

News Release

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S&P Global Malaysia Manufacturing PMI[®]

Demand conditions remain challenging in October

Key findings

Ongoing slowdowns in new orders and production

Backlogs of work depleted to greatest extent on record

Cost inflation quickens, but remains relatively muted

Malaysian manufacturers experienced a challenging business environment again at the start of the final quarter of 2023 as demand conditions continued to wane. New orders moderated and production was scaled back. Employment also eased, but firms were still able to deplete backlogs of work to the greatest extent since the survey began in July 2012.

Meanwhile, currency weakness and higher raw material prices added to firms' input costs, but the rate of inflation was relatively muted. Likewise, selling prices increased only slightly during the month.

The seasonally adjusted S&P Global Malaysia Manufacturing Purchasing Managers' Index™ (PMI[®]) was unchanged at 46.8 in October, and signalled an easing of business conditions for the fourteenth consecutive month.

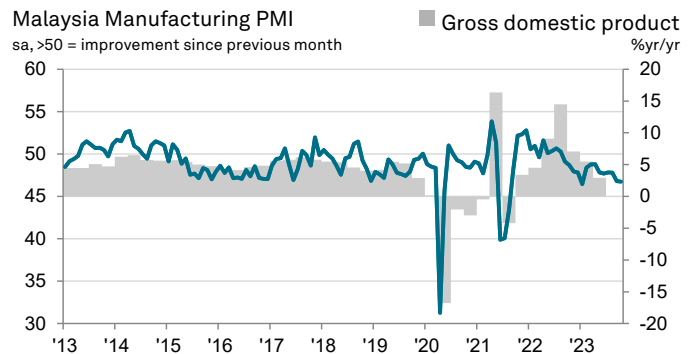
The historical relationship between the PMI and official GDP data suggests that GDP is still set to improve modestly as we move into the final quarter of the year. Looking at official data on manufacturing production, however, the PMI readings are indicative of a stagnation on a year-on-year basis.

The latest PMI survey pointed to a further moderation of manufacturing output, the fifteenth in as many months. The pace at which production eased was marked and the fastest since January.

Respondents largely attributed the latest easing in production to weak demand conditions both domestically and internationally. This anecdotal evidence was consistent with data covering total new orders and new export business, both of which saw a sustained slowdown in October.

With new orders softening, manufacturers were able to transfer spare resources to work on outstanding business. Backlogs of work subsequently fell sharply over the month, and to the largest degree in the survey's history.

This record backlog depletion was registered in spite of a



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

Comment

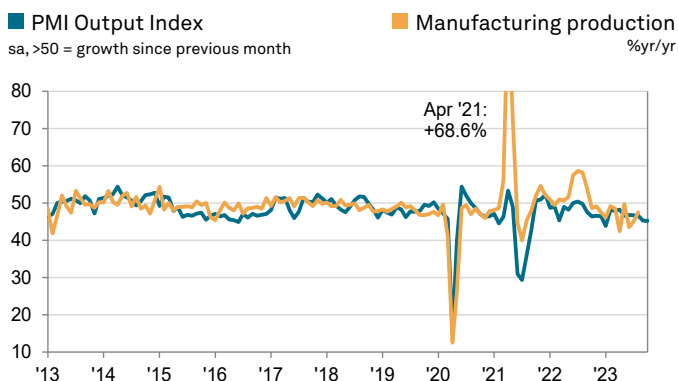
Andrew Harker, Economics Director at S&P Global Market Intelligence, said:

"The latest S&P Global Malaysia Manufacturing PMI suggests that firms continued to struggle against the backdrop of demand weakness, both at home and abroad. The ongoing depletion of backlogs of work in order to support output reached its peak in October, with outstanding business cleared at an unprecedented pace. We will therefore need to see greater inflows of new work in the months ahead if manufacturers are to be able to maintain production schedules."

"There were further signs of a pick-up in cost inflation in October, but we are still not seeing prices increase at anything like the pace we did in the three years following the COVID-19 pandemic. In fact, with demand remaining muted, firms raised their own selling prices only slightly over the month."

PMI[™]

by S&P Global



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

further scaling back of workforce numbers. Employment was reduced for the sixth month running amid the reported loss of some permanent members of staff. Although modest, the pace at which workforce numbers eased was the fastest since June 2022.

Lower new orders and output requirements also led firms to ease back on their input buying and run down inventories of both purchases and finished goods.

Weak demand for inputs meant for a lack of pressure on capacity at suppliers. Lead times on the delivery of items continued to lengthen, however, amid material shortages.

The rate of input cost inflation strengthened gradually in October, reaching the highest since last November. That said, the latest increase was still softer than the series average and much weaker than seen over much of the past three years. According to respondents, inflation reflected both currency weakness and higher costs for raw materials in international markets.

Output charges rose for the third month running as firms passed higher input costs on to their customers, but the rate of inflation remained only slight.

Hopes that the demand environment will improve over the course of the next 12 months supported confidence in the outlook for production. Optimism picked up to a six-month high, but was still softer than the series average. Around 19% of respondents predicted growth of output, while 8% were pessimistic.

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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:

$$\text{Annual \% change in GDP} = (\text{PMI} \times 0.287) - 8.99$$

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.

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