News Release

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S&P Global Malaysia Manufacturing PMI™

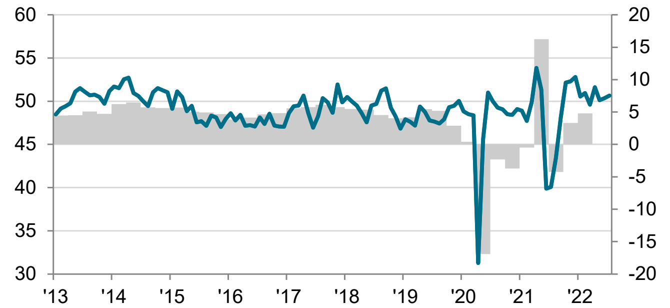
Stronger improvement in manufacturing conditions in July

Key findings

Renewed rise in output amid stronger new order growth

Input prices rise at softest pace for ten months

Business confidence at highest since February



Sources: S&P Global, Department of Statistics Malaysia.
Data were collected 12-25 July 2022.

Malaysian manufacturers reported a further improvement in operating conditions at the start of the third quarter of 2022. Output volumes returned to growth territory for the first time in seven months amid the strongest rise in new orders since April, albeit with rates of growth subdued. Firms often attributed stronger demand conditions to improved client confidence. In fact, input price inflation rose at the softest rate since last September as the price of some raw materials fell, notably metals. Improved conditions also lifted business confidence surrounding the 12-month outlook for activity during July with the level of optimism strengthening to a five-month high.

The seasonally adjusted S&P Global Malaysia Manufacturing Purchasing Managers' Index™ (PMI®) rose from 50.4 in June to 50.6 in July. The latest reading pointed to a marginal improvement in the health of the sector that was nonetheless the strongest reported since April.

The headline PMI was buoyed by a renewed rise in production levels during July. Though only slight, the expansion was the first since December 2021. Companies reported that increased new orders helped boost output. That said, some firms commented that raw material prices remained elevated and supply constraints persisted, holding back a stronger recovery.

New order inflows increased at a quicker rate in the latest survey period, extending the current period of growth to four months. The rate of growth was the strongest since April, albeit only marginal, and was attributed to improved client confidence. On the other hand, new export orders declined for the first time since March and at the quickest pace for ten months amid global supply chain issues and subdued overseas demand.

Input costs increased further in July, reflecting higher prices for a range of raw materials and freight costs. The overall rate of inflation eased to the lowest for ten months however

Comment

Chris Williamson, Chief Business Economist at S&P Global Market Intelligence, said:

"Business conditions are improving yet remain tough, with firms struggling against headwinds of falling export demand, persistent supply constraints and rising prices. However, July saw the best expansion in output so far this year, in part reflecting the gradual revival of manufacturing as the worst of the pandemic impact fades.

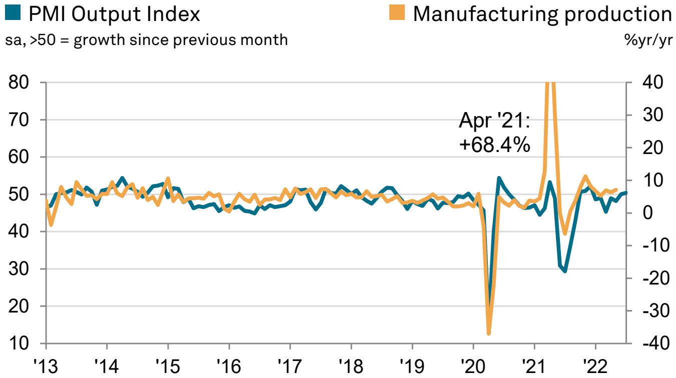
"Looking at the historical relationship between the PMI and official statistics, the latest reading signalled that industrial production is now increasing gradually after broadly stagnating throughout the first half of 2022, to hint at an encouraging start to economic growth in the third quarter. A major uncertainty remains the path of global demand, as recession risks have intensified in the US and Europe, which could severely limit any export-derived growth."

as some firms reported lower costs for metals and other commodities. Manufacturers sought to partially pass higher costs to clients by raising output charges. In line with the trend for input prices, factory gate inflation eased to the softest since February.

Shortages of raw materials and improved demand conditions led to firms increasing their purchases of raw materials and other inputs for the first time in three months. At the same time, stocks of purchases stagnated as firms utilised increased purchases to fulfil orders amid delays in receiving shipments. Supplier delivery times lengthened at a solid pace in July, though the deterioration was softer than the average seen over the current 32-month period of deterioration to hint at some easing of supply constraints.

Malaysian manufacturers reported a further reduction in capacity pressure at the start of the third quarter, as evidenced by a second successive decline in backlogs of work. At the same time, businesses reported that workforce numbers were scaled back for the sixth successive month, though the rate of job shedding was only marginal.

Looking ahead, manufacturers displayed stronger optimism regarding the outlook for output over the coming year. The overall degree of sentiment improved to the highest since February amid hopes of a stronger recovery in demand once price and supply pressures ease following the lifting of pandemic restrictions.



Sources: S&P Global, Department of Statistics Malaysia.

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Using PMI to estimate GDP growth

PMI data are available faster than official GDP figures and at a higher frequency, providing an accurate advance guide to economic growth. Comparing the headline Malaysia Manufacturing PMI with annual GDP growth rates shows a 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 = 40, GDP %yr/yr = 2.5; PMI = 50, GDP%yr/yr = 5.3; PMI = 60, GDP %yr/yr = 8.2

Survey methodology

The S&P Global Malaysia Manufacturing PMI™ is compiled by S&P Global 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. Data collection began in July 2012.

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.

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.