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IHS Markit Malaysia Manufacturing PMI®

Manufacturing downturn eases sharply during May

Key findings

Malaysia's manufacturing downturn eases after record decline in April

New orders and output fall at considerably weaker rates in May

COVID-19 leads to further supply chain disruption

Data were collected 12-22 May 2020.

Malaysia's manufacturing sector showed signs of approaching stabilisation midway through the second quarter, with rates of reduction in output, new orders and employment all easing considerably. Nevertheless, in each case, survey data showed further marked declines as the global coronavirus disease 2019 (COVID-19) pandemic and the associated measures taken to stem its spread led to severe supply chain disruption and extended factory shutdowns.

The headline IHS Markit Malaysia Manufacturing *Purchasing Managers' Index*™ (PMI®) – a composite single-figure indicator of manufacturing performance – rose sharply to 45.6 in May, from April's survey-record low of 31.3. Despite such a large month-on-month rise in the headline figure, it remained below the neutral 50.0 mark and was therefore indicative of a further deterioration in manufacturing sector conditions. That said, the latest decline was considerably weaker than at the start of the second quarter.

Latest survey data pointed to a further reduction in manufacturing output across Malaysia, although the rate of contraction eased substantially since April. The downturn lost strength amid reports that some firms had restarted production following a partial lifting of lockdown rules. Nevertheless, there remained widespread mentions of extended factory shutdowns and further production cutbacks in response to the COVID-19 pandemic.

New orders placed with Malaysian goods producers continued to fall during May, which panel members attributed to the ongoing measures both domestically and overseas to stem the spread of the coronavirus. The deterioration in demand was solid, although significantly weaker than seen in April. Of the minority of companies that recorded sales growth, clients reopening their businesses had led to new work intakes.

Weak export demand persisted in May, weighing heavily on overall

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:

"A strong rise in the PMI provides the first major indication that the economic downturn caused by the COVID-19 pandemic appears to have bottomed out. While manufacturing activity continued to fall at a steep rate in May, declines in output and order books were notably less severe than seen in April. Barring any second wave of infections, the coming months should see signs of at least stabilisation as restrictions to contain the virus are gradually eased both at home and in export markets."

"While we may see a return to growth as we head into the third quarter, it still looks like a recovery to pre-pandemic production and GDP levels will be long and slow. Export demand in particular looks set to be weak for some time as COVID-19 restrictions will inevitably need to stay in place and continue to dampen economic activity around the world."

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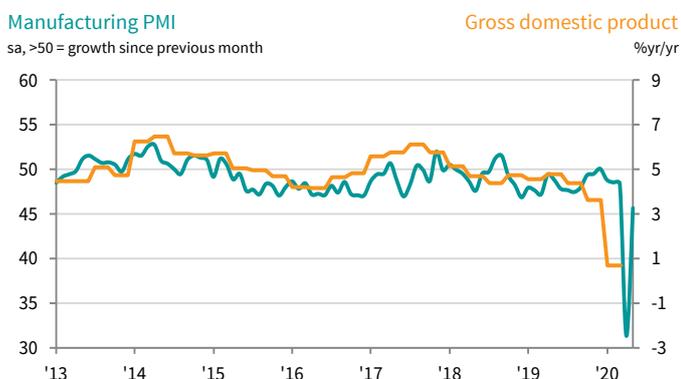
order books. Where a decline in overseas sales was reported, this was linked to unfavourable economic conditions at key trade partners.

Supply-side hindrances remained unprecedented in May and continued to disrupt Malaysia's manufacturing sector. Input delivery times lengthened markedly and to an extent which was similar to April's record. Labour shortages at vendors, transportation restrictions and the extension of the movement control order were all reported to have contributed to the sharp lengthening in supplier lead times.

Purchasing activity declined sharply in May as a result of delayed shipments and lower production requirements. This led to a further marked drawdown of pre-production inventories. In both cases, however, the rates of reduction were much softer than seen in April.

Meanwhile, manufacturing employment in Malaysia was held broadly stable during May, with 98% of firms signalling no change in their payrolls. This contrasted with April, where staffing numbers fell at the fastest rate on record.

Looking ahead, there were signs of optimism as survey data pointed to a rise in business confidence. The Future Output Index rose to a three-month high, with stronger sentiment underpinned by expectations of a recovery in demand. Firms hoped that this would drive production volumes higher in the coming months.



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:

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

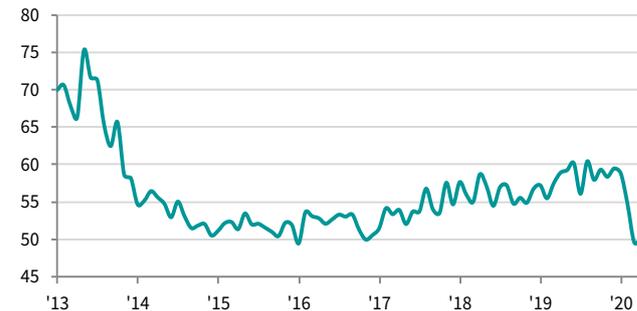
New Export Orders Index

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

Katherine Smith
 Public Relations
 IHS Markit
 T: +1 781 301 9311
katherine.smith@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

May data were collected 12-22 May 2020.

Survey data were first collected July 2012.

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