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# IHS Markit Malaysia Manufacturing PMI®

## Malaysian manufacturing conditions improve at moderate pace

### Key findings

Output and new orders expand further

Renewed rise in employment levels

Business expectations reach highest since April

Data were collected 12-24 November 2021.

Malaysian manufacturers noted improved operating conditions for the second successive month in November. Both production levels and new orders expanded further, with the former increasing at the fastest pace for seven months. As demand improved, firms noted that pressure on capacity also intensified, which led to employment levels returning to expansion territory, albeit only marginally, for the first time since March. Manufacturers noted sustained optimism about the year-ahead outlook, with hopes that the end of the pandemic would boost demand further pushing confidence to the highest since April.

The headline IHS Markit Malaysia Manufacturing Purchasing Managers' Index™ (PMI®) – a composite single-figure indicator of manufacturing performance – edged up from 52.2 in October to 52.3 in November. The latest reading pointed to a modest improvement in the health of the sector, and one that was the strongest for seven months.

Looking at the historical relationship between the PMI and official statistics, the latest reading signalled that industrial production has improved during the fourth quarter so far, and is likely to contribute positively to economic growth at the end of 2021.

Survey gauges of both output and new orders signalled further expansions in November. The former saw the rate of increase quicken from October to reach the fastest since April. Companies reported that the lifting of COVID-19 restrictions had boosted demand and client confidence in domestic and international markets. While new export orders fell for the seventh month in a row, the pace of moderation eased to the joint-softest in this sequence as firms commented on pockets of improved demand, notably in the Asia-Pacific region.

A brighter picture came from the jobs market, with Malaysian goods producers signalling a fractional expansion in

*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:

*"Malaysian manufacturers reported improving business conditions for a second month running in November, marking a further step in the recovery from the intense downturn seen mid-year. However, while producers have seen a welcome upturn in demand, production continues to be constrained by widespread supply shortages, leading to a steep rise in uncompleted orders and yet another worryingly sharp rise in prices as demand exceeds supply."*

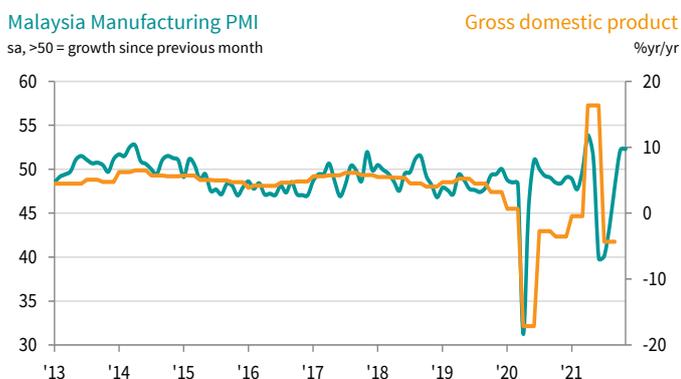
*"Encouragingly, companies are increasingly optimistic that production problems will start to clear in coming months, propelling firms' prospects for the year ahead to among the highest seen since the pandemic began and auguring well for the recovery to continue to gain momentum as we head into 2022."*

employment levels in November, the first since March. Firms commented that additional capacity was required to fulfil incoming orders, though some businesses commented on difficulty in hiring workers from abroad. Concurrently, pressure on existing capacity strengthened as outstanding business rose at the second-fastest pace on record.

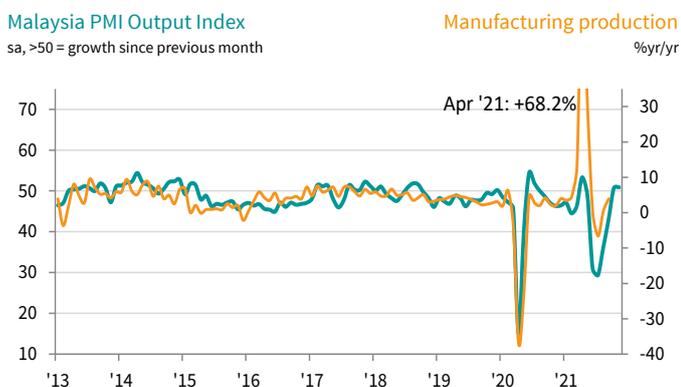
Input costs meanwhile increased further in November, reflecting higher prices for a range of raw materials and higher freight costs. The overall rate of inflation was marked and the quickest since May. Manufacturers sought to partially pass these higher costs to customers in the form of higher output charges, with the rate of inflation at a seven-month high. Both input costs and output prices have now risen consistently for one-and-a-half years.

Shortages of materials, as well as delays in shipments, caused average vendor performance to deteriorate to the greatest extent since April. At the same time, both purchases and inventory levels rose. Some firms noted that while delays had hindered restocking efforts, additional stockpiles were procured to protect against disruption. Moreover, stocks of finished goods also grew for the first time for 15 months, registering the sharpest gain since March 2017.

Looking ahead, manufacturers displayed a stronger sense of optimism regarding the outlook for output in the coming year. The degree of sentiment was robust, and the highest reported since April. Panel members attributed the improved outlook to hopes that national and international pandemic restrictions would lift and aid a recovery in production and sales.



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**

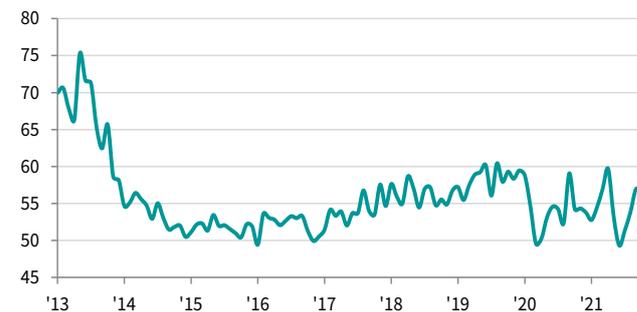
## Malaysia New Export Orders Index

sa, >50 = growth since previous month



## Malaysia Future Output Index

>50 = growth expected over next 12 months



## Contact

Chris Williamson  
Chief Business Economist  
IHS Markit  
T: +44 207 260 2329  
[chris.williamson@ihsmarkit.com](mailto:chris.williamson@ihsmarkit.com)

Joanna Vickers  
Corporate Communications  
IHS Markit  
T: +44 207 260 2234  
[joanna.vickers@ihsmarkit.com](mailto:joanna.vickers@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](mailto:economics@ihsmarkit.com).

### Survey dates and history

November data were collected 12-24 November 2021.

Survey data were first collected July 2012.

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### 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. [ihsmarkit.com/products/pmi.html](https://ihsmarkit.com/products/pmi.html)