

News Release

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S&P Global Malaysia Manufacturing PMI™

Malaysian manufacturing sector reports broad stagnation in May

Key findings

Reduction in output amid sharp slowdown in new order growth

Steepest reduction in employment levels since August 2020

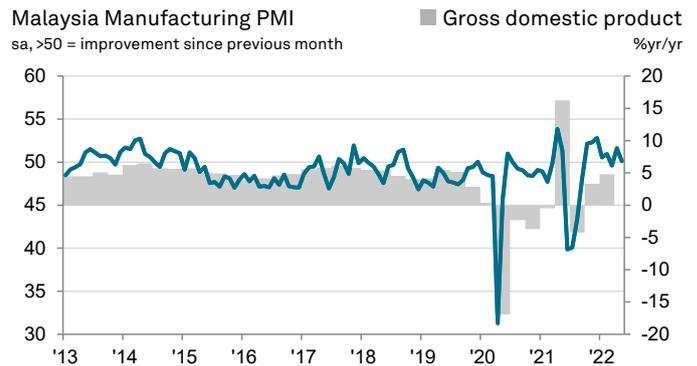
Business optimism strengthens

Businesses signalled that the Malaysian manufacturing sector saw demand conditions soften midway through the second quarter of 2022 as productive capacity was hindered by price pressures and supply shortages. There was a further moderation in production levels that was the fifth in as many months, while new order growth slowed sharply from April. The lack of productive capacity also extended into the labour market as the rate of job shedding quickened to the sharpest seen since August 2020. That said, businesses were increasingly confident that output would expand over the coming 12 months, extending the current sequence of optimism to 11 months and boding well for output and jobs growth to improve in coming months.

The seasonally adjusted S&P Global Malaysia Manufacturing Purchasing Managers' Index™ (PMI®) fell from 51.6 in April to 50.1 in May. While fractionally above the neutral 50.0 level, the latest reading was indicative of a broad stagnation in manufacturing operating conditions. The historical relationship between the PMI and official statistics suggests that the upturn in GDP was beginning to ease in the second quarter of the year.

New order growth slowed sharply in the latest survey period. While positive overall, the rate of growth was only fractionally above the neutral 50.0 threshold, falling 3.9 points in comparison to April. As a result, output volumes were scaled back for the fifth consecutive month in May. That said, the rate of moderation was only modest overall. Manufacturers also reported that raw material shortages and rising prices had dampened client demand and production capacity.

Meanwhile, foreign demand for Malaysian manufactured goods continued to rise in May. The rate of growth quickened from April to reach the sharpest for 13 months as some panellists reported strengthened demand in key markets outside of mainland China as the pandemic impact dissipated.



Sources: S&P Global, Department of Statistics Malaysia.
Data were collected 12-25 May 2022.

Comment

Chris Williamson, Chief Business Economist at S&P Global Market Intelligence, said:

"Manufacturers continued to struggle in May against the headwinds of elevated price pressures and supply chain delays, as well as labour shortages. Lockdowns in mainland China in particular continue to aggravate the supply situation which, alongside difficulties sourcing workers, has led to a deteriorating factory production trend."

"However, companies have become more optimistic about the outlook. Optimism has been buoyed by stronger export sales and signs of a possible peaking of both supply delays and input cost inflation. Supply chains lengthened to the least extent for almost a year in May, and input costs rose at the slowest rate since last September; both welcome indications that the supply and inflation crisis may be starting to ease."

PMI®

by S&P Global

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Malaysian manufacturers reported that employment levels moderated further in May. The rate of job shedding was moderate, but the quickest reported since August 2020. Where a decrease was reported, firms noted the sustained difficulty in sourcing foreign workers and the non-replacement of voluntary leavers. Evidence of a lack of productive capacity was also apparent in a renewed rise in backlogs of work, which increased at the fastest pace for six months.

Goods producers continued to report significant supply chain disruption in May, although there was tentative evidence that pressures were gradually easing. Supplier delivery times lengthened at a marked rate that was nonetheless the softest since last June, as shortages of freight capacity and raw materials were exacerbated by renewed lockdown restrictions in mainland China. Delivery delays also contributed to a renewed reduction in input purchases, while holdings of pre- and post-production inventories broadly stabilised amid efforts to build safety stocks of inputs and finished goods.

Difficulty in sourcing and receiving raw materials contributed to a sustained increase in raw material prices. Input costs have now risen consistently for two years, as have factory gate charges, as firms continued to partially pass higher cost burdens on to clients.

Despite the reintroduction of restrictions in mainland China, manufacturers were increasingly confident that output would rise over the coming year, citing hopes that the end of the pandemic would encourage a full easing of restrictions. This would aid a broad-based recovery in market demand and supply chains.

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.

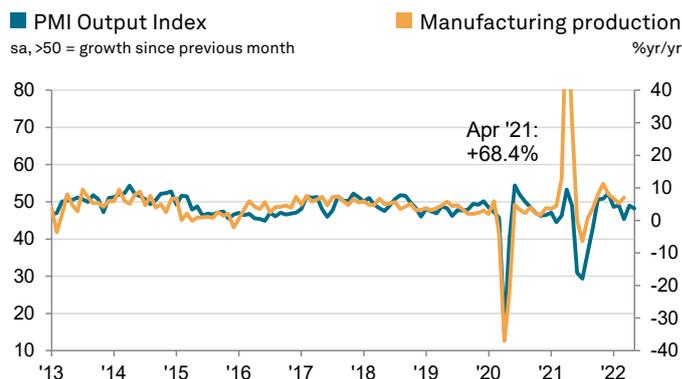
Underlying survey data are not revised after publication, but seasonal adjustment factors may be revised from time to time as appropriate which will affect the seasonally adjusted data series.

For further information on the PMI survey methodology, please contact economics@ihsmarkit.com.

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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.