News Release

Embargoed until 0830 MYT (0030 UTC) 1 November 2019

IHS Markit Malaysia Manufacturing PMI®

PMI rises to six-month high as trends in output and new orders improve

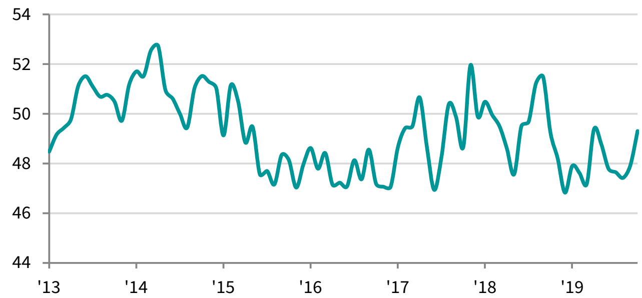
Key findings

Manufacturing PMI rises to 49.3 in October

New product launches support output and new orders

External conditions remain challenging for Malaysia

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



Source: IHS Markit.

The underlying trend within Malaysia's manufacturing sector gained traction at the start of the fourth quarter, with the headline index picking up to a six-month high. The rise in the PMI was driven by new orders and output, with both indicators showing signs of improvement. The business outlook subsequently strengthened, while employment rose as an increasing number of firms reported renewed expansion plans.

The headline IHS Markit Malaysia Manufacturing Purchasing Managers' Index™ (PMI®) – a composite single-figure indicator of manufacturing performance* – increased to 49.3 in October, from 47.9 in September, its highest level for six months and reviving to sit broadly in line with its historical average. At current levels, the PMI is broadly indicative of annual GDP growth of over 5%.

The healthier business environment was driven by a rise in the survey's gauge of production volumes to a 12-month high. 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 approximately 5.5%.

PMI data indicated a notable step up in the order book trend during October, with the respective index rising to a six-month peak. Survey respondents linked improved demand to new product launches and stronger new work inflows from existing clients.

However, external conditions reportedly became more challenging at the start of the fourth quarter, according to survey participants, causing export orders to decline for a second-successive month. Anecdotal evidence highlighted China and Europe as two key sources of weak demand. Nevertheless, with the overall new orders index rising, survey data suggests domestic demand conditions helped provide a key driving force

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Comment

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

"Welcome signs of manufacturing turning a corner started to appear in October, hinting that the pace of economic growth could accelerate in the fourth quarter. The PMI's main gauge of production growth has risen to its highest for a year, broadly indicative of the economy growing at an annual rate in excess of 5%.

"Production is being buoyed by improved domestic demand in particular, but external conditions remain challenging, dampening export growth once again and raising concerns about how much further momentum can continue to build in the absence of improved global economic conditions.

"It therefore remains too early to say that manufacturing has turned a corner, but we are especially encouraged by producers having become more optimistic about the outlook, which is feeding through to welcome news of improved employment."

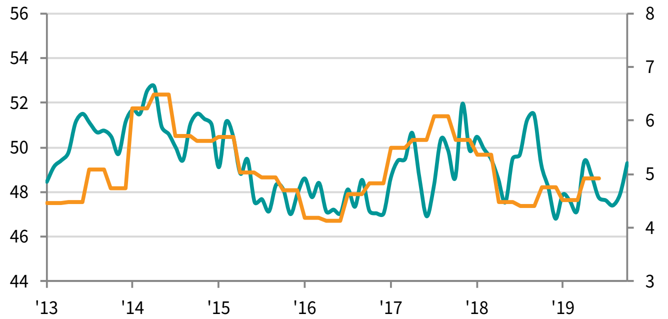
to help offset the external demand downturn.

Encouraged by a healthier underlying business environment, the outlook strengthened in October, with firms on balance projecting growth in output over the next 12 months. An increased number of companies reported improved investment intentions, while forecasts of greater demand also underpinned optimism.

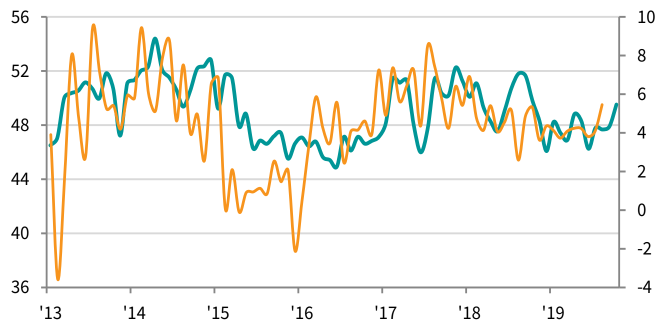
The improved outlook also led firms to increase their workforces in October. Overall, the rate of job creation was the strongest since April. Greater staffing levels also coincided with evidence of capacity pressures building, as the backlogs of work index rose to a 14-month high.

Upward trends in other forward-looking indicators were also seen at the start of the fourth quarter, with survey data for input purchasing, input stocks and finished goods inventories all moving in a positive direction, in line or above long-run averages. According to panel comments, greater output requirements and improved demand gave more firms an incentive to stockpile in order to accommodate for further improvements.

Elsewhere, there was a first month-on-month decline in input costs since March during October. Deflation reportedly stemmed from discounts from suppliers and lower commodity prices. As a result, Malaysian manufacturers reduced their output charges to the fastest extent since January 2015 in order to gain a competitive edge.



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

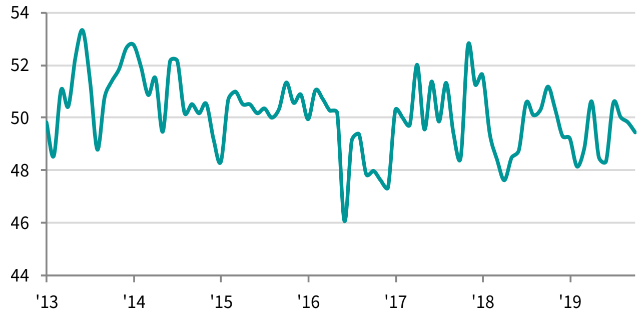
60 = 8.2

Interpretation of October PMI for GDP

Malaysia's manufacturing sector has started the fourth quarter on a strong footing, with October data indicating an acceleration in growth. At current levels, with PMI is consistent with annual GDP growth in excess of 5%.

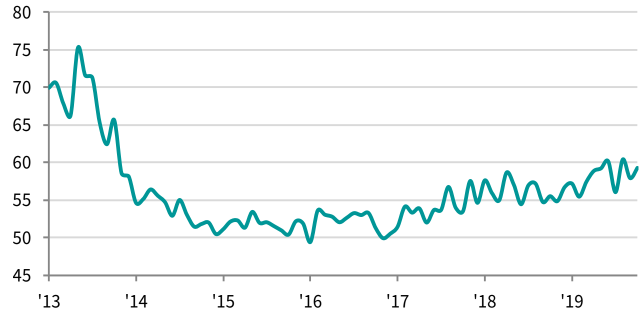
New Export Orders Index

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

October data were collected 11-25 October 2019.

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.

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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.

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