News Release

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S&P Global Malaysia Manufacturing PMI®

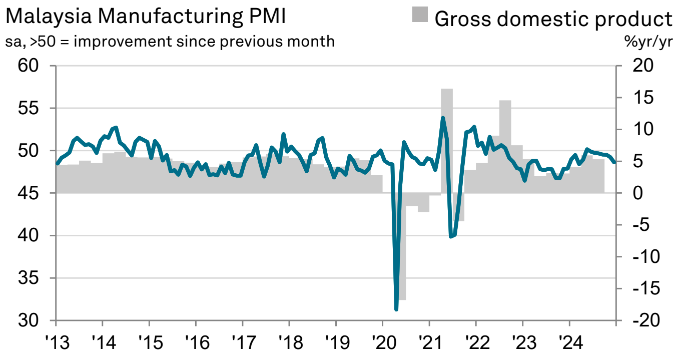
Costs rise at slowest pace in more than four-and-a-half years

Key findings

Headline PMI falls further below 50.0 no-change mark

Steeper moderations in production and new orders

Inflationary pressures soften



Sources: S&P Global PMI, Department of Statistics Malaysia via S&P Global Market Intelligence.
Data were collected 05-17 December 2024.

Latest data signalled further muted trends across the Malaysian manufacturing sector at the end of 2024. Demand remained subdued while firms scaled back production at a modest rate that was nonetheless the steepest for a year. Data from the survey also suggested that the coming months are likely to remain muted, as manufacturers further scaled back purchasing activity, while also winding down stocks of purchases and finished items amid a lack of new orders. Moreover, there was a sustained depletion in outstanding business that was the strongest in eight months as firms opted to work through existing orders while demand was subdued. Positively, input price inflation slowed sharply on the month and was the weakest in the current 55-month sequence of rising input costs, which contributed to only a fractional increase in output charges.

The seasonally adjusted S&P Global Malaysia Manufacturing Purchasing Managers' Index™ (PMI®) fell from 49.2 in November to 48.6 in December to indicate a modest slowdown in the Malaysian manufacturing sector, that was nonetheless the most pronounced since March.

The latest PMI data suggest GDP growth in the final quarter of the year continued, albeit at a slower rate, as well as pointing to sustained year-on-year improvements in official manufacturing production.

Manufacturers often noted that demand in the sector remained muted during December, with reports of weak customer confidence. Total new business moderated slightly for the second month running. At the same time, demand conditions in international markets deteriorated for the first time since March.

With customer demand remaining subdued, manufacturers scaled back production for the seventh consecutive month. The moderation strengthened from November and was the most pronounced in 2024. Concurrently, stocks of finished goods were wound down further, as firms used existing

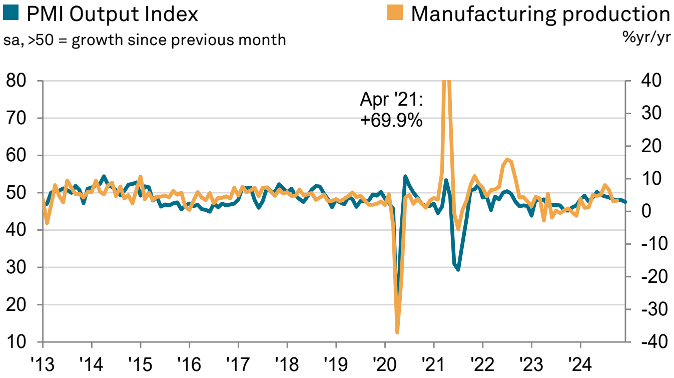
Comment

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

"The final round of PMI data for 2024 suggested that demand conditions in the Malaysian manufacturing sector remained subdued during December, as production and new order inflows moderated at modest rates. That said, the data are still consistent with the GDP growth seen in the third quarter of the year continuing, albeit at a softer pace.

"Further evidence was provided to indicate that conditions are likely to remain muted in the short term. Firms opted to work through existing orders in the absence of new order growth, while also scaling back employment, purchases and stock holdings.

"Positively, inflationary pressures softened sharply in December, with average cost burdens rising at the slowest pace since the sequence began in June 2020. Charges were only raised fractionally in response. Lower cost pressures also fed into confidence regarding the outlook for 2025 as firms noted solid optimism, underpinned by a broad-based improvement in demand conditions, both domestically and in international markets."



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

stocks to fulfil orders.

Malaysian manufacturers reported a marginal fall in employment levels for the third month in a row. Companies signalled that they had sufficient capacity as the level of outstanding business fell once again in December, and to the largest extent since April.

Goods producers also signalled a sharp slowdown in the pace of input cost inflation. Anecdotal evidence suggested that exchange rate weakness had pushed up prices for inputs sourced from abroad, though this was partially offset by lower prices for certain materials. As a result, the rate of inflation was the softest in the current sequence which began in June 2020. In response, output charges were raised only fractionally at the end of the year.

In line with trends for new orders and production, purchasing activity was scaled back modestly in the latest survey period as the muted picture for new business weighed on input purchasing decisions. That said, the rate of depletion was the least marked for four months. Stocks of purchases also decreased, but at a softer rate than in November.

There was a deterioration in vendor performance during December. The extent to which lead times lengthened was only marginal, and the least pronounced in six months. Where delivery times increased, firms mentioned port congestion.

Hopes that new orders will return to growth territory supported confidence that production would rise over the coming year. The overall degree of optimism was solid, but unchanged from that seen in November.

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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:

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

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We are widely sought after by many of the world's leading organizations to provide credit ratings, benchmarks, analytics and workflow solutions in the global capital, commodity and automotive markets. With every one of our offerings, we help the world's leading organizations plan for tomorrow, today. www.spglobal.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.
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