News Release

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IHS Markit Malaysia Manufacturing PMI®

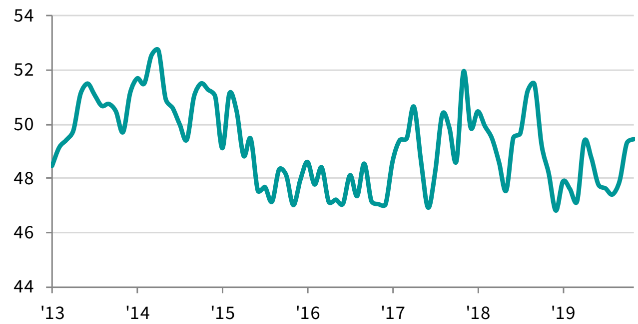
PMI hits 14-month high in November

Key findings

Rise in new export business lifts total new orders trend

Survey indicative of annual manufacturing output growth of above 5%

Businesses remain confident towards the year ahead



Source: IHS Markit.

Malaysia's manufacturing sector continued to show signs of the goods-producing economy moving along an upward trajectory in November, according to the latest survey data, with the headline PMI rising for a third successive month to reach a 14-month high. The principal driver behind this rise was an increase in new export orders for the first time in four months.

Meanwhile, employment levels were held steady and the survey's output index continued to run close to October's one-year high. Business optimism also remained markedly higher than a year ago.

The headline IHS Markit Malaysia Manufacturing Purchasing Managers' Index™ (PMI®) – a composite single-figure indicator of manufacturing performance – increased to 49.5 in November, a marginal rise from 49.3 in October, but the highest reading since September 2018 and above its historical average. Although below the neutral 50 level, the current PMI reading is broadly indicative of annual GDP growth of over 5%.

Generating lift in the headline PMI were survey data on order book inflows, with the respective new business index rising for a third straight month to hit a 14-month high. According to survey respondents, demand from several key overseas markets had improved during November, generating a net rise in new export orders for the first time in four months. Key sources of order book strength were the Middle East and Asia-Pacific regions, as well as higher sales to customers in the USA.

The additional support on the demand side led increasing numbers of firms to bolster their output volumes during November, providing further evidence that the production soft patch bottomed out back in June. Analysis of comparable historical official data on Malaysian manufacturing suggests that, at current levels, the survey's output index is consistent

continued...

Comment

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

"November's survey brought further signs of manufacturing growth picking up momentum. The headline PMI, which measures overall business conditions, has now risen for three successive months to reach its highest for over a year, and the survey's production gauge has continued to rise from the low seen at mid-year.

"Both the headline PMI and the survey's output gauge are now running at levels indicative of GDP and manufacturing production growing at annual rates above 5%.

"Order books are benefiting from renewed export growth fuelled by improving global trade flows and an easing in global trade tensions.

"Firms are expecting the improving trend to continue as we head towards the year-end, with the survey's future output expectations index running well above the lows seen this time last year. Given Malaysia's export focus, whether these expectations turn into reality will likely depend on the twists and turns in global trade wars, but at the moment the news is looking brighter."

with production regaining momentum compared to earlier in the year, growing at an annual rate in excess of 5%.

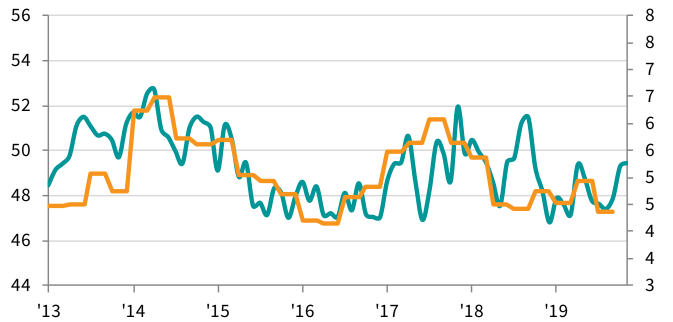
On the jobs front, manufacturing employment levels were held broadly stable in November. While a number of firms reported a loss of headcount via voluntary resignations, this was offset by hiring activity at other companies. That said, operating capacities were clearly sufficient to deal with existing workloads, as backlogs of work declined at a faster rate during the latest survey period. Some survey respondents mentioned that greater resources were pushed into finishing outstanding orders so that manufacturers could prepare for upcoming new projects in the pipeline.

Expectations of stronger demand and successful contract tenders meanwhile underpinned ongoing optimism regarding production in the year ahead at Malaysian goods producers. The future expectations index is still running slightly above its average for the year to date and well above the level seen this time last year.

Elsewhere, latest survey data indicated that there were little inflationary pressures in the Malaysian manufacturing sector. Input prices rose at only a fractional pace in November, which firms primarily attributed to currency weakness. As a result, firms kept their output charges unchanged from October, often focusing on keep prices as low as possible to remain competitive.

Manufacturing PMI
sa, >50 = growth since previous month

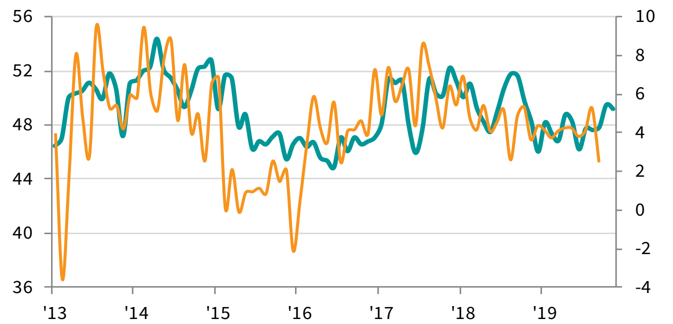
Gross domestic product
%yr/yr



Sources: IHS Markit, Department of Statistics Malaysia.

PMI Output Index
sa, >50 = growth since previous month

Manufacturing production
%yr/yr



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

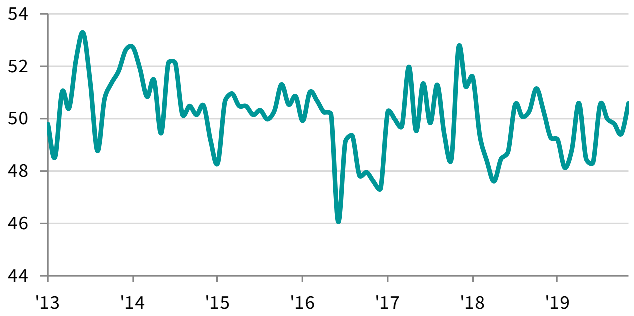
50 = 5.3

60 = 8.2

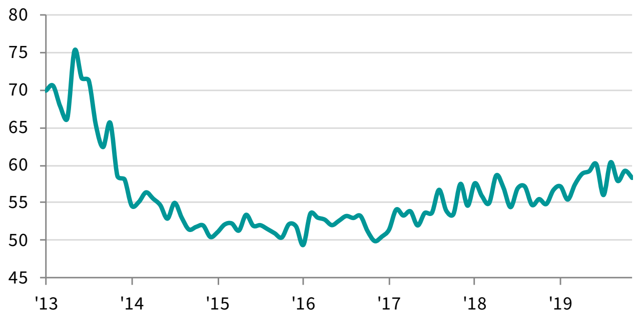
Interpretation of November PMI for GDP

Malaysia's manufacturing sector has carried through into November on a strong footing, with latest survey data indicating resilient growth. At current levels, with PMI is consistent with annual GDP growth in excess of 5%.

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

November data were collected 11-22 November 2019.

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