News Release

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S&P Global Malaysia Manufacturing PMI™

Malaysian manufacturing sector shows signs of momentum building in February

Key findings

Output scaled back to least extent in six months

Greatest shortening of supplier lead times since March 2013

Backlogs depleted to largest degree in over five-and-a-half years

There were signs of positive momentum building in the Malaysian manufacturing sector midway through the opening quarter of 2023. Data on output and new orders signalled a much-improved situation compared to January, prompting a near-stabilisation of purchasing activity and the maintaining of workforce numbers. A desire among firms to deplete backlogs of work was also noted.

Suppliers' delivery times shortened again, and to the greatest extent in close to a decade, while inflationary pressures remained relatively muted.

The seasonally adjusted S&P Global Malaysia Manufacturing Purchasing Managers' Index™ (PMI®) rose to 48.4 in February from 46.5 in January, and posting its highest reading in four months. The index has now, however, pointed to six consecutive months of challenging business conditions.

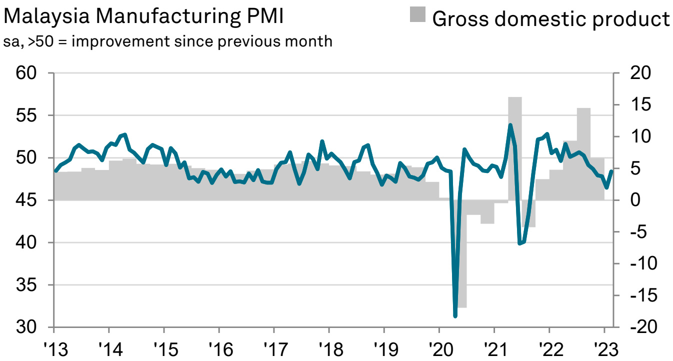
The relative improvement in the data from the January survey suggests that official numbers for GDP and manufacturing production will continue to show year-on-year expansions, following slowdowns in the rates of growth shown by recent official data releases.

Signs of improvement in sector performance were evident with regards to both output and new orders in February, which both moderated to a much lesser extent than in January.

While firms reported that customer demand remained subdued, total new orders eased to the least extent in four months. New export orders, meanwhile, continued to slow amid fragile international demand.

Subsequently, manufacturing production was scaled back at the slowest pace since August last year as some firms responded to signs of improvement in market demand by expanding their production volumes.

There were widespread reports of manufacturers wanting to clear backlogs of work in February. These efforts were



Sources: S&P Global, Department of Statistics Malaysia.
Data were collected 10-22 February 2023.

Comment

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

"There were reasons for optimism provided by the latest PMI survey for Malaysia, with signs that the recent soft patch may be coming to an end. Both output and new orders moderated to much lesser degrees than was the case in January, with firms looking to maintain their purchasing activity and workforce numbers.

"Operations are being helped by an improving supply-chain environment, with suppliers' delivery times quickening to the greatest degree in almost a decade as some of the difficulties of the past couple of years subside. With inflationary pressures also muted, we will hopefully see further improvements in demand and production in the months ahead."

generally successful as outstanding business decreased to the largest extent since July 2017. Contracts were often fulfilled thanks to the use of stocks of finished goods, which were depleted for the eighth month running, and at the joint-sharpest pace since March last year.

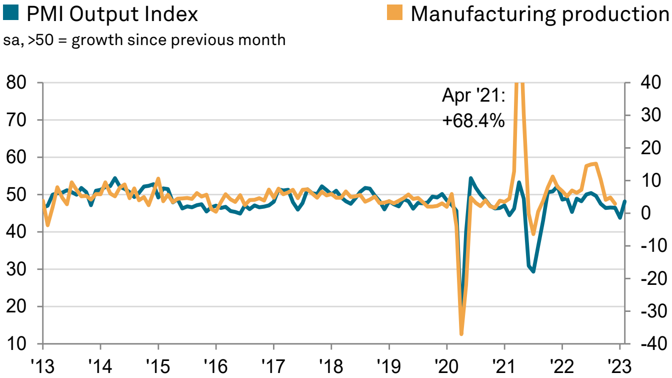
As part of efforts to keep on top of workloads and get ahead of predicted future price increases, manufacturers posted a near-stabilisation in purchasing activity during February, a marked turnaround from the decline posted in January. The recent run of lower purchasing meant that stocks of inputs continued to moderate, however.

Firms also looked to maintain their staffing levels, posting broadly no change in the latest survey period following a slight increase in the previous month. Efforts to hire more staff to support output were sometimes cancelled out by voluntary resignations.

Increased staffing numbers at suppliers and a reduction in port congestion helped lead to the most pronounced shortening of suppliers' delivery times in close to a decade.

While the rate of input cost inflation ticked up to a three-month high in February, the latest increase was still relatively modest and much softer than seen on average during 2022. Those respondents that posted a rise in input prices generally linked this to higher raw material costs, but there were also some mentions of packaging prices having increased. Similarly, output price inflation was marginal for the second month running.

After having risen to a 41-month high in the previous survey period, business confidence held broadly steady at that level in February. Positive expectations for output reflected confidence that new orders will rise as market conditions improve.



Sources: S&P Global, Department of Statistics Malaysia.

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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:

Annual % change in GDP = (PMI x 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:

PMI = 40, GDP %yr/yr = 2.5; PMI = 50, GDP%yr/yr = 5.3; PMI = 60, GDP %yr/yr = 8.2

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.

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.