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IHS Markit Malaysia Manufacturing PMI®

Manufacturing PMI hits four-month high in December

Key findings

Output and new orders remain subdued...

...but employment levels stabilise in December

Input costs rise sharply

Data were collected 4-17 December 2020.

Malaysian manufacturers pointed to a renewed path towards stable operating conditions in the final month of 2020. Although production volumes and sales moderated further, employment levels were broadly stable for the first time since May. However, ongoing disruption caused by the coronavirus disease 2019 (COVID-19) pandemic presented difficulties in sourcing and receiving raw materials, resulting in longer delivery times and a sharp increase in input costs faced by firms in the Malaysian manufacturing sector.

The headline IHS Markit Malaysia Manufacturing Purchasing Managers' Index™ (PMI®) – a composite single-figure indicator of manufacturing performance – rose from 48.4 in November to 49.1 in December, indicating a further step towards an improvement in the health of the manufacturing sector. The latest reading was the highest seen since August.

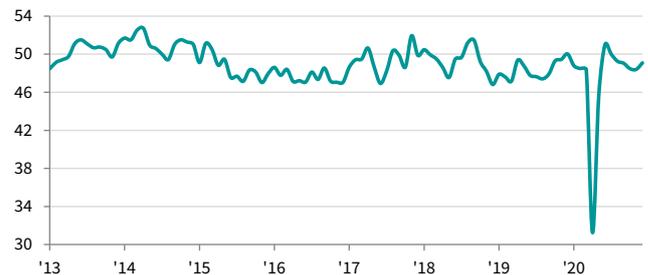
Looking at the historical relationship between the PMI and official statistics, the latest reading is representative of annual growth in both industrial production and GDP, though the survey clearly indicates that the pandemic continues to take a toll on the economy.

December data suggested that output and new orders remained subdued. The respective rates of moderation were broadly similar to those seen in November, as market demand continued to be dampened by the impacts of the COVID-19 pandemic. Foreign demand for Malaysian manufactured goods also fell back, albeit with the pace of the reduction easing as some firms reported returning orders from markets outside Asia.

More positively, Malaysian goods producers signalled a broad stabilisation in employment levels. Preparation for orders in the future required additional capacity, pushing the survey's employment index to the highest for nine months in December.

continued...

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 continued to report challenging conditions in December, with the COVID-19 pandemic not only hitting demand both at home and in key export markets, but also causing increasingly severe supply chain delays, especially for imported goods. Global shipping delays and shortages of inputs consequently acted as an additional constraint on production. Raw material prices have also spiked higher amid these global shortages, pushing manufacturers' selling prices higher at a rate not seen for 32 months.

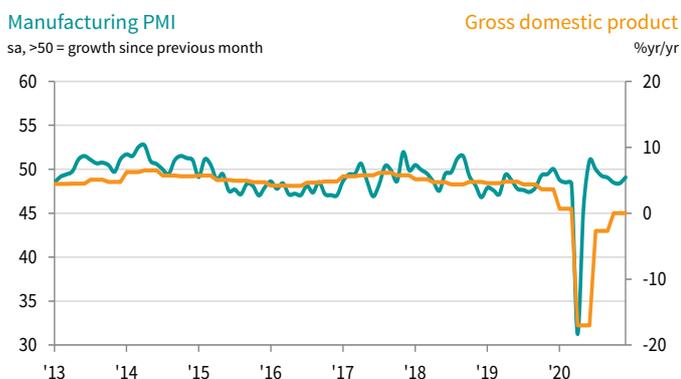
"Encouragingly, job losses have eased and manufacturers remain optimistic on balance that output will continue to recover in 2021, led by the roll out of vaccines helping to restore trading to more normal conditions."

Requirements of additional staff also reflected pressure building on operating capacity. Backlogs of work fell in December to the lowest extent since June.

Input costs increased for the seventh successive month in December, reflecting higher prices for raw materials and logistics, notably shipping costs. The rate of input cost inflation accelerated to the fastest in just over three years, and was sharp overall. Manufacturers partially passed these higher costs through to clients in the form of higher output charges, which rose at the quickest pace for 32 months.

Shortages of raw materials, as well as delays in receiving shipments, meanwhile increased supplier delivery times to the greatest extent since May. Meanwhile, inventory levels fell. Some businesses remained reluctant to hold onto pre- and post-production goods in the latest survey period, while others reported that supply delays had hindered efforts at restocking.

Looking ahead, Malaysian manufacturers were cautiously optimistic regarding the outlook for output in the coming year. Although firms continued to record positive sentiment, optimism eased to the softest since August. Panel members attributed the positive outlook to hopes of a recovery in both domestic and external demand that would boost production levels over the next 12 months.



Sources: IHS Markit, Department of Statistics Malaysia.



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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:

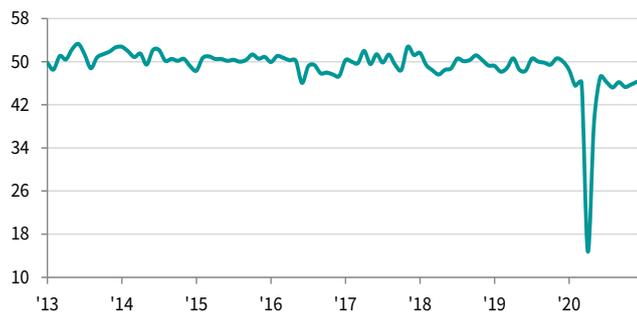
$$\text{Annual \% change in GDP} = (\text{PMI} \times 0.287) - 8.99$$

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**

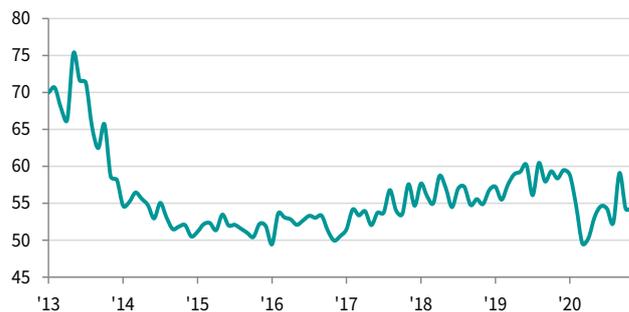
New Export Orders Index

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

December data were collected 4-17 December 2020.

Survey data were first collected July 2012.

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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