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IHS Markit Malaysia Manufacturing PMI®

Manufacturing sector broadly stable in March

Key findings

Output and new orders remain subdued amid supply chain disruption

Employment levels rise for the first time in a year

Business expectations strengthen further

Data were collected 12-25 March 2021.

Malaysian manufacturers took a further step on the path to recovery in March as operating conditions broadly stabilised during the month. Although production levels and new orders moderated further due to weak demand and ongoing supply chain disruption from the coronavirus disease 2019 (COVID-19) pandemic, employment levels returned to expansion territory for the first time since March 2020 as manufacturers grew increasingly optimistic about the year-ahead outlook, with hopes that an end to the pandemic would give rise to a wider recovery in demand.

The headline IHS Markit Malaysia Manufacturing Purchasing Managers' Index™ (PMI®) – a composite single-figure indicator of manufacturing performance – rose from 47.7 in February to 49.9 in March. The latest reading pointed to a stabilisation in operating conditions, with the headline Index reaching its highest since July 2020.

Looking at the historical relationship between the PMI and official statistics, the latest reading is representative of annual growth in both industrial production and GDP, although the survey indicates that the manufacturing sector is only gradually recovering from the impact of the pandemic.

While survey gauges of output and new orders both rose in March, the latter notably hitting a five-month high, both remained subdued. Panellists noted that order inflows continued to be dampened by the impact of the COVID-19 pandemic, hitting both consumer and corporate demand. Foreign demand for Malaysian manufactured goods also fell back, albeit with the pace of the reduction easing to the softest recorded since June 2020 as some firms reported returning orders in Asia and the Americas.

More positively, Malaysian goods producers signalled the first expansion in employment levels in 12 months in the latest

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 Malaysian manufacturing sector took further welcome steps on the road to recovery in March, with rates of order book and export decline easing. While current production remains subdued, firms are gearing up for better times ahead, especially in relation to hiring. March saw jobs being created at the fastest rate for two years as business grew more optimistic about the outlook.

“The supply of inputs continued to deteriorate, adding to manufacturers’ headwinds, but rising global trade should help alleviate some of the shortages in coming months, driving further expansion of Malaysian production and taking some of the heat out of prices.”

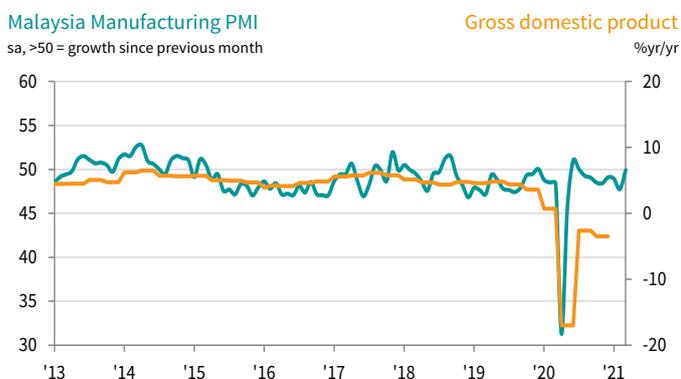
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survey period. Preparation for orders in the future reportedly required additional capacity, and pushed the seasonally adjusted Employment Index to the highest since April 2019.

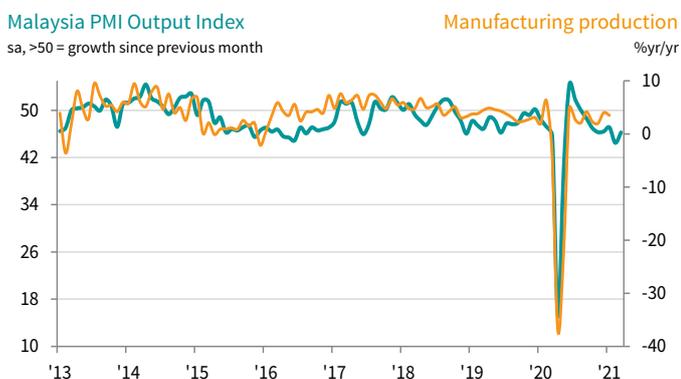
Input costs meanwhile increased for the tenth consecutive month in March, reflecting higher prices for a broad variety of raw materials and higher freight costs. The overall rate of input cost inflation accelerated to the fastest in nearly four years. Manufacturers sought to partially pass these higher costs on to clients in the form of higher output charges, which rose at the quickest pace since March 2017.

Shortages of materials, as well as delays in receiving shipments, caused average supplier lead times to lengthen to the greatest extent since May 2020. At the same time, inventory levels fell as businesses remained reluctant to hold onto stocks of raw materials and finished goods in the latest survey period. Moreover, some firms also reported that supply delays had hindered restocking efforts and, in some cases, curtailed production. Backlogs of work consequently increased for the first time since August 2018, rising to the greatest extent in four years.

Despite headwinds from supply shortages and ongoing COVID-19 related issues, Malaysian manufacturers displayed a stronger degree of optimism regarding the outlook for output in the coming year. Firms recorded the highest level of positive sentiment for six months in March. Panel members attributed the improved outlook to hopes that a recovery in both domestic and external demand would boost production levels and sales over the next 12 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:

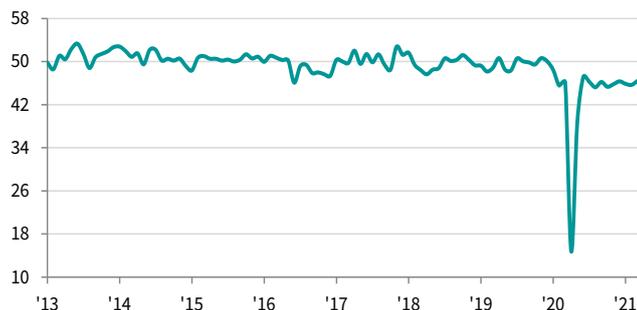
$$\text{Annual \% change in GDP} = (\text{PMI} \times 0.287) - 8.99$$

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:

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

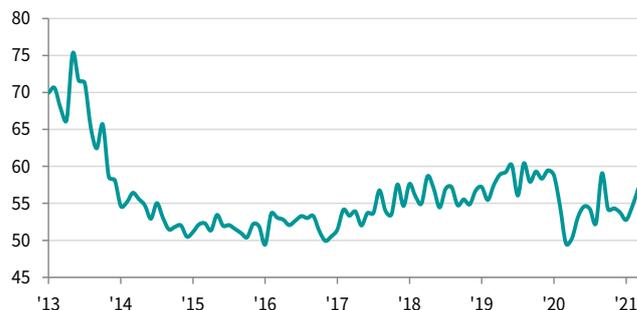
Malaysia New Export Orders Index

sa, >50 = growth since previous month



Malaysia 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

March data were collected 12-25 March 2021.

Survey data were first collected July 2012.

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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