

Nikkei Malaysia Manufacturing PMI[®]

Business conditions improve for first time since January

Key points:

- PMI registers above neutral 50.0 threshold for first time in seven months
- Stronger rise in output, supported by growth in new business
- Future Output Index climbs to four-month high

Data collected August 13 - 24

August data signalled an improvement in Malaysian manufacturing conditions for the first time in seven months. This reflected growth in new orders for the first time in seven months and a faster rise in output. On the price front, input cost inflation eased to the slowest since February 2015. Looking ahead, business confidence was the strongest reported since April's multi-year peak.

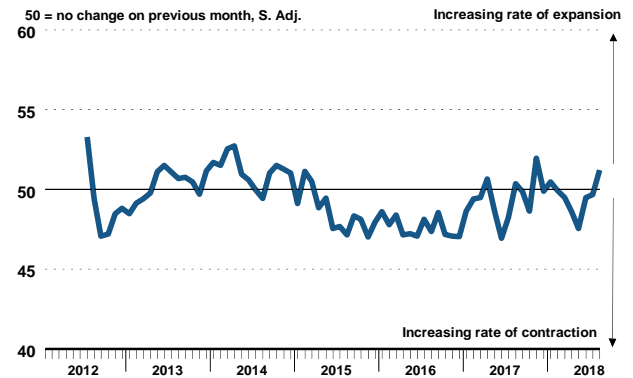
The headline Nikkei Malaysia *Manufacturing Purchasing Managers' Index*[™] (PMI[®]) – a composite single-figure indicator of manufacturing performance – rose from 49.7 in July to 51.2 in August. The latest reading pointed to a modest improvement in manufacturing conditions across Malaysia, ending a six-month period of deterioration.

The upward movement in the headline PMI index was driven by a rise in new orders for the first time in seven months during August. Panellists generally commented on strong market demand. Some respondents also mentioned that customers placed their orders before the Sales and Service Tax (SST) takes effect. At the same time, following a marginal rise in July, new export orders broadly stagnated during August.

Meanwhile, output rose for the second consecutive month during August. Although modest, the rate of expansion accelerated to the fastest since November 2017. More projects and strong underlying demand were the key factors cited by panellists behind the latest upturn.

Reflecting growth in new orders, backlogs of work rose for the first time in 15 months, albeit marginally. Subsequently, firms raised their staffing levels for the third month in succession during August. That said, the rate of job creation eased to a fractional pace

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Sources: Nikkei, IHS Markit

Purchasing activity rose during August, thereby ending an eight-month sequence of contraction. Stronger demand as well as stock building initiatives undertaken before the SST takes effect were the key factors behind the latest upturn, according to anecdotal evidence. That said, the rate of expansion was marginal. At the same time, pre-production inventories rose for the first time in nine months during August.

Input costs facing Malaysian manufacturers rose during August. Where an increase was reported, firms commented on currency weakness. However, the rate of inflation was marginal and eased to the slowest since February 2015. Meanwhile, Malaysian manufacturers raised their output charges for the second consecutive month in August, albeit only fractionally.

Looking ahead, business sentiment towards the 12-month outlook was the strongest in four months during August. Positive forecasts of sales and an expected improvement in demand conditions were the key factors behind optimistic projections for output, according to anecdotal evidence.

Comment:

Commenting on the Malaysian Manufacturing PMI survey data, **Aashna Dodhia**, Economist at IHS Markit, which compiles the survey, said:

“August data signalled an improvement in manufacturing conditions for the first time in seven months against a backdrop of improved demand conditions, indicated by the fastest gains in both output and new orders since November 2017.

“PMI price indicators meanwhile signalled easing inflationary pressures during August, which may have played a key role in boosting customers’ purchasing power. Indeed, output charge inflation was only fractional as input cost inflation moderated to the weakest since February 2015, reflective of the abolition of the Goods and Services Tax in June.

“Malaysian manufacturing companies raised their purchasing activity for the first time in nine months. The upturn was reportedly due to stronger demand as well as stock building initiatives undertaken by manufacturers ahead of the re-implementation of the Sales and Services Tax.

“Looking ahead, business sentiment towards the 12-month outlook for output strengthened to a four-month high, with confidence rooted in positive forecasts of sales and an expected improvement in underlying demand.”

-Ends-

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Notes to Editors:

The Nikkei Malaysia Manufacturing PMI® is based on data compiled from monthly replies to questionnaires sent to purchasing executives in over 450 industrial companies. The panel is stratified by Standard Industrial Classification (SIC) group, based on the industry contribution to GDP. The manufacturing sector is divided into the following 8 broad categories: Basic Metals, Chemicals & Plastics, Electrical & Optical, Food & Drink, Mechanical Engineering, Textiles & Clothing, Timber & Paper, Transport.

Survey responses reflect the change, if any, in the current month compared to the previous month based on data collected mid-month. For each of the indicators the 'Report' shows the percentage reporting each response, the net difference between the number of higher/better responses and lower/worse responses, and the 'diffusion' index. This index is the sum of the positive responses plus a half of those responding 'the same'. Diffusion indexes have the properties of leading indicators and are convenient summary measures showing the prevailing direction of change. An index reading above 50 indicates an overall increase in that variable, below 50 an overall decrease.

The Nikkei Malaysia Manufacturing *PMI* is a composite index based on five of the individual indexes with the following weights: New Orders - 0.3, Output - 0.25, Employment - 0.2, Suppliers' Delivery Times - 0.15, Stock of Items Purchased - 0.1, with the Delivery Times Index inverted so that it moves in a comparable direction.

IHS Markit do not revise underlying survey data after first publication, but seasonal adjustment factors may be revised from time to time as appropriate which will affect the seasonally adjusted data series. Historical data relating to the underlying (unadjusted) numbers, first published seasonally adjusted series and subsequently revised data are available to subscribers from IHS Markit. Please contact economics@ihsmarkit.com.

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