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Nikkei Malaysia Manufacturing PMI®

PMI climbs to highest since September 2018; outlook brightens

Key points:

- Output and new orders indices jump higher amid export gains
- Business confidence hits five-and-a-half-year high
- Employment growth at seven-month high

Data collected April 10 - 24

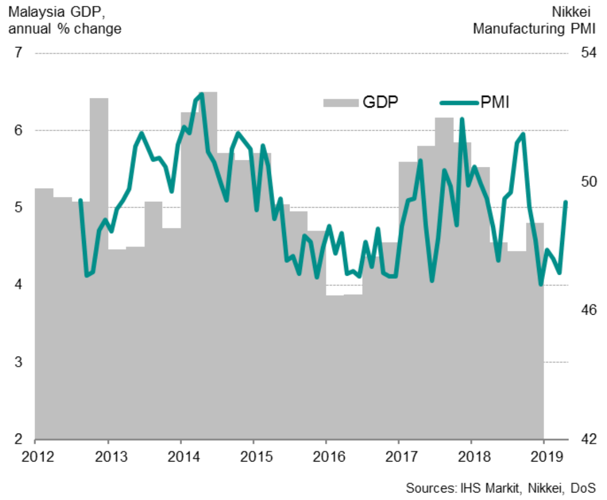
The latest survey data brought brighter news on Malaysia's manufacturing economy. The headline PMI rose markedly to reach a seven-month high in April amid a return to growth for export orders. Business confidence for the year-ahead outlook rose to its highest for five-and-a-half years, supporting improved employment growth as firms stepped up expansion plans. Inflationary pressures meanwhile remained subdued, albeit with input costs lifting higher for the first time this year.

The headline **Nikkei Malaysia Manufacturing *Purchasing Managers' Index™ (PMI)*** – a composite single-figure indicator of manufacturing performance* – rose in April to its highest since September 2018, recording 49.4 compared to 47.2 in March to return to its long-run average. The rise in the PMI is broadly indicative of GDP growth accelerating to just over 5% according to historical comparisons.

Key to the upturn in the PMI was a renewed improvement in foreign demand in April, which had weakened business trends in prior months. New export orders rose for the first time in five months. Higher workloads from overseas sources were attributed to business wins in Europe, the US and countries in Asia such as Singapore and Japan.

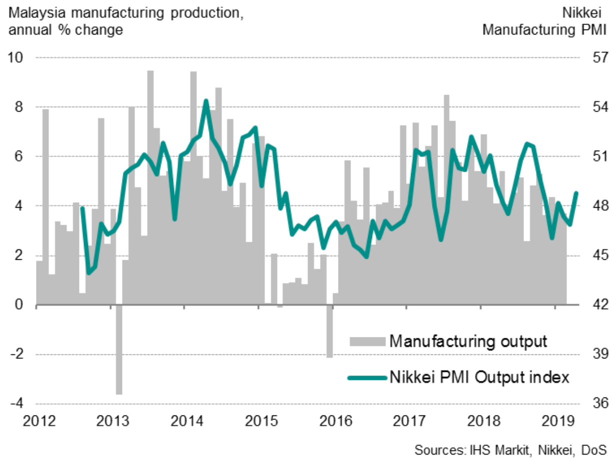
The increase in export sales helped drive the overall new orders index up by some 3.6 points to its highest since last September, its largest rise for ten months. Pressure on manufacturers to ease back on capacity expansion likewise moderated, with the output index jumping 1.9 points (its largest rise for almost one-and-a-half years), reaching its highest since last October.

Nikkei Malaysia Manufacturing PMI vs. GDP



Sources: IHS Markit, Nikkei, DoS

Manufacturing Output PMI vs. official data



Sources: IHS Markit, Nikkei, DoS

Analysis of comparable historical official data on Malaysian manufacturing output suggests that, at current levels, the survey's output index signals annual production growth of approximately 4.5%.

Companies on balance expect growth to accelerate in coming months. Business confidence about production in the year ahead reached its highest level since October 2013, with optimism towards domestic and key export markets supporting the pick-up in sentiment.

In line with the more positive outlook, manufacturers stepped up their hiring, with employment increasing in April at the fastest pace in seven months. Investment into new machinery and plant expansions reportedly prompted greater recruitment.

n a month in which oil prices continued to rise, producers reported the first increase in average input costs so far this year. Average selling prices nudged higher as a result, albeit with both gauges of price pressures remaining relatively subdued as sluggish global demand for many commodities continued to help reduce inflationary pressures. Suppliers' delivery times improved for a second successive month, underscoring weakness of demand relative to supply which has dented pricing power.

A focus on cost control consequently remained widespread, illustrated by further reductions in inventory holdings.

Comment:

Commenting on the Malaysian Manufacturing PMI survey data, **Chris Williamson,** Chief Business Economist at IHS Markit, which compiles the survey, said**:**

"April saw the picture of Malaysia's manufacturing economy brighten considerably, fuelled by the first improvement in export demand since last November.

"The headline PMI showed its largest monthly rise for nearly one and a half years, suggesting manufacturing should help drive faster economic growth to just over 5% at the start of the second quarter, with the trade drag easing compared to prior months.

"The survey also brought signs that firms have an improved appetite to expand capacity, taking on staff in greater numbers as business confidence in the outlook jumped to its highest for over five years, adding to hopes that the slowdown has bottomed out. Much will of course depend on the external environment, and a sustained upswing will be contingent on improving global trade flows."

-Ends-

Using PMI survey data to nowcast Malaysia's 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 as an input. 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		GDP
30	=	-0.4
35	=	1.0
40	=	2.5
45	=	3.9
50	=	5.3
55	=	6.8
60	=	8.2

Interpretation of April PMI for GDP

The average PMI reading for April is indicative of a 5.2% annual GDP growth rate, according to historical comparisons, suggesting the pace of expansion has accelerated at the start of the second quarter from a 4.6% growth rate signaled for the first quarter. With the survey finding an increase in the number of respondents anticipating higher output over the next 12 months, growth is expected to accelerate further in coming months.

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Notes to Editors:

*The Nikkei Malaysia Manufacturing PMI® is based on data compiled from monthly replies to questionnaires sent to purchasing executives in over 450 industrial companies. The panel is stratified by Standard Industrial Classification (SIC) group, based on the industry contribution to GDP. The manufacturing sector is divided into the following 8 broad categories: Basic Metals, Chemicals & Plastics, Electrical & Optical, Food & Drink, Mechanical Engineering, Textiles & Clothing, Timber & Paper, Transport. Please note that the mining, utilities and refined petroleum sectors are not covered by the survey due to high levels of industry concentration and as such the survey findings should be interpreted accordingly.

Survey responses reflect the change, if any, in the current month compared to the previous month based on data collected mid-month. For each of the indicators the 'Report' shows the percentage reporting each response, the net difference between the number of higher/better responses and lower/worse responses, and the 'diffusion' index. This index is the sum of the positive responses plus a half of those responding 'the same'. Diffusion indexes have the properties of leading indicators and are convenient summary measures showing the prevailing direction of change. An index reading above 50 indicates an overall increase in that variable, below 50 an overall decrease.

The Nikkei Malaysia Manufacturing *PMI* is a composite index based on five of the individual indexes with the following weights: New Orders - 0.3, Output - 0.25, Employment - 0.2, Suppliers' Delivery Times - 0.15, Stock of Items Purchased - 0.1, with the Delivery Times Index inverted so that it moves in a comparable direction.

IHS Markit do not revise underlying survey data after first publication, but seasonal adjustment factors may be revised from time to time as appropriate which will affect the seasonally adjusted data series. Historical data relating to the underlying (unadjusted) numbers, first published seasonally adjusted series and subsequently revised data are available to subscribers from IHS Markit. Please contact economics@ihsmarkit.com.

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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 https://ihsmarkit.com/products/pmi.html.