News Release

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IHS Markit
Malaysia Manufacturing PMI®

Output grows at fastest rate since September 2018

Key findings

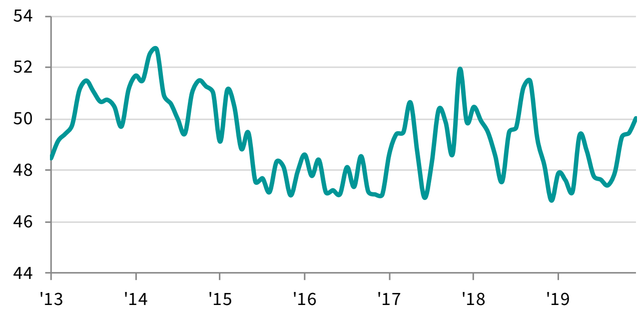
Headline PMI rises to 15-month high in December

Improved new orders trend supports output growth

Business confidence among strongest seen in six years

Malaysia Manufacturing PMI

sa, >50 = improvement since previous month



Source: IHS Markit.

Malaysia's manufacturing sector is heading into 2020 on a firm footing, with survey data for December showing further momentum gains in output and new orders. Production expanded at the fastest pace since September 2018 amid reports of stronger demand pressures. That said, renewed fragilities appeared in international markets.

Elsewhere, there were signs that firms were confident in the purchasing power of their clients as output charges were lifted to the greatest extent in 13 months, while business optimism strengthened.

The headline IHS Markit Malaysia Manufacturing Purchasing Managers' Index™ (PMI®) – a composite single-figure indicator of manufacturing performance – increased to a 15-month high in December of 50.0, from 49.5 in November. The current PMI reading is indicative of annual GDP growth of approximately 5.5%. Furthermore, for the fourth quarter as a whole, the headline PMI recorded its highest average since the third quarter of 2018, suggesting that economic growth has accelerated into the year end.

Latest survey data pointed to the fastest increase in goods production since September 2018. Analysis of comparable historical official data on Malaysian manufacturing suggests that, at current levels, the survey's output index is consistent with production growth of 6%. According to anecdotal reasons, production volumes were supported by improved demand conditions.

The trend in new orders continued to pick up during December, with the respective index rising for the fourth straight month to its highest in over a year. Successful project tenders and greater sales to existing clients were mentioned by survey respondents. Nevertheless, weakness across international markets remained

continued...

Comment

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

"Malaysia's manufacturers move into 2020 reporting increasingly brighter business conditions, having ended 2019 with their best performance for over a year. Survey indicators of output and order book inflows moved higher as recent headwinds to demand showed further signs of easing, in turn helping boost optimism about the year ahead to one of the highest seen over the past six years.

"At current levels the PMI is indicative of manufacturing expanding at an annual rate of approximately 6% and GDP growing by 5.5%.

"Whether expectations of faster growth in 2020 materialise will likely depend on global trade developments and ongoing uncertainty in relation to trade wars, meaning firms continue to focus on keeping costs low. But any further improvements in the news flow regarding trade will hopefully spur faster growth and boost risk appetite in 2020 after what has been the weakest PMI performance for three years in 2019, matching a similar slowdown in the global economy."

PMI® By IHS Markit

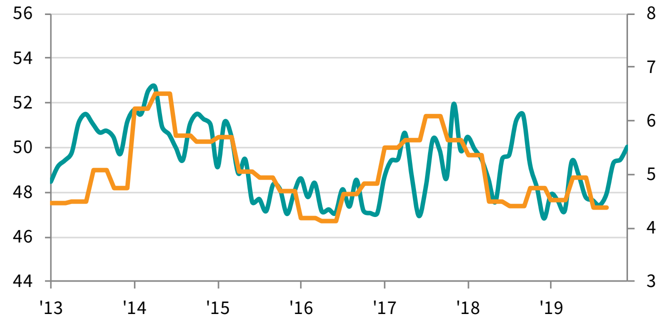
evident as new export orders stagnated in December. Companies attributed the slowdown to unfavourable conditions across key trade destinations.

With demand conditions picking up, firms boosted purchasing activity in December, with the respective index rising to a 15-month high. Some firms also secured extra stock in anticipation of higher material costs. Increased buying led to the first accumulation to pre-production inventories since October 2018. However, higher demand for inputs exerted pressure on supply chains, causing supplier delivery times to lengthen to the greatest extent in ten months.

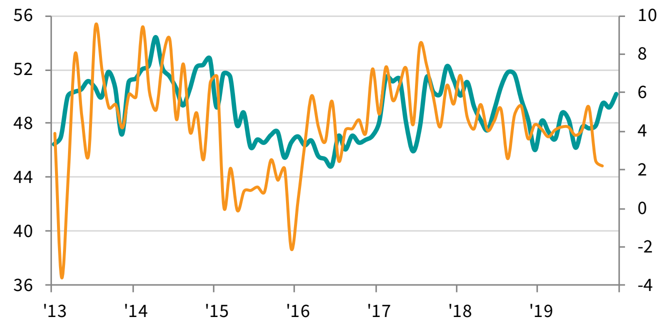
Meanwhile, Malaysian manufacturers indicated that operating capacities were sufficient to cope with current workloads as backlogs declined in December for a sixteenth successive month. Consequently, employment levels were left broadly unchanged. While a number of companies reduced payroll numbers in order to contain costs, some boosted hiring in line with greater output.

Elsewhere, the latest survey data showed stronger inflationary pressures across the Malaysian manufacturing sector. Input costs increased at a faster rate amid reports of higher commodity prices and unfavourable exchange rates. However, firms passed on higher cost burdens through output charges, which rose for the first time in three months, indicating confidence in clients' purchasing power.

Output expectations for the next 12 months were strongly optimistic in December, with the degree of confidence running among the strongest seen over the past six years.



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:

Annual % change in GDP

= (PMI x 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

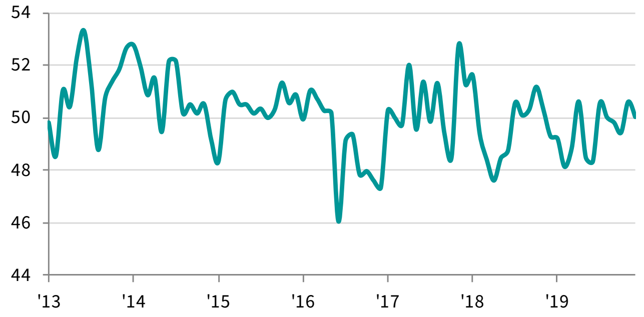
60 = 8.2

Interpretation of December PMI for GDP

Malaysia's manufacturing sector has ended 2019 on a strong footing, with latest survey data indicating resilient growth. At current levels, the PMI is consistent with annual GDP growth of approximately 5.5%.

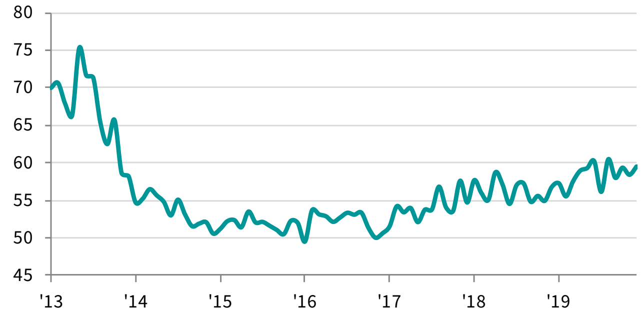
New Export Orders Index

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

December data were collected 05-17 December 2019.

Survey data were first collected July 2012.

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.

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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. To learn more go to ihsmarkit.com/products/pmi.html.