News Release

Embargoed until 0830 MYT (0030 UTC) 2 September 2024

S&P Global Malaysia Manufacturing PMI®

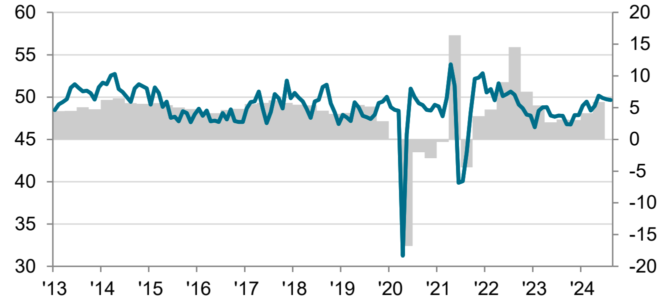
Overall manufacturing conditions remain broadly stable

Key findings

Headline PMI remains slightly below 50.0 no-change mark

Production and new orders moderate further

Steepest increase in cost burdens for nearly two years



Sources: S&P Global PMI, Department of Statistics Malaysia via S&P Global Market Intelligence.
Data were collected 12-23 August 2024.

Latest data signalled further muted trends across the Malaysian manufacturing sector midway through the third quarter. Demand remained generally subdued in August, while firms scaled back production at a modest rate that was nonetheless the steepest for four months. Data from the survey also suggested that the coming months are likely to remain muted, as manufacturers further scaled back purchasing activity, while also winding down stocks of purchases and finished items amid a lack of new orders. Moreover, there was a renewed depletion in outstanding business as firms opted to work through existing orders while demand was subdued. On the price front, input price inflation accelerated on the month to reach the highest since September 2022, which contributed to the most pronounced increase in output charges for 23 months.

The seasonally adjusted S&P Global Malaysia Manufacturing Purchasing Managers' Index™ (PMI®) was unchanged at 49.7 in August to indicate a fractional downturn in the Malaysian manufacturing sector.

The latest PMI data suggest GDP growth is running at a broadly similar rate to that seen in the second quarter, as well as pointing to modest year-on-year improvements in official manufacturing production data.

Manufacturers often noted that demand in the sector remained muted during August, with reports of weak customer confidence. Total new business moderated slightly for the second month running. At the same time, demand conditions in international markets improved for the fifth month in a row but at the softest rate in the current sequence.

With customer demand remaining subdued, manufacturers scaled back production for the third consecutive month. The moderation strengthened from July to the strongest in four months. Concurrently, stocks of finished goods were wound down further, as firms used existing stocks to fulfil orders.

Malaysian manufacturers reported a fractional fall in

Comment

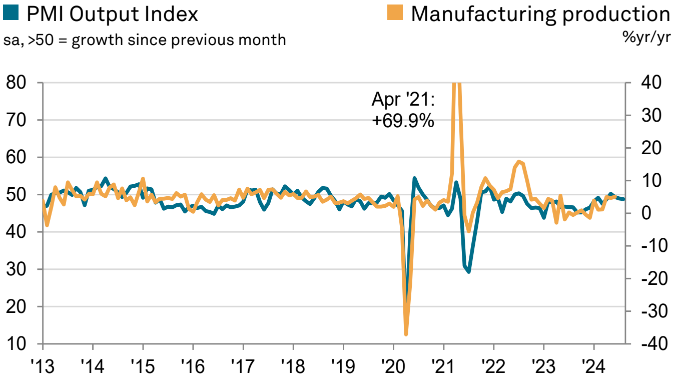
Usamah Bhatti, Economist at S&P Global Market Intelligence, said:

"The latest PMI data suggested that demand conditions in the Malaysian manufacturing sector remained subdued midway through the third quarter of 2024, as production and new order inflows moderated at a marginal rate. That said, the data are still consistent with the GDP growth seen in the second quarter of the year continuing.

"However, further evidence was provided to indicate that conditions are likely to remain subdued in the short term. Firms opted to work through existing orders in the absence of new order growth, while firms also scaled back purchases, employment and stock holdings.

"Positively, firms remained confident that output would improve over the coming year, with the degree of confidence solid overall. That said, firms mentioned that they remained unsure regarding the speed of the recovery, with downside risks centred around a muted global economy."

PMI® by S&P Global



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

employment levels for the second successive month. Manufacturers signalled that they had sufficient capacity as the level of outstanding business fell once again in August, and to the largest extent since April.

Firms operating in the Malaysian manufacturing sector signalled a marked rate of input cost inflation midway through the third quarter. Anecdotal evidence suggested that raw material prices had risen, notably those sourced from abroad due to exchange rate weakness. In response, output charges were raised for the fifth month in a row. In fact, both input and output prices rose at the most pronounced rates since September 2022.

In line with trends for new orders and production, purchasing activity was scaled back marginally in the latest survey period as the muted picture for new business weighed on input purchasing decisions. In turn, stocks of purchases also decreased, and at the steepest rate for four months.

There was a deterioration in vendor performance during August. The extent to which lead times lengthened was modest, yet the most marked seen since September 2022. Where delivery times increased, manufacturers mentioned delivery delays and port congestion.

Hopes that new orders will return to growth territory supported confidence that production will rise over the coming 12 months. The overall degree of optimism was solid, but weaker than 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@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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