News Release

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IHS Markit
Malaysia Manufacturing PMI®

Malaysian manufacturing sector slows further in September

Key findings

Output moderates for first time in four months

Ongoing slowdown in new orders

Business confidence rises sharply

Data were collected 11-24 September 2020.

The recovery in the Malaysian manufacturing sector showed signs of losing momentum at the end of the third quarter of the year. The production trend deteriorated after having been unchanged in August, while new orders continued to moderate. Against this backdrop, firms scaled back workforce numbers again, albeit to a lesser extent than seen in August.

On a more positive note, confidence in a gradual return to normality meant that business sentiment improved sharply to the highest since prior to the coronavirus disease 2019 (COVID-19) pandemic.

The headline IHS Markit Malaysia Manufacturing *Purchasing Managers' Index™ (PMI®)* – a composite single-figure indicator of manufacturing performance – posted 49.0 in September, down fractionally from 49.3 in August and falling for the third month running following June's rebound.

Looking at the historical relationship between the PMI figures and official data shows that the latest reading is still representative of growth in both GDP and manufacturing production, albeit to lesser extents than in previous months.

New orders continued to weaken in September, although the pace of moderation was the softest in 2020 so far. Total new business was again negatively impacted by a reduction in new export orders amid ongoing COVID-19 disruption.

With new orders slowing further, manufacturers scaled back output for the first time in four months, following a stable picture in August.

Lower production requirements were reflected in trends in staffing levels and purchasing. Employment decreased for the sixth month running, albeit at a slower pace than the series record posted in August. Meanwhile, a solid reduction in input buying during September followed no change in the previous month.

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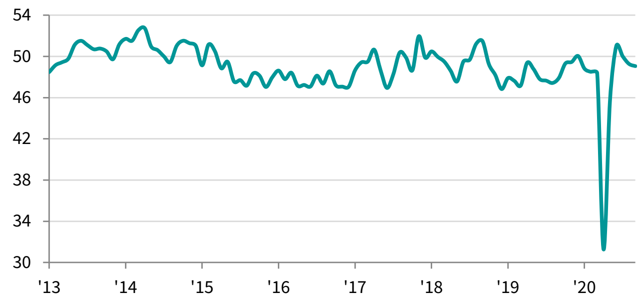
Malaysia Manufacturing PMI

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:

"Some pull-back in the rate of recovery was always likely after the initial rebound from the collapse in global demand at the height of the pandemic, and September accordingly saw a renewed deterioration in the production trend. However, historical comparisons indicate that the survey remains broadly consistent with both manufacturing output and GDP expanding at annual rates in excess of 4%. Moreover, the order book trend is showing signs of having bottomed out and future output expectations surged to the highest seen so far this year as growing numbers of companies considered the worst of the crisis to be behind them.

"Barring any further marked increases in infection rates, COVID-19 related restrictions are due to ease further in the coming months, according to IHS Markit's COVID-19 Containment Index, which should further facilitate the manufacturing recovery. However, the future path of the virus remains uncertain and poses the biggest risk to the outlook."

Reductions in purchasing fed through to lower pre-production inventory levels, again in line with scaled-back production requirements. Stocks of finished goods also dipped at the end of the third quarter.

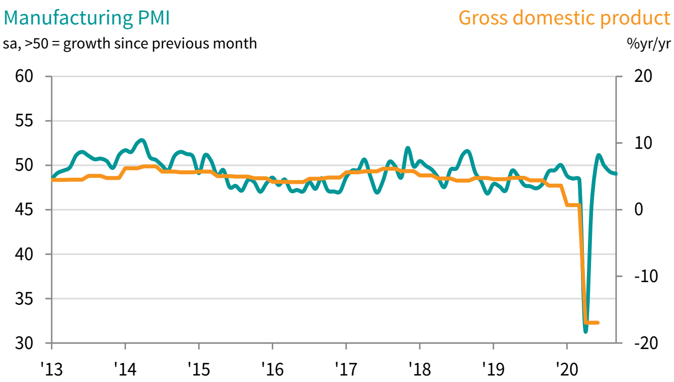
Despite capacity reductions, firms were still able to work through outstanding business amid ongoing weakness in new orders.

On the other hand, September saw increasing confidence in the 12-month outlook for production. Sentiment jumped to a nine-month high, with firms predicting improvements in new orders as market conditions gradually return to normal.

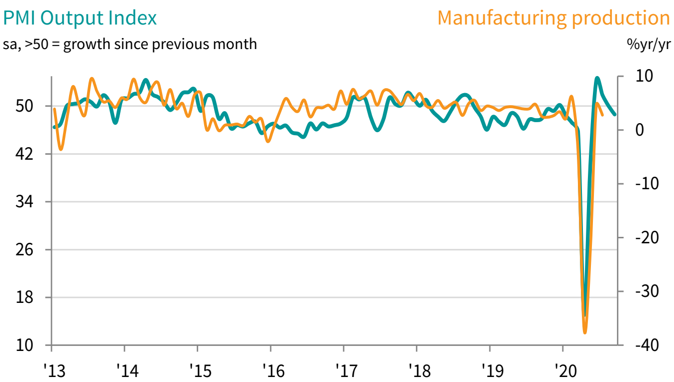
Input costs increased for the fourth successive month at the end of the third quarter, often reflecting raw material shortages. Some respondents specifically mentioned higher prices for imported items. The rate of inflation was solid and broadly in line with the series average.

Efforts to pass on higher input costs to customers were hampered by demand weakness. As a result, manufacturers raised their selling prices only slightly during September. That said, charges have now increased in four consecutive months.

The impact of COVID-19 on global supply chains was evident again, with vendor delivery times lengthening to a solid extent. Issues with the shipping of items and delays linked to restrictions in certain countries were mentioned by those firms that saw lead times lengthen.



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%.

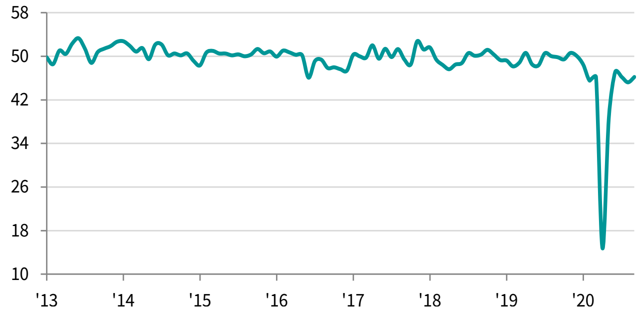
With this correlation as the basis of PMI-implied GDP growth rates, we can build a simple OLS regression model where the annual rate of change in GDP is explained by a single variable: the headline Malaysia manufacturing PMI. The model therefore allows us to estimate GDP using the following formula:

Annual % change in GDP
= (PMI x 0.287) – 8.99

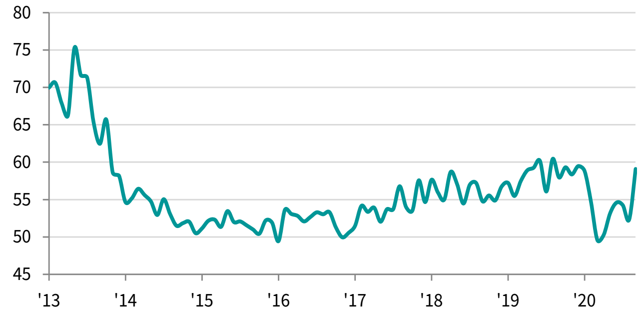
Using this formula, a headline PMI reading of 31.4 is comparable to a zero annual growth rate of GDP. Each index point above (below) is roughly the same as 0.3 percentage points of GDP growth (decline) such that:

PMI = % change in GDP
30 = -0.4
40 = 2.5
50 = 5.3
60 = 8.2

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

September data were collected 11-24 September 2020.

Survey data were first collected July 2012.

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.

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.