

Embargoed until 0830 MYT (0030 UTC) 1 February 2021

IHS Markit Malaysia Manufacturing PMI®

Recovery in manufacturing moderates in January

Key findings

Output and new orders scaled back further

Export sales remained subdued

International restrictions disrupt supply chains

Data were collected 12-25 January 2021.

Businesses signalled that the recovery in the Malaysian manufacturing sector was hindered at the start of 2021 by rising coronavirus disease 2019 (COVID-19) case numbers and stricter restrictions to try and curb the further spread of the virus. Both output and new orders were scaled back in January as the pandemic undermined demand, while export sales also lost further momentum as some external markets also battled a resurgence in infections. International restrictions introduced to slow the spread of COVID-19 presented significant disruptions to supply chains, as manufacturers reported difficulties sourcing and receiving inputs.

The headline IHS Markit Malaysia Manufacturing Purchasing Managers' Index™ (PMI®) – a composite single-figure indicator of manufacturing performance – slipped to 48.9 in January from 49.1 in December. The latest reading signalled a marginal deterioration in the health of the sector, although one that was significantly softer than seen at the height of the pandemic.

The historical relationship between the PMI and official statistics suggests that GDP was trending towards broad stabilisation, though manufacturing output stagnated as the renewed rise in COVID-19 cases resulted in the introduction of tighter restrictions in both domestic and key international markets.

Both production levels and new orders were scaled back in January, although to lesser extents than seen in December. Manufacturers commonly reported that the pandemic had dampened demand and confidence, while new restrictions had caused output and sales to be scaled back. Supply constrains also limited production and shipments.

At the same time, new export orders saw a further moderation in January, and to a greater extent than total new business as disruption in international markets strengthened as infections rose.

Malaysian manufacturers recorded a stabilisation in backlogs of

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:

“Renewed efforts to contain the COVID-19 pandemic both at home and around the world have not surprisingly taken a further toll on the manufacturing sector. Not only is demand coming under further pressure, notably in consumer-facing markets, but supply chains are being disrupted by the restrictions caused by the pandemic. Global demand is exceeding supply for many key inputs as suppliers struggle to boost capacity, with delays exacerbated by a lack of global shipping capacity.

“Hopes of a swift recovery also took a step back in January, linked in part to concerns over new variants of the coronavirus, pushing business optimism back to its lowest since last August. More encouragingly, optimists continue to exceed pessimists, and the global vaccine roll-out continues to provide a powerful boost to prospects for many companies.”

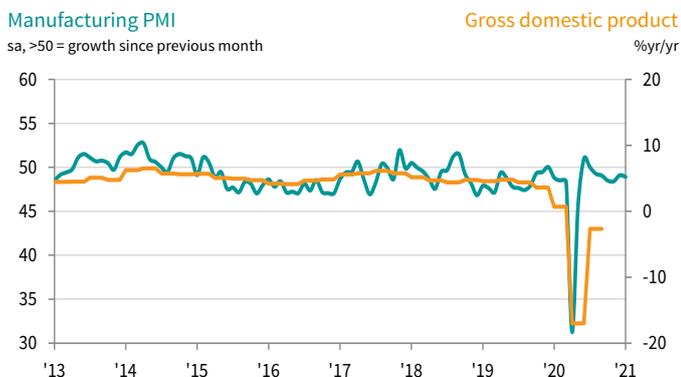
work in the latest survey period following 28 months of depletion, indicating that pressure was building on existing capacity. However, anecdotal evidence suggested additional pressure was due to a lack of manpower to fulfil orders due to the pandemic. In fact, firms signalled that employment levels dipped slightly in January, following a near-stabilisation in December.

Goods producers continued to report significant supply chain delays during January. Supplier delivery times lengthened sharply as restrictions to combat COVID-19 both in Malaysia and abroad were tightened. A global shortage of containers was also seen to have exacerbated shipping delays.

Firms meanwhile also indicated a reluctance to raise and hold inventories due to depressed demand conditions. Therefore, stocks of both pre- and post-production inventories were depleted further during January.

Difficulties in sourcing and receiving items contributed to a sharp increase in input costs, with the pace of inflation the quickest since May 2017. As firms partially passed rising costs on to clients, output prices rose further in January, increasing at the fastest pace since April 2018.

Despite new lockdowns around the world and supply delays, manufacturers remained confident that output will increase over the coming 12 months, citing hopes that the end of the pandemic would induce a recovery in domestic and external markets. That said, optimism was the softest seen for five months as worries about the impact of the pandemic intensified again during the month, in part due to concerns over recoveries being hindered by new variants of the virus.



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**

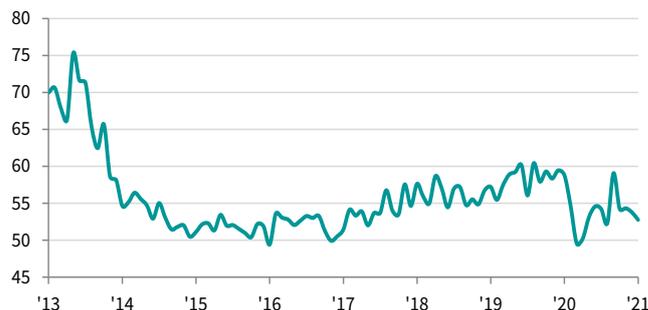
New Export Orders Index

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

January data were collected 12-25 January 2021.

Survey data were first collected July 2012.

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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. ihsmarkit.com/products/pmi.html