News Release

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IHS Markit
Malaysia Manufacturing PMI®

Export drag dampens Malaysian manufacturing in January

Key findings

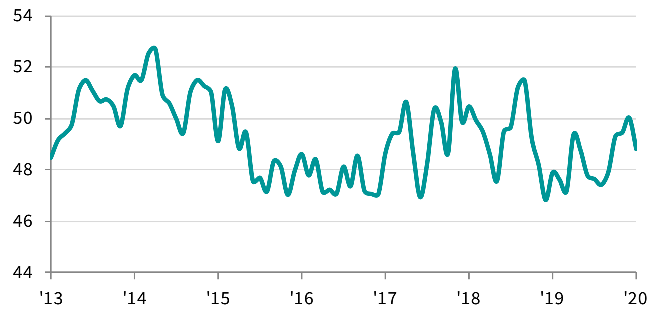
Manufacturing output hit by drop in export demand

Firms cut input purchases amid stronger input cost inflation

Businesses retain optimistic view towards future output

Malaysia Manufacturing PMI

sa, >50 = improvement since previous month



Source: IHS Markit.

The pick-up in the Malaysian manufacturing sector seen since last September lost some momentum during January. A key factor behind this moderation was export orders, which declined during January for the first time in three months. Nevertheless, companies remained strongly optimistic towards output volumes over the coming 12 months, suggesting firms expect the current loss of pace to be temporary.

The headline IHS Markit Malaysia Manufacturing Purchasing Managers' Index™ (PMI®) – a composite single-figure indicator of manufacturing performance – recorded 48.8 in January, down from 50.0 in the previous month. The current PMI reading is indicative of annual GDP growth of approximately 5%, representing a slight moderation in growth when compared to the end of last year. However, although the headline measure fell, it remained above the average seen for 2019.

A hindrance to Malaysia's manufacturing sector in January was export markets, as survey data showed the first drop in sales to external clients since last October. Some respondents reported an ongoing tough global trading environment at the start of the year. As a result, total order book volumes were adversely impacted to the greatest extent since September.

The end result saw Malaysian goods producers curb output slightly when compared to the previous month. Analysis of comparable historical official data on Malaysian manufacturing suggests that, at current levels, the survey's output index is consistent with annual production growth of just under 5%, which represents a moderation when compared to December.

Encouragingly, there was a strong degree of optimism towards the coming 12 months among Malaysian manufacturers, with output expectations remaining above their historical average. According to anecdotal evidence, forecasts of stronger demand,

continued...

Comment

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

"Having ended 2019 with their best performance for over a year, Malaysia's manufacturers started 2020 on a softer footing. Much of the renewed weakness was a function of deteriorating external demand, with export orders under further pressure as a result of slower growth in key trading partners.

"Even after allowing for usual seasonal variations, business trends can be volatile around the year-end, so we don't recommend reading too much into one month's data. More importantly, the past four months have seen the strongest PMI readings since 2018, which corresponds with an easing of global trade tensions in recent months.

"Trade war developments will likely therefore play a major role in determining Malaysia's export environment in coming months. Our forecasts are for global growth to pick up pace as we head through 2020, in part due to the phase one deal between the US and China helping boost trade, but we could see markets grow more nervous again if the US ratchets-up its focus on Europe. The Wuhan coronavirus also poses a key downside risk to the near-term Asia-Pacific economic outlook, albeit growth momentum could recover quickly if the epidemic ends rapidly."

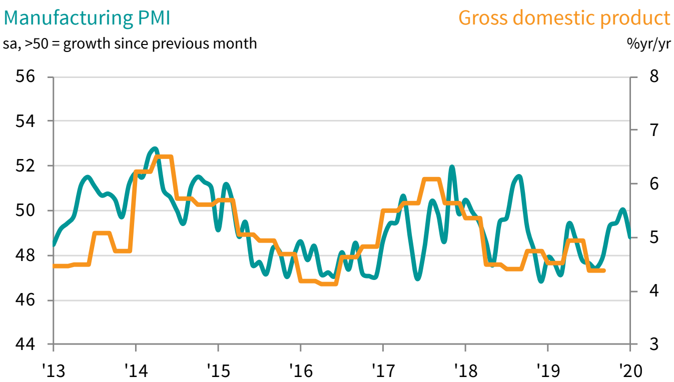
supportive state policies and planned expansion into foreign markets following 'phase one' of the US-China trade deal were mentioned as positive factors.

Survey data showed a slight drop in staffing numbers in January. Where a reduction in employment was registered, firms mainly linked this to voluntary leavers and already-sufficient employee counts. Some companies also reported increased efforts to contain costs.

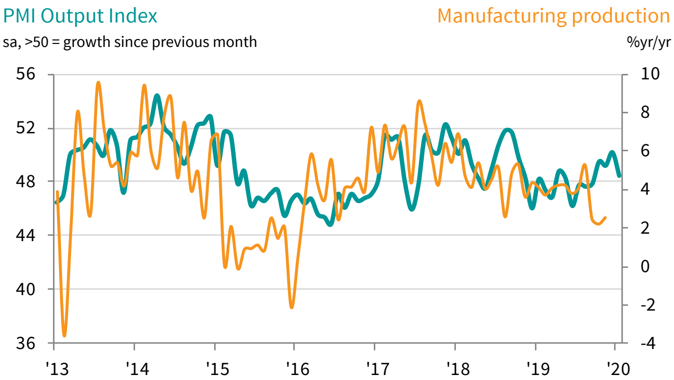
Evidence of satisfactory operating capacities was seen in backlogs of work data, which showed a sharper drop in outstanding business. Unfinished orders were completed as Malaysian manufacturers aimed to meet client demand in a timely fashion.

There were meanwhile diverging trends regarding prices in January. Input cost pressures intensified, with the rate of increase hitting a five-month high. Increased import prices, material shortages and suppliers ramping up their charges were mentioned by firms. However, greater operating expenses were primarily absorbed as output charges declined fractionally in January.

Finally, the latest survey data pointed to a broad-based depletion of inventories. Both pre- and post-production inventories fell on the month as firms streamlined their operations and boosted efficiency. That said, input stock accumulation was partly impacted by prolonged deliveries and reduced purchasing activity.



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

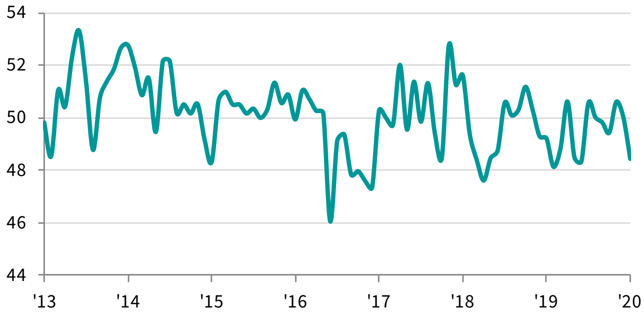
40 = 2.5

50 = 5.3

60 = 8.2

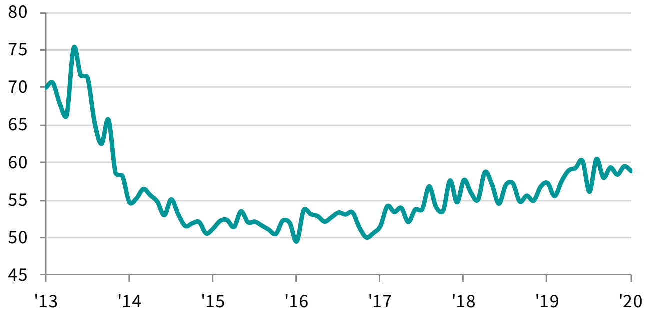
New Export Orders Index

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

January data were collected 13-27 January 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. To learn more go to ihsmarkit.com/products/pmi.html.