News Release

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S&P Global Malaysia Manufacturing PMI™

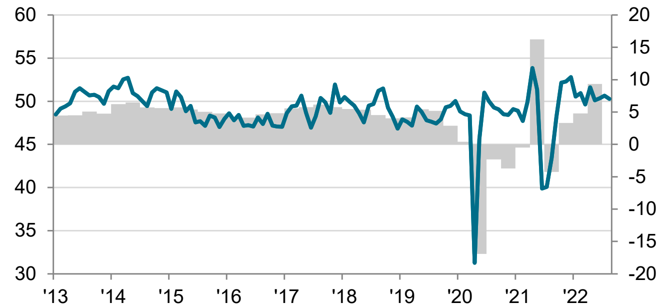
Growth in manufacturing sector eases in August

Key findings

Renewed moderation in output despite stronger new order growth

Softer rise in input prices amid easing supply chain disruption

Business confidence improves to seven-month high



Sources: S&P Global, Department of Statistics Malaysia.
Data were collected 12-24 August 2022.

The Malaysian manufacturing sector reported a moderation in growth momentum midway through the third quarter of 2022. While output levels were scaled back for the first time in three months, incoming orders continued to improve and registered the strongest rise since April, though the rate of growth was still only mild. Firms often commented that global economic weaknesses, supply chain disruption and labour shortages had weighed on operating conditions, although there were signs that delivery delays eased in August.

The time taken to receive inputs lengthened to the least extent since January 2020, in turn easing price pressures. As a result, input prices rose at a slower, albeit still marked, pace that was the softest for 11 months. Manufacturers were increasingly confident regarding future output, with sentiment rising to the highest since January.

The seasonally adjusted S&P Global Malaysia Manufacturing *Purchasing Managers' Index™ (PMI®)* slipped from 50.6 in July to 50.3 in August, indicating a softer improvement in the health of the sector. The latest reading is representative of a gradual slowdown in growth of manufacturing production and GDP towards the end of the third quarter, following sustained rises throughout the second quarter of the year.

The softer headline figure was largely due to a renewed moderation in output volumes that was the first since May. That said, the rate of reduction was only fractional. Firms commonly attributed muted production to difficulty receiving inputs amid sustained delivery delays, though these were not as severe as in previous months.

Incoming order volumes rose for the fifth month running in the latest survey period. While modest overall, the rate of expansion was the strongest recorded since April as firms noted stronger client confidence, notably in domestic markets. Export demand for Malaysian manufactured goods fell, however, at the sharpest pace for a year amid weak global economic conditions.

Comment

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

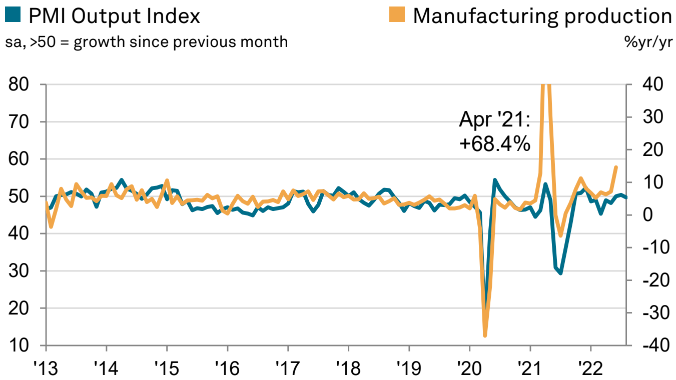
"The Malaysian manufacturing sector reported improved business conditions for the tenth time in the past 11 months during August, though clearly remains under pressure from raw material and labour shortages, rising prices and weak demand, notably from overseas. Fortunately, there are signs that supply constraints are starting to ease and price pressures are also abating. Similarly, despite falling export demand, August saw new orders rising at a slightly increased rate, which should feed through to improved production growth in September; something which is supported by the brighter outlook indicated by the lifting of business optimism to a seven-month high".

While businesses continued to report longer lead times, the deterioration in vendor performance eased a modest rate that was the softest since January 2020, which firms attributed to reduced pressure on suppliers which allowed them to carry enough stock to fulfil production requirements. That said, delays were still hindering purchasing activity, which stagnated for the second time in three months. Moreover, the struggle for firms to receive certain key inputs for production contributed to moderations in both stocks of purchases and finished items.

On the price front, input costs increased for the twenty-seventh month running in August, reflecting higher raw material and transportation prices. Positively, the rate of inflation eased for the second successive month to reach the lowest since September 2021, as firms reported lower prices for a wide variety of inputs, most notably including oil. Manufacturers partially passed these savings through to clients, as output charges increased at the softest rate for 12 months.

Firms highlighted a broad stabilisation in outstanding business during August as firms made conscious efforts to clear backlogs amid rising new orders. Meanwhile, a seventh consecutive fall in employment levels was recorded as goods producers cited the non-replacement of voluntary leavers, often reflecting labour market shortages.

Looking ahead, Malaysian manufacturers remained optimistic regarding the year-ahead outlook for output amid hopes demand conditions would continue to improve as the pandemic was brought fully under control. The overall level of confidence rose to a seven-month high as a result.



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.