

News Release

Embargoed until 0830 MYT (0030 UTC) 5 May 2022

S&P Global Malaysia Manufacturing PMI™

Manufacturing sector returns to expansion as new order growth hits eight-year high

Key findings

New order growth reaches eight-year high to signal reviving demand

Employment falls at fastest pace since last December amid shortages

Outlook clouded as confidence dips to eight-month low

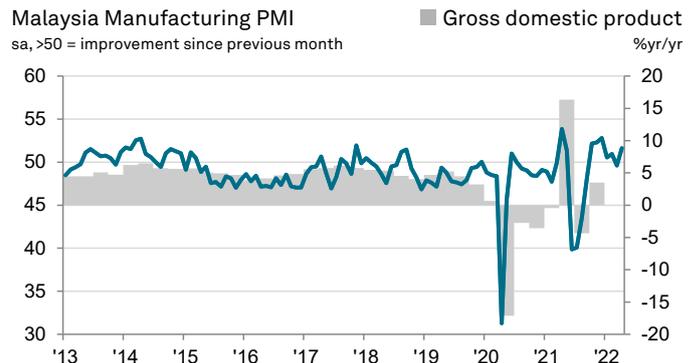
The Malaysian manufacturing sector reported a renewed increase in growth momentum at the start of the second quarter of 2022. Although output levels remained subdued, incoming orders recovered strongly to register the sharpest rise since April 2014 amid improved client confidence. Despite the rise in demand, manufacturers continued to scale down workforce numbers as international border restrictions hampered the ability of firms to hire from abroad. As a result, the rate of job losses quickened. Businesses also noted concern that sustained price and supply pressures had hampered operations, with material shortages and delivery delays widespread. This played on firms' expectations regarding future output, which fell to the lowest since last August.

The seasonally adjusted S&P Global Malaysia Manufacturing Purchasing Managers' Index™ (PMI®) rose from 49.6 in March to 51.6 in April, indicating a renewed improvement in the health of the sector.

Looking at the historical relationship between the PMI and official statistics, the latest reading is representative of continued expansions in manufacturing production and GDP, though the survey suggested that growth was again held back by sustained supply chain issues.

The uptick in the headline figure was led by a sharp recovery in new order volumes, with growth of new business hitting an eight-year high. Firms noted that stronger client confidence had boosted demand in both domestic and external markets. Concurrently, new export sales returned to expansion territory for the second time in three months, albeit only marginally.

April data suggested that output was scaled back for the fourth month running. That said, the rate of moderation softened from March and was only mild. Firms commonly attributed muted production to difficulty sourcing and receiving inputs amid material shortages and delivery delays,



Sources: S&P Global, Department of Statistics Malaysia.
Data were collected 11-25 April 2022.

Comment

Chris Williamson, Chief Business Economist at S&P Global, said:

"April saw a welcome surge in demand for manufactured goods with producers reporting the strongest inflow of new orders for eight years, reflecting a combination of improving sales at home and abroad. However, supply constraints in terms of both labour and component availability remain a major headwind to the economic recovery and meant manufacturers and their suppliers were again unable to meet demand on average, which is in turn putting sustained upward pressure on prices. Concerns over supply chain delays have meanwhile been further fanned by lockdowns in China and the Ukraine war, leading to a pull-back in business optimism about the outlook.

"In short, manufacturers are seeing signs of reviving demand but their efforts to boost production to meet these new orders continue to be frustrated by shortages, which will likely put further pressure on inflation in the coming months."

PMI®

by S&P Global

© 2022 S&P Global

as well as staffing shortages.

Despite the rise in incoming business, firms highlighted a renewed fall in outstanding business during April as firms reportedly made efforts to clear backlogs. Meanwhile, a fourth consecutive fall in employment levels was recorded, as Malaysian businesses continued to report difficulty obtaining foreign work permits for staff from abroad due to ongoing border restrictions.

Longer lead times also meant businesses faced difficulties sourcing raw materials for production. While the deterioration in vendor performance eased to a ten-month low, it remained strong overall and encouraged firms to raise input purchasing activity for the fifth time in six months, where input availability permitted. The latest expansion in purchasing was the fastest since last December. That said, delivery delays meant firms struggled to receive certain key inputs for production, which led to further falls in stocks of purchases and finished items.

Input costs increased for the twenty-third month running in April, reflecting higher raw material and transportation prices. The rate of inflation eased from March but remained marked overall. Manufacturers partially passed these higher costs to clients through higher output charges, which increased steeply once again.

Looking ahead, Malaysian manufacturers remained optimistic regarding the year-ahead outlook for output amid hopes demand conditions would improve once the pandemic was under control globally. Expectations nevertheless dipped to an eight-month low, mainly over concerns that price rises and material shortages could continue to hinder production levels.

Survey methodology

The S&P Global Malaysia Manufacturing PMI™ is compiled by S&P Global 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. Data collection began in July 2012.

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.

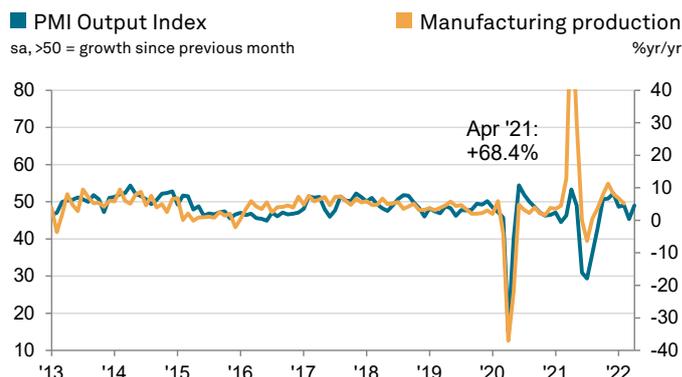
Underlying survey data are not revised after publication, but seasonal adjustment factors may be revised from time to time as appropriate which will affect the seasonally adjusted data series.

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

Disclaimer

The intellectual property rights to the data provided herein are owned by or licensed to S&P Global and/or its affiliates. Any unauthorised use, including but not limited to copying, distributing, transmitting or otherwise of any data appearing is not permitted without S&P Global's prior consent. S&P Global shall not have any liability, duty or obligation for or relating to the content or information ("data") contained herein, any errors, inaccuracies, omissions or delays in the data, or for any actions taken in reliance thereon. In no event shall S&P Global be liable for any special, incidental, or consequential damages, arising out of the use of the data. Purchasing Managers' Index™ and PMI® are either registered trade marks of Markit Economics Limited or licensed to Markit Economics Limited and/or its affiliates.

This Content was published by S&P Global Market Intelligence and not by S&P Global Ratings, which is a separately managed division of S&P Global. Reproduction of any information, data or material, including ratings ("Content") in any form is prohibited except with the prior written permission of the relevant party. Such party, its affiliates and suppliers ("Content Providers") do not guarantee the accuracy, adequacy, completeness, timeliness or availability of any Content and are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, or for the results obtained from the use of such Content. In no event shall Content Providers be liable for any damages, costs, expenses, legal fees, or losses (including lost income or lost profit and opportunity costs) in connection with any use of the Content.



Contact

Chris Williamson Chief Business Economist S&P Global T: +44-20-7260-2329 chris.williamson@spglobal.com	Joanna Vickers Corporate Communications IHS Markit T: +44-207-260-2234 joanna.vickers@spglobal.com
---	---

If you prefer not to receive news releases from S&P Global, please email katherine.smith@spglobal.com. To read our privacy policy, click [here](#).

Using PMI to estimate GDP growth

PMI data are available faster than official GDP figures and at a higher frequency, providing an accurate advance guide to economic growth. Comparing the headline Malaysia Manufacturing PMI with annual GDP growth rates shows a 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:

$$\text{PMI} = 40, \text{GDP \%yr/yr} = 2.5; \text{PMI} = 50, \text{GDP \%yr/yr} = 5.3; \text{PMI} = 60, \text{GDP \%yr/yr} = 8.2$$

About S&P Global

S&P Global (NYSE:SPGI) S&P Global provides essential intelligence. We enable governments, businesses and individuals with the right data, expertise and connected technology so that they can make decisions with conviction. From helping our customers assess new investments to guiding them through ESG and energy transition across supply chains, we unlock new opportunities, solve challenges and accelerate progress for the world.

We are widely sought after by many of the world's leading organizations to provide credit ratings, benchmarks, analytics and workflow solutions in the global capital, commodity and automotive markets. With every one of our offerings, we help the world's leading organizations plan for tomorrow, today. www.spglobal.com.

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.