News Release

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IHS Markit Malaysia Manufacturing PMI®

Malaysian manufacturing subdued by surging COVID-19 infections

Key findings

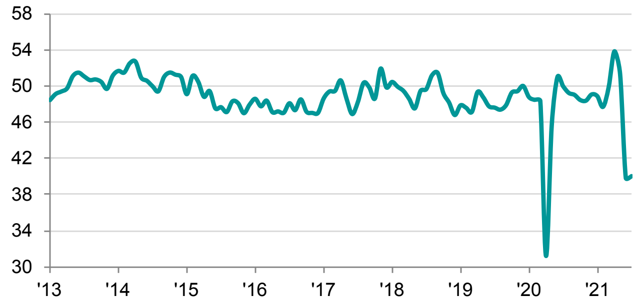
Output and new orders moderate further

Employment levels stabilse

Business expectations return to positive territory

Malaysia Manufacturing PMI

sa, >50 = improvement since previous month



Source: IHS Markit.

Data were collected 12-26 July 2021.

Malaysian manufacturers continued to report that operating conditions were severely hampered by a renewed rise in COVID-19 infections. Both production levels and new orders moderated further in July, with the former being scaled back to the greatest extent since April 2020. More positively, employment levels stabilised, ending a period of three consecutive reductions, as manufacturers noted a renewed degree of optimism about the year-ahead outlook, underpinned by hopes that restrictions would lift as the current wave recedes, boosting domestic and external demand.

The headline IHS Markit Malaysia Manufacturing Purchasing Managers' Index™ (PMI®) – a composite single-figure indicator of manufacturing performance – edged up from 39.9 in June to 40.1 in July. In remaining well below the 50.0 no-change level, the latest reading pointed to a steep decline in operating conditions, albeit one that was fractionally softer than that seen in June.

Looking at the historical relationship between the PMI and official statistics, the latest reading is representative of a downturn in both industrial production and GDP, as the survey indicates that the manufacturing sector remains heavily impacted by the pandemic.

Survey gauges of both output and new orders signalled further marked reductions in July. The former saw the rate of decrease quicken from June to reach the fastest since the first wave of the pandemic in April 2020. Companies reported that renewed pandemic restrictions dampened demand and client confidence in both domestic and international markets. That said, the reduction in new export sales was considerably softer than aggregate new orders, as some firms commented on pockets of demand improving in Europe and the US in particular.

A brighter picture came from the jobs market, with Malaysian

continued...

Comment

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

"Malaysia's manufacturing sector continued to be badly hit by the ongoing pandemic in July, though companies are already planning for better times ahead.

"Production fell sharply for a second successive month as the recent rise in infections and containment measures associated with the Delta variant both dampened demand and disrupted supply chains. Both domestic demand and export orders fell sharply at the start of the third quarter, while supplier delays continued to develop at one of the fastest rates yet recorded by the survey.

"There was better news in terms of the outlook, however, with companies becoming more optimistic after the rise of the Delta variant had pushed confidence in June to its lowest on record. More companies are now seeing some light at the end of the tunnel, and employment consequently stabilised.

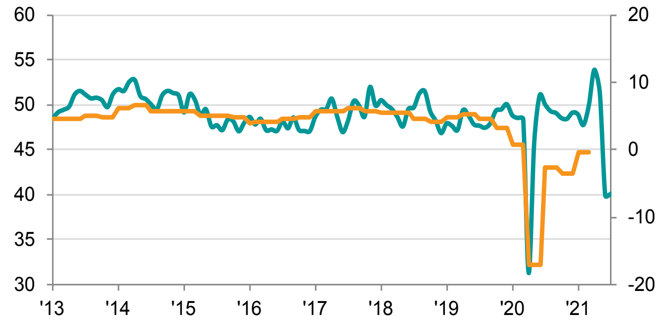
"There was also better news on prices. Although input cost inflation ticked up slightly, it continued to run well below the steep rates recorded earlier in the year, helping push selling price inflation down to its lowest since February."

goods producers signalling a stabilisation of employment in July, ending a three-month period of job shedding. Preparation for orders in the future reportedly required additional capacity, though some businesses commented on difficulty in hiring workers from abroad.

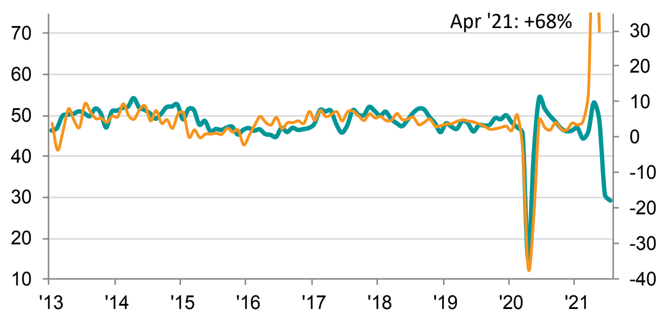
Input costs meanwhile increased for the fourteenth consecutive month in July, reflecting higher prices for a range of raw materials and higher freight costs. The overall rate of inflation was steep overall and the quickest since May. Manufacturers sought to partially pass these higher costs to clients in the form of higher output charges, although the rate of inflation was the softest reported for five months.

Shortages of materials, as well as delays in receiving shipments caused average supplier lead times to lengthen to the greatest extent since May. At the same time, both purchases and inventory levels fell. Some firms noted that supply delays had hindered restocking efforts and, in some cases, curtailed production. Backlogs of work consequently decreased for the third month running in the latest survey period.

Despite headwinds from supply shortages amid a renewed surge in COVID-19 infections, Malaysian manufacturers displayed a renewed sense of optimism regarding the outlook for output in the coming year. The degree of sentiment was modest overall, but marked a welcome improvement from June's record low. Panel members attributed the improved outlook to hopes that national and international restrictions would lift and aid a recovery in production and sales.



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

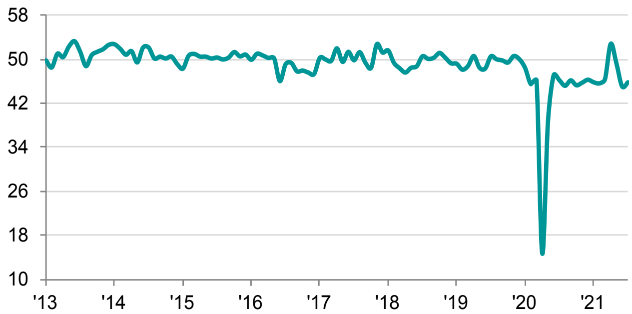
40 = 2.5

50 = 5.3

60 = 8.2

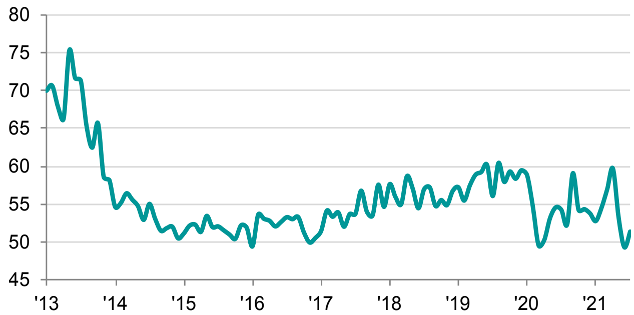
Malaysia New Export Orders Index

sa, >50 = growth since previous month



Malaysia 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

July data were collected 12-26 July 2021.

Survey data were first collected July 2012.

About IHS Markit

IHS Markit (NYSE: INFO) is a world leader in critical information, analytics and solutions for the major industries and markets that drive economies worldwide. The company delivers next-generation information, analytics and solutions to customers in business, finance and government, improving their operational efficiency and providing deep insights that lead to well-informed, confident decisions. IHS Markit has more than 50,000 business and government customers, including 80 percent of the Fortune Global 500 and the world's leading financial institutions.

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.