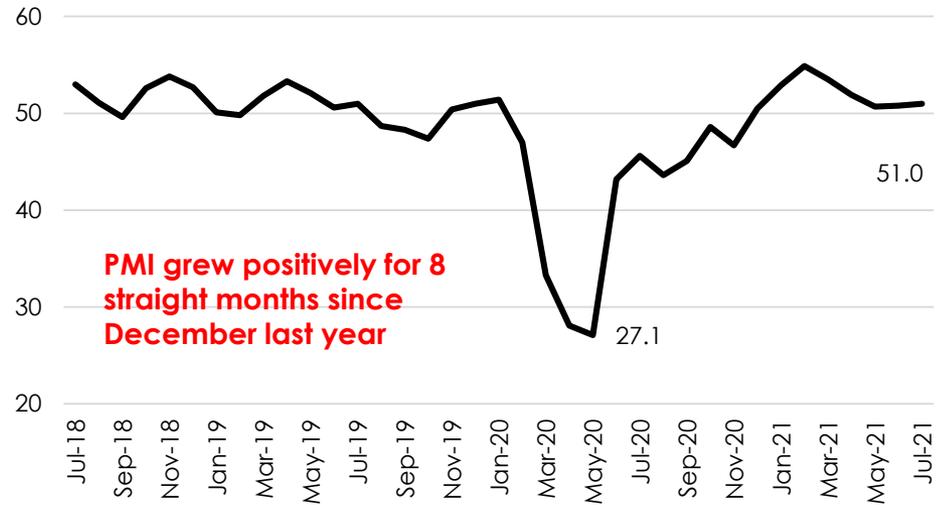


Sources: Bloomberg, IHS Markit

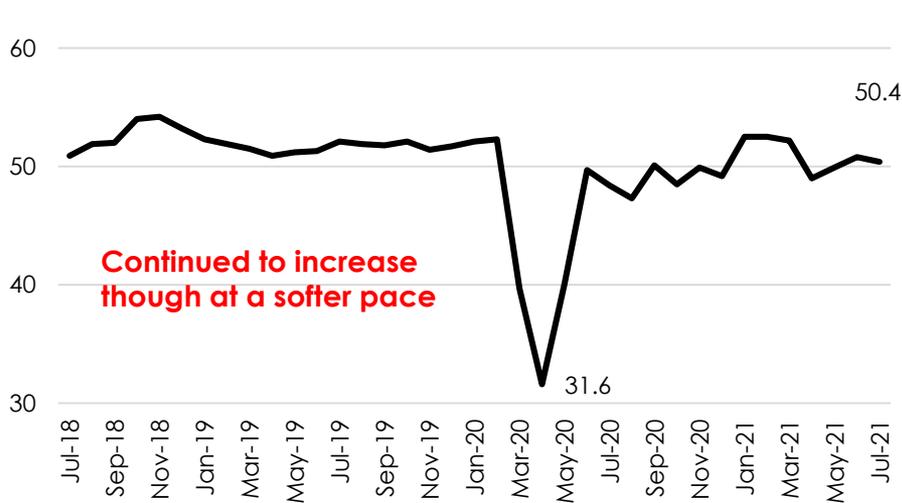
Malaysia Manufacturing PMI, points



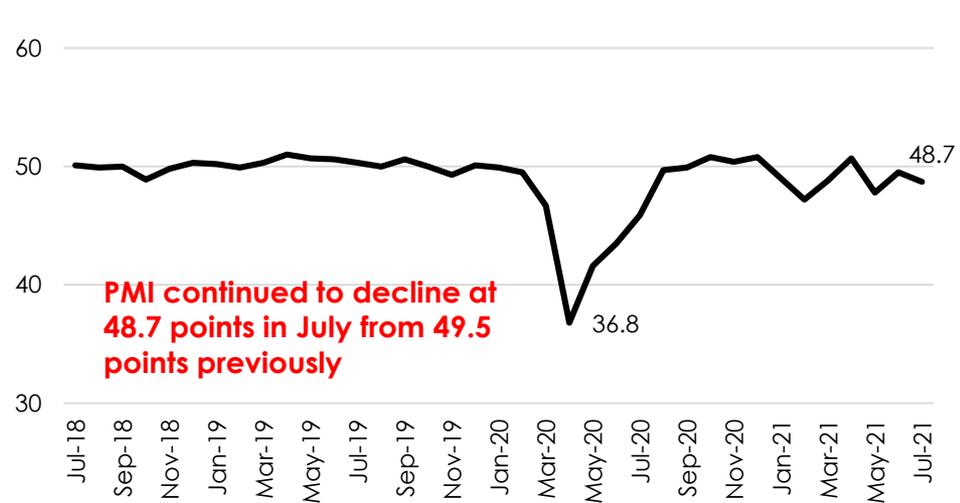
Singapore Manufacturing PMI, points



Philippines Manufacturing PMI, points



Thailand Manufacturing PMI, points



- ✓ **Supply chain clog-** Manufacturing activities are likely to moderate in medium term as supply chain constraints stymied growth while decline in new order is more pronounced in ASEAN as ongoing restriction measures weigh on the production capacity. In addition, this challenging operating environment heavily hit on the business confidence and hint further weakness in the coming months.
- ✓ **Surge in Delta variant cases-** The Delta variant which is more transmissible has caused many countries to report higher infection cases and renewed lockdown measures. Therefore, consumer spending is bound to falter while restrictions bite would cloud business sentiment in the medium term.
- ✓ **However, vaccinations are picking up-** Fortunately, vaccination rate continues to rise across the globe with daily vaccinations 7-day smoothed went up to 42.0 million doses on 3 August compared to 39.4 million doses at the end of July and this should help to curtail the outbreak.
- ✓ **Businesses and households need to adjust to new circumstances-** Following successive rounds of Covid-19-related measures that have been implemented, business and household must be agile to this changing environment. They have to come up with strategies to enhance operational efficiency and productivity level as the Covid-19 is likely here with us for a longer period of time.
- ✓ **Malaysia's economic recovery is likely to pick up from October onwards-** All adults in Malaysia is expected to receive at least one dose of vaccine in August and will be fully vaccinated by October this year. Therefore, it would allow the National Recovery Plan (NCP) to move to the next phase of the plan and allow the government to ease the restriction measures.
- ✓ **Target to fully vaccinate population year-end in Malaysia is plausible** – The vaccination progress in the country has been very encouraging with latest daily vaccine doses administered surpassing over 500,000 doses. Therefore, the 80.0% vaccination target under the National Immunisation Programme (NIP) is likely to be achieved.
- ✓ **BNM would like to keep the OPR at current level-** At this juncture, we are maintaining our view that the BNM may want to keep the OPR at 1.75% through out 2021 as any monetary policy tightening would be premature at this point of time. Notwithstanding this, the monetary policy decision by BNM will depend on the prospect of the economy and the Covid-19 development. Hence, the situation is very fluid and we cannot totally rule out should BNM decide to deliver additional reduction in policy rates.

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An aerial photograph of a city skyline at sunset, with a prominent pink bar at the bottom. The sky is filled with soft, golden light and scattered clouds. The city features numerous high-rise buildings, with a particularly tall, slender skyscraper on the left. A highway with traffic is visible in the foreground, winding through the city. The overall mood is warm and serene.

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