

News Release

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S&P Global Malaysia Manufacturing PMI™

Manufacturing sector sees output levels stabilise

Key findings

Production levels stabilise after five consecutive declines

Input cost and output price pressures intensify

Business optimism falls to ten-month low

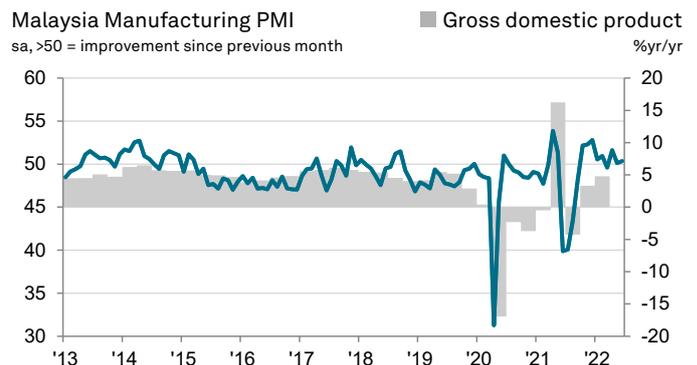
The Malaysian manufacturing sector saw overall operating conditions improve at a slightly quicker rate halfway through 2022. Production levels stabilised for the first time following five consecutive monthly declines, while new orders rose for the third month running, albeit only fractionally. Moreover, manufacturers noted that inflationary pressures strengthened for the first time in three months, as input costs and output prices increased at sharper rates amid sustained material shortages and rising energy prices. Moreover, businesses grew increasingly concerned that rising prices would weigh on the manufacturing sector, alongside the ongoing impact of the pandemic globally. As a result, the degree of business optimism fell to the lowest since last August.

The seasonally adjusted S&P Global Malaysia Manufacturing Purchasing Managers' Index™ (PMI®) registered 50.4 in June, up from 50.1 in May. This pointed to a slightly stronger, yet still modest, improvement in the health of the Malaysian manufacturing sector and extended the current sequence of expansion to three months.

Looking at the historical relationship between official statistics and the PMI, the latest reading is representative of modest growth in industrial production and GDP in the second quarter of the year, following a strong start to 2022.

Production levels stabilised in June, ending a sequence of five consecutive monthly declines. Where an increase was reported, firms noted improved new orders although this was offset by higher raw material prices as well as labour and supply shortages. Moreover, production levels are yet to expand in 2022 so far.

New order volumes continued to rise at a fractional pace at the end of the second quarter, marking the third instance of growth in as many months. The rate of growth was unchanged from May and was attributed to improved client confidence. That said, foreign demand for Malaysian manufactured goods



Sources: S&P Global, Department of Statistics Malaysia.
Data were collected 13-24 June 2022.

Comment

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

"Malaysia's manufacturers reported a steady but unspectacular end to the second quarter, underscoring how the economic recovery has lost some steam compared to the start of the quarter. Companies are reporting sluggish export sales and growing concerns over the rising cost of living, especially in terms of rising energy and fuel prices.

"Both input costs and average selling prices are rising sharply again, suggesting inflationary pressures continue to build. While there was good news in terms of some supply constraints showing clear signs of easing which should help alleviate some industrial price pressures, global energy and food supply having become increasing sources of concern."

PMI®

by S&P Global

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broadly stagnated in June, as strict COVID-19 restrictions in China largely offset growth elsewhere.

Material shortages contributed to a further increase in input prices in June. The rate of input price inflation accelerated for the first time in three months and reached the strongest since January. Anecdotal evidence suggested that higher raw material and freight costs contributed to higher prices. Concurrently, firms sought to pass higher costs on to customers, evidenced by a sustained rise in output prices. In line with the trend for input costs, factory gate charges were raised at the quickest pace for three months.

Goods producers reported job shedding for the fifth successive month in June. Employment levels fell modestly, mainly due to the non-replacement of voluntary leavers and a lack of available workers from abroad. As demand conditions were subdued, firms saw outstanding business reduce slightly for the second time in three months.

Following the trend for output, businesses reported a stabilisation in purchasing activity during June, reversing the moderation seen in May. Firms commented that advance purchases were made in light of gradually improving new orders, although this was offset by difficulties in sourcing and receiving materials due to higher prices. Delivery times meanwhile, lengthened at the softest pace since October 2020, while firms raised holdings of both pre- and post-production items.

Malaysian manufacturers expressed optimism regarding the year-ahead outlook for the twelfth month running in June. That said, positive sentiment eased to a ten-month low due to concerns about the timing of a full global recovery and the impact of higher prices.

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.

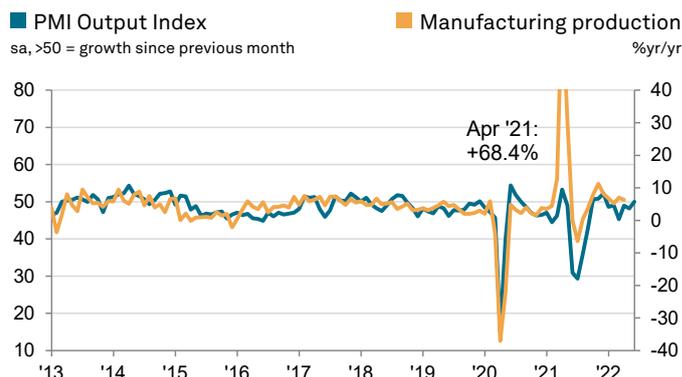
Underlying survey data are not revised after publication, but seasonal adjustment factors may be revised from time to time as appropriate which will affect the seasonally adjusted data series.

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

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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.