

Embargoed until 0830 MYT (0030 UTC) 1 August 2019

IHS Markit Malaysia Manufacturing PMI®

Challenging demand conditions weigh on PMI in July

Key findings

PMI falls fractionally since June...

...but a pick-up in external demand lifts Output Index

Businesses remain optimistic towards the year ahead

PMI survey data for July showed that Malaysia's manufacturing sector continued to endure a challenging business environment. Softer demand has put further pressure on production and deterred firms from increasing their workforces. Nevertheless, businesses retained an optimistic outlook on balance, foreseeing improved production growth over the coming 12 months.

The headline IHS Markit Malaysia Manufacturing Purchasing Managers' Index™ (PMI®) – a composite single-figure indicator of manufacturing performance* – was largely unchanged in July, falling only marginally from 47.8 in June to 47.6. At current levels, the PMI is broadly indicative of annual GDP growth of approximately 4.5%, according to historical comparisons.

The seasonally adjusted Output Index increased for the first time since April during the latest survey period. Analysis of comparable historical official data on Malaysian manufacturing suggests that, at current levels, the survey's output index signals annual production growth of approximately 4.5%, representing a notable improvement compared to June. Firms reported a net inflow of new business from abroad for the first time since April, albeit only marginal, with the US, Japan and Turkey mentioned as particular sources of higher export demand.

The rise in exports helped keep the seasonally adjusted New Orders Index above the weak levels seen at the start of the year, but overall demand conditions remained challenging. Anecdotal evidence suggested that increased competitive pressures had made securing new work more difficult, and that concerns over global economic growth and geopolitical concerns remained headwinds.

However, when looking towards the coming 12 months, Malaysian manufacturers anticipate order book volumes to pick up and support production growth. Business confidence in Malaysia has been remarkably resilient in the face of external headwinds facing the sector, though the July survey saw

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:

"The pull-back in the PMI from the higher levels seen early in the second quarter comes at a time of weakening global economic growth and rising worldwide geopolitical concerns. The global PMI surveys have indicated the slowest pace of worldwide GDP expansion for three years in recent months, with deteriorating trade flows and reduced business investment acting as major drags. Trade tensions are also rising across the Asia-Pacific region.

"It's therefore no surprise to see Malaysia's manufacturers reporting tougher operating conditions in this context. However, the survey data remain broadly indicative of both GDP and manufacturing output growing at annual rates of 4.5%.

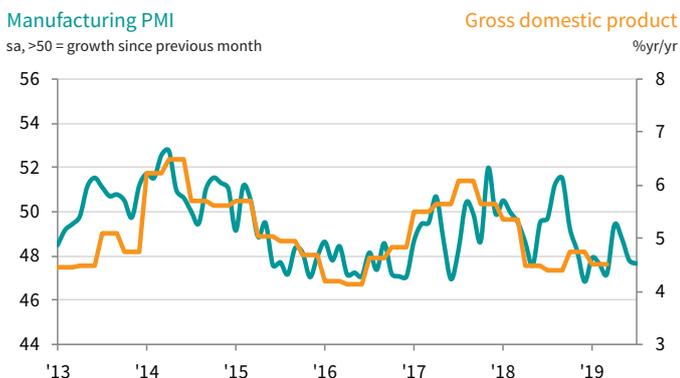
"Moreover, the positive net balance of companies expecting output to continue to rise over the coming year is an encouraging sign of resilience in the face of the global headwinds, with optimism commonly being fueled by new projects, expansion plans and more aggressive marketing. However, as with all major manufacturing economies, global trade conditions will inevitably act as a major steer on future production trends."

optimism pull back from June's 68-month peak.

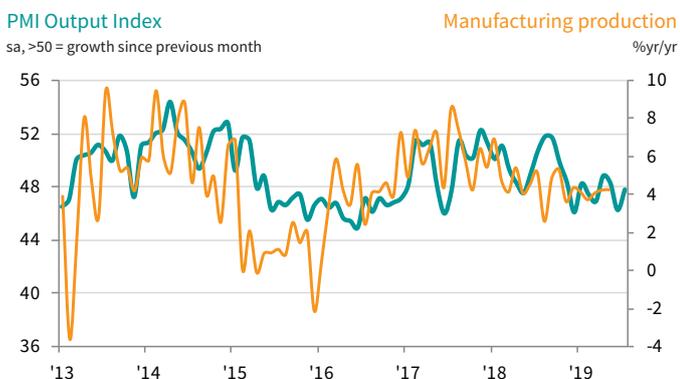
The latest survey data also highlighted firms taking a more cautious approach to staffing levels, as employment was reduced in July. Difficulties in retaining and hiring staff were also mentioned as a factor behind the weaker jobs numbers.

The cautious approach was also apparent in purchasing and inventories data. Buying levels were tapered in July, as has been the case since last October, while stocks of inputs and semi-manufactured items were also pared back. According to anecdotal evidence, existing stocks were sufficient to meet the current operational requirements.

Elsewhere, input prices continued to rise, propped up by unfavourable exchange rate variation as well as reports of increased charges from suppliers and greater utility costs. However, the rate of input price inflation eased to a three-month low from May's recent peak to hint at an easing of supply chain inflationary pressures. At the same time, Malaysian manufacturers raised their output charges only marginally in July, in most cases to partly share greater cost burdens with customers.



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:

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

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:

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

Interpretation of July PMI for GDP

The July PMI reading of 47.6 is indicative of 4.5% annual GDP growth overall, according to historical comparisons. With the survey finding a greater number of respondents anticipating higher output over the next 12 months, economic growth is expected to accelerate further.

New Export Orders Index
 sa, >50 = growth since previous month



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

Bernard Aw
 Principal Economist
 IHS Markit
 T: +65 6922 4226
bernard.aw@ihsmarkit.com

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

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.

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 © 2019 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. To learn more go to ihsmarkit.com/products/pmi.html.