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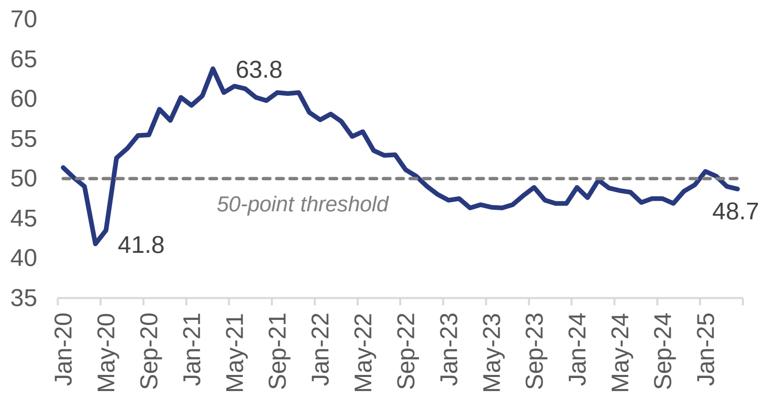
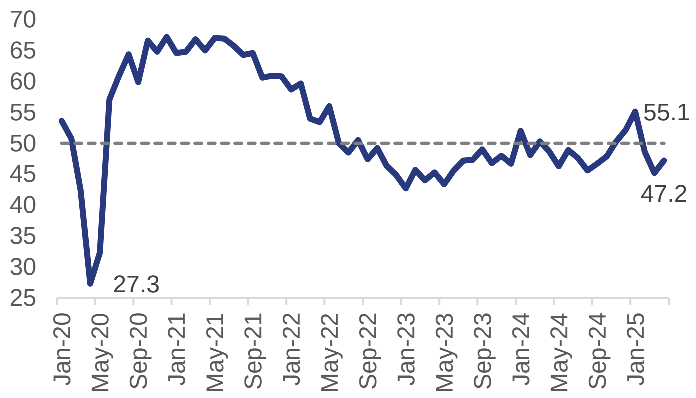
2 May 2025

US Manufacturing Weakens Further as Tariff Headwinds Intensify

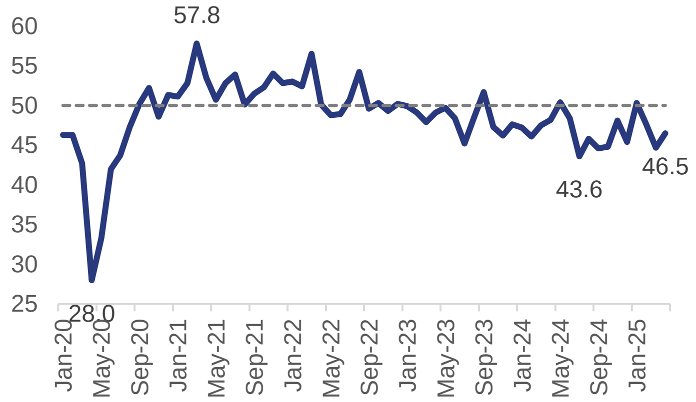
Purchasing Managers' Index (PMI)



PMI: New Orders Index



PMI: Employment



Sources: CEIC, US Institute for Supply Management, BMMB Economics

Economic activity in the US manufacturing sector slipped further into contraction in April, with the **ISM Manufacturing PMI registering 48.7**, down from 49.0 in March. This marks the second consecutive month of contraction after a brief rebound in early 2025, reaffirming that industrial momentum remains fragile. The manufacturing slowdown was broad-based, with **three of the five key sub-indices (New Orders, Production, Employment) remaining in contraction**, while Inventories and Supplier Deliveries remained in expansion territory—though both are interpreted negatively due to supply chain distortions tied to tariffs.

Key points:

- **New Orders Index: 47.2 (+2.0 pts)** – Still contracting; demand recovery remains uneven and hampered by tariff uncertainty.
- **Production Index: 44.0 (-4.3 pts)** – A sharp decline, suggesting factory output is being revised downward amid weak order books.
- **New Export Orders Index: 43.1 (-6.5 pts)** – Lowest level since the Global Financial Crisis (excluding COVID-19), hit by overseas growth stagnation and retaliatory tariffs.
- **Prices Index: 69.8 (+0.4 pts)** – Cost pressures remain elevated, fueled by broad-based price increases (notably in steel, aluminum, and freight).

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What Respondents Are Saying: Tariffs Emerge as the Central Theme

"Uncertainty over tariffs is providing a big challenge from both Tier-1 suppliers we will have to pay tariffs on directly and Tier-2 suppliers that will try to pass tariffs through to us in the form of price increases and tariff surcharges."	Chemical Products
"Tariffs impacting operations — specifically, delayed border crossings and duties calculations that are complex and not completely understood. As a result, we are potentially overpaying duties. Unsure of potential drawbacks. Implementation of tariffs and their application is sudden and abrupt. The business is taking countermeasures."	Transportation Equipment
"Business climate is apprehensive, and with tariff costs implemented, all inbound Chinese shipments are on hold. It is not feasible for our business or customers to sustain the pricing required to provide an acceptable margin."	Computer & Electronic Products
"Tariff trade wars are incredibly volatile, quickly changing, and disrupting a ton of our current work. We are 90 percent sourced out of China, and the cost models keep changing every week. We are flying to visit suppliers in a few weeks to negotiate current terms and pricing, as well as develop more long-term, strategic plans to reduce risk in the region."	Apparel, Leather & Allied Products
"There is a lot of concern about the inflationary impacts from tariffs in our industry. Domestic producers are charging more for everything because they can."	Fabricated Metal Products

Respondent commentary this month points to a common theme: **tariffs are increasingly shaping business decisions and operational planning**.

Companies are navigating **rising input costs, extended shipment timelines, and the need to revisit contract terms** as trade policies evolve. While some have paused certain imports or face supplier renegotiations, others are proactively exploring alternative sourcing and cost-sharing arrangements. Strategic planning has become more dynamic, with procurement and pricing strategies continuously adjusted to manage shifting tariff structures and maintain competitiveness in a more complex trade environment.

Sources: ISM Report

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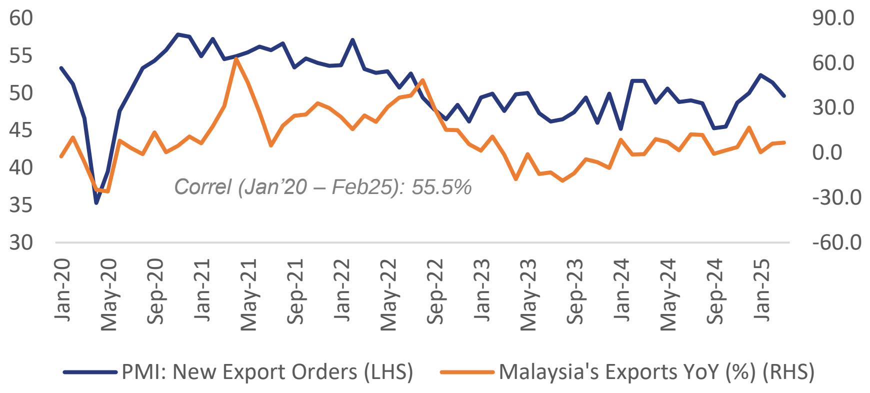
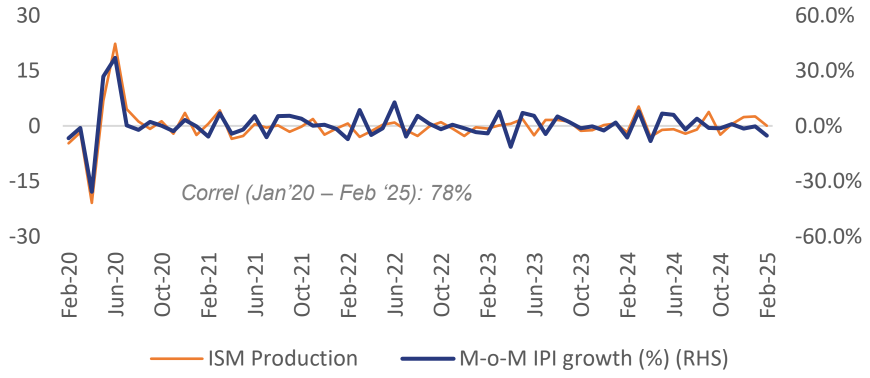
Implications for Malaysia: Risks and Relative Advantages in a Shifting Trade Landscape

PMI New Orders Index vs Malaysia's Exports



ISM PMI: Production vs Malaysia's IPI



Sources: CEIC, US Institute for Supply Management, BMMB Economics

With the ISM report signaling broad-based weakness in US manufacturing and export orders, Malaysia's external sector faces renewed pressure. However, amid these headwinds, Malaysia may potentially stand to benefit from relative trade advantages compared to regional peers.

Export Demand Likely to Soften

The sharp drop in the US New Export Orders Index to 43.1—the lowest level since the GFC (excluding the pandemic)—suggests a material contraction in external demand. Malaysian exporters integrated into US supply chains, particularly in semiconductors, precision engineering, and machinery components, may experience a slowdown in orders, production deferments, and prolonged contract negotiations.

A Relative Advantage: Malaysia's Tariff Exposure Is Lower

That said, Malaysia may still benefit from a relative advantage compared to other ASEAN exporters. Reciprocal tariffs imposed on Malaysia have so far been less severe than those applied to other regional peers. This could help preserve Malaysia's share of US import demand, especially in product categories where sourcing flexibility is limited.

We maintain our cautious view on Malaysia's external outlook and reiterate our downgraded **2025 GDP forecast of 4.1%,** reflecting rising global demand risks and potential spillovers from renewed US tariff actions.

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Appendix: US ISM Manufacturing Snapshot – April 2025

Index	Series Index Apr	Series Index Mar	Percentage Point Change	Direction	Rate of Change	Trend (Months)
Manufacturing PMI	48.7	49	-0.3	Contracting	Faster	2
New Orders	47.2	45.2	2	Contracting	Slower	3
Production	44	48.3	-4.3	Contracting	Faster	2
Employment	46.5	44.7	1.8	Contracting	Slower	3
Supplier Deliveries	55.2	53.5	1.7	Slowing	Faster	5
Inventories	50.8	53.4	-2.6	Growing	Slower	2
Customers' Inventories	46.2	46.8	-0.6	Too Low	Faster	7
Prices	69.8	69.4	0.4	Increasing	Faster	7
Backlog of Orders	43.7	44.5	-0.8	Contracting	Faster	31
New Export Orders	43.1	49.6	-6.5	Contracting	Faster	2
Imports	47.1	50.1	-3	Contracting	From Growing	1

Sources: Sources: CEIC, US Institute for Supply Management, BMMB Economics