News Release

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IHS Markit Malaysia Manufacturing PMI®

Manufacturing sector grows at quicker pace in December

Key findings

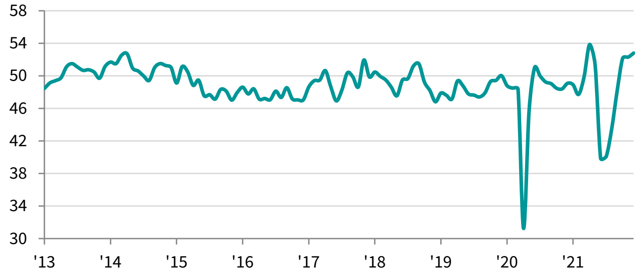
Output and sales rise at sharper rate

Renewed reduction in employment levels

Severe supply chain issues lead to steep acceleration in cost burdens

Malaysia Manufacturing PMI

sa, >50 = improvement since previous month



Source: IHS Markit.

Data were collected 06-17 December 2021.

The Malaysian manufacturing sector reported a further increase in growth momentum at the end of 2021, as operating conditions improved at the quickest rate since April. Businesses reported faster expansions in both production levels and new orders as the manufacturing economy rebounded following the lifting of pandemic restrictions and demand recovered. Despite the additional pressure on production lines, manufacturers scaled down workforces in December. Moreover, businesses continued to report severely disrupted supply chains, with material shortages and delivery delays remaining widespread. This contributed to a further steep increase in input costs.

The headline IHS Markit Malaysia Manufacturing Purchasing Managers' Index™ (PMI®) – a composite single-figure indicator of manufacturing performance – rose from 52.3 in November to 52.8 in December, indicating a stronger improvement in the health of the sector. As a result, the average performance over the final quarter was the strongest quarterly performance since the survey began in 2012.

Looking at the historical relationship between the PMI and official statistics, the latest reading is representative of a solid expansion in manufacturing production and GDP, as the survey pointed to a broad recovery from the impact of COVID-19.

December data suggested that output rose for the third month running. The pace of expansion was moderate and was the quickest since April. Firms commonly attributed the rise to stronger demand as pandemic restrictions were eased.

New order volumes also increased at the end of the year, with the rate of growth reaching an eight-month high. Firms noted that stronger client confidence had boosted demand in both domestic and external markets. Concurrently, new export sales returned to expansion territory in December, as stronger demand in the US and China contributed to a fractional rise in new business from abroad.

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Comment

Commenting on the latest survey results, Usamah Bhatti, Economist at IHS Markit, said:

"The further easing of COVID-19 restrictions alleviated pressures faced by the Malaysian manufacturing sector and provided momentum to growth in December. The average reading of the headline PMI in the fourth quarter was the strongest quarterly performance recorded since the survey began in July 2012, as output and new order growth reached eight-month highs respectively. Operating conditions remain tough nonetheless, with supply chain delays as well as material labour shortages widely reported across the sector.

"Encouragingly, business expectations for the coming year remained strong overall as a fifth of companies reported optimism that the worst of the pandemic had passed. That said, the degree of optimism eased from November as the outlook remained relatively clouded due to uncertainty regarding the duration of supply chain disruptions, raw material shortages and further disruption caused by new variants of COVID-19."

PMI® By IHS Markit

Firms also highlighted a fifth consecutive rise in outstanding business in December as a lack of raw materials and labour placed additional strain on capacity as new orders improved. Despite pressure on capacity, there was a renewed fall in employment at Malaysian manufacturing firms, with producers often noting a lack of foreign work permits being issued due to ongoing border restrictions.

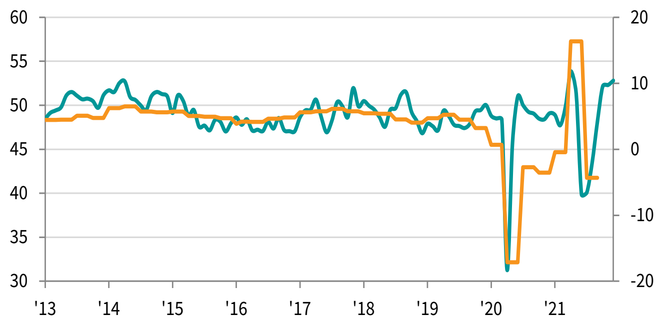
Lengthening average lead times often meant that businesses had difficulties in sourcing raw materials for production. However, stronger new order growth meant that manufacturers raised purchasing activity at a solid pace in an effort to meet demand as well as build safety stocks. With vendor performance deteriorating further, stocks of raw materials were increased for the second successive month. That said, delivery delays meant that firms struggled to receive inputs for production, therefore fulfilled orders using existing stocks of finished items.

Input costs increased for the nineteenth month running in December, reflecting higher prices for raw materials and transportation. The rate of inflation quickened to a seven-month high and was marked overall. Manufacturers partially passed these higher costs to clients through higher output charges, which rose at the sharpest rate since April.

Looking ahead, Malaysian manufacturers remained optimistic regarding the year-ahead outlook for output. Expectations eased slightly from November, yet were strong overall and above the long-run average. Optimism was underpinned by hopes that the pandemic would subside and induce a broad recovery in supply chains and the economy.

Malaysia Manufacturing PMI | Gross domestic product

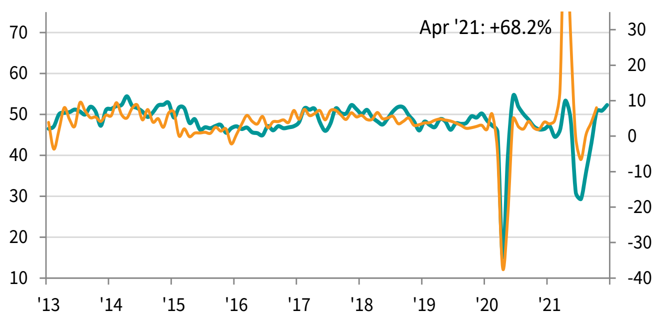
sa, >50 = growth since previous month | %yr/yr



Sources: IHS Markit, Department of Statistics Malaysia.

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

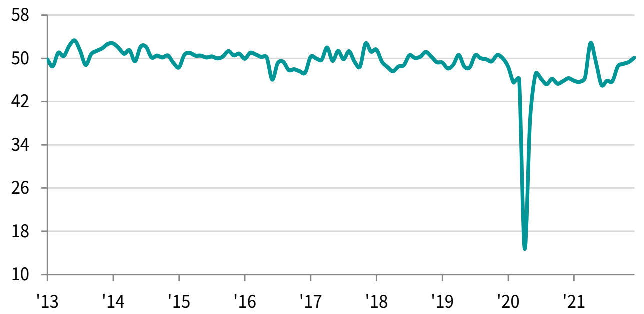
40 = 2.5

50 = 5.3

60 = 8.2

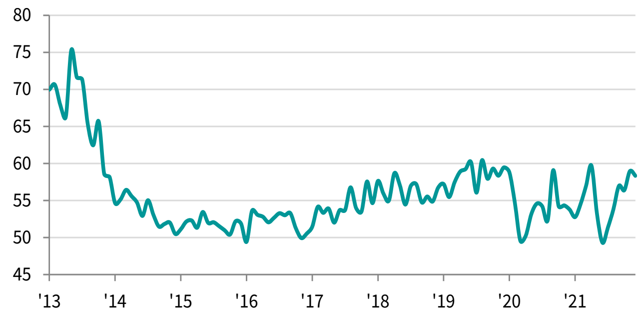
Malaysia New Export Orders Index

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

December data were collected 06-17 December 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.](https://ihsmarkit.com/products/pmi.html)

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