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IHS Markit Malaysia Manufacturing PMI®

Malaysian manufacturing sector under pressure amid COVID-19 outbreak

Key findings

COVID-19 hits demand and leads to severe supply chain disruption

Manufacturing production hindered by raw material shortages

Export orders fall at fastest rate since November 2012

According to the latest survey data, Malaysia's manufacturing sector faced a challenging month in February as the delivery of key raw materials from China was disrupted by the coronavirus outbreak. Overseas demand was also adversely impacted, causing new export orders to fall at the steepest rate in over seven years. These negative demand- and supply- side factors led to a softening trend in manufacturing production.

The headline IHS Markit Malaysia Manufacturing Purchasing Managers' Index™ (PMI®) – a composite single-figure indicator of manufacturing performance – fell to 48.5 in February, from 48.8 in January.

The latest survey data highlighted how supply-side disruptions had heavily impacted business operations during February. Supplier delivery times lengthened to the greatest extent since survey data were first collected in July 2012. Panel members reported shortages of key raw materials due to the COVID-19 outbreak in mainland China, with shipments being delayed and even cancelled in some cases.

Consequently, production across the Malaysian manufacturing sector was adversely impacted by shortfalls of inputs. The survey's output index slipped to an eight-month low in February, signalling softening momentum.

In addition to the supply chain issues, headwinds also came from external markets as new export orders fell at the steepest rate since November 2012. According to anecdotal evidence, client demand in China, a key overseas market for Malaysia, fell due to the COVID-19 outbreak, acting as a principal cause of falling export sales during the month.

Total new order intakes were subsequently placed under pressure due to the unfavourable external environment. Overall, the survey's new order index fell to its lowest since last September.

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 manufacturing sector reported a double hit from the coronavirus in February. Supply shortages for many imported inputs constrained output, while foreign sales were also dampened by virus-related slowdowns in key export markets, notably China, where the extended New Year holiday appears to have played a major role in both limiting supply and hitting demand for Malaysia's exports."

"With delivery delays for inputs more widespread than at any time in the seven-and-a-half year history of the survey, leading to sharp falls to purchasing and inventories, production is also likely to be affected in coming months unless fresh supplies can be sourced."

"Not surprisingly, producers have become less optimistic about future growth. Much of course depends on how long the COVID-19 outbreak persists, but with China's factories returning to work there's a good chance the worst of the supply shortages are over."

continued...

There were also mentions of general underlying market weakness leading to subdued sales performances.

Meanwhile, firms were unable to clear volumes of outstanding work as quick as they were in January due to inadequate input stocks. The rate of backlog depletion eased to a four-month low.

Due to negative COVID-19 demand- and supply-side shock, Malaysian manufacturers reported a reduction in both purchasing activity and inventories. The level of employment was also reduced as some firms opted to not renew contracts for some employees given the possibility of production being constrained by an uncertain supply of inputs.

In some cases, firms reported that supply shortages had exerted upward pressure on raw material prices. Latest survey data pointed to a slight acceleration in the rate of input price inflation during February. Nevertheless, Malaysian manufacturers opted to absorb the rise in costs, reducing their output prices fractionally when compared to January. Efforts to stimulate demand and boost competitiveness drove firms to discount their charges.

Lastly, the 12-month ahead outlook for manufacturing output remained positive in February as some companies foresee a pickup in economic growth. However, the degree of optimism slid to a 20-month low as uncertainty towards raw material supplies and demand conditions weighed on confidence.

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.

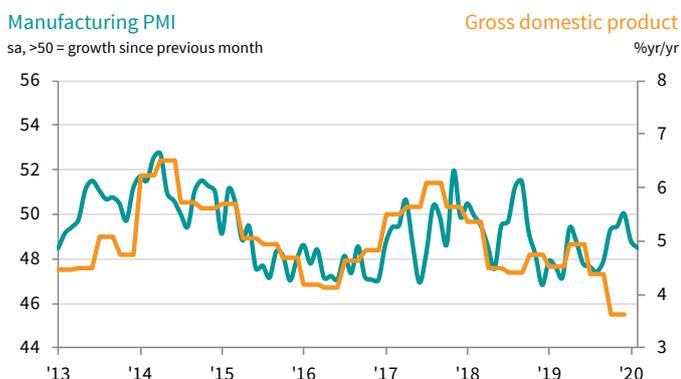
In the case of Malaysia, comparing the headline PMI with annual GDP growth rates shows a reasonably high correlation of 60%, with the PMI acting as a coincident indicator of economic growth. Using the average of PMI Output Index for each calendar quarter lifts this correlation to 74%.

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:

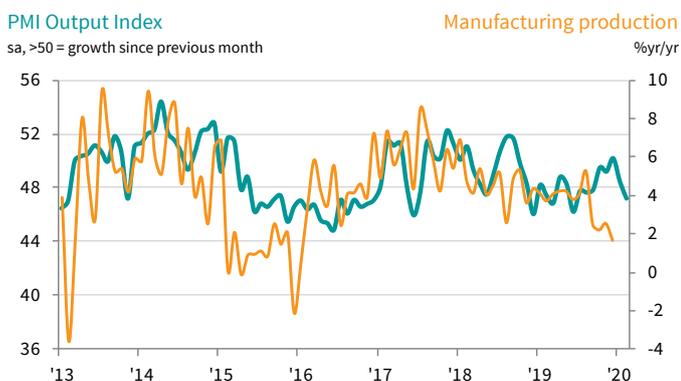
$$\text{Annual \% change in GDP} = (\text{PMI} \times 0.287) - 8.99$$

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:

$$\begin{aligned} \text{PMI} = \% \text{ change in GDP} \\ 30 &= -0.4 \\ 40 &= 2.5 \\ 50 &= 5.3 \\ 60 &= 8.2 \end{aligned}$$



Sources: IHS Markit, Department of Statistics Malaysia.



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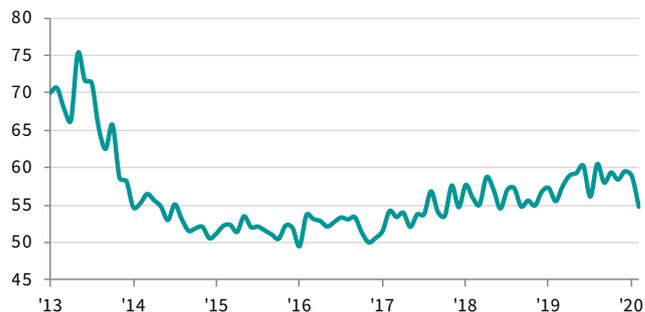
New Export Orders Index

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

February data were collected 12-24 February 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