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# IHS Markit Malaysia Manufacturing PMI®

## Downturn in Malaysian manufacturing sector eases in September

### Key findings

Slower reductions in both output and new orders

Outstanding business rises at record pace

Business optimism lifts to five-month high

Data were collected 13-24 September 2021.

Businesses signalled that the Malaysian manufacturing sector continued to be disrupted by the latest wave of COVID-19 cases in September, albeit to a lesser extent than in August. Pandemic-fighting measures meant that production and new orders fell sharply, though the respective rates of reduction were the softest for four months as some of these restrictions were eased. At the same time, controls on movement under pandemic restrictions and raw material shortages limited production capacity in the sector, and contributed the sharpest rise in backlogs on record. Yet on balance firms were increasingly optimistic that output would increase over the coming 12 months.

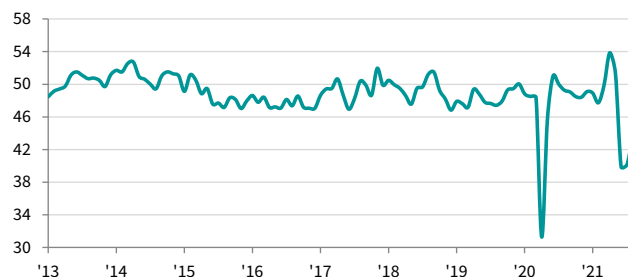
The headline IHS Markit Malaysia Manufacturing Purchasing Managers' Index™ (PMI®) – a composite single-figure indicator of manufacturing performance – rose from 43.4 in August to 48.1 in September. While the latest reading remained below the neutral 50.0 level to signal a further loss of momentum in the sector, the rate of deterioration eased significantly compared to the prior three months.

The historical relationship between the PMI and official statistics suggests that the recent downturn in GDP will have eased markedly at the end of the third quarter, and the rise in the latest PMI bodes well for improving momentum in coming months.

Both output volumes and new order inflows continued to be scaled back in September, though rates of decline both eased to the softest in four months. Manufacturers commonly reported that strict pandemic restrictions had hampered production capacity and client demand.

Foreign demand for Malaysian manufactured goods also moderated, but at a softer pace than total new orders as some panellists reported particular pockets of demand in the Middle

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 uplift in the PMI for September provides a clear signal that the recent easing of pandemic-related restrictions, both domestically and in many key export markets, is helping drive an improvement in the economy. According to IHS Markit’s COVID-19 Containment Index, virus-fighting restrictions have been rolled back in Malaysia to their lowest since April, facilitating production and helping ease the downturn in demand. Vaccination progress has improved and virus cases were on a downward trend through September, helping drive renewed optimism about the economic outlook and driving business confidence to the highest since April.*”

*“The survey data therefore add to signs that the economy has turned a corner at the end of the third quarter following a steep downturn, and the improvements in the survey’s future expectations and order book indicators point to growth picking up in coming months.*”

*“Problems persist, however, most notably in terms of pandemic-related supply chain delays, which are pushing up prices and constraining output in some firms. Thus, while manufacturing looks to be on the road to recovery, that path will by no means be without its challenges.”*

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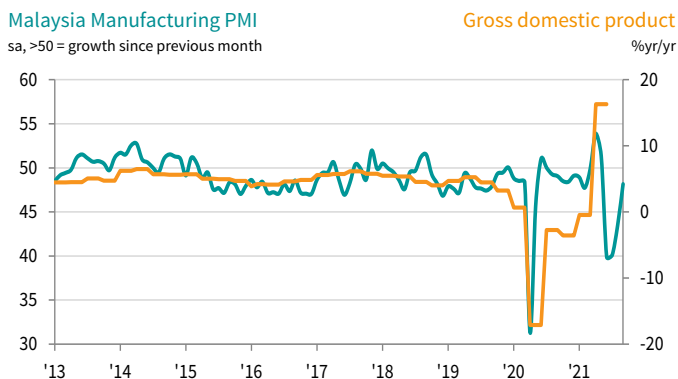
East and US. The reduction in new export orders was only mild, and eased to the softest since May.

Malaysian manufacturers reported that employment fell slightly for the second month in a row in September as businesses indicated difficulties in taking on foreign workers amid strict border restrictions. The lack of productive capacity, coupled with sustained material shortages contributed to a survey-record increase in backlogs of work.

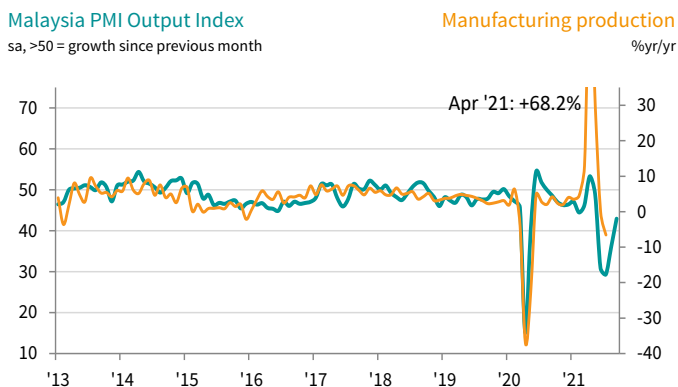
Goods producers continued to report significant supply chain delays during September. Supplier delivery times lengthened at a robust rate once again as containment measures restricted supply of freight capacity and raw materials, exacerbating existing delays and shortages. Delivery delays also contributed to a further reduction in input purchasing and holdings of pre- and post-production inventories.

Difficulties in sourcing and receiving raw materials contributed to a sustained rise in raw material prices. As a result, input costs rose for the sixteenth time in as many months in September. Factory gate prices also increased in September, as firms partially passed higher costs on to clients. Both input prices and output charges rose at the quickest rates since May.

Despite restrictions on the economy and ongoing supply disruption, manufacturers were increasingly confident that output would rise over the coming year, citing hopes that the end of the pandemic would encourage new projects to begin and aid a broad-based recovery in market demand. As a result, the degree of optimism reached the highest since April.



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:

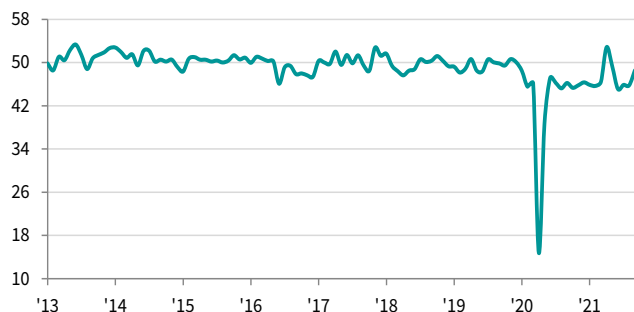
$$\text{Annual \% change in GDP} = (\text{PMI} \times 0.287) - 8.99$$

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:

$$\begin{aligned} \text{PMI} &= \% \text{ change in GDP} \\ 30 &= -0.4 \\ 40 &= 2.5 \\ 50 &= 5.3 \\ 60 &= 8.2 \end{aligned}$$

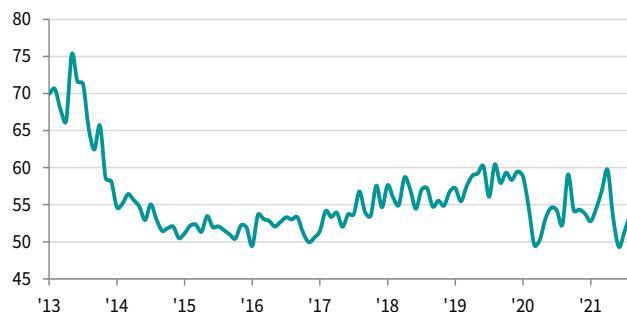
### Malaysia New Export Orders Index

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](mailto:economics@ihsmarkit.com).

### Survey dates and history

September data were collected 13-24 September 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)