News Release

EMBARGOED UNTIL: 08:30 (Kuala Lumpur) / 00:30 (UTC) June 3rd 2019

Nikkei Malaysia Manufacturing PMI®

Current manufacturing trend dips but business optimism hits multi-year high

Key points:

- PMI falls slightly below long-run average in May
- International demand weakens
- Future output expectations strongest since late-2013

Data collected May 13 - 24

Latest survey data revealed further challenges for Malaysian manufacturers during May, with firms continuing to report a weakening demand environment, particularly in international markets. More positively, downward pressure on manufacturing growth has eased since earlier in the year and expectations towards the coming 12 months were their most positive in over five-and-a-half years.

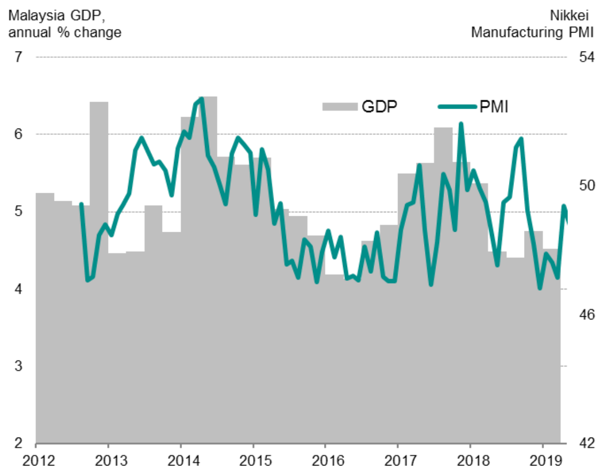
The headline **Nikkei Malaysia Manufacturing *Purchasing Managers' Index™ (PMI)*** – a composite single-figure indicator of manufacturing performance* – recorded 48.8 in May, down slightly from April's seven-month high of 49.4 but below the long-run average. Overall, the PMI is broadly indicative of annual GDP growth of approximately 5%, according to historical comparisons.

Manufacturing output remained under pressure during May, reflecting challenging demand conditions facing the sector, particularly from overseas. Nonetheless, the survey's output gauge held close to April's six-month high, suggesting the forces weighing on output growth have eased so far in the second quarter. Analysis of comparable historical official data on Malaysian manufacturing output suggests that, at current levels, the survey's output index signals annual production growth of just over 4%.

According to panellists, demand growth from clients in Europe, Thailand, Indonesia and the USA had slowed, weighing on total order book volumes. New export orders subsequently returned to contraction in May, having revived slightly during the previous month. However, despite continuing to signal a headwind from weak demand, the survey gauge of total new orders is running at its second-highest since the third quarter of last year so far in the second quarter.

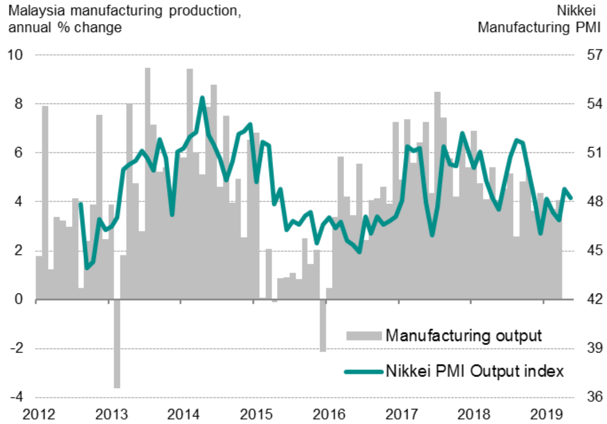
Surveyed companies showed hesitancy towards recruitment during May, as manufacturing employment was broadly stable. While some firms hired extra staff due to projects in the pipeline, others opted not to replace resignations. Nevertheless, backlogs of work declined as firms stepped up efforts to reduce outstanding business. The rate of depletion was the quickest in five months.

Nikkei Malaysia Manufacturing PMI vs. GDP



Sources: IHS Markit, Nikkei, DoS

Manufacturing Output PMI vs. official data



Sources: IHS Markit, Nikkei, DoS

Purchasing activity also declined in May, partly due to an increased focus on cost control amid slower production growth. Inventories were also reduced slightly as part of stock adjustment measures. Lower buying volumes helped ease pressure on supply chains, with lead times broadly unchanged since April.

Survey data on prices meanwhile indicated a pick-up of inflationary pressures in May. Anecdotal evidence indicated that unfavourable exchange rate variations had exacerbated raw material price increases, leading overall operating costs to rise at the fastest pace since last November. Output prices increased at the quickest rate in six months as firms sought to protect margins.

On a positive note, Malaysian manufacturers were the most upbeat towards future output volumes since October 2013. Planned new product launches and expectations of stronger demand, particularly from overseas markets, underpinned the improvement in confidence.

Comment:

Commenting on the Malaysian Manufacturing PMI survey data, **Chris Williamson,** Chief Business Economist at IHS Markit, which compiles the survey, said**:**

"The PMI lost a little ground in May but remained well above the lows seen earlier in the year, hinting that the worst is hopefully over for Malaysia's manufacturers. The average PMI reading for the second quarter so far is the highest since the third quarter of 2018. An improvement in companies' future output expectations to the highest for five-and-a-half years adds to signs that the business environment has started to brighten again. The improved manufacturing performance should therefore should help drive faster economic growth of around 5% in the second quarter.

"Companies clearly continue to exercise caution, however, notably in respect to being exposed to a possible deterioration in the global trade environment and currency fluctuations, meaning a focus on cost control remained evident in May. Both hiring and inventories consequently remained under pressure."

-Ends-

Using PMI survey data to nowcast Malaysia's GDP

- **PMI data are available faster than official GDP and at higher frequency, providing an accurate advance guide to economic growth**
- **Simple rules allow easy interpretation of PMI data for economic growth**

A common question we receive is how to use the PMI to predict economic growth, or GDP. Nowcasting models are typically complex, with many variables, of which the PMI can certainly be included. But in many countries, nowcast models do not offer significantly greater accuracy than a simple model that uses just the PMI.

In the case of Malaysia, comparing the headline PMI with annual GDP growth rates shows a reasonably high 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		GDP
30	=	-0.4
35	=	1.0
40	=	2.5
45	=	3.9
50	=	5.3
55	=	6.8
60	=	8.2

Interpretation of May PMI for GDP

The average PMI reading for Q2 so far is indicative of 5.1% annual GDP growth, according to historical comparisons. The survey data therefore suggest that the pace of economic expansion has accelerated again from a 4.5% growth rate in the Q1 (which the PMI had indicated a 4.6% expansion, accurately anticipating the weaker growth signalled by the official GDP data). With the survey finding a greater number of respondents anticipating higher output over the next 12 months, economic growth is expected to accelerate further.

Nikkei Malaysia Manufacturing PMI® is sponsored by NIKKEI

Nikkei is a media organization with newspaper publishing at its core. Our flagship daily newspaper, The Nikkei, has approximately two and a half million subscribers. Nikkei's multi-platform media distribution also includes online, broadcast and magazines.

Since our founding in 1876 as the Chugai Bukka Shimpo (Domestic and Foreign Prices News), we have consistently provided high-quality reporting while maintaining fairness and impartiality. The Nikkei brand has become synonymous with trustworthiness at home and abroad.

Nikkei Inc. offers a range of media platforms to satisfy the diverse needs of our readers. At the core of these services is The Nikkei which has a circulation of approximately two and a half million. Adding further depth to our offerings are our premium content and strong digital technology. The number of paying subscribers to the Nikkei Online Edition, which was launched in 2010, has surpassed 500,000. Our fee-based online services have one of the largest readerships in the world among newspaper publishers. Eight years after its creation, the online edition has evolved from a medium for providing news to readers into a tool that helps people advance their careers.

In 2013, we kicked off the Nikkei Asian Review, an English-language news service provided both online and as a weekly print magazine. The following year, we established an Editorial Headquarters for Asia in Bangkok to deepen our coverage of Asian economic news. In addition, we doubled the number of reporters stationed in Asia outside Japan. 2014 also saw the launch of Nikkei Group Asia Pte., a new company in Singapore tasked with spreading the Nikkei brand in the region. Our goal is to make Nikkei the leading media voice in Asia.

http://www.nikkei.co.jp/nikkeiinfo/en/

NIKKEI ASIAN REVIEW **http://asia.nikkei.com/**

INTRODUCING THE ONLY BUSINESS PUBLICATION THAT BRINGS YOU INSIGHTS ABOUT ASIA, FROM THE INSIDE OUT

With more reporters and contributors across the region than any other business publication, only Nikkei Asian Review can give you a view of business in Asia from the inside.

Stay abreast of the latest news, analysis and insights with a subscription to Nikkei Asian Review – available in print, online, and on your mobile and tablet device.

Asia 300

Asia300:
Providing extensive coverage of over 300 leading companies in 11 countries and regions in Asia. Nikkei Asian Review aims to build the largest hub for Asian corporate news through enhanced reporting backed by large database of business and financial information on companies in the region.

JAPAN UPDATE:
Keeping you up-to-date with business and news from Japan.

VIEWPOINTS:
Bringing views of leading minds on Asia from around the world, including our column "Tea Leaves" written by some of our best writers.

POLITICS & ECONOMY:
Looking at fiscal and monetary policy, international affairs and more

MARKETS:
Deep analysis if the markets, with detailed industry news to keep you abreast of some of the fastest growing sectors in the region.

Video:

Watch analysts explain our articles, catch interviews with top executives.

Print Edition:

Weekly delivery of the best content from Nikkei Asian Review to your home or office

For further information, please contact:

IHS Markit (About PMI and its comment)
Chris Williamson, Chief Business Economist
Telephone + 44 207 260 2329
Email: chris.williamson@ihsmarkit.com

Joanna Vickers, Marketing and Communications
Telephone +44 207 260 2234
E-mail: joanna.vickers@ihsmarkit.com

Bernard Aw, Economist
Telephone +65 6922 4226
E-mail: bernard.aw@ihsmarkit.com

Nikkei inc. (About Nikkei)
Ken Chiba, Deputy General Manager, Public Relations Office
Atsushi Kubota, Manager, Public Relations Office
Telephone + 81 3 6256 7115
Email koho@nex.nikkei.co.jp

Notes to Editors:

The early June releases of May data from the Asia PMI series will be the final releases to carry Nikkei branding

*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. Please note that the mining, utilities and refined petroleum sectors are not covered by the survey due to high levels of industry concentration and as such the survey findings should be interpreted accordingly.

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.

About IHS Markit (www.ihsmarkit.com)
IHS Markit (Nasdaq: INFO) is a world leader in critical information, analytics and solutions for the major industries and markets that drive economies worldwide. The company delivers next-generation information, analytics and solutions to customers in business, finance and government, improving their operational efficiency and providing deep insights that lead to well-informed, confident decisions. IHS Markit has more than 50,000 business and government customers, including 80 percent of the Fortune Global 500 and the world's leading financial institutions.

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. To learn more go to https://ihsmarkit.com/products/pmi.html.