News Release

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IHS Markit Malaysia Manufacturing PMI®

Manufacturing slowdown continues but future optimism hits highest since 2013

Key findings

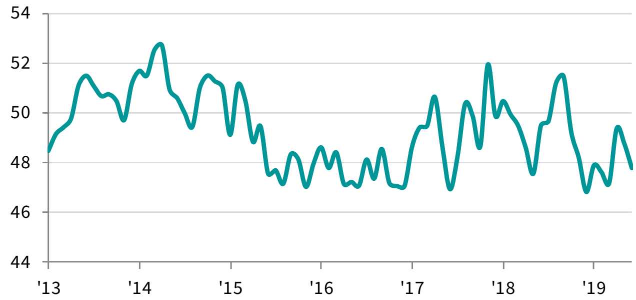
PMI falls for second successive month in June

New export orders continue to decline

Outlook for output brightest since October 2013

Malaysia Manufacturing PMI

sa, >50 = improvement since previous month



Source: IHS Markit.

According to June survey data, Malaysia's manufacturing sector faced further challenges, with demand conditions softening, while fewer new orders from international clients also weighed on production volumes. Nevertheless, companies anticipate that current difficulties will be short-lived, as business confidence about the outlook strengthened to its highest since October 2013.

The headline IHS Markit Malaysia Manufacturing Purchasing Managers' Index™ (PMI®) – a composite single-figure indicator of manufacturing performance* – registered 47.8 in June, down from 48.8 in May. Overall, the PMI is broadly indicative of annual GDP growth of approximately 4%, according to historical comparisons.

Manufacturing output continued to be restricted in June by challenging demand conditions, notably from export markets. Although the survey's production index fell for a second month in succession, the average for the second quarter as a whole was above that seen in the opening quarter of 2019. Analysis of comparable historical official data on Malaysian manufacturing output suggests that, at current levels, the survey's output index signals annual production growth of just over 3%.

Panel comments highlighted various international sources of demand weakness, including Australia, Germany, neighbouring Singapore and several other Asian markets. Export orders consequently fell at a faster rate in June weighing down the overall new orders index. Strong competition for sales was another factor which survey respondents attributed to difficulties in attracting new business.

Despite the more challenging current environment for Malaysian manufacturers, businesses became increasingly optimistic towards the coming 12 months in June, with output expectations strengthening for the fourth consecutive month. Overall, optimism was at its highest since October

continued...

Comment

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

"Operating conditions remained challenging for Malaysia's manufacturers in June, once again reflecting tough trading in export markets. Global economic growth has slowed so far this year, with the global PMI sinking to a three-year low in May, which has hit export demand.

"However, even with the current soft patch, the PMI is indicative of manufacturing helping drive a rebound in the annual pace of economic growth from the slowdown to 4.5% seen in the first quarter, albeit likely remaining below 5% in the second quarter.

"Encouragingly, manufacturers continued to see signs that the business outlook is brightening. Business optimism about the future continued to be dogged by worries about the impact of the US-China trade war on the global economy, but has nevertheless risen to its highest since late-2013. Increasing numbers of firms stepped up their marketing and sales efforts and reported new projects, products and investments amid signs that underlying sales growth has improved."

2013, reflecting positive sales forecasts and planned capacity enhancements.

The latest survey also indicated that Malaysian manufacturers adopted a balanced approach to hiring, with employment levels remaining broadly unchanged since May. Although some firms recruited extra staff to improve efficiency, others reduced the workforce to cut costs. Indeed, backlogs of work were reduced for a tenth straight month in June, hinting that existing capacity was more than adequate to meet current sales growth.

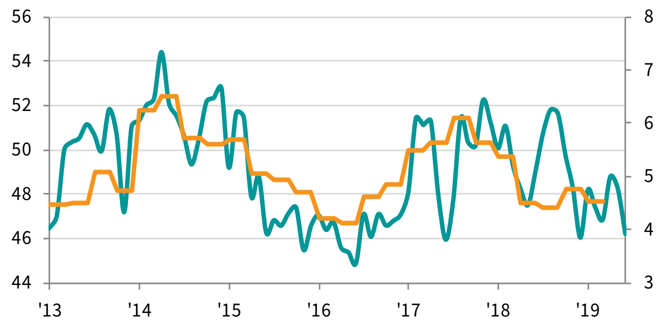
On the price front, input cost inflation dipped slightly, but was the second-strongest seen so far in 2019. Output charges were left unchanged, however, with firms often opting to not pass higher costs in to clients in order to help stimulate demand.

As was the case with recruitment, cost-cutting measures led to cautious inventory management, with both pre- and post-production stocks falling in June.

Amid reports of sufficient stock levels, Malaysian manufacturers reduced input purchasing during the latest survey period. That said, shortages of certain materials at suppliers ended a three-month sequence of vendor performance improvements in June, with delivery times unchanged since May.

PMI Output Index | Gross domestic product

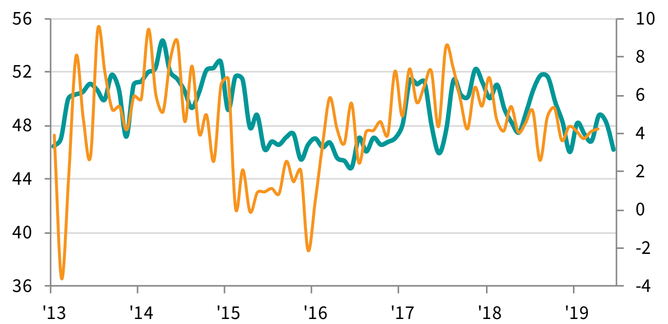
sa, >50 = growth since previous month | %yr/yr



Sources: IHS Markit, Department of Statistics Malaysia.

PMI Output Index | Manufacturing production

sa, >50 = growth since previous month | %yr/yr



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

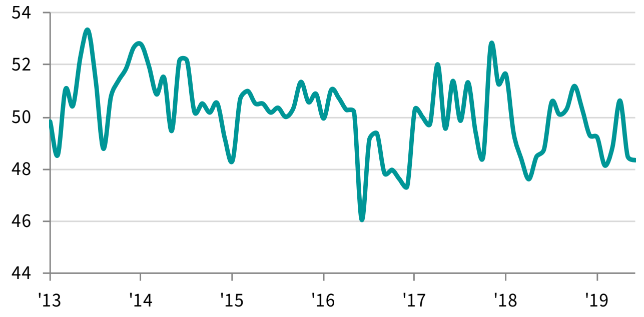
60 = 8.2

Interpretation of June PMI for GDP

The average PMI reading for Q2 is indicative of 5.0% annual GDP growth overall, according to historical comparisons. The survey data therefore suggest that the pace of economic expansion has accelerated again from a 4.5% growth rate in the Q1 (which the PMI had indicated a 4.6% expansion, accurately anticipating the weaker growth signalled by the official GDP data). With the survey finding a greater number of respondents anticipating higher output over the next 12 months, economic growth is expected to accelerate further.

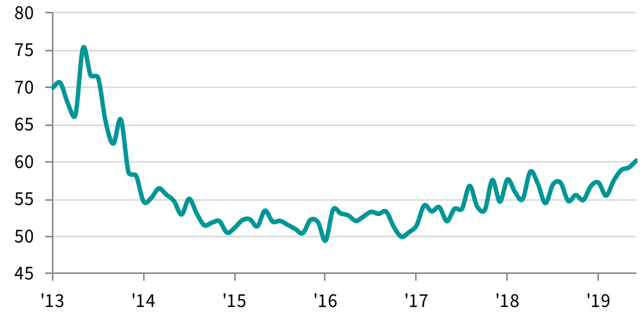
New Export Orders Index

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.

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.

June 2019 data were collected 12-24 June 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.