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IHS Markit Malaysia Manufacturing PMI®

Manufacturing downturn moderates in August

Key findings

Output and sales scaled back further

Renewed reduction in employment levels

Business expectations reach four-month high

Data were collected 12-24 August 2021.

The Malaysian manufacturing sector reported a further lack of momentum during August, albeit with the downturn moderating compared to July. Businesses reported sustained reductions in both production levels and new orders as the latest rise in COVID-19 cases hampered output and sales across the sector, though both declined at the softest rates for three months. Moreover, the lack of demand pushed manufacturers to scale down workforces in August. That said, businesses were increasingly optimistic regarding the year-ahead outlook, with hopes that the end of the pandemic would drive a broad recovery in supply chains and demand.

The headline IHS Markit Malaysia Manufacturing Purchasing Managers' Index™ (PMI®) – a composite single-figure indicator of manufacturing performance – rose from 40.1 in July to 43.4 in August, indicating a sharp deterioration in the health of the sector, but one that was softer than those recorded over the prior two months.

Looking at the historical relationship between the PMI and official statistics, the latest reading is representative of a moderation in manufacturing production and broadly stagnant GDP, as the survey pointed to the ongoing impact of the COVID-19 pandemic on the economy.

August data suggested that output fell among the surveyed companies for the fourth month in a row. The pace of the reduction remained marked but was the softest since May. Firms commonly attributed the decline to a lack of demand and shortages of inputs causing companies to reduce production.

New order volumes also fell, though the pace of the decrease was the softest in the current three-month sequence. Manufacturers noted weaker client confidence and projects placed on hold as infection rates surged. Furthermore, new export sales also failed to gather momentum, as COVID-19 cases also rose in key external markets, dampening demand.

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:

“An easing of some COVID-19 lockdown measures helped take some of the pressures off Malaysian manufacturing in August. IHS Markit’s COVID-19 containment index showed the lowest levels of restrictions since April, facilitating a rise in the headline PMI to its highest since May. Conditions remain tough for producers, however, with order books continuing to decline, supply chain delays widely reported and raw material prices rising sharply again.

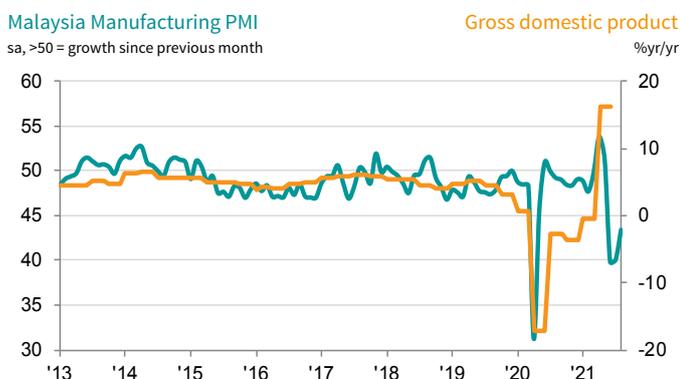
“Encouragingly, business expectations for the coming year improved during the month, as more companies grew optimistic that the worst of the pandemic has passed. Concerns over the spread of the Delta variant nevertheless meant the outlook remains more uncertain than earlier in the year, keeping a lid on the overall degree of optimism.”

At the same time, there was a renewed fall in employment at Malaysian manufacturing firms in August. Although only marginal, the August decline means staffing levels have now fallen in four of the last five months, with producers often noting a lack of foreign work permits being issued due to COVID-19 restrictions. Firms also highlighted a renewed increase in backlogs of work as lower production capacity and difficulty in sourcing inputs placed additional strain on manufacturers.

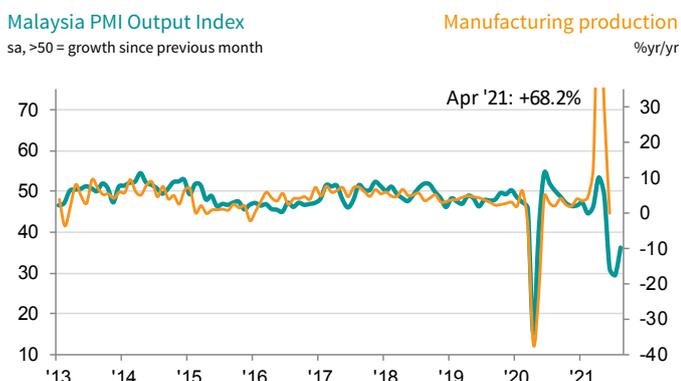
Input costs increased for the fifteenth consecutive month in August, reflecting higher prices for raw materials and logistics. The rate of input price inflation eased to a nine-month low yet remained steep overall. Manufacturers partially passed these higher costs to clients through higher output charges, which rose at a modest pace and extended the current sequence of inflation 15 months.

Lengthening average lead times often meant businesses had difficulties sourcing raw materials for production. However, a lack of new orders meant that manufacturers reduced purchases sharply for the third successive month. As a result of deteriorating vendor performance and lower purchasing, stocks of raw materials and finished goods were depleted, as firms drew from existing holdings to fulfil orders.

Looking ahead, Malaysian manufacturers were increasingly optimistic regarding the year-ahead outlook for output. Expectations reached the highest since April, underpinned by hopes that the pandemic would recede, inducing a broad-based economic recovery and an improvement in the health of global supply chains.



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:

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

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

August data were collected 12-24 August 2021.

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