News Release

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S&P Global Malaysia Manufacturing PMI™

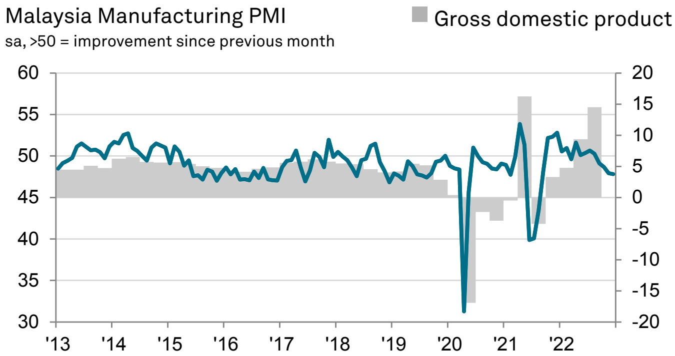
Subdued demand leads to further moderation of Malaysia's manufacturing sector

Key findings

Firms lower selling prices for the first time since May 2020

Stronger moderation in output volumes

Backlogs cleared at a pace among the fastest on record



Sources: S&P Global, Department of Statistics Malaysia.
Data were collected 5-19 December 2022.

Malaysia's manufacturing sector continued to face challenging business conditions in the final month of 2022. Muted customer demand reportedly contributed to sustained moderations in output and order books. Companies subsequently trimmed input buying and downwardly adjusted inventory levels. Backlogs of work, meanwhile, depleted at a rate among the fastest on record.

Some more positive developments within the latest survey data came from cost and supply pressures both easing. Vendor performance stabilised in December, ending the three-year sequence of deterioration, and firms cut their selling prices for the first time since May 2020.

The seasonally adjusted S&P Global Malaysia Manufacturing Purchasing Managers' Index™ (PMI®) posted at 47.8 in December, slipping from 47.9 in November to mark a fourth consecutive softening of operating conditions across the Malaysian manufacturing sector. The latest moderation, though broadly in line with that seen in November, was the strongest since August 2021.

Averaging 48.1 over the final quarter of the year, the PMI is representative of approximately 5% year-on-year growth of GDP in Malaysia, thereby representing some loss of momentum from the situation in the third quarter.

Similar to each of the three months prior, a running theme within the latest survey data was fragile customer demand. New orders and foreign demand both moderated in December, stretching the current sequences of reduction to four and six months, respectively.

Reflecting the softer inflows of new work, Malaysian manufacturing firms scaled back production volumes in the final month of the year. The rate of moderation was slightly steeper than in November and the joint-sharpest since March.

Companies subsequently trimmed back purchasing activity

Comment

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

"With muted customer demand remaining a key theme within December's PMI data, the Malaysian manufacturing sector registered a further loss in momentum in the final month of 2022. The moderation in order book volumes, though slightly softer than in November, remained stronger than the average for the year as a whole which subsequently led firms to scale back production at a solid pace. Forward looking indicators suggested that firms were anticipating conditions to remain challenging in the coming months as signalled by a further trimming in input buying, reductions in inventory levels and a relatively weak outlook on output over the next year.

"However, with demand subdued, supplier performance has been able to recover somewhat with December data marking no-change in delivery time from the month prior - following a three-year sequence where delivery times have lengthened on a monthly basis. Latest survey data was also indicative of an easing in cost pressures. Input costs rose at the slowest pace in the current 31-month sequence of inflation and prices charged by Malaysian manufacturing firms fell for the first time since May 2020."

in December and at a solid pace overall. Lower purchasing and efforts to limit stock holdings amid the current lull in demand fed through to a reduction in pre-production inventories. This was also the case for post-production inventories where firms reportedly favoured the use of existing stock when fulfilling new orders.

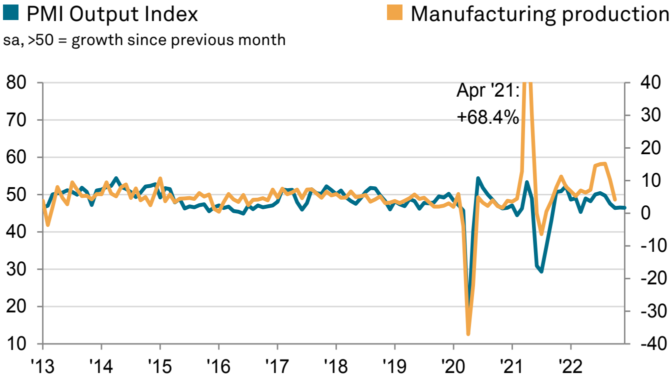
Concurrently, employment softened for the second time in the past three months. Survey respondents primarily attributed lower staffing levels to voluntary resignations.

Despite the scaling back in output, there was evidence of spare capacity within the Malaysian manufacturing sector. Firms continued to clear backlogs of work, thereby extending the current sequence of moderation to seven months. Notably, the rate of reduction was among the sharpest on record and the joint-fastest since July 2017. Anecdotal evidence suggested that the latest moderation stemmed from the reduction in order book volumes.

Manufacturers were confident of a rise in production over the coming 12 months, with some firms hopeful that market conditions would improve in the new year. That said, concerns over the potential for demand conditions to remain muted in 2023 meant that business sentiment remained relatively subdued in December, posting below the historical average.

More positively, following three consecutive years of deterioration, supplier performance stabilised in the final month of the year with panel members indicating that muted demand for inputs contributed to an easing of supply pressures.

In terms of prices, average cost burdens faced by Malaysian goods producers increased only moderately and at the softest rate in the current 31-month sequence of inflation. Meanwhile, for the first time since May 2020, firms lowered their selling prices in December.



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.

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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.

ihsmarkit.com/products/pmi.html.