

News Release

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S&P Global Malaysia Manufacturing PMI™

Malaysia's manufacturing firms lose further growth momentum in November

Key findings

Strongest moderation in order book volumes since August 2021

Year-ahead outlook on output dips to a five-month low

Staffing levels stabilise

The Malaysian manufacturing sector moderated further midway through the final quarter of 2022 with waning demand a central feature within the latest survey data. Order books were scaled back at the strongest rate in 15 months while production levels also lost further growth momentum. To mirror demand trends, firms lowered input buying and moderated inventory levels, but employment stabilised. Rates of both input cost and selling price inflation, though ticking up slightly from October, were much softer than seen earlier in the year. Firms remained optimistic about the future, but the degree of confidence did weaken from October to a five-month low.

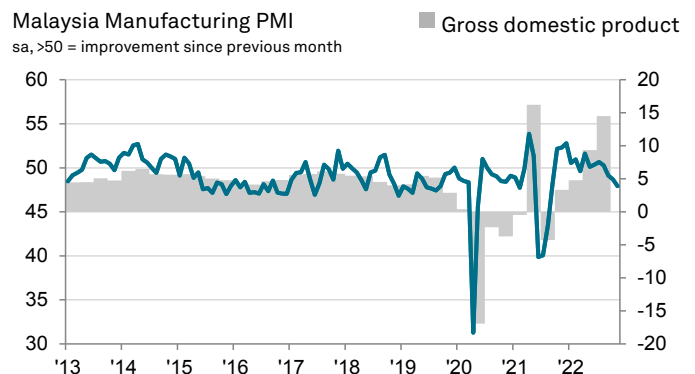
The seasonally adjusted S&P Global Malaysia Manufacturing Purchasing Managers' Index™ (PMI®) posted at 47.9 in November, down from 48.7 in October. The latest reading pointed to a more marked slowdown in business conditions which was the strongest since August 2021.

The latest PMI reading is representative of approximately 5% year-on-year growth in Malaysian GDP, thereby signalling a slowdown in growth from the situation in the third quarter of 2022.

In line with the headline figure, there were further signs of waning demand in November with order book volumes losing further momentum. The moderation was the sharpest in 15 months and was driven by muted underlying demand conditions. Malaysian manufacturing firms registered similar trends for international sales volumes. New export orders were scaled back for the fifth time in as many months and at a solid rate.

Meanwhile, output moderated for a fourth month running midway through the final quarter. Survey respondents reported that drops in production levels were reflective of the aforementioned demand conditions.

Muted demand conditions reportedly led firms to scale back input buying in November and at the fastest pace since



Sources: S&P Global, Department of Statistics Malaysia.
Data were collected 11-24 November 2022.

Comment

Laura Denman, Economist at S&P Global Market Intelligence, said:

"The Malaysian manufacturing sector displayed further signs of waning in November, according to latest S&P Global PMI data. There was a solid slowdown in production levels and the fastest scaling back in order book volumes since August 2021. The aforementioned fragility in demand became a running theme throughout the survey data and was reportedly the primary factor driving moderations in input buying, stocks and business confidence which, though still positive, slipped to a five-month low.

"There were, however, some more encouraging aspects in the November data. Further signs of easing supply pressures were displayed in November, as indicated by the latest lengthening of suppliers' delivery times being the softest in three years and only marginal overall. Meanwhile, both input cost and selling price inflation ticked up very slightly from October but remained well below the rates seen earlier in the year."

PMI™

by S&P Global

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September 2021. As such, for the fourth consecutive month, pre-production inventory levels moderated. The slowdown in sales also allowed firms to focus on working through outstanding business in November, thereby stretching the current sequence of backlog depletion to six months.

Malaysian manufacturing companies, however, remained hopeful that demand conditions would normalise over the coming year, as signalled by a seventeenth consecutive month of optimism regarding the year-ahead outlook for production. That said, the degree of confidence was the weakest in five months amid some concerns over the longer-term effect of the current economic climate.

November data was indicative of no change in workforce numbers at Malaysian manufacturing companies. Firms who registered a drop in staffing levels reported resignations, but others raised employment in order to support production.

Suppliers' delivery times lengthened in November but at a rate which was only slight and the softest in three years. Anecdotal evidence suggested that input shortages remained the primary driver in deteriorating vendor performance.

On the price front, average cost burdens faced by Malaysian goods producers increased in November, largely due to rising raw material prices, though survey respondents also mentioned that exchange rate weakness exacerbated inflation. That said, the pace at which input prices rose was the second-slowest since November 2020. Firms reportedly continued to partly share the burden of rising input costs with their clients in the form of higher selling prices. The rate of output price inflation, however, was only mild and below its historical average.

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.

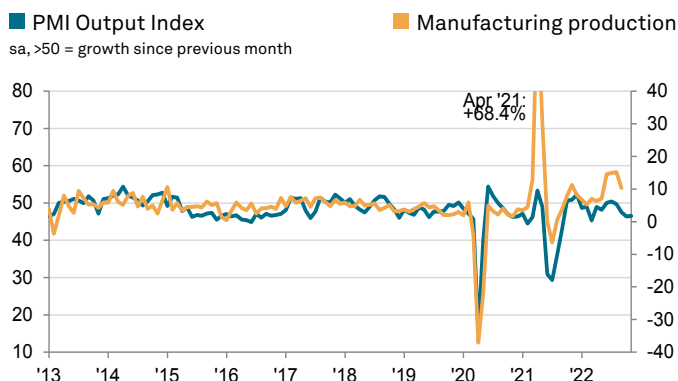
The headline figure is the Purchasing Managers' Index™ (PMI). The PMI is a weighted average of the following five indices: New Orders (30%), Output (25%), Employment (20%), Suppliers' Delivery Times (15%) and Stocks of Purchases (10%). For the PMI calculation the Suppliers' Delivery Times Index is inverted 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:

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

About S&P Global

S&P Global (NYSE:SPGI) S&P Global provides essential intelligence. We enable governments, businesses and individuals with the right data, expertise and connected technology so that they can make decisions with conviction. From helping our customers assess new investments to guiding them through ESG and energy transition across supply chains, we unlock new opportunities, solve challenges and accelerate progress for the world.

We are widely sought after by many of the world's leading organizations to provide credit ratings, benchmarks, analytics and workflow solutions in the global capital, commodity and automotive markets. With every one of our offerings, we help the world's leading organizations plan for tomorrow, today. www.spglobal.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.