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IHS Markit Malaysia Manufacturing PMI®

Recovery in Malaysian manufacturing sector hit by COVID-19 and faltering exports

Key findings

Rising COVID-19 cases undermine demand

Output scaled back for second month running as export fall steepens

Confidence in 12-month outlook dips

Data were collected 12-26 October 2020.

Rising coronavirus disease 2019 (COVID-19) case numbers and renewed restrictions to try to prevent its spread stymied the recovery in the Malaysian manufacturing sector during October. Both output and new orders slowed to greater extents than seen in the previous month and business optimism waned.

On the price front, the rate of input cost inflation softened despite reports of material shortages leading to higher supplier charges. Meanwhile, firms increased their own output prices at only a marginal pace.

The headline IHS Markit Malaysia Manufacturing Purchasing Managers' Index™ (PMI®) – a composite single-figure indicator of manufacturing performance – dipped for the fourth successive month in October, down to 48.5 from 49.0 in September. The latest reading signalled a modest deterioration in the health of the sector, albeit one that was much less marked than seen at the height of the pandemic.

While the historical relationship between the PMI and official data suggests that GDP continued to rise at the start of the fourth quarter of the year, manufacturing output looks to be stagnating amid a resurgence of COVID-19 cases.

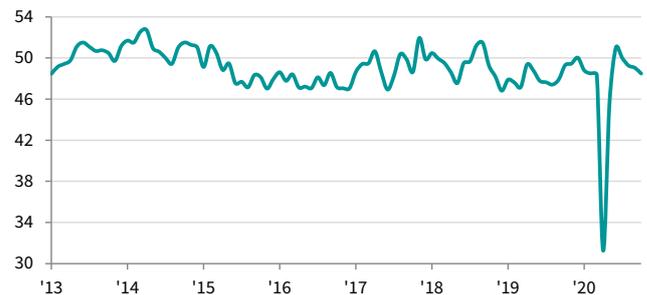
Both new orders and production moderated in October, and to greater extents than in September. The extension and reintroduction of restrictions to prevent the spread of COVID-19 was reportedly a key factor behind worsening market demand and a scaling back of production.

New export orders also fell, and to a greater extent than total new business amid ongoing disruption to international demand caused by the pandemic.

Weaker new order inflows meant that firms were able to deplete their backlogs of work. The resulting reduction in outstanding business was the sharpest since December 2018. A lack of pressure

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:

"The rebound from the second quarter's economic slump is showing signs of losing momentum as we head into the fourth quarter. Rising COVID-19 infection rates and worries regarding further lockdown precautions, both at home and in export markets, are hitting order books and denting business confidence. Optimism about the year ahead fell sharply in October, and the decline in export sales gathered pace to result in a weakened order book situation.

"Inflationary pressures remain benign, despite supply shortages persisting, with companies pricing aggressively to win sales. Cost control remained in focus, though it was encouraging to see job losses moderate again during October."

on capacity resulted in a further fall in employment, although the rate of job cuts continued to soften from August's survey record.

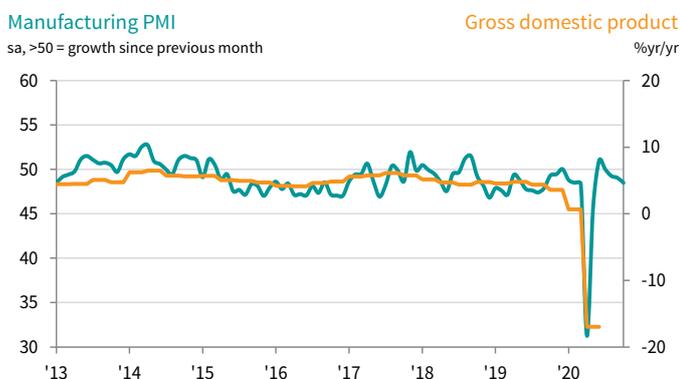
Firms expressed a reluctance to raise purchasing and hold inventories amid the fragile demand environment. Stocks of both purchases and finished goods were consequently depleted during October.

Despite falling demand for inputs, manufacturers continued to report supply chain delays. Suppliers' delivery times lengthened solidly again at the start of the fourth quarter amid COVID-19 restrictions both in Malaysia and abroad.

Shortages of materials contributed to an increase in input costs, although the pace of inflation ticked down and was weaker than the series average.

The rate of output price inflation also softened, and was only marginal, as efforts to pass on higher input costs to customers were undermined by the offering of discounts to try to secure new orders. Charges have risen modestly during the past five months.

Although manufacturers remained confident that output will increase over the coming year, optimism fell sharply from September's nine-month high amid rising COVID-19 case numbers and the extension of restrictions. Those respondents that predicted an increase in output hoped that market demand would recover over the next 12 months.



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:

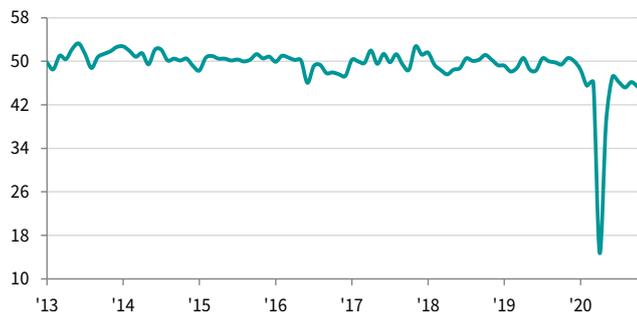
$$\text{Annual \% change in GDP} = (\text{PMI} \times 0.287) - 8.99$$

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:

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

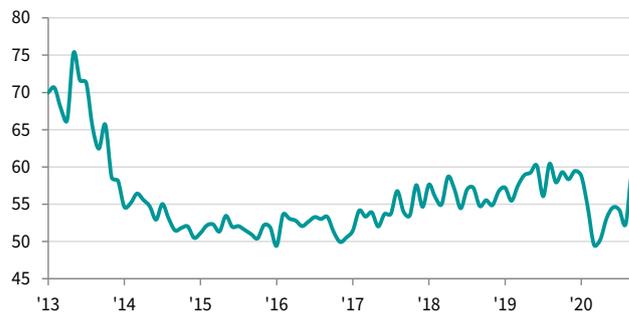
New Export Orders Index

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

October data were collected 12-26 October 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