

Embargoed until 0830 MYT (0030 UTC) 4 May 2020

IHS Markit Malaysia Manufacturing PMI®

PMI falls to survey low amid COVID-19 pandemic

Key findings

Headline PMI slumps to 31.3 in April

Demand for goods severely impeded by movement control order

COVID-19 causes export conditions to deteriorate considerably

Data were collected 07-24 April 2020.

According to the latest PMI survey, the Malaysian manufacturing sector came under heavy pressure during April as measures implemented to tackle the spread of the coronavirus disease 2019 (COVID-19) caused firms to either suspend production or operate well below full capacity. Lockdown measures both domestically and overseas had a considerable impact on demand, which fell at a survey-record pace. Supplier deliveries were also heavily affected by the movement control order, restricting firms' ability to purchase vital materials.

The headline IHS Markit Malaysia Manufacturing Purchasing Managers' Index™ (PMI®) – a composite single-figure indicator of manufacturing performance – recorded 31.3 during April. This was down from 48.4 in March and pointed to a sharp decline in business conditions that was by far the strongest since data collection began in 2012.

The most commonly cited factor weighing on the manufacturing economy during April was the implementation of restrictions both at home and in exports markets to contain the spread of the coronavirus, which severely restricted demand and often meant goods producers operated well below full capacity. In some cases, firms completely suspended output due to insufficient staff numbers and reduced intakes of new work. Manufacturing production consequently declined at an unprecedented rate.

New orders fell sharply during April as a result of the global COVID-19 pandemic, which had resulted in lockdowns being implemented at both domestically and overseas. Some companies indicated that key clients had shut down.

Latest data also signalled a substantial and survey-record decline in export demand during April, with approximately 83% of companies reporting lower orders from abroad.

Supply chain delays also impeded manufacturers in April, with

continued...

Malaysia Manufacturing PMI
sa, >50 = improvement since previous month



Source: IHS Markit.

Comment

Commenting on the latest survey results, Chris Williamson, Chief Business Economist at IHS Markit, said:

"It's no surprise to see that measures taken to contain the COVID-19 outbreak led to a sharp fall in manufacturing activity in April. Domestic demand was hit hard by containment measures and production at many firms was curbed by business closures. Export demand meanwhile collapsed as governments around the world took drastic action to prevent healthcare systems from being overwhelmed."

"It was reassuring to see only a modest fall in employment, as the vast majority of firms held on to staff to safeguard longer term production capacity. Business expectations for the year ahead also ticked higher, as more companies saw prospects improve. In that respect, with increasing numbers of governments looking at ways to ease COVID-19 restrictions, it's likely that we will soon see the rate of export decline moderate, helping drive a recovery in production. A recovery is nevertheless likely to be sluggish, as global demand looks set to remain relatively subdued for some time."

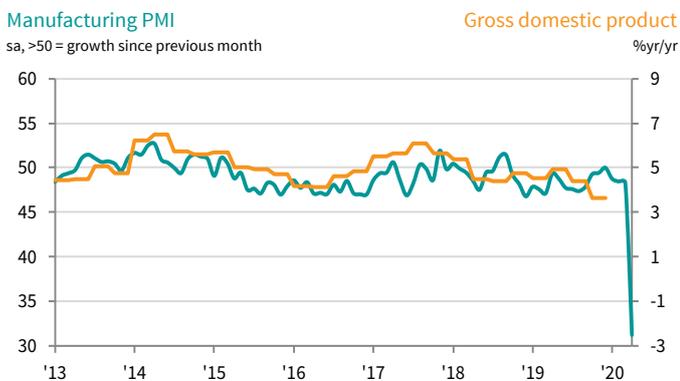
firms recording the sharpest month-to-month lengthening in delivery times since data collection started almost 8 years ago. According to panel comments, the movement control order had severely impacted transportation. There were also reports of material shortages at vendors due to factory closures.

The combined effect of lower production requirements and longer vendor delivery times led to a sharpest drop in purchasing activity in the survey history during April. Stocks of inputs also fell markedly as firms tightened their inventories to contain costs.

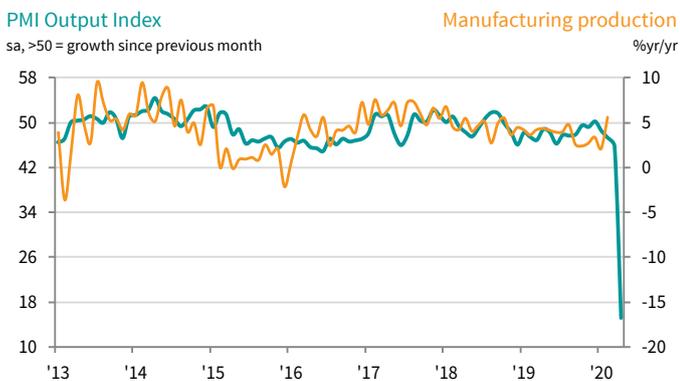
Employment declined modestly among the surveyed companies in April. Where job losses were reported, panel members linked this to the movement control order, which prevented some staff from working. That said, approximately 95% of firms reported unchanged workforce numbers.

Positively, there were signs of stabilisation in business expectations for the next 12 months. Sentiment edged up into positive territory as companies anticipate an economic recovery over the course of the coming year. Uncertainty regarding the longevity of the COVID-19 crisis weighed on the outlook, however.

Lastly, price trends were deflationary during the latest survey period. Prices paid for raw materials and other inputs fell when compared to March as suppliers due to weak demand. This gave firms more room to reduce output charges, which fell at the quickest rate since January 2015.



Sources: IHS Markit, Department of Statistics Malaysia.



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Using PMI to nowcast Malaysian GDP

PMI data are available faster than official GDP and at higher frequency, providing an accurate advance guide to economic growth

Simple rules allow easy interpretation of PMI data for economic growth

A common question we receive is how to use the PMI to predict economic growth, or GDP. Nowcasting models are typically complex, with many variables, of which the PMI can certainly be included. But in many countries, nowcast models do not offer significantly greater accuracy than a simple model that uses just the PMI.

In the case of Malaysia, comparing the headline PMI with annual GDP growth rates shows a reasonably high correlation of 60%, with the PMI acting as a coincident indicator of economic growth. Using the average of PMI Output Index for each calendar quarter lifts this correlation to 74%.

With this correlation as the basis of PMI-implied GDP growth rates, we can build a simple OLS regression model where the annual rate of change in GDP is explained by a single variable: the headline Malaysia manufacturing PMI. The model therefore allows us to estimate GDP using the following formula:

$$\text{Annual \% change in GDP} = (\text{PMI} \times 0.287) - 8.99$$

Using this formula, a headline PMI reading of 31.4 is comparable to a zero annual growth rate of GDP. Each index point above (below) is roughly the same as 0.3 percentage points of GDP growth (decline) such that:

$$\begin{aligned} \text{PMI} = \% \text{ change in GDP} \\ 30 &= -0.4 \\ 40 &= 2.5 \\ 50 &= 5.3 \\ 60 &= 8.2 \end{aligned}$$

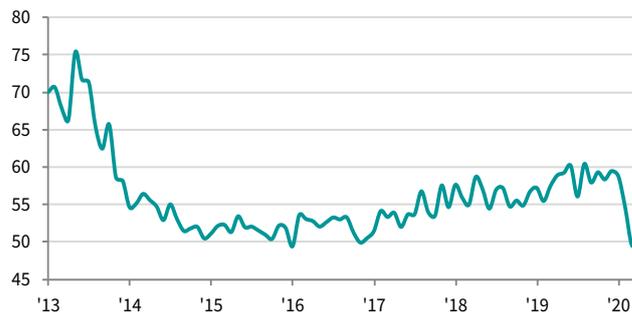
New Export Orders Index

sa, >50 = growth since previous month



Future Output Index

>50 = growth expected over next 12 months



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Survey methodology

The IHS Markit Malaysia Manufacturing PMI® is compiled by IHS Markit from responses to questionnaires sent to purchasing managers in a panel of around 400 manufacturers. The panel is stratified by detailed sector and company workforce size, based on contributions to GDP.

Survey responses are collected in the second half of each month and indicate the direction of change compared to the previous month. A diffusion index is calculated for each survey variable. The index is the sum of the percentage of 'higher' responses and half the percentage of 'unchanged' responses. The indices vary between 0 and 100, with a reading above 50 indicating an overall increase compared to the previous month, and below 50 an overall decrease. The indices are then seasonally adjusted.

The headline figure is the Purchasing Managers' Index® (PMI). The PMI is a weighted average of the following five indices: New Orders (30%), Output (25%), Employment (20%), Suppliers' Delivery Times (15%) and Stocks of Purchases (10%). For the PMI calculation the Suppliers' Delivery Times Index is inverted so that it moves in a comparable direction to the other indices.

Underlying survey data are not revised after publication, but seasonal adjustment factors may be revised from time to time as appropriate which will affect the seasonally adjusted data series.

For further information on the PMI survey methodology, please contact economics@ihsmarkit.com.

Survey dates and history

April data were collected 7-24 April 2020.

Survey data were first collected July 2012.

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Purchasing Managers' Index™ (PMI®) surveys are now available for over 40 countries and also for key regions including the eurozone. They are the most closely watched business surveys in the world, favoured by central banks, financial markets and business decision makers for their ability to provide up-to-date, accurate and often unique monthly indicators of economic trends. ihsmarkit.com/products/pmi.html.