

News Release

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S&P Global Malaysia Manufacturing PMI™

Malaysian manufacturers signal sustained moderation in output in July

Key findings

New orders ease to greatest extent since January

Fastest scaling back of employment in 2023 so far

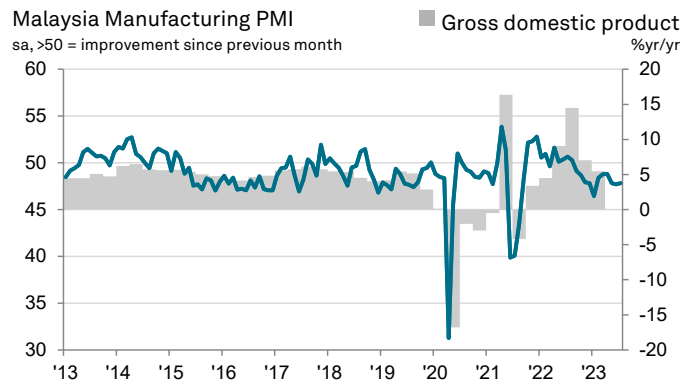
Input price inflation accelerates to five-month high

The Malaysian manufacturing sector moderated further at the start of the third quarter of 2023, with indications from firms that demand remained subdued. Order books were scaled back to the greatest extent in six months amid sustained weakness in client confidence. As a result, production levels also remained muted. In response to weakened market conditions, manufacturers opted to reduce their workforces for the third consecutive month. The rate of job shedding was only marginal, yet the steepest recorded since December. Anecdotal evidence suggested the reduction was in part due to increased cost burdens during July. As such, Malaysian goods producers signalled that input price inflation accelerated for the fourth month in a row to reach the highest since February.

The seasonally adjusted S&P Global Malaysia Manufacturing Purchasing Managers' Index™ (PMI®) posted 47.8 in July, up slightly from 47.7 in June. The latest reading pointed to a sustained slowdown in business conditions that was broadly in line with that seen on average over the second quarter of the year. The latest PMI reading is consistent with sustained expansions in both manufacturing production and GDP, although there are signs that growth has dampened somewhat since the start of the year.

The strongest contributor to the sub-50.0 reading in July was a solid reduction in new order volumes. Demand has now moderated in each of the last 11 months, with the latest slowdown the most marked since January. A number of firms noted that client confidence remained subdued in both domestic and international markets. Notably, the rate of moderation in new export orders quickened to the fastest since May 2020.

Meanwhile, production volumes were scaled back for the twelfth month running in July. The rate of reduction was broadly similar to those seen in May and June, as survey respondents reported that drops in output were reflective of relatively muted demand conditions.



Sources: S&P Global PMI, Department of Statistics Malaysia via S&P Global Market Intelligence. Data were collected 12-25 July 2023.

Comment

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

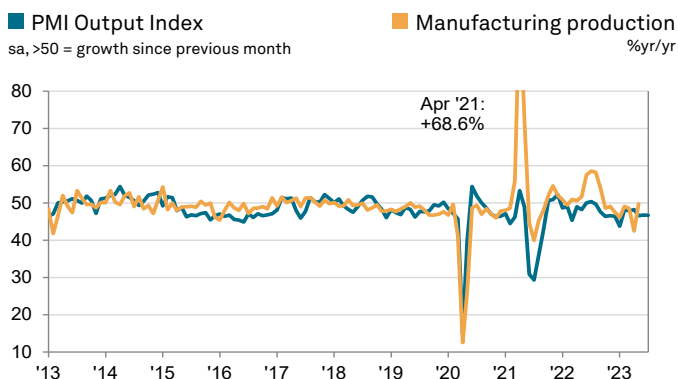
"The Malaysian manufacturing sector continued to indicate sustained weakness in operating conditions in July, according to the latest PMI data. New order intakes moderated to the greatest extent for six months, while production levels continued to be scaled back at a solid pace, indicating that the sector still has some way to go before demand recovers fully.

"Firms also noted concern on the price front, as input price inflation accelerated for the fourth month in a row to reach the highest since February. In an effort to limit cost pressures, firms looked to reduce workforce numbers, with the latest moderation the sharpest since the end of last year."

PMI™

by S&P Global

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

July data was indicative of a third consecutive fall in workforce numbers at Malaysian manufacturers, albeit one that was marginal overall. That said, the rate of job shedding was the most marked since the end of last year. Where a decrease in employment levels was reported, companies commonly linked this to the non-replacement of voluntary leavers. Moreover, firms signalled that they had sufficient capacity to work through existing orders amid subdued demand, as evidenced by a further fall in backlogs of work that was the quickest for three months.

On the price front, average cost burdens rose at a modest pace, extending the current sequence of rising prices to 38 months. Although below the series average, the rate of inflation accelerated for the fourth month running to reach the highest since February. Survey members mentioned that raw material prices continued to rise amid exchange rate weakness. Firms meanwhile reported that prices charged for goods were unchanged on the month however, as some panellists signalled that selling prices were reduced in order to stimulate demand.

Suppliers' delivery times were broadly unchanged in July, thereby ending a six-month sequence of shortening lead times. Subdued operating conditions also reportedly led firms to scale back input buying, in line with production requirements. Both pre- and post-production inventories also moderated in the latest survey period.

Malaysian manufacturers remained hopeful that demand conditions would normalise over the coming 12 months, as indicated by the twenty-fifth consecutive month of optimism regarding future output. Sentiment was relatively muted, however, and eased to the weakest in the current sequence of optimism.

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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.