

# News Release

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## S&P Global Malaysia Manufacturing PMI™

### Overall demand conditions remain subdued across Malaysian manufacturing sector

#### Key findings

Production remains muted despite softer fall in new orders

Employment levels scaled back to greatest extent in year to date

Input price inflation accelerates to nine-month high

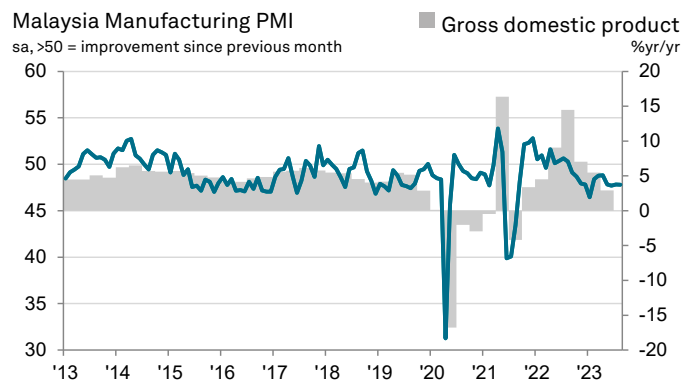
Latest data signalled further muted trends across the Malaysian manufacturing sector midway through the third quarter of the year. Demand generally remained subdued, leading firms to scale back production amid limited new order inflows. That said, the rate of moderation in new orders eased from that seen in July. Nonetheless, firms responded to weak demand by further reducing employment levels in August, and to the greatest extent in 2023 so far. At the same time, input price inflation trended upwards for the fifth month in succession to reach the strongest since November 2022.

The seasonally adjusted S&P Global Malaysia Manufacturing Purchasing Managers' Index™ (PMI®) was unchanged at 47.8 in August, signalling that business conditions remained challenging for manufacturing firms. The latest PMI reading suggests that GDP growth is running at a similar level to that seen in the second quarter of the year, as well as pointing to modest year-on-year improvements in official industrial production data.

Manufacturers often noted that demand in the sector remained muted during August, with reports of weak customer confidence. As a result, total new business moderated for a twelfth consecutive month, although to a lesser extent than that seen in July. Demand conditions in international markets also eased, with new export orders falling for the fourth month in a row at a solid, albeit softer rate.

With customer demand remaining subdued, manufacturers scaled back production, the thirteenth month running that this has been the case. That said, the moderation was broadly unchanged from the previous survey period. Meanwhile, stocks of finished goods were wound down at the fastest pace since July 2021, as firms used existing stocks to fulfil orders.

Companies also reported that weaker market conditions



#### Comment

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

"Although the latest PMI data suggest that demand conditions remained muted in the Malaysian manufacturing sector during August, the data are still consistent with modest growth in the official statistics.

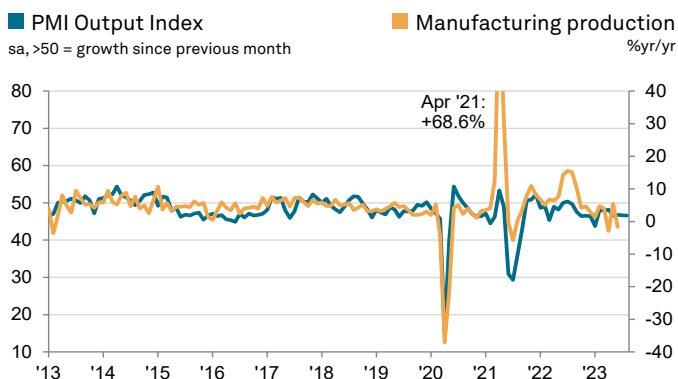
"That said, evidence is pointing to demand conditions remaining subdued in the coming months, given the sustained moderations in production and new business inflows. Moreover, there was a steeper scaling back of employment levels as firms let go of excess capacity, partly due to efforts to cut costs.

"Input prices rose at a quicker pace for the fifth month in a row and to the greatest extent since last November, which contributed to a fresh increase in output charges. That said, price increases remain well below the levels seen throughout the prior two years and less pronounced than the respective series averages."

PMI™

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had contributed to a further reduction in staffing levels in August. The latest round of job creation was the fourth in as many months and the steepest recorded since December 2022. Despite reduced operating capacity, manufacturers further lowered their outstanding business at a moderate pace, extending the current sequence of depletion to 15 months.

For the fifth time in as many months, the rate of input cost inflation accelerated in the Malaysian manufacturing sector. The latest increase was solid and the strongest reported since November 2022, as firms widely reported high raw material prices, notably due to exchange rate weakness. In response, output charges were raised for the first time in three months, with the rate of inflation only slight but nonetheless the strongest since February.

In line with the trend for output and new orders, purchasing activity continued to be scaled back as the muted picture for new business deterred firms from buying additional inputs. In turn, stocks of purchases also decreased, and at the fastest pace for two years.

There was a further deterioration in vendor performance in the latest survey period. Though the extent of the lengthening in suppliers' delivery times was only fractional, it was the most marked in nine months. Where delivery times increased, firms often mentioned raw material shortages.

Hopes that new orders will return to growth supported confidence that production will rise over the coming 12 months. That said, the current subdued demand environment meant that the degree of optimism remained only modest and well below the long-run series average.

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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](mailto: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](http://ihsmarkit.com/products/pmi.html).