

News Release

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S&P Global Malaysia Manufacturing PMI®

Manufacturing sector conditions moderate in September

Key findings

Production scaled back further amid broadly stagnant new orders

Purchasing activity falls at quicker pace

Business confidence reaches eight-month high

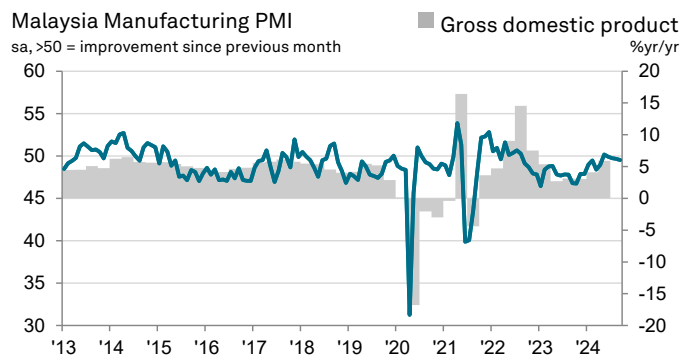
Malaysia's manufacturing sector conditions were subdued at the end of the third quarter of 2024, as broadly flat new order growth contributed to a greater moderation in production levels. Purchasing activity was also scaled back in September, while stock holdings were wound down further. Positively, there was a slight improvement recorded in employment levels for the first time in four months, while inflationary pressures also softened on the month and were below their respective series averages.

The seasonally adjusted S&P Global Malaysia Manufacturing Purchasing Managers' Index™ (PMI®) dipped from 49.7 in August to 49.5 in September to signal a sustained, albeit marginal softening in the health of the manufacturing sector. Operating conditions have now moderated in each of the last four months.

That said, the latest PMI reading suggested that GDP growth is running at a broadly similar rate as that seen in the second quarter of 2024, as well as pointing to sustained year-on-year improvements in official manufacturing production data.

Production levels were subdued in the latest survey month, with the respective seasonally adjusted index remaining below the neutral 50.0 mark. Output has now been scaled back for four months in succession, with the latest moderation the most pronounced since March. According to survey panellists, muted new order inflows were a key factor behind the decrease, although some firms commented on a subdued domestic economy.

Total new orders were scaled back for the third month in a row during September, though the rate of reduction eased to one that was only fractional. Where orders reduced, firms mentioned weak client confidence due to domestic economic weakness, but mentioned that demand from overseas remained positive. As such, new export orders rose for the sixth successive month amid reports of stronger demand across South East Asia in particular.



Sources: S&P Global PMI, Department of Statistics Malaysia via S&P Global Market Intelligence. Data were collected 12-24 September 2024.

Comment

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

"The latest PMI data revealed that business conditions in the Malaysian manufacturing sector were muted at the end of the third quarter of 2024 as production levels were scaled back at a quicker pace in the midst of broadly stagnant new orders. That said, the rate of reduction in output was only modest while demand edged closer to stabilisation. As such, the data indicated that GDP growth in Q3 continued at a similar trajectory to that seen in the second quarter.

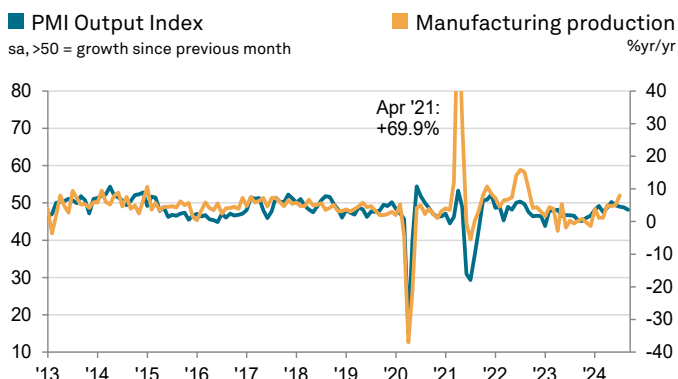
"It was also encouraging to see employment conditions improve, as manufacturers acquired more staff in preparation for a purported demand recovery. Furthermore, while the expansion was accompanied by rising inflation, the respective rates of increase were subdued in comparison to the levels seen over the past three years.

"Sentiment stayed positive, with firms expecting higher output in the coming year. Moreover, the degree of confidence strengthened to the highest since January amid hopes of improved demand conditions."

PMI®

by S&P Global

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Sources: S&P Global PMI, Department of Statistics Malaysia via S&P Global Market Intelligence.

As new orders edged closer to stabilisation, Malaysian manufacturers mentioned that employment levels had risen fractionally in September, the first expansion since May. Greater workforce capacity also enabled firms to continue working through outstanding business, as the level of backlogs of work lowered marginally in the latest survey period.

Purchasing levels were scaled back at the end of the third quarter. The pace of reduction quickened from August to the fastest since March amid subdued production requirements. As a result, firms remained cautious with their inventory holdings as stocks of both purchases and finished items were lowered in September.

Manufacturers also commented that delivery delays and high raw material prices had weighed on input buying in September. Anecdotal evidence suggested that port congestion and disruption in the Red Sea had contributed to a further lengthening in suppliers' delivery times. Moreover, this also contributed to higher logistics costs, which when coupled with increased raw material prices pointed to a solid increase in average input costs. Positively, the rate of input price inflation softened from August. Malaysian manufacturers partially passed increased cost burdens to clients through higher output charges, though the rate of charge inflation eased to a four-month low.

Finally, sentiment in the Malaysian manufacturing sector was positive at the end of the third quarter. Hopes of better demand conditions underpinned predictions of output growth in the year ahead. The level of confidence strengthened to the highest since the start of the year.

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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@spglobal.com.

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.

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