

Embargoed until 0830 MYT (0030 UTC) 1 September 2020

IHS Markit Malaysia Manufacturing PMI®

Manufacturing output stable in August

Key findings

Production unchanged, building on recent growth

New orders continue to soften

Employment scaled back to greatest degree in survey so far

Data were collected 12-24 August 2020.

Malaysian manufacturing production stabilised in August, sustaining the recovery from the coronavirus disease 2019 (COVID-19) downturn. Although new orders continued to soften, the pace of moderation remained much weaker than the series nadir in April. That said, relatively weak customer demand and efforts to reduce costs led to the most marked scaling back of employment since the survey began in July 2012.

The headline IHS Markit Malaysia Manufacturing Purchasing Managers' Index™ (PMI®) – a composite single-figure indicator of manufacturing performance – dipped to 49.3 in August from 50.0 in July. Although signalling a moderation of business conditions, the latest reading was above the series average of 49.0. Moreover, given the relationship between the PMI and official figures, latest data was representative of increases in both GDP and official manufacturing production.

Manufacturing production was stable in August, losing some of the momentum seen during the initial rebound from lockdown. The latest reading followed a joint-record expansion in June and further growth in July.

Respondents indicated that demand continued to recover from the worst of the pandemic-related downturn, with the pace of moderation broadly in line with that seen in June and July. The new orders index remained much higher than seen during the nadir of the COVID-19 downturn in April as some respondents saw ongoing improvements in demand following the loosening of virus-related restrictions. That said, evidence from panel members suggested that customer demand remained relatively weak, notably in foreign markets.

New export orders continued to deteriorate, and to a greater extent than total new business amid ongoing restrictions in a number of export markets.

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:

"For the expansion of manufacturing output to have lost some momentum from the initial rebound from lockdown should come as no surprise, but the extent to which demand – and export orders in particular – continue to deteriorate is a concern. A weakening of business sentiment about prospects for the year ahead is likewise worrying. Although it's encouraging to see the number of optimists continue to exceed pessimists, suggesting that firms are on balance expecting to grow in the coming year, expectations remain well below pre-pandemic levels, highlighting that confidence remains badly dented by the pandemic. Firms consequently continue to focus on cost cutting to help survive the COVID-19 crisis, notably with respect to employment."

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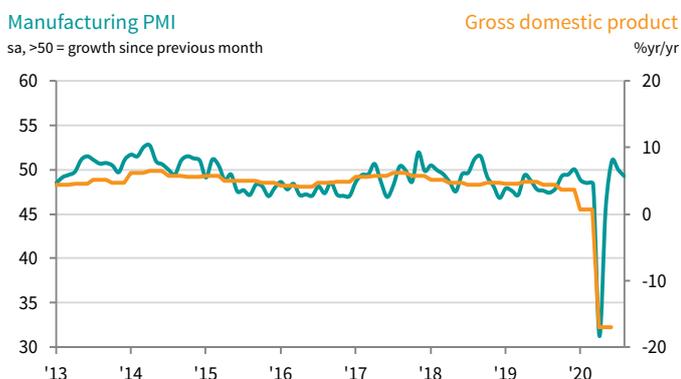
Latest data pointed to ongoing spare capacity in the sector as backlogs of work were reduced solidly. The lack of capacity pressure and efforts to reduce costs led firms to scale back employment. The resulting reduction in staffing levels was the sharpest since the survey began in July 2012.

Cost pressures were often the result of raw material shortages. Overall, firms signalled a rise in input prices, albeit one that was the softest in the current three-month sequence of inflation. A slower rise in output prices was recorded, with some respondents indicating that fragile demand and strong competition had led them to offer discounts.

Material shortages, and particular issues receiving imported goods due to COVID-19 led to a ninth successive monthly lengthening of suppliers' delivery times. There were signs of pressure on supply chains softening, however, with lead times lengthening to the least degree since January.

Purchasing activity was reduced modestly, following a rise in July. Meanwhile, stocks of both purchases and finished goods were broadly unchanged, thereby ending periods of depletion stretching back seven and 31 months respectively.

Hopes that new orders will expand on the back of a return to more normal business conditions supported optimism among firms that expect manufacturing production will increase over the coming year. That said, concerns around COVID-19 remained, leading sentiment to dip below the series average.



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:

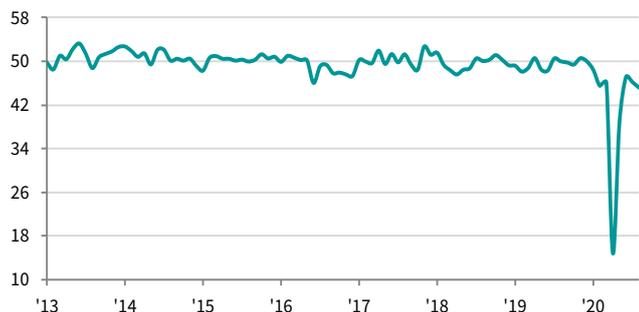
$$\text{Annual \% change in GDP} = (\text{PMI} \times 0.287) - 8.99$$

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

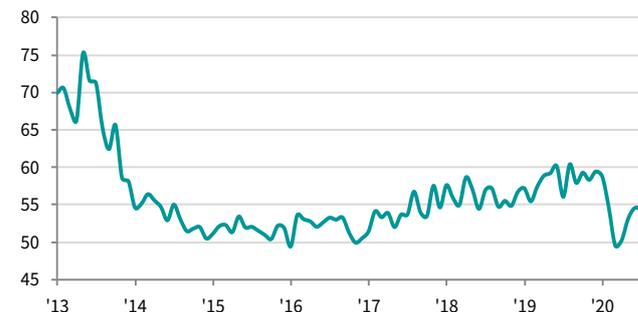
New Export Orders Index

sa, >50 = growth since previous month



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

Bernard Aw
 Principal Economist
 IHS Markit
 T: +65 6922 4226
bernard.aw@ihsmarkit.com

Katherine Smith
 Public Relations
 IHS Markit
 T: +1 781 301 9311
katherine.smith@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.

Survey dates and history

August data were collected 12-24 August 2020.

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