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IHS Markit Malaysia Manufacturing PMI®

Malaysian manufacturing performance dampened by surge in COVID-19 infections

Key findings

Sustained expansion in new orders...

...but production volumes moderate in May

Business sentiment remains positive

Data were collected 12-24 May 2021.

Businesses signalled that the recovery in the Malaysian manufacturing sector continued in May, as firms reported a second consecutive expansion of new orders. However, stricter measures to combat a renewed surge in COVID-19 infections had an adverse impact on production volumes, which moderated following a solid expansion in April. Uncertainty about the speed of the economic recovery from the pandemic dampened overall sentiment among manufacturers, though firms remained optimistic on balance that output would increase over the coming 12 months.

The headline IHS Markit Malaysia Manufacturing Purchasing Managers' Index™ (PMI®) – a composite single-figure indicator of manufacturing performance – eased from a record high 53.9 in April to 51.3 in May. The latest reading signalled a further improvement in the health of the sector, and the first time back-to-back monthly improvements that have been reported since mid-2018.

The historical relationship between the PMI and official statistics suggests that GDP broadly stabilised at the start of the year, supported by improved manufacturing output. The impact of the latest tightening of restrictions is yet to feed through to official statistics, though the latest PMI data suggest that the sector has stagnated during May.

New order inflows rose for the second month in a row during May as manufacturers commonly reported strong local demand for goods. That said, the pace of the expansion eased from April as the latest restrictions dampened client confidence. As a result, output volumes were scaled back, though the pace of moderation was only marginal.

At the same time, new export orders lost momentum in May as COVID-19 related disruptions in international markets intensified as infections rose in many countries.

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:

“May saw a welcome upturn in new orders received by manufacturers. New business has now increased for two consecutive months as global demand continues to revive from the worst of the pandemic.”

“However, the recent rise in COVID-19 cases both at home and in many key overseas markets led to further disruptions during May, which dampened production growth and led to further supply chain delays.”

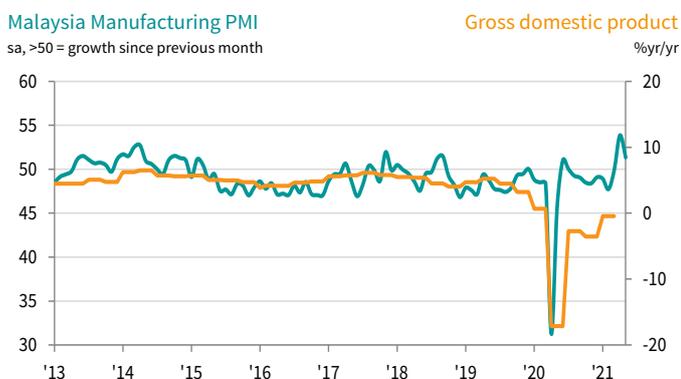
“Despite the easing of growth in May, the PMI continues to suggest that the second quarter will see the strongest manufacturing upturn since the survey began in 2012, but the concern is that the virus could continue to weaken growth in coming months. Future growth expectations took a knock in May, as the renewed wave of infections served as a reminder that the virus remains a significant risk to the outlook.”

Malaysian manufacturers reported that employment fell slightly for the second month in a row in May as businesses indicated lower production requirements. In line with this, backlogs of work also broadly stabilised, as a softer rise in new orders relieved pressure on existing capacity in comparison to April.

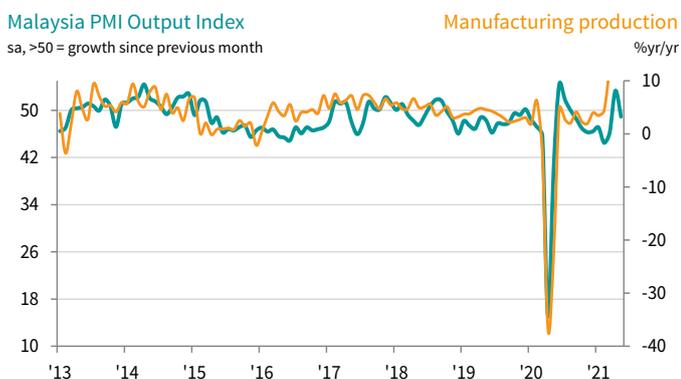
Goods producers continued to report significant supply chain delays during May. Supplier delivery times lengthened at a sharp pace once again as restrictions to combat COVID-19 both in Malaysia and key external markets were tightened. Shortages of raw materials and shipping containers were also seen to have contributed to shipping delays. That said, the rate of supply chain deterioration eased slightly from April.

Difficulties in sourcing and receiving raw materials contributed to a further sharp rise in raw material prices. As a result, input costs rose for the twelfth time in as many months in May. Factory gate prices also increased in the latest survey period, as firms partially passed higher costs to clients.

Despite new restrictions and ongoing supply disruption, manufacturers remained confident that output would rise over the coming year, citing hopes that the end of the pandemic would induce a recovery in domestic and external demand. That said, the degree of optimism was the lowest for four 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:

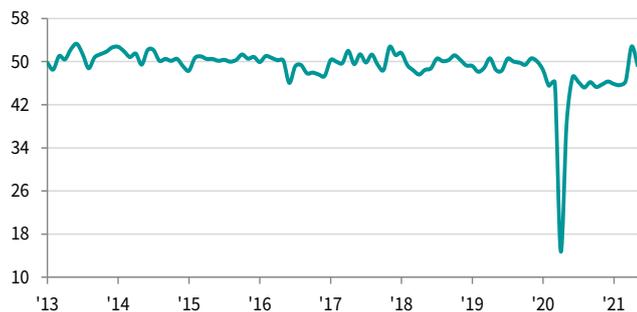
$$\text{Annual \% change in GDP} = (\text{PMI} \times 0.287) - 8.99$$

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**

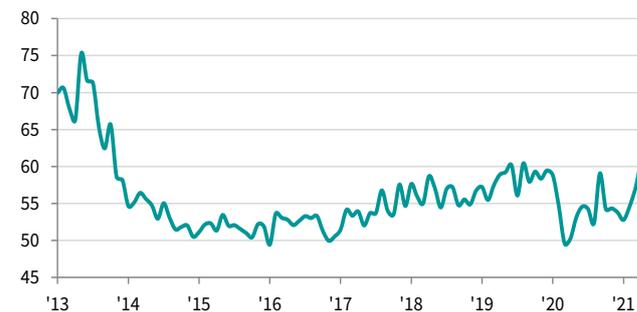
Malaysia New Export Orders Index

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

May data were collected 12-24 May 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