News Release

Embargoed until 0830 MYT (0030 UTC) 01 July 2021

IHS Markit Malaysia Manufacturing PMI®

COVID-19 measures restrict manufacturing activity in June

Key findings

Operating conditions slump to greatest extent since April 2020

Output and sales impeded by third movement control order

Business confidence hits lowest reading on record

Data were collected 11-24 June 2021.

The Malaysian manufacturing sector lost considerable momentum at the end of the second quarter of 2021, as COVID-19 infections led to the reintroduction of stricter containment measures. As a result, both output and incoming orders moderated to the greatest extent since the worst of the initial outbreak of the pandemic in April 2020. Businesses widely cited that the latest virus-fighting restrictions had significantly disrupted demand. Moreover, manufacturers signalled a pessimistic outlook regarding the year-ahead outlook for output for only the fourth time in the survey's history, amid concerns about the duration of the pandemic.

The headline IHS Markit Malaysia Manufacturing Purchasing Managers' Index™ (PMI®) – a composite single-figure indicator of manufacturing performance – registered 39.9 during June. This was down from 51.3 in May and pointed to a sharp decline in business conditions in the Malaysian manufacturing sector.

Looking at the historical relationship between official statistics and the PMI, the latest reading is representative of a renewed downturn in industrial production and GDP, following a gradual recovery from earlier waves of infections. This highlights that the pandemic remains the greatest downside risk to the Malaysian economy.

Both production and new order volumes weakened in June. The rates of deterioration were the most marked since the peak rates of decline seen last April. Firms commonly attributed the weakness to stricter virus-fighting measures which dampened demand in both domestic and external markets. Foreign demand for Malaysian manufactured goods was subdued, though the pace of reduction in export sales was softer than that seen in total new orders.

At the same time, the rate of job shedding was broadly unchanged from May in the latest survey period. Employment levels fell only slightly as firms took the opportunity to reduce

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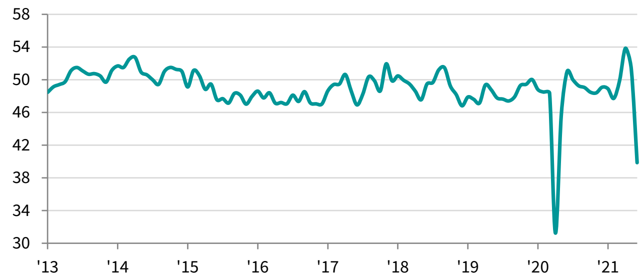
Malaysia Manufacturing PMI

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:

"Malaysia's manufacturers reported a renewed downturn in June as the recent rise in COVID-19 infections and associated containment measures once again dampened demand, stymied production and disrupted supply chains. From a positive perspective, the survey showed signs of inflationary pressures cooling quite markedly, and firms largely held on to staff in order to maintain production capacity.

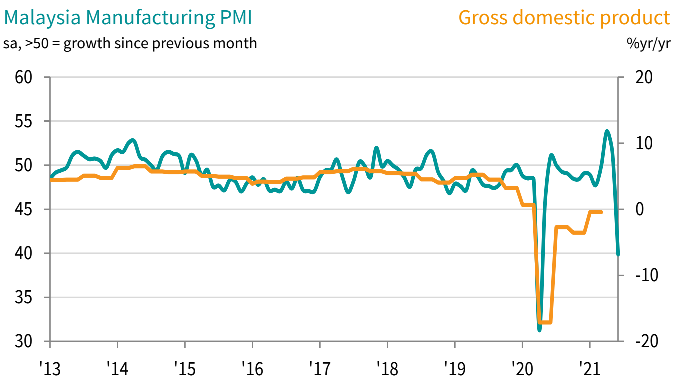
"However, the concern is that future output expectations have slumped, falling to the lowest since the survey began almost ten years ago, as companies grew more concerned about the potential impact of further virus waves. If such low confidence persists, companies may grow increasingly reluctant to hold on to staff, and will instead move further towards focusing on cost reduction."

volumes of outstanding business where spare capacity was available. The resulting rate of backlog depletion was the quickest since February.

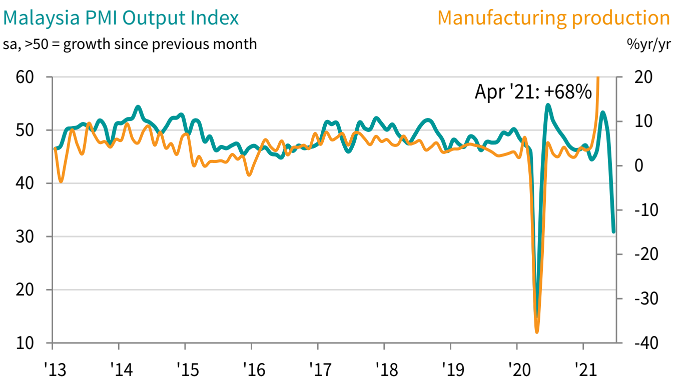
Lower production requirements due to COVID-19 restrictions meant that businesses reported a sharp moderation in purchasing activity, with buying falling to an extent not seen since April 2020. At the same time, manufacturers utilised existing stocks of pre- and post-production inventories to fulfil incoming orders, often choosing to deliberately reduce inventory levels for cost considerations. However, in some cases, dwindling supply continued to hamper purchases of certain key inputs.

Despite the reduction in demand, input prices rose for the thirteenth month running in June. The pace of input cost inflation softened from May, yet remained sharp overall. Anecdotal evidence suggested that higher raw material costs amid shortages and delivery delays contributed to increased input prices. Firms sought to partially pass higher cost burdens on to clients, as output prices rose moderately. This extended the current sequence of inflation to 13 months, though the latest reading was the softest since February.

Malaysian manufacturers expressed pessimism regarding the year-ahead outlook for the first time since March 2020. Moreover, the degree of sentiment was the lowest on record as firms were concerned about the duration of the pandemic and scope for further virus waves to disrupt demand and supply. That said, firms expressed hope that demand would recover once the pandemic was brought under control.



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

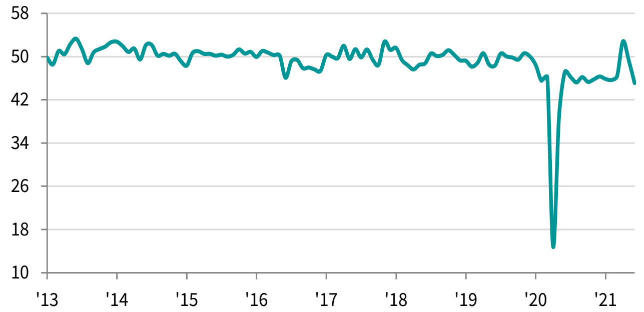
30 = -0.4

40 = 2.5

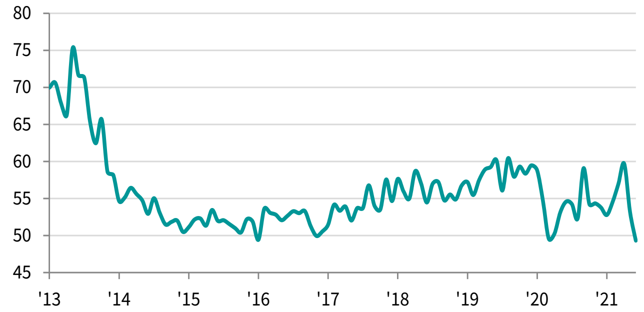
50 = 5.3

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

June data were collected 11-24 June 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.

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