News Release

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IHS Markit Malaysia Manufacturing PMI®

PMI rises to four-month high in September

Key findings

Demand trend shows signs of stabilising, lifting Output Index

Efficiency gains help firms reduce their backlogs

Business confidence remains relatively strong but dips on global worries

Latest PMI data suggested that business conditions in Malaysia's manufacturing sector remained challenging in September, although there were signs of improvement as the New Orders and Output indices both increased. New product launches are anticipated to drive production volumes over the coming year and business optimism subsequently remained strong. Meanwhile, employment held steady in September, while input price inflation moderated.

The headline IHS Markit Malaysia Manufacturing Purchasing Managers' Index™ (PMI®) – a composite single-figure indicator of manufacturing performance* – rose to a four-month high of 47.9 in September, up from 47.4 in August. This was the first time since April that the headline index has increased. At current levels, the PMI is broadly indicative of annual GDP growth of between 4.5% and 5%, according to historical comparisons.

The survey's Output Index picked up slightly in September, but held close to the levels seen across the third quarter, indicating a stable production trend. Analysis of comparable historical official data on Malaysian manufacturing suggests that, at current levels, the survey's output index is consistent with annual production growth of just over 4%. Panel comments cited new product developments and resilient customer demand as key reasons supporting output volumes.

Newly-produced items were held in stock in some cases, as firms prepared in advance for client demand for these products. The Stocks of Finished Goods Index rose to a four-month high in September.

Meanwhile, demand conditions also showed some signs of stabilisation in September. Survey data had pointed to an increasingly tough environment in recent months, but improved sales to existing customers reportedly contributed to a rise in the

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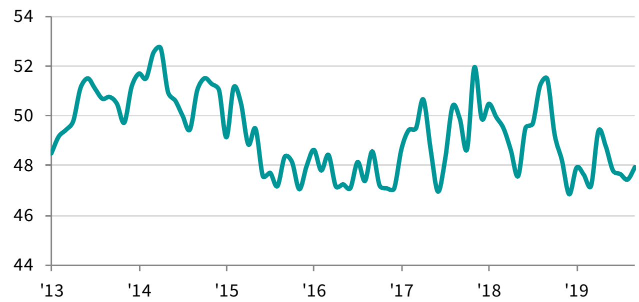
Malaysia Manufacturing PMI
sa, >50 = improvement since previous month



Source: IHS Markit.

Comment

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

"With global headwinds intensifying, it's no surprise to see Malaysia's manufacturers continuing to struggle in September, but there are at least some encouraging signs of upward momentum being regained.

"The September survey comes on the heels of global PMI data showing worldwide economic growth slipping closer to three years lows mid-way through the third quarter, led by the steepest drop in global trade since 2012. Geopolitical concerns and trade wars are dampening business activity around the world, with key markets such as the US and eurozone showing increased signs of stress.

"In this environment, it's reassuring to see that the Malaysia PMI is indicating only a very marginal easing of growth so far in the third quarter, thanks to the PMI reviving to a four-month high in September, hinting that GDP is likely to continue to expand at a respectable annual rate of 4-5% in the third quarter.

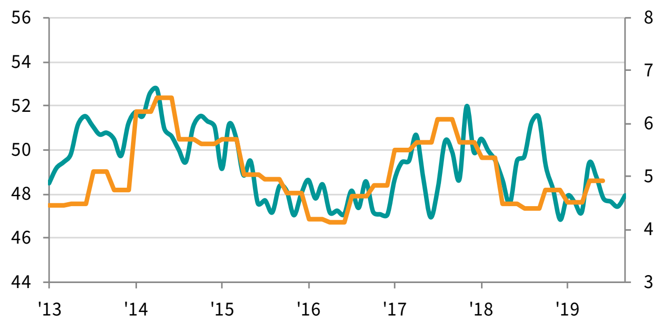
"However, while businesses generally remain upbeat about expanding production over the coming year, September saw some loss of optimism. It will therefore be important to watch global developments to ascertain whether growth momentum can be sustained as we head into the fourth quarter."

New Orders Index. Nevertheless, challenges remained apparent as clients held out for price discounts amid strong competitive pressures. External demand also remained fragile, with orders from key export markets dropping.

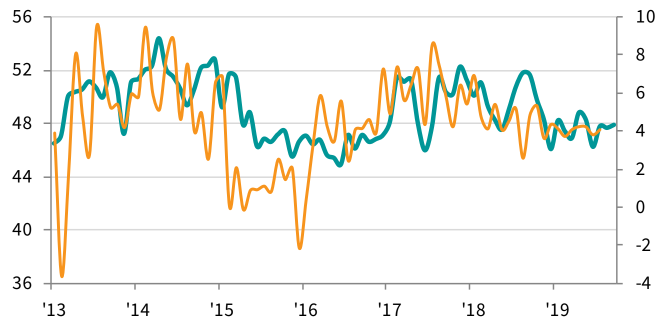
Meanwhile, current and future workloads were deemed sufficient to hold employment steady during September. The Future Output Index was consistent with a relatively strong level of confidence, highlighting that businesses expect production volumes to be higher than present levels over the coming 12 months. According to firms, forecasts of greater demand from domestic and external clients, as well as the planned development of new products drove the positive outlook. However, a darkening global economic environment and geopolitical concerns contributed to a moderation in firms' optimism compared to that seen in August.

Incomplete orders were used by firms as a source of work during September. Backlogs declined for a thirteenth month in succession as some firms also reported the need to focus on productivity gains. Some firms also took the opportunity to use old stock to fulfil unfinished work.

Elsewhere, the latest survey data pointed to greater cost pressures faced by Malaysian goods producers, although the rate of input price inflation slowed and was historically weak overall. The vast majority of firms kept selling prices unchanged (97%) during September.



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

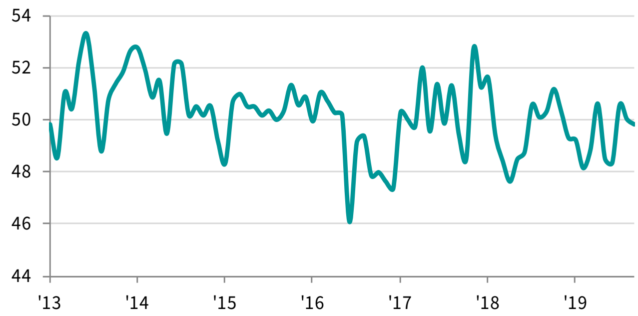
60 = 8.2

Interpretation of September PMI for GDP

With survey data for the third quarter now complete, the signal from the PMI suggests that growth has slowed following the pick-up seen in the second quarter. Nonetheless, the rise in the headline index to a four-month high in September suggests that overall, GDP is likely to have grown at a respectable rate between 4.5-5% in the third quarter.

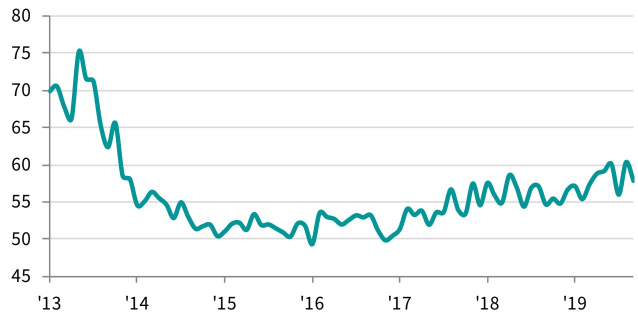
New Export Orders Index

sa, >50 = growth since previous month



Future Output Index

>50 = growth expected over next 12 months



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Methodology

*The IHS Markit Malaysia Manufacturing PMI® is compiled by IHS Markit from responses to monthly 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. 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 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.

September 2019 data were collected 12-24 September 2019.

For further information on the PMI survey methodology, please contact economics@ihsmarkit.com.

About IHS Markit

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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.