News Release

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S&P Global Malaysia Manufacturing PMI®

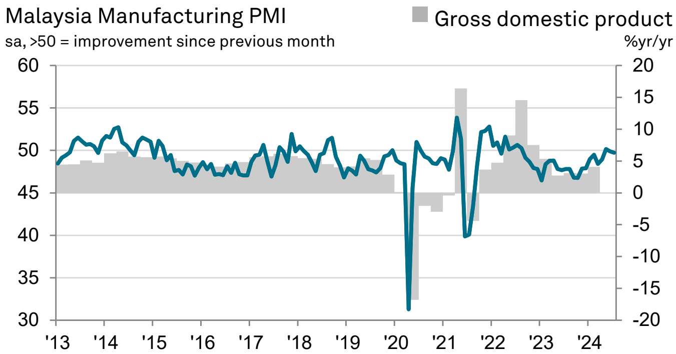
PMI at three-month low amid renewed moderation in new orders

Key findings

Output and new orders ease, but exports rise further

Renewed increase in outstanding business

Input cost and output price inflation quicken



Sources: S&P Global PMI, Department of Statistics Malaysia via S&P Global Market Intelligence.
Data were collected 11-25 July 2024.

July saw a moderation in the Malaysian manufacturing sector as demand conditions remained muted. Slowdowns were seen in new orders, output, employment and stocks, although firms pointed to firmer conditions overseas which resulted in a further increase in new export orders.

On the price front, the rate of input cost inflation edged higher at the start of the third quarter to reach an eight-month high, which translated to the steepest rise in output prices since September 2022.

The seasonally adjusted S&P Global Malaysia Manufacturing Purchasing Managers' Index™ (PMI®) dipped slightly from 49.9 in June to 49.7 in July. The reading therefore signalled a fractional moderation in the health of the sector.

The historical relationship between the PMI and official GDP data indicates that the second quarter of 2024 will likely see continued growth, though the data are also consistent with a slight slowdown in the rate of increase in official manufacturing production on an annual basis.

New orders eased for the first time in three months amid weak demand. The reduction was only slight, however. On the other hand, international markets saw growth for the fourth consecutive month in July, which firms often attributed to demand in the Asia and Oceania regions.

In line with the picture for new orders, production softened to the greatest extent for three months, though the rate of reduction was only modest.

Concurrently, employment was scaled back for the first time in four months in July as firms noted the non-replacement of voluntary leavers. That said, the rate of job shedding was only slight. Malaysian manufacturers recorded an increase in backlogs of work for the first time since May 2022, as firms commented that export demand coupled with lower employment had placed additional pressure on capacity.

Purchasing activity, stocks of inputs and inventories of

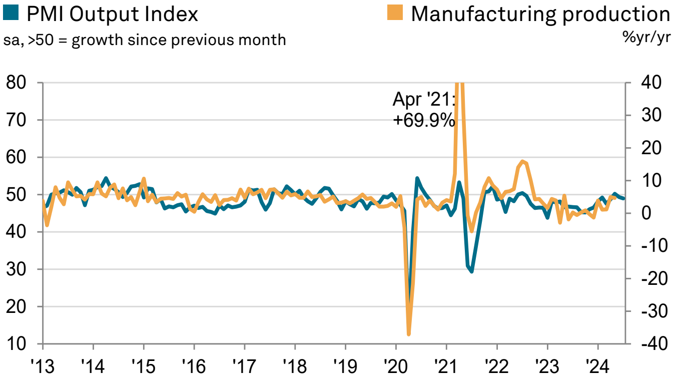
Comment

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

"Malaysian manufacturers remained under pressure in July, as the latest PMI data signalled that the sector saw a slightly steeper moderation in operating conditions. New orders, output and employment all softened, with incoming new business falling for the first time in three months.

"According to panel members, the subdued environment was largely limited to the domestic economy, as new export orders rose for the fourth month in a row, and at the joint-fastest pace since April 2021. Firms also cited this improvement in demand as a key factor behind the renewed rise in outstanding business.

"Inflationary pressures remained prevalent among Malaysian manufacturers meanwhile, as input price inflation edged slightly up to reach the highest for eight months. This contributed to the strongest rise in output charges since September 2022."



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

finished goods were all scaled back at the start of the third quarter, though only stocks of purchases saw the rate of moderation quicken on the month.

Despite weaker demand for inputs, firms saw longer delivery times for the third month in a row during July. Lead times lengthened to the joint-largest degree since September 2022 amid reports of severe port congestion.

The rate of input cost inflation ticked up slightly in July to reach an eight-month high amid higher raw material and transportation costs. At the same time, prices charged for manufactured goods were raised at the steepest rate since September 2022 as firms looked to pass additional cost burdens through to clients.

Hopes of an improvement in demand were key to optimism regarding the 12-month outlook for output at the start of the third quarter. The overall level of confidence strengthened to the highest since March, though remained below the long-run average (56.3) amid concern regarding the timing of a domestic demand 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@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:

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.
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PMI® by S&P Global