News Release

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S&P Global Malaysia Manufacturing PMI™

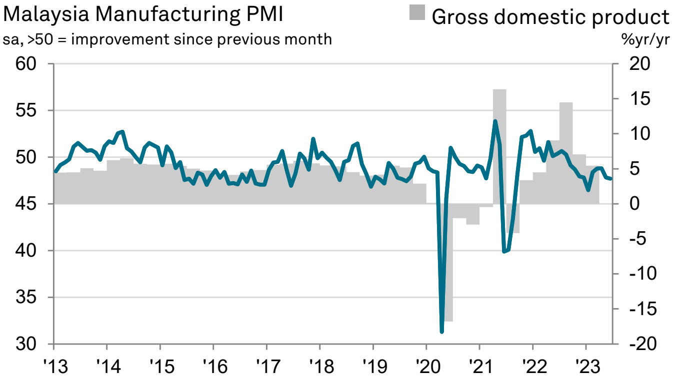
Further moderation in Malaysian manufacturing sector

Key findings

Output levels scaled back amid stronger moderation in new orders

Input prices rise at quickest pace for four months

Business confidence eases to lowest since July 2021



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

Data were collected 12-26 June 2023.

Operating conditions in the Malaysian manufacturing sector moderated further at the midway point of 2023. Output levels were scaled back at a solid pace amid the strongest moderation in new orders since January. Firms often associated the slowdown to subdued demand and economic conditions in the domestic and global economies. Concurrently, firms noted a third consecutive acceleration in input price inflation which reached the highest level in four months. Concerns regarding the duration of the slowdown and the timing of an eventual recovery weighed on manufacturers in June, as business optimism softened to its lowest level in nearly two years.

The seasonally adjusted S&P Global Malaysia Manufacturing Purchasing Managers' Index™ (PMI®) fell slightly from 47.8 in May to 47.7 in June to indicate a tenth consecutive moderation in operating conditions that was the strongest since January. The latest reading suggests that the weaker trends in official data for manufacturing production and GDP were sustained throughout the second quarter of the year.

The weaker headline figure was in part due to a sustained slowdown in new order inflows that was the tenth in as many months. The moderation was solid and the strongest recorded since the start of the year as firms noted muted demand and client confidence in both domestic and international markets. As such, export demand for Malaysian manufactured goods fell further and at the steepest rate for four months.

Muted demand contributed to a broadly similar moderation in production volumes than had been seen in May. Firms often attributed softer output to subdued incoming orders.

There were reports that manufacturers looked to clear backlogs of work in June, an attempt that was successful as outstanding business decreased solidly again over the month. That said, the pace of depletion was the softest since March. Contracts were often fulfilled using stocks

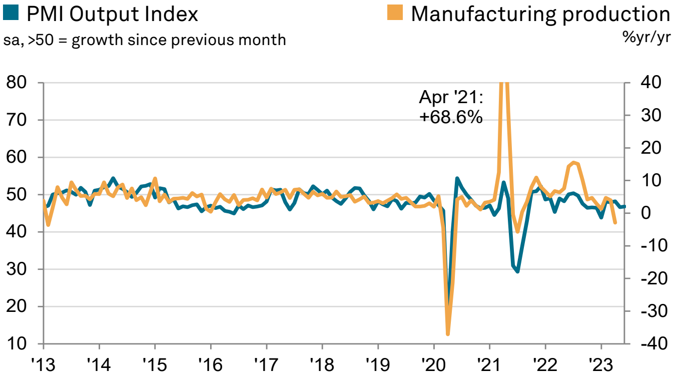
Comment

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

"There were further signs in June that business conditions in the Malaysian manufacturing sector remained subdued, thereby holding back production and demand.

"While operations are still being helped by an improved supply chain environment, inflationary pressures are showing signs of increasing, given a third consecutive acceleration in inflation of average cost burdens.

"Nonetheless, muted demand conditions are weighing on the confidence of manufacturers, as the overall degree of optimism dipped to a 23-month low amid concerns regarding the timing of a demand recovery and how long the current malaise will last for."



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

of finished goods, which were depleted for the twelfth consecutive month. The lack of pressure on capacity however, contributed to firms reducing employment levels for the second successive month in June, with staffing levels scaled back to the greatest extent seen this year so far.

In line with the trends for output and new orders, manufacturers posted a continued moderation in purchasing activity, extending the current sequence to ten months. The pace of reduction was moderate and the quickest seen since January. This also came as average lead times shortened only marginally and to the lowest extent in six months as better material availability was partially offset by reported logistical issues. In turn, firms utilised subdued demand conditions to wind down stocks of inputs to the greatest extent since August 2021.

The rate of input cost inflation ticked up for the third month in a row to reach the highest since February. That said, the rise was relatively modest and well below the average seen in 2022. The increase in operating expenses was often linked to higher raw material costs but there were also mentions of currency weakness adding to prices for imported items. Despite the rise in cost burdens, Malaysian manufacturers lowered output charges for the second time in three months. While only marginal, the reduction in prices charged was the steepest since April 2020.

Looking forward, Malaysian manufacturers remained optimistic regarding the year-ahead outlook for output during June, amid hopes that demand would pick up in the second half of the year and provide a boost to sales. However, the overall degree of optimism eased to the softest since July 2021 as businesses noted concerns regarding the timing of the hoped-for recovery.

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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.

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.
ihsmarkit.com/products/pmi.html.