Nikkei Malaysia Manufacturing PMI®

Marked fall in new orders drags headline PMI into negative territory

Key points:

- Total new sales decline, but export orders grow
- Employment growth eases amid cost-cutting efforts
- Inflationary pressures intensify

Data collected October 12 - 25

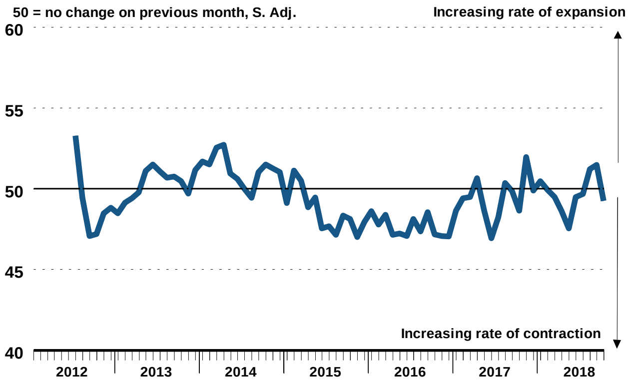
Latest survey data pointed to a deterioration in the health of Malaysia's goods-producing economy at the start of the fourth quarter. Although output was only slightly lower than in September, inflows of new work fell markedly and at the fastest pace in five months. There was also a notable slowing of employment growth amid reports of cost-cutting initiatives. Meanwhile, another month of sharp input price inflation influenced a reduction in the volume of purchasing activity. Looking ahead, businesses expect output levels to increase over the coming year.

The headline Nikkei Malaysia Manufacturing *Purchasing Managers' Index™ (PMI)* – a composite single-figure indicator of manufacturing performance – dipped below the 50.0 no-change mark for the first time since July to signal worse business conditions than in the previous month. The headline index fell to 49.2 in October, from 51.5 in September, indicating a mild rate of contraction in Malaysia's goods-producing sector.

The deterioration in operating conditions was largely driven by a marked reduction in total new sales. Demand eased noticeably in October, with weakness arising from domestic markets and the recently-implemented Sales & Services Tax (SST). However, new business from overseas increased at the sharpest pace in nine months. The USA and other countries in South East Asia were mentioned as destinations for new export orders.

With the overall level of new work declining, production at Malaysian manufacturers was cut back for the first time since June. However, the rate of decrease was only fractional, as outstanding business and new product launches encouraged some output growth in some instances.

Nikkei Malaysia Manufacturing PMI



Sources: Nikkei, IHS Markit

Survey data pointed to an alleviation of capacity pressures at Malaysian manufacturing units in October. Incomplete workloads declined to a faster extent than in September, but the rate of depletion was only modest overall. Despite falling incoming and existing order volumes, employment continued to rise, extending the current period of job creation to five months. Panellists indicated that new projects in the pipeline encouraged them to raise headcounts. However, the rise in staffing levels eased noticeably as some firms looked to reduce expenses.

Detrimental exchange rate movements, rising raw material prices and the Sales & Services Tax (SST) were all cited as sources of cost pressures in October. Input price inflation quickened to the fastest in almost a year. In line with higher purchasing costs, buying activity declined for the first time since July. Output charges were raised in response, and to the greatest extent in six months, but weak demand restricted the overall rate of increase to only a slight pace.

Despite the negative start to the fourth quarter, firms expect output levels to lift over the coming 12 months. Planned expansion into new markets and stronger sales forecasts supported business confidence. of the new SST will lead to slower orders.

Continued…

Comment:

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

"Survey data are showing the initial impact on the real economy that the implementation of the Sales & Services Tax (SST) is having. The headline PMI dipped below the crucial 50.0 mark for the first time since July as cooling demand pressures, which eased to a notable extent on the month, weighed on the manufacturing sector.

"At a time where global raw material prices are rising and the domestic currency is weakening, the SST introduction has fuelled a further month of sharp input cost inflation in Malaysia's manufacturing sector. Aside from the demand-side impact of the SST, there were reports of general underlying market weakness hampering new business growth, which restricted the extent to which firms were passing through higher cost burdens to clients. Indeed, firms reduced both input buying and new staff hiring in October as part of efforts to curb costs.

"Nonetheless, export sales increased at the fastest pace in nine months, with neighbouring countries across South East Asia supporting international demand for Malaysian goods."

-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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