

Embargoed until 0830 MYT (0030 UTC) 3 May 2021

IHS Markit Malaysia Manufacturing PMI®

Manufacturing PMI reaches record high level in April

Key findings

Renewed expansion in output

New orders grow at fastest pace for seven years

Business expectations reach 20-month high

Data were collected 12-26 April 2021.

The Malaysian manufacturing sector reported a strong improvement in operating conditions during April. Businesses reported renewed expansions in both production levels and new orders, with the latter growing at the fastest pace since April 2014, as firms adjusted to operating under COVID-19 restrictions and demand conditions continued to strengthen. Manufacturers also grew increasingly optimistic regarding the year-ahead outlook, with hopes that a successful vaccination programme would spur an accelerated recovery in production and confidence.

The headline IHS Markit Malaysia Manufacturing Purchasing Managers' Index™ (PMI®) – a composite single-figure indicator of manufacturing performance – rose from 49.9 in March to 53.9 in April, indicating a solid improvement in the health of the manufacturing sector. The expansion was the strongest recorded since the survey began in July 2012.

Looking at the historical relationship between the PMI and official statistics, the latest reading is representative of a solid upturn in industrial production and GDP, as the survey pointed to a steady recovery from the impacts of the pandemic.

April data suggested that output grew for the first time in nine months. The pace of growth was the strongest recorded since June 2020. Firms commonly attributed the renewed growth to improved market demand leading to increased orders.

New order volumes also returned to expansion territory in April, the first rise since September 2018. The pace of the increase was solid, and the quickest in exactly seven years, as manufacturers noted stronger client confidence, notably for new products. Furthermore, new export sales increased for the first time since November 2019, as demand in key markets across Asia and the US recovered.

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:

“Reviving demand, notably for exports, as lockdowns have eased has helped drive a welcome surge of growth for Malaysian manufacturing. Rising hopes for the vaccine roll-out have meanwhile propelled business optimism for the year ahead to one of its highest levels since 2013.”

“Supply-side constraints have developed further, however, acting as a damper on growth and could restrict the recovery. Backlogs of work are accumulating at a rate not seen for four years as firms struggle to produce enough goods to meet demand. Not only are firms reporting difficulties in finding sufficient numbers of suitable staff to raise production, but delivery delays of inputs are also worsening. With the exception of April and May last year, during widespread factory shutdowns as a result of the first wave of the pandemic, the latest lengthening of supply chains is the longest in the survey’s nine-year history.”

“Prices are rising as a result of the imbalance of demand and supply, with prices charged by producers increasing at one of the sharpest rates for four years. The concern is that these price hikes will inevitably hit consumers in coming months.”

At the same time, there was a renewed fall in employment at Malaysian manufacturing firms in April. Though only marginal, staffing levels have now fallen in 12 of the last 13 months, with manufacturers noting a lack of foreign work permits being issued due to COVID-19 restrictions. As new orders returned to growth, firms commented that pressure had continued to build on capacity, as the amount of outstanding business increased for the second successive month.

Input costs increased for the eleventh consecutive month in April, reflecting higher prices of raw materials and logistics. The rate of input price inflation accelerated to the fastest in just over four years, and was rapid overall. Manufacturers partially passed these higher costs to clients through higher output charges, which rose at a marked pace and extended the current sequence of inflation to 11 months.

Lengthening average lead times often meant businesses had difficulties sourcing inputs for production. As a result, firms purchased larger quantities to protect themselves from disruption, whilst also holding increased stocks of raw materials. Moreover, post-production inventories broadly stabilised. Firms that saw inventories decrease noted the use of stockpiles to fulfil orders, though this was partially offset by increased production.

Looking ahead, Malaysian manufacturers were increasingly optimistic regarding the year ahead outlook for output. Expectations reached the highest level since August 2019, underpinned by hopes that a successful vaccination programme would induce a broader economic recovery.

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.

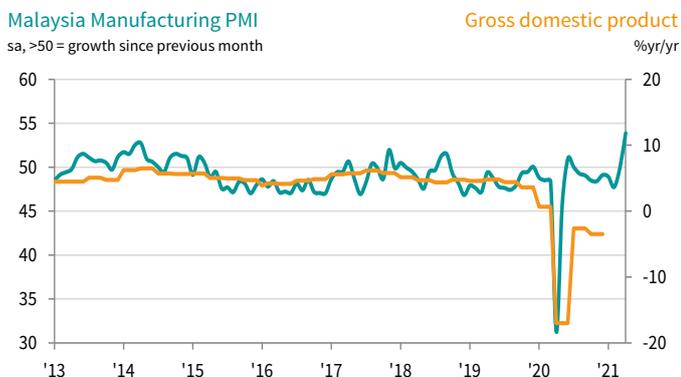
In the case of Malaysia, comparing the headline PMI with annual GDP growth rates shows a reasonably high correlation of 60%, with the PMI acting as a coincident indicator of economic growth. Using the average of PMI Output Index for each calendar quarter lifts this correlation to 74%.

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:

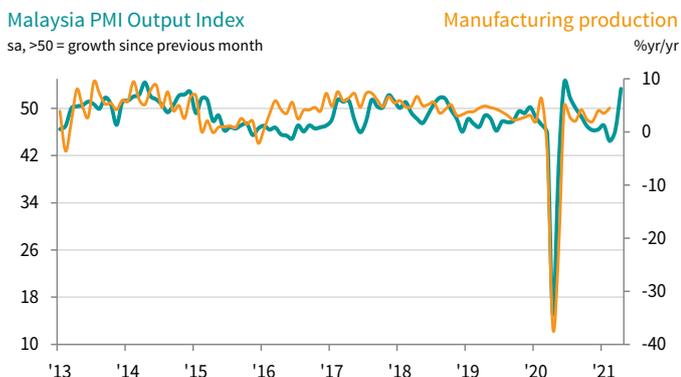
$$\text{Annual \% change in GDP} = (\text{PMI} \times 0.287) - 8.99$$

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**



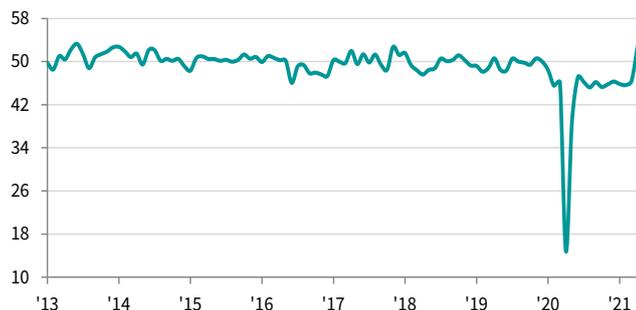
Sources: IHS Markit, Department of Statistics Malaysia.



Sources: IHS Markit, Department of Statistics Malaysia.

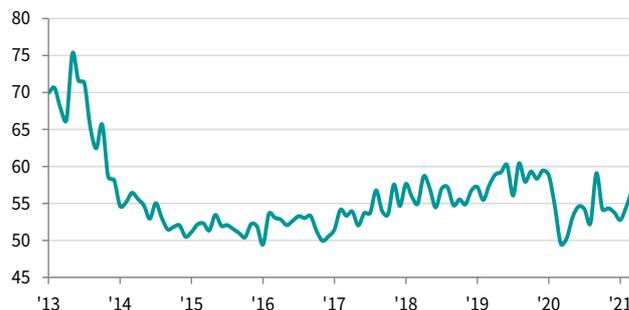
Malaysia New Export Orders Index

sa, >50 = growth since previous month



Malaysia Future Output Index

>50 = growth expected over next 12 months



Contact

Chris Williamson
 Chief Business Economist
 IHS Markit
 T: +44 207 260 2329
chris.williamson@ihsmarkit.com

Joanna Vickers
 Corporate Communications
 IHS Markit
 T: +44 207 260 2234
joanna.vickers@ihsmarkit.com

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

April data were collected 12-26 April 2021.

Survey data were first collected July 2012.

Disclaimer

The intellectual property rights to the data provided herein are owned by or licensed to IHS Markit. Any unauthorised use, including but not limited to copying, distributing, transmitting or otherwise of any data appearing is not permitted without IHS Markit's prior consent. IHS Markit shall not have any liability, duty or obligation for or relating to the content or information ("data") contained herein, any errors, inaccuracies, omissions or delays in the data, or for any actions taken in reliance thereon. In no event shall IHS Markit be liable for any special, incidental, or consequential damages, arising out of the use of the data. Purchasing Managers' Index™ and PMI® are either registered trade marks of Markit Economics Limited or licensed to Markit Economics Limited. IHS Markit is a registered trademark of IHS Markit Ltd. and/or its affiliates.

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.

IHS Markit is a registered trademark of IHS Markit Ltd. and/or its affiliates. All other company and product names may be trademarks of their respective owners © 2021 IHS Markit Ltd. All rights reserved.

If you prefer not to receive news releases from IHS Markit, please email joanna.vickers@ihsmarkit.com. To read our privacy policy, [click here](#).

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