News Release

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IHS Markit Malaysia Manufacturing PMI®

Malaysian manufacturers see recovery in June

Key findings

Output growth matches previous survey record as factory output rebounds

Downturn in demand slows following the easing of lockdown restrictions

Business confidence rises amid improved economic

Data were collected 12-24 June 2020.

Malaysia's manufacturing sector returned to growth during June as lockdown measures aimed at stemming the spread of the coronavirus disease 2019 (COVID-19) were partially lifted. Output grew at the joint-fastest rate in the survey history as an increasing number of businesses across the country restarted their operations. Encouraged by signs of a recovery in its infancy, business confidence rose to a four-month high, reflecting more upbeat expectations towards market conditions over the coming year.

The headline IHS Markit Malaysia Manufacturing *Purchasing Managers' Index™ (PMI®)* – a composite single-figure indicator of manufacturing performance – rose sharply to 51.0 in June, its highest since September 2018. This was up from 45.6 in May, indicating an improvement in the health of Malaysia's goods-producing sector and stronger economic growth more generally.

Central to the pick-up in business conditions was a joint-record rise in manufacturing output levels. According to panel comments, the partial lifting of lockdown restrictions enabled factory operations to restart, and also led client demand to increase in many instances. A number of firms also mentioned that their operating rates had risen to clear backlogs which had accumulated during factory closures.

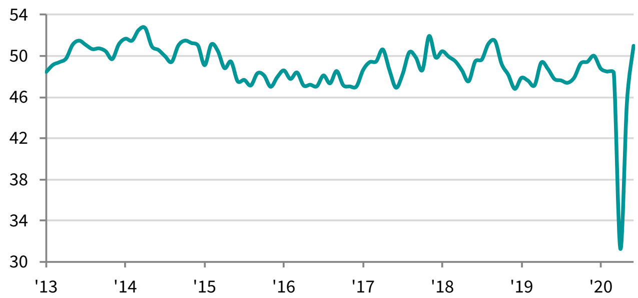
There were encouraging signs that demand conditions were beginning to stabilise during June, with the New Orders Index rising to a six-month high. The re-opening of certain industries reportedly led new work intakes to improve. That said, overseas demand remained particularly fragile, weighing down total order book volumes. Although the rate of decline in new export sales has eased considerably since April, international market demand was reportedly subdued by the ongoing COVID-19 pandemic.

Looking ahead, the manufacturing sector outlook improved once

continued...

Malaysia Manufacturing PMI

sa, >50 = improvement since previous month



Source: IHS Markit.

Comment

Commenting on the latest survey results, Chris Williamson, Chief Business Economist at IHS Markit, said:

"The Malaysian manufacturing sector showed encouraging signs of recovery in June. Output rose at a rate unsurpassed in the survey's eight-year history as increasing numbers of firms reopened facilities or raised factory operating capacity after COVID-19 related disruptions. Such a rapid turnaround in production since the severe collapse in April bodes well for a v-shaped recovery.

"However, a sustained recovery is by means assured, and growth could easily lose momentum after the initial rebound. While business expectations continued to improve in June, confidence remains well below levels seen at the start of the year, in part reflecting worries about the impact of ongoing COVID-19 restrictions on demand, both at home and abroad. Weak export demand remains a particular concern, especially in terms of subdued consumer spending.

"For now though, the data are moving strongly in the right direction and, barring any second waves of infections, a recovery is evident."

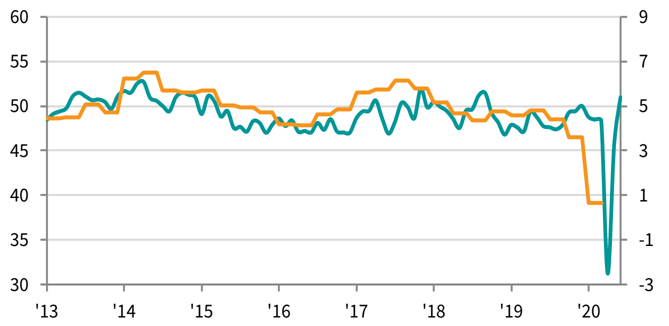
again in June. Business confidence strengthened to a four-month high as firms became increasingly confident that production would rise from its present levels in the year ahead. Optimism was linked to expectations of a recovery in economic activity.

Latest survey data meanwhile highlighted broadly neutral levels of outstanding work across the Malaysian manufacturing sector, suggesting that operations were being effectively run to match business requirements. Consequently, staffing levels were held nearly stable. Some companies moved in retrenchment mode as businesses adjust to new production schedules.

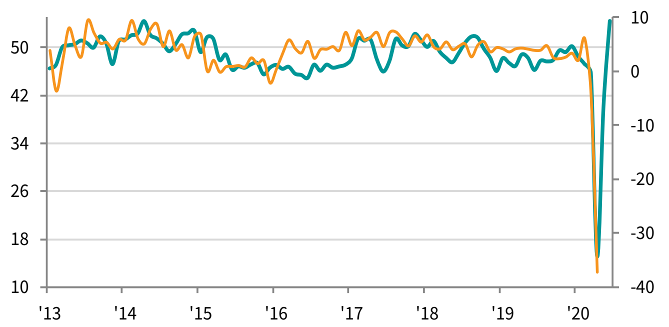
A focus on efficiency was also seen in survey data for purchasing activity and inventories. Buying levels were reduced in June, while pre- and post-production inventories fell as businesses managed production to meet demand.

Malaysian manufacturers continued to report slower input lead times in June. Transport restrictions relating to the COVID-19 pandemic exerted further pressure on vendors. There were also reports of suppliers facing large backlogs following the easing of some lockdown measures.

Lastly, prices moved into inflation territory during June. Input costs rose amid stock shortages, higher transport fees and unfavourable exchange rate movements. Output prices were subsequently increased for the first time this year.



Sources: IHS Markit, Department of Statistics Malaysia.



Sources: IHS Markit, Department of Statistics Malaysia.

Using PMI to nowcast Malaysian GDP

PMI data are available faster than official GDP and at higher frequency, providing an accurate advance guide to economic growth

Simple rules allow easy interpretation of PMI data for economic growth

A common question we receive is how to use the PMI to predict economic growth, or GDP. Nowcasting models are typically complex, with many variables, of which the PMI can certainly be included. But in many countries, nowcast models do not offer significantly greater accuracy than a simple model that uses just the PMI.

In the case of Malaysia, comparing the headline PMI with annual GDP growth rates shows a reasonably high 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 = % change in GDP

30 = -0.4

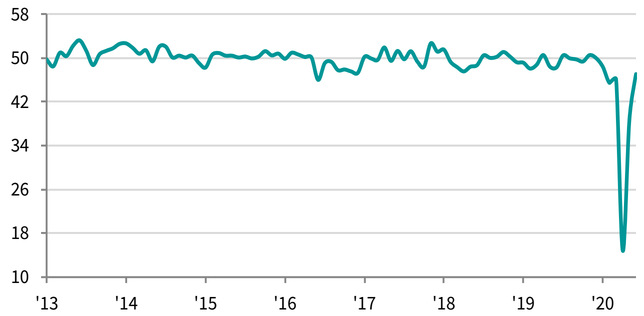
40 = 2.5

50 = 5.3

60 = 8.2

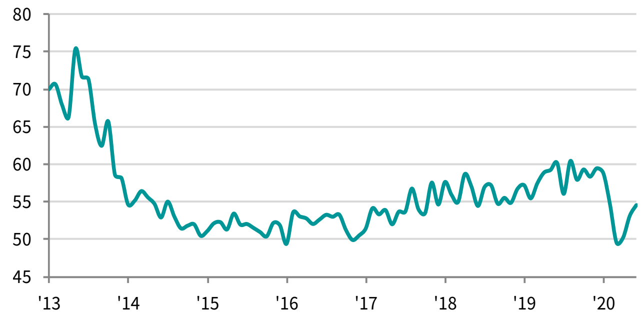
New Export Orders Index

sa, >50 = growth since previous month



Future Output Index

>50 = growth expected over next 12 months



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Survey methodology

The IHS Markit Malaysia Manufacturing PMI® is compiled by IHS Markit 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.

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.

Survey dates and history

June data were collected 12-24 June 2020.

Survey data were first collected July 2012.

About IHS Markit

IHS Markit (NYSE: INFO) is a world leader in critical information, analytics and solutions for the major industries and markets that drive economies worldwide. The company delivers next-generation information, analytics and solutions to customers in business, finance and government, improving their operational efficiency and providing deep insights that lead to well-informed, confident decisions. IHS Markit has more than 50,000 business and government customers, including 80 percent of the Fortune Global 500 and the world's leading financial institutions.

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.

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