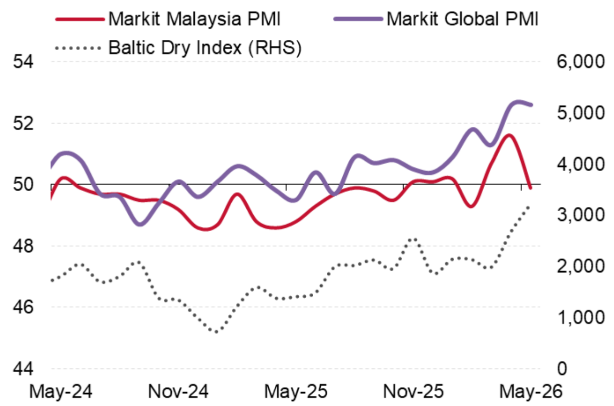
Malaysia Manufacturing PMI (May-26)

Edges below 50: flags softening demand as cost pressure bite

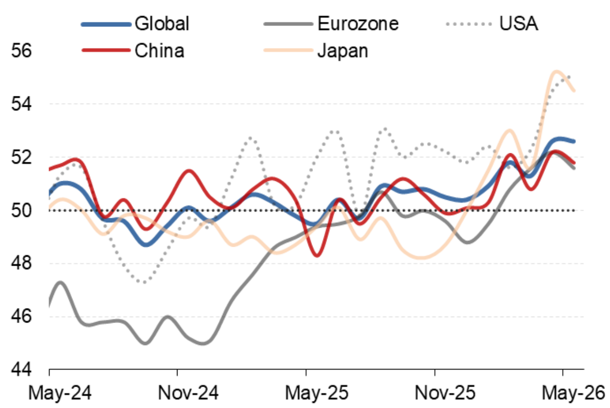
- **The Manufacturing Purchasing Managers' Index (PMI) eased to 49.9 in May (Apr: 51.6), slipping from a four-year high in the prior month**
  - The pullback reflects softer underlying demand conditions. Despite crossing below the 50.0 threshold, the reading still points to broadly steady manufacturing activity.
- **Weaker demand weighed on output**
  - Output slowed after two months of expansion, amid softer domestic and external demand conditions.
  - New orders moderated, as higher selling prices weighed on sales growth.
  - New export orders fell for a third straight month, marking the sharpest contraction since October on weaker external demand.
- **Inventory and purchasing activity driven largely by precautionary behaviour amid Middle East conflict**
  - Purchasing activity rose for a second straight month, as firms stocked up ahead of anticipated raw material price increases and supply disruptions.
  - Pre-production stocks declined at a slower pace, as continued purchasing helped stabilise input levels.
- **Cost pressures remained elevated, with slower price pass-through**
  - Input cost continued to rise, driven by higher raw material and fuel prices, though the pace eased slightly.
  - Output inflation slowed from its prior record high, as firms held back on passing costs through to remain competitive.
- **Business confidence improved slightly, but hiring remained subdued**
  - Employment was broadly unchanged as firms paused hiring, though some reported a modest increase in payrolls.
  - Business sentiment improved to its the highest since February on expectations on output will expand over the next 12 months.
- **Mixed performance across selected Asian manufacturing economies**
  - Taiwan (56.1; Apr: 55.3): Expanded strongly, reaching its highest level since July 2021, driven by higher output, new orders and inventory build.
  - Japan (54.5; Apr: 55.1): Eased slightly, but remained in expansion, supported by sustained new orders alongside higher inventories and prices tied to ongoing Middle East conflict.
- **Outlook: Inventory activity support near term, but demand risks persist amid high prices**
  - **Manufacturing outlook**: The slight dip in PMI below 50.0 signals easing momentum after earlier strength, with underlying demand weakening as higher prices bite. Nevertheless, near-term activity should still find support from continued precautionary stock building. However, this support appears fragile and may not be sustained if weaker domestic and external demand, alongside elevated cost pressures, continue to weigh on production going forward.
  - **GDP growth forecast:** High frequency indicators suggest 2Q26 growth remains relatively firm, supported by festive spending, resilient domestic demand, and inventory activity. We remain cautious on 2H26, however, given rising downside risks from slower demand and elevated costs. Therefore, we maintain our 2026 GDP forecast at 4.5%, reflecting a balanced risk profile.

Graph 1: Global & Malaysia Manufacturing PMI



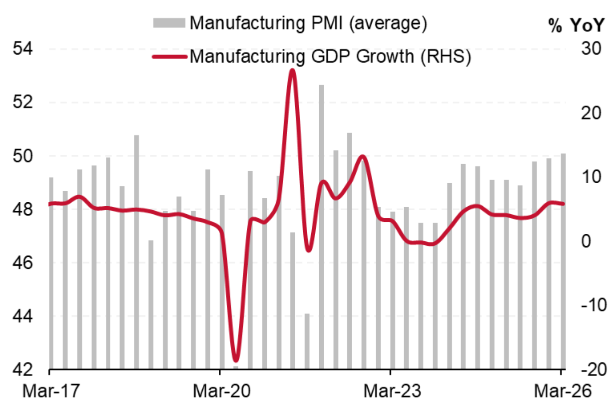
Source: Dept. of Statistics, Bloomberg, S&P Global, Kenanga Research

Graph 2: Global PMI Trend



Source: Bloomberg, S&P Global, Macrobond, Kenanga Research

Graph 3: Manufacturing PMI vs Manufacturing GDP



Source: S&P Global, Macrobond, Kenanga Research

Table 2: Malaysia PMI Trend

	2023	2024	2025	Nov-25	Dec-25	Jan-26	Feb-26	Mar-26	Apr-26	May-26
S&P Malaysia PMI	47.9	48.6	50.1	50.1	50.1	50.2	49.3	50.7	51.6	49.9
New Orders*				Up	Down	Up	Down	Down	Up	Down
Output*				Down	Down	Up	Down	Up	Up	Down
Employment*				Up	Up	Down	Down	Up	Up	Down
Stocks of Purchases*				Up	Down	Down	Down	Down	Up	Up
S&P Global PMI	49.0	49.6	50.4	50.5	50.4	50.9	51.8	51.3	52.6	52.6
Baltic Dry Index	2,094	997	1,877	2,560	1,877	2,148	2,140	1,995	2,686	3,224
DoS Leading Index (% YoY)	-0.9	3.2	0.5	0.5	0.2	0.9	0.8	0.5	N/A	N/A

Source: PMI by S&P Global, Bloomberg, Dept. of Statistics, Kenanga Research

**The "Up/Down/Flat" movements for sub-indicators are based on S&P Global own reports. Detailed and historical data are available on a subscription basis only.*

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