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To: CEO/ Directors/ Managing Directors/
Finance/ Business Development/Sales Managers

FMM – MIER Business Conditions Survey 1H2022

The Federation of Malaysian Manufacturers (FMM) is pleased to publish the findings of the 21st biannual survey of business conditions in the manufacturing sector for the first half of 2022 (1H2022). The findings were successfully released to the media via a press conference on September 6, 2022. We are pleased to enclose a copy of the survey findings for your reference and record.

The survey revealed that notwithstanding the persistent external headwinds and domestic challenges, including rising inflationary pressures, the manufacturing sector picked up some momentum in the first half of 2022. Most of the current indicators showed improvements from the previous survey:

- **Manufacturing activity improved in 1H2022** as reflected in the general business activity index which, edged up two points from 2H2021 to 109. 38% of the 794 respondents reported an increase in business activity in 1H2022, up from 36% in the prior survey. A slowdown was experienced by another 29% of the respondents, the same proportion obtained in 2H2021.
- **Local sales higher than export sales** in 1H2022 with the index for local sales which, at 99, had climbed five points from the previous period. Those who sold more domestically remained the same as the prior survey's 28% while majority of those who were able to maintain their sales in 1H2022 have risen to 43%. Conversely, the export sales index lost five points from 2H2021 to 91, implying that exports have slowed down in 1H2022 with 37% exporting less while 23% had exports rise.
- **Production volume and capacity utilisation have performed fairly well in 1H2022**, with both indices registering above the 100-point optimism threshold. While the current production index stood at 102, the current capacity utilisation index inched up three points to 101. Higher production was reported by 35% of the respondents, while 33% expanded their capacities in 1H2022.
- **Manufacturing cost gained further momentum in 1H2022** where the cost of production index rose to 182 with 85% of the respondents reporting higher production costs.
- **Capital investment has stepped up** with the latest index advancing four points from the prior period to 109. 28% of the respondents injected additional CAPEX in 1H2022 while another 53% have maintained their CAPEX in 1H2022. **Employment remained steady** with the index at 100, little changed from the previous survey's 99. 22% of the respondents increased their headcount in 1H2022 while 56% have maintained their existing workforce and 22% have reduced headcount.

Moving forward, manufacturers are taking a more pragmatic approach to the outlook of their businesses as economic challenges remain unabated for now. Across-the-board declines were charted in all the forward-looking indicators this time, with half of them falling below the 100-point optimism threshold, a postulation that the manufacturing sector will remain in cautious mode for the rest of 2022.

- **The index for expected business activity fell 28 points to below the optimism threshold at 94, suggesting that a slowdown in business activity is expected in 2H2022.**

- **Both the indexes for expected local sales and export sales have also slipped below the optimism threshold.** The expected local sales index and export index, at 90 and 89, respectively, have lost 23 and 22 points, respectively, from the preceding survey.
- **In line with the slower sales outlook, production and capacity utilisation are expected to slow down in the coming months as well** where the indices for expected production and capacity utilisation fell to 98 and 100 respectively, from the previous 122 and 117 respectively.
- **Capital investment is expected to remain moderate in the near term**, as depicted by the latest expected index for capital investment (CAPEX) which fell to 113 from 125 previously. 33% of the respondents are planning to increase their CAPEX soon, down from the previous survey's 39%.
- **Notwithstanding some recruitment challenges, manufacturing recruitment is expected to remain active in 2H2022.** The expected index for employment is still above the neutral threshold of 100 although it has declined to 117 from the prior survey's 121 with 33% of the respondents likely employ more workers soon.
- **The index for expected cost of production fell marginally** from the prior survey's all-time high of 179 to 177 currently, indicating that production costs are expected to remain high for the rest of 2022 with 81% bracing for further production hikes in the coming months.

Topical issues covered in the survey revealed the following:

- 58% opined that their total cost of production has increased by 6-10%. 53% are unable to pass the cost through. Top 3 increases in production cost in 1H2022: input cost of materials, labour costs and logistics.
- 3 main obstacles to businesses in 2H2022 were rising cost of raw materials, labour costs and labour shortage.
- 57% of respondents to increase selling prices in 2H2022 due to rising costs of raw materials, wages, and logistics.
- Business recovery for 39% of respondents are at pre-Covid levels, 32% below pre-Covid level and 29% higher than pre-Covid level. For those whose business recovery is higher than the pre-Covid level, 84% estimated their recovery to be 1-30% higher than the pre-Covid level.
- 74% of respondents are in favour of re-introduction of GST. Among them, 49% opined that they will need a period of six months for the transition back to GST, while 35% believe they will need twelve months and 10% will require 18 months.
- Most respondents impacted by the Ukraine-Russia conflict via increasing costs of raw materials, logistics and overall cost pass-through from suppliers/vendors
- OPR hike by BNM affects cashflow and business operations, and increases cost of production of respondents.
- Top 3 wishes for Budget 2023: reduction in corporate and personal taxes, moderation in energy cost and re-introduction of the GST

The 1H2022 survey, which was conducted from July 9, 2022 to August 12, 2022, continued to receive great support from members and we achieved yet another record high response rate of 794 companies versus 702 in the previous survey. FMM would like to thank all members who took the time to respond and give their valuable feedback. The next survey would be in December 2022/January 2023. FMM members' support and continued participation would ensure that the Business Conditions Index (BCI) is representative and an accurate monitor of business condition trends in the manufacturing sector.

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