

News Release

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S&P Global Malaysia Manufacturing PMI™

Business conditions remain challenging amid subdued demand environment

Key findings

Weak demand leads to stronger moderation in production

Staffing levels scaled back for first time in five months

Suppliers' delivery times shorten to greatest extent in over a decade

Malaysian manufacturers often reported demand weakness in May and this was evident across a range of indicators in the latest PMI survey. Output and new orders both moderated to a greater extent than in April, while firms scaled back employment for the first time in five months. Purchasing activity also softened, and this weakness in demand for inputs fed through to improvements in supply chains and relatively muted inflationary pressures. In fact, supplier performance improved to the largest degree in just over ten years.

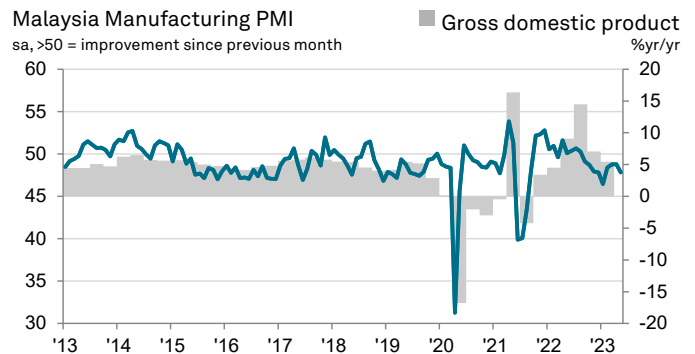
The seasonally adjusted S&P Global Malaysia Manufacturing Purchasing Managers' Index™ (PMI®) posted 47.8 in May, down from 48.8 in April. The latest reading signalled further challenges for firms in the manufacturing sector, with business conditions moderating to the greatest extent since January.

When looking at the relationship between the PMI data and official GDP numbers, the figures for the second quarter so far suggest that GDP growth will hold steady around the 5.5% year-on-year mark posted in the first quarter. The latest data, meanwhile, is consistent with official manufacturing data nearing stagnation on a year-on-year basis.

Manufacturing new orders moderated for the ninth month running in May, with the latest slowdown the sharpest in three months amid widespread reports of demand weakness. The subdued demand environment was not limited to the domestic market, with new export orders also softening.

A lack of demand was also a key factor behind a further slowdown in manufacturing production, which eased for the tenth month running and to the greatest extent since January.

Manufacturers responded to these trends by scaling back their own purchasing activity, in turn feeding through to the most marked reduction in stocks of purchases for 21 months. Stocks of finished goods were also down, linked not only to



Sources: S&P Global, Department of Statistics Malaysia.
Data were collected 12-24 May 2023.

Comment

Andrew Harker, Economics Director at S&P Global Market Intelligence, said:

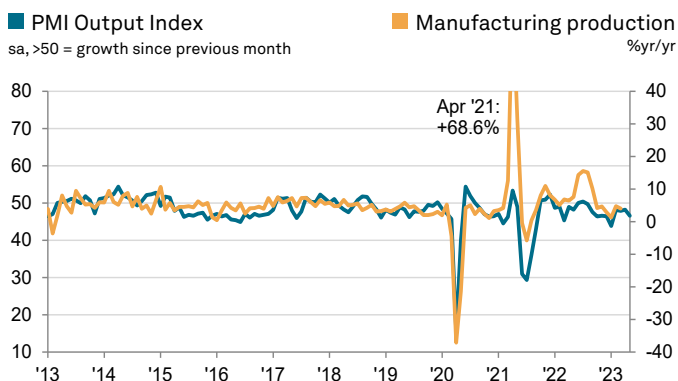
"Malaysian manufacturers are clearly enduring a challenging time at present, with reports of demand weakness widespread in the latest PMI survey. Although the latest figures are still representative of growth in official numbers, the sector does appear to be going through a soft-patch which may yet last for some months to come."

"Reflecting this, firms are being cautious in terms of their spending, pulling back on input purchasing and scaling back employment. A degree of spare capacity has become evident, not least in supply chains where delivery times improved to the greatest extent in just over a decade in May."

PMI™

by S&P Global

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the demand environment, but also the delivery of products to customers.

Employment moderated in May, ending a four-month sequence of job creation. Lower workloads was one factor leading to reduced staffing levels, but cost considerations and employee resignations were also mentioned. Spare capacity continued to be evident, however, as backlogs of work reduced again.

Subdued demand conditions across the sector meant that pressures on prices and supply chains were much reduced relative to the picture in the aftermath of the COVID-19 pandemic.

Although input costs rose, the pace of inflation was muted. Where input prices did increase, this was linked to higher raw material costs, in some cases on purchases in global markets. Similarly, output prices were up slightly in May, reversing the marginal reduction in charges posted in April.

Suppliers' delivery times shortened for the fifth consecutive month. Moreover, the rate of improvement in vendor performance was the most pronounced since March 2013.

Looking to the future, there were concerns among firms that the current demand weakness would continue over the coming months. Some panellists predicted the current soft-patch to last until the third quarter of the year at least. As a result, sentiment dipped for the fourth month running and was the lowest since June last year.

That said, the outlook remained positive overall, amid hopes that the demand environment would recover over the year ahead, thus leading to an expansion of production.

Contact

Andrew Harker
Economics Director
S&P Global Market Intelligence
T: +44-1491-461-016
andrew.harker@spglobal.com

SungHa Park
Corporate Communications
S&P Global Market Intelligence
T: +62-2-8001-3128
sungha.park@spglobal.com

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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@ihsmarkit.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.

ihsmarkit.com/products/pmi.html.

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