News Release

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IHS Markit Malaysia Manufacturing PMI®

PMI remains weak but signals steadying production trend, rising employment and brighter outlook

Key findings

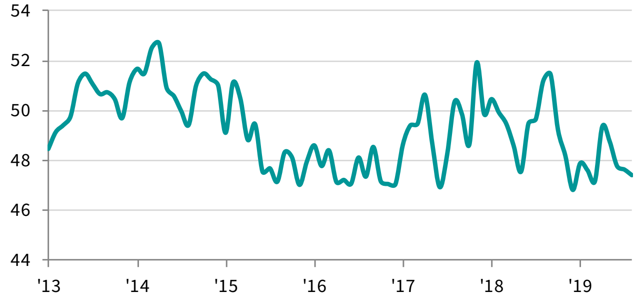
Survey data highlight challenging manufacturing conditions...

...but Output Index holds relatively steady

Job gains reported as optimism at near six-year high

Malaysia Manufacturing PMI

sa, >50 = improvement since previous month



Source: IHS Markit.

Latest PMI data highlighted some of the challenges facing Malaysian manufacturers at the midway point of the third quarter, with the survey signalling tough demand conditions and rising cost pressures. Nevertheless, the outlook improved to the most optimistic for nearly six years, encouraging firms to expand their workforces for the first time in three months.

The headline IHS Markit Malaysia Manufacturing Purchasing Managers' Index™ (PMI®) – a composite single-figure indicator of manufacturing performance* – recorded 47.4 in August, a fractional decline from July (47.6). At current levels, the PMI is broadly indicative of annual GDP growth of approximately 4.5%, according to historical comparisons.

Although the seasonally adjusted Output Index dipped in August, the fall was only fractional. Analysis of comparable historical official data on Malaysian manufacturing suggests that, at current levels, the survey's output index is consistent with annual production growth of just below 4%. According to anecdotal evidence, new product launches had supported output during August.

The level of new work received from external markets stalled in the latest survey period, contributing to sustained weakness in the New Orders Index. Challenging demand conditions persisted in August, with intense competitive pressures, reduced workloads from clients in other key export markets and global trade war worries reported as drags on sales.

Nevertheless, panellists showed optimism towards the outlook over the next 12 months in August, as business confidence strengthened to its highest level since October 2013. Planned promotional activity, new products, work in the pipeline and forecasts of improved domestic and external demand all lifted sentiment, according to anecdotal evidence.

In line with expectations of greater sales, firms enhanced

continued...

Comment

Commenting on the latest survey results, Chris Williamson, Chief Business Economist at IHS Markit, said:

"Having correctly indicated a strengthening rate of expansion in the second quarter, the survey's latest data suggest some mild loss of momentum in the third quarter as current manufacturing conditions clearly remained challenging in August. The PMI nevertheless remains consistent with steady annual GDP growth of 4-5% in the third quarter so far.

"The recent subdued Malaysian PMI readings in part reflect ongoing global trade tensions, which have led to a weakening in the pace of economic expansion globally. The worldwide PMI surveys have indicated the slowest worldwide GDP growth for three years in recent months, led by falling manufacturing output.

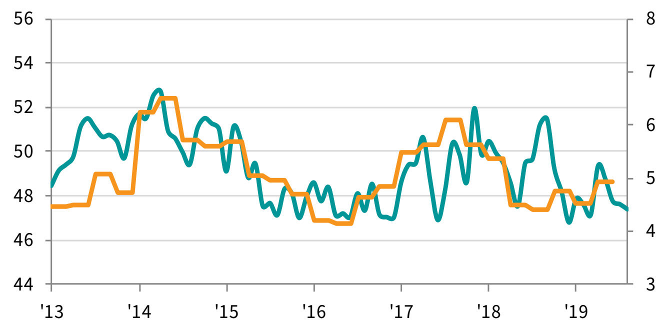
"Encouragingly, Malaysia's manufacturers have become increasingly optimistic that the tide will soon turn and that demand will strengthen again in coming months. Optimism for the year ahead is now at its highest since late-2013, and it's especially good to see firms taking on more staff to meet the improved outlook and reporting new product launches to help drive revenues."

operating capacities by expanding employment, reporting the first rise in staffing levels for three months. Furthermore, the rate of job creation was on a par with its historical average.

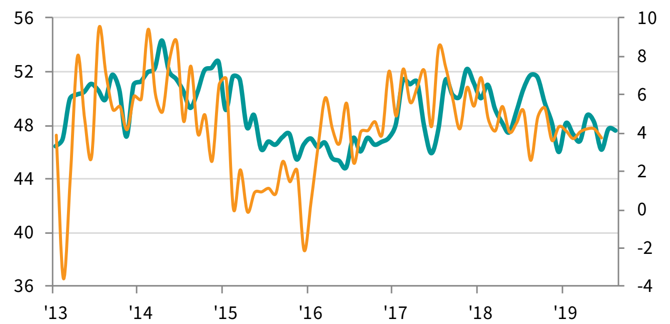
Higher workforce numbers led to efficiency gains in August, as backlogs of work declined for a twelfth month in succession. Panellists also reportedly upped their efforts to complete work in a timely fashion.

Increased shipments of finished goods were meanwhile signalled by a reduction in post-production inventories during August. Panel comments indicated that firms were striving to manage stocks more efficiently. Similarly, pre-production inventories also declined during August, which in turn facilitated an improvement in supplier delivery times, the first since May.

Lastly, latest survey data pointed to higher operating costs amid reports of currency fluctuations, rising commodity prices and shortages of certain raw materials. Firms responded to margin pressures by raising output charges in August at the quickest pace in nine months.



Sources: IHS Markit, Department of Statistics Malaysia.



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

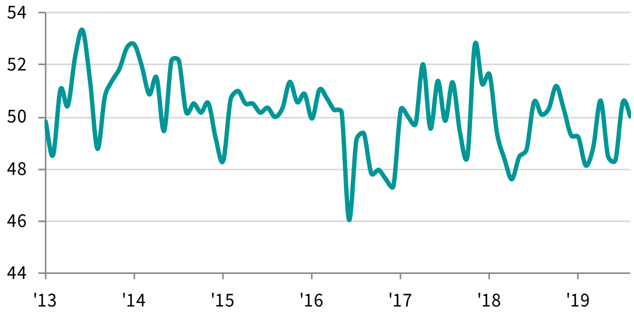
60 = 8.2

Interpretation of August PMI for GDP

Having correctly indicated the pick-up in the second quarter, latest data suggest there has been a loss of momentum in the third quarter so far. The August PMI reading of 47.4 was slightly lower than in July (47.6), but is still indicative of 4.5% annual GDP growth overall, according to historical comparisons.

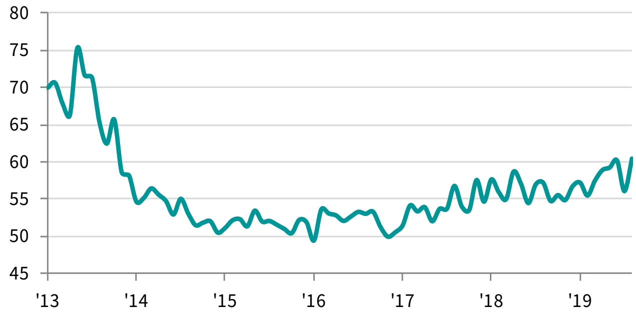
New Export Orders Index

sa, >50 = growth since previous month



Future Output Index

>50 = growth expected over next 12 months



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Methodology

*The IHS Markit Malaysia Manufacturing PMI® is compiled by IHS Markit from responses to monthly 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. Please note that the mining, utilities and refined petroleum sectors are not covered by the survey due to high levels of industry concentration and as such the survey findings should be interpreted accordingly.

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.

July 2019 data were collected 12-25 July 2019.

For further information on the PMI survey methodology, please contact economics@ihsmarkit.com.

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.

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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. To learn more go to ihsmarkit.com/products/pmi.html.