

Embargoed until 0830 MYT (0030 UTC) 01 November 2021

IHS Markit Malaysia Manufacturing PMI®

Manufacturing activity resumes growth as COVID-19 measures ease

Key findings

October sees renewed growth of output and new orders

Sharp increases in costs and charges amid sustained supply disruption

Business confidence remains positive

Data were collected 12-25 October 2021.

The Malaysian manufacturing sector saw growth return at the start of the fourth quarter of 2021, as the lifting of COVID-19 restrictions contributed to the strongest expansion in new orders since April and the first rise in production in six months. That said, manufacturers commonly noted that sustained supply chain disruptions and delivery delays had held back a stronger recovery, while material and container shortages led to a sharp acceleration in cost inflation. As a result, firms increased their output charges at the quickest pace since April. Nonetheless, manufacturers maintained an optimistic outlook for activity over the coming 12 months.

The headline IHS Markit Malaysia Manufacturing Purchasing Managers' Index™ (PMI®) – a composite single-figure indicator of manufacturing performance – registered 52.2 in October. This was up from 48.1 in September and pointed to the strongest expansion in the health of the Malaysian manufacturing sector since April.

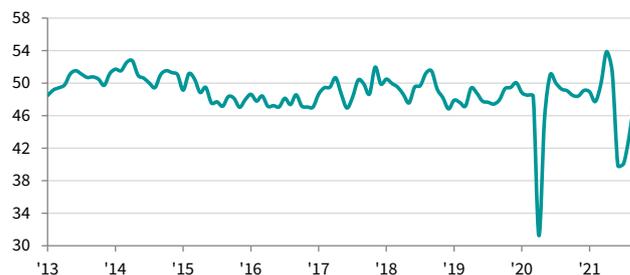
Looking at the historical relationship between official statistics and the PMI, the latest reading is representative of a renewed uplift in industrial production and GDP, as the economy recovers from the latest wave of virus infections.

Both production and new order volumes returned to expansion territory in October. Firms commonly attributed the increase in new orders to a softening in pandemic restrictions, which spurred client confidence and facilitated an increase in production levels in the domestic market. Foreign demand for Malaysian manufactured goods meanwhile remained subdued, though the pace of reduction in export sales was the softest since May as firms noted pockets of stronger demand in Europe and the US.

At the same time, the rate of job shedding quickened slightly from September. Employment levels fell marginally in October, mainly due to firms reporting a lack of available staff.

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:

“October saw a welcome return to growth for Malaysian manufacturing. Factory production and order books showed the strongest gains since April, coinciding with COVID-19 restrictions being eased domestically to the lowest since April while global restrictions were eased to the lowest since the start of the pandemic.”

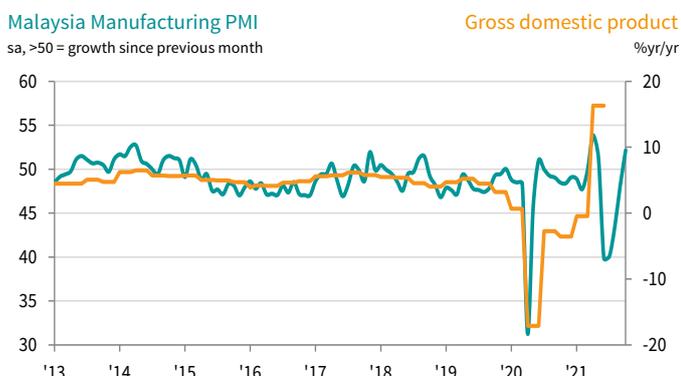
“However, while looser virus containment measures are helping drive demand higher, supply has yet to catch up, with companies again reporting widespread issues with component shortages, shipping delays and a lack of containers, all of which colluded to drive prices up at an increased rate in October. Supply and demand clearly remain out of balance, and will do so for some time to come, acting as a constraint on growth and putting upward pressure on prices.”

Concurrently, manufacturers saw outstanding business expand at the third-fastest rate in the series history following reports of raw material and labour shortages.

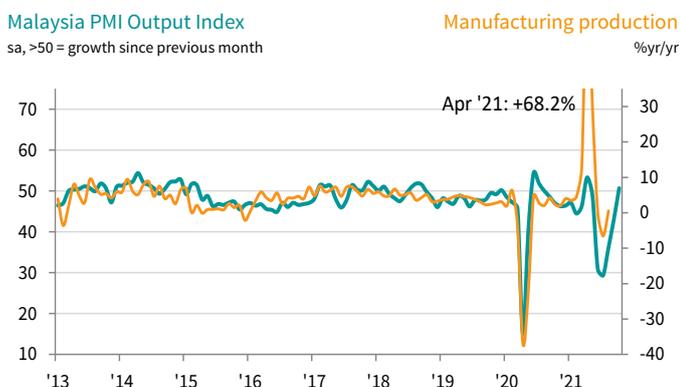
Material shortages also contributed to an intensification of input price pressures in October. Average cost burdens rose at the sharpest pace since May, with anecdotal evidence suggesting that higher costs of raw materials and transportation coupled with delivery delays contributed to increased input prices. Firms sought to partially pass higher cost burdens onto clients, causing output charges to rise steeply. This extended the current sequence of inflation to 17 months, with the latest increase the fastest since April.

Despite the rise in output and new orders, businesses reported that purchasing activity remained subdued at the start of the fourth quarter. While the latest fall was only modest, input purchases have now reduced in each of the last five months. Firms commented that demand was only returning gradually, as well as mentioning difficulties in receiving raw materials. At the same time, manufacturers utilised existing stocks of pre- and post-production goods to fulfil incoming orders, often as a result of delivery delays. This occurred as supplier delivery times lengthened to the greatest extent in five months.

Malaysian manufacturers expressed optimism regarding the year-ahead outlook for the fourth month running in October. While softer than that seen in September, positive sentiment was in line with the long-run average, underpinned by hopes of a domestic and external recovery in demand should the pandemic continue to dissipate.



Sources: IHS Markit, Department of Statistics Malaysia.



Sources: IHS Markit, Department of Statistics Malaysia.

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:

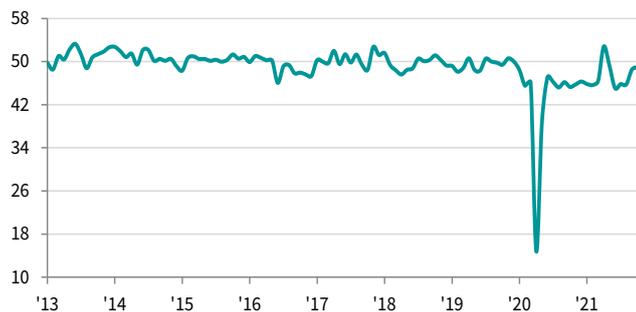
$$\text{Annual \% change in GDP} = (\text{PMI} \times 0.287) - 8.99$$

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:

- PMI = % change in GDP**
- 30 = -0.4**
- 40 = 2.5**
- 50 = 5.3**
- 60 = 8.2**

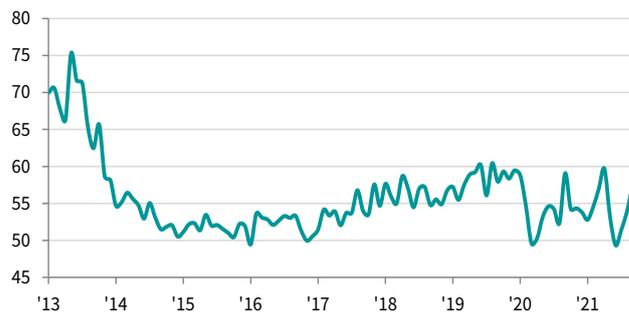
Malaysia New Export Orders Index

sa, >50 = growth since previous month



Malaysia Future Output Index

>50 = growth expected over next 12 months



Contact

Chris Williamson
Chief Business Economist
IHS Markit
T: +44 207 260 2329
chris.williamson@ihsmarkit.com

Joanna Vickers
Corporate Communications
IHS Markit
T: +44 207 260 2234
joanna.vickers@ihsmarkit.com

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

October data were collected 12-25 October 2021.

Survey data were first collected July 2012.

Disclaimer

The intellectual property rights to the data provided herein are owned by or licensed to IHS Markit. Any unauthorised use, including but not limited to copying, distributing, transmitting or otherwise of any data appearing is not permitted without IHS Markit's prior consent. IHS Markit shall not have any liability, duty or obligation for or relating to the content or information ("data") contained herein, any errors, inaccuracies, omissions or delays in the data, or for any actions taken in reliance thereon. In no event shall IHS Markit be liable for any special, incidental, or consequential damages, arising out of the use of the data. Purchasing Managers' Index™ and PMI® are either registered trade marks of Markit Economics Limited or licensed to Markit Economics Limited. IHS Markit is a registered trademark of IHS Markit Ltd. and/or its affiliates.

About IHS Markit

IHS Markit (NYSE: INFO) is a world leader in critical information, analytics and solutions for the major industries and markets that drive economies worldwide. The company delivers next-generation information, analytics and solutions to customers in business, finance and government, improving their operational efficiency and providing deep insights that lead to well-informed, confident decisions. IHS Markit has more than 50,000 business and government customers, including 80 percent of the Fortune Global 500 and the world's leading financial institutions.

IHS Markit is a registered trademark of IHS Markit Ltd. and/or its affiliates. All other company and product names may be trademarks of their respective owners © 2021 IHS Markit Ltd. All rights reserved.

If you prefer not to receive news releases from IHS Markit, please email joanna.vickers@ihsmarkit.com. To read our privacy policy, click here.

About PMI

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