

# News Release

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## S&P Global Malaysia Manufacturing PMI™

### Malaysia's manufacturing sector loses further momentum in October

#### Key findings

Subdued demand conditions lead firms to scale back output further

Inflationary and supply pressures continue to ease

Outlook remains firmly positive

The Malaysian manufacturing sector registered a further loss of momentum during October. The sector slowdown was slightly stronger than in September and reportedly stemmed from sluggish global market conditions and muted customer demand. Firms subsequently scaled back output to reflect current demand trends and also downwardly adjusted inventory holdings and input buying. Inflationary pressures continued to ease in October as signalled by the softest rate of selling price inflation in two years. Meanwhile, business sentiment across Malaysia's manufacturing sector remained firmly optimistic and broadly in line with the historical average.

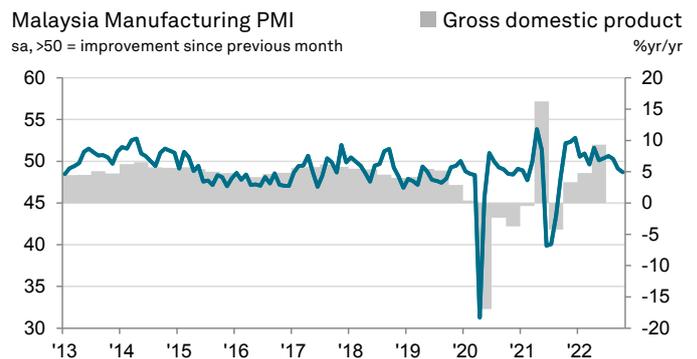
The seasonally adjusted S&P Global Malaysia Manufacturing Purchasing Managers' Index™ (PMI®) slipped from 49.1 in September to 48.7 in October. The latest reading was indicative of a slight moderation in the health of the sector but one that was the strongest since September 2021.

The latest PMI reading is representative of approximately 5% year-on-year growth of GDP in Malaysia, which would signal some loss in growth momentum from the situation earlier in the year. Similarly, the data are also consistent with a continued, albeit softer expansion in official manufacturing production.

Subdued demand conditions were reportedly pivotal to October's loss of momentum. For a second month running, new orders softened with anecdotal evidence suggesting that weak underlying demand conditions were a key driver of this. Demand from overseas meanwhile moderated at the strongest pace in 16 months during the latest survey period. Panel members indicated sluggish global market demand.

Muted demand conditions across the Malaysia manufacturing sector led firms to scale back levels of production in October and for the third month running. Moreover, the slowdown was the most marked since March and solid overall.

Following in the trend for output, Malaysian manufacturing



Sources: S&P Global, Department of Statistics Malaysia.  
Data were collected 12-25 October 2022.

#### Comment

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

"Latest S&P Global PMI data for the Malaysia manufacturing sector pointed to a further loss in growth momentum at the start of the final quarter. Anecdotal evidence suggested that demand conditions were subdued which led firms to scale back output. Sluggish demand was particularly apparent on an international level, as signalled by the strongest moderation in new export orders since June 2021.

"On a more positive note, pricing and supply pressures alleviated further in October. Both input cost and output price inflation softened markedly from September, dipping to 23 and 24-month lows, respectively. At the same time, the rate of deterioration in vendor performance was the slowest since January 2020, helping to alleviate some of the headwinds that firms have faced in recent years."

PMI™

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firms lowered input buying and depleted stock levels at the start of the final quarter. Firms reportedly utilised existing stocks to fulfil incoming orders, leading to a decline in post-production inventories that was the quickest in seven months. At the same time, firms scaled back input buying for the second month in a row and pre-production inventories also moderated.

Meanwhile, spare capacity within the sector persisted, with backlogs of work depleted for the fifth consecutive month. Anecdotal evidence suggested that the reduction in outstanding work was linked to subdued demand.

Malaysian goods producers registered a renewed scaling back of workforce numbers in October following a month of employment growth in September. Survey respondents attributed the drop in staffing levels to voluntary resignations rather than layoffs.

More positively, latest survey data displayed further signs of easing supply pressures in October. The latest lengthening of suppliers' delivery times was the softest since January 2020 and mild overall.

Though prices continued to increase, inflationary pressures faced by Malaysian manufacturing firms softened further in October as signalled by the rates of input cost and output price inflation dipping to 23- and 24-month lows, respectively. Rising input prices, particularly for raw materials, and weakness in the exchange rate were cited as the primary drivers of cost inflation. Firms reportedly adjusted selling prices to reflect increasing cost burdens.

Finally, overall business sentiment remained positive in October and broadly in line with the historical average. Panel members suggested that optimism stemmed from hopes for global market recovery and successful product launches.

**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.

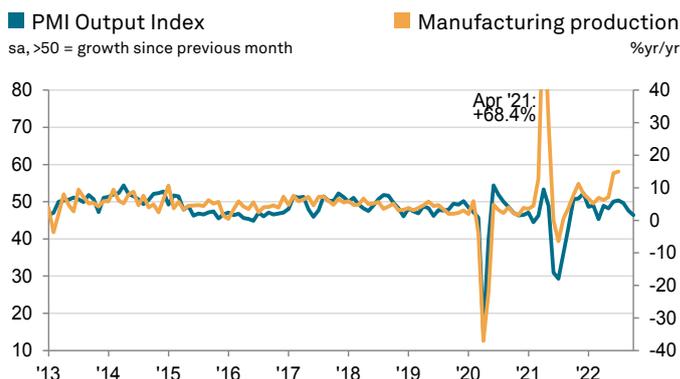
The headline figure is the Purchasing Managers' Index™ (PMI). The PMI is a weighted average of the following five indices: New Orders (30%), Output (25%), Employment (20%), Suppliers' Delivery Times (15%) and Stocks of Purchases (10%). For the PMI calculation the Suppliers' Delivery Times Index is inverted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

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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](http://ihsmarkit.com/products/pmi.html).