

News Release

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S&P Global Malaysia Manufacturing PMI™

Moderation in manufacturing sector gathers pace in January

Key findings

Production volumes scaled back to greatest extent since September 2021

Renewed rise in employment levels

Vendor performance improves for the first time since late-2019 amid muted demand for inputs

Operating conditions in the Malaysian manufacturing sector moderated to a greater extent at the start of 2023. Output levels were scaled back for the sixth successive month, and at the fastest pace since September 2021, while the rate of reduction in new order inflows was the most pronounced for 17 months. Firms often commented that domestic and global economic weaknesses had weighed on production and demand.

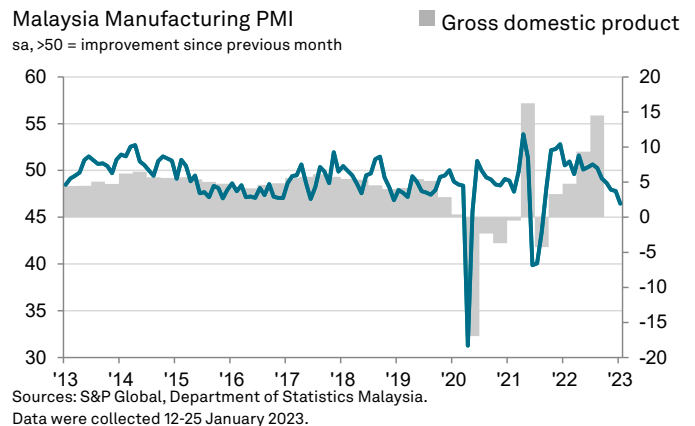
That said, manufacturers took the opportunity to increase capacity in advance of an expected recovery in demand, with employment levels rising for the first time in four months. Moreover, the time taken to receive inputs shortened for the first time since November 2019, which in turn contributed to easing price pressures. As a result, input prices rose at a modest pace that was the slowest in the current 32-month sequence of inflation.

The seasonally adjusted S&P Global Malaysia Manufacturing Purchasing Managers' Index™ (PMI®) dipped from 47.8 in December to 46.5 in January, indicating a stronger moderation in the health of the sector. The latest reading suggests that the gradual slowdown in manufacturing production and GDP growth at the end of 2022 was sustained into the new year.

The weaker headline figure was in part due to a stronger moderation in output volumes that was the steepest reported for 16 months. Firms commonly attributed muted production to subdued incoming orders.

At the same time, new order inflows reduced for the fifth month running in the latest survey period. The moderation was sharp and the strongest seen since August 2021 as firms noted muted demand and client confidence in both domestic and international markets. As such, export demand for Malaysian manufactured goods fell further, and at the sharpest pace since June 2021.

While demand conditions moderated, supply chains were able to improve at Malaysian goods producers as delivery



Comment

Usamah Bhatti, Economist at S&P Global Market Intelligence, said:

"There were further signs in January that economic conditions in Malaysia remained muted, as challenging conditions across the manufacturing sector limited demand and production at Malaysian manufacturing firms. The latest PMI data are still indicative of growth in official data heading into the new year, though at a softer rate.

"That said, two positives came from the latest survey result, the first being a renewed expansion in employment, helping firms to keep on top of workloads and setting a base to expand output in the future should demand start to regain momentum. The second was the first reduction in delivery times for just over three years as material shortages, port congestion and delivery issues continued to normalise. Better availability of materials also contributed to the softest rise in input prices in the current sequence of inflation that began in June 2020."

PMI™

by S&P Global

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times shortened for the first time since November 2019, albeit only marginally. Firms often attributed the improvement in vendor performance to improved shipping times and reduced port congestion. Concurrently, firms took the opportunity to further wind down holdings of raw materials and finished items while demand conditions were softer and firms had ample stockpiles following previous advance purchases.

On the price front, input costs increased for the thirty-second month running in January although the rate of inflation continued to ease and was the softest recorded in this sequence, as firms reported lower prices for a variety of inputs including oil. At the same time, manufacturers raised factory gate charges for goods, albeit only fractionally as the pass through of higher costs to clients was partially offset by the strengthened exchange rate and increased competition.

Firms highlighted a rise in employment levels for the first time in four months during January as goods producers cited advance hiring ahead of an expected recovery in demand as well as increasing capacity to fulfil current orders. Meanwhile, firms utilised capacity to clear outstanding business for the eighth month in a row amid a lull in new order inflows.

Looking ahead, Malaysian manufacturers were increasingly optimistic regarding the year-ahead outlook for output amid hopes that both domestic and external demand conditions would improve as the global economy recovers. The overall level of confidence rose to the strongest since August 2019 as a result.

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.

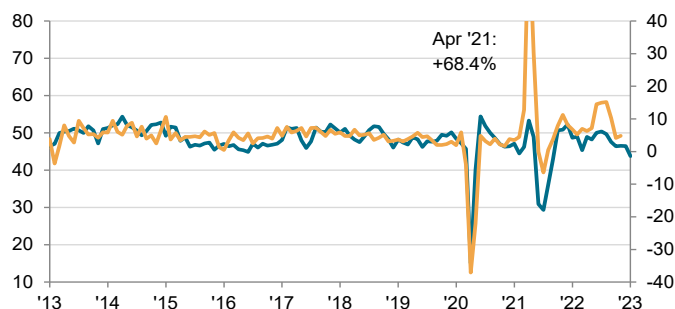
Underlying survey data are not revised after publication, but seasonal adjustment factors may be revised from time to time as appropriate which will affect the seasonally adjusted data series.

For further information on the PMI survey methodology, please contact economics@ihsmarkit.com.

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■ PMI Output Index ■ Manufacturing production
sa, >50 = growth since previous month



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:

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

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:

$$\text{PMI} = 40, \text{GDP \%yr/yr} = 2.5; \text{PMI} = 50, \text{GDP \%yr/yr} = 5.3; \text{PMI} = 60, \text{GDP \%yr/yr} = 8.2$$

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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.