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Nikkei Malaysia Manufacturing PMI®

Manufacturing downturn continues in January

Key points:

- Output and new orders both fall for fourth straight month
- Selling price inflation eases amid decrease in costs
- Business confidence strengthens to five-month high

Data collected January 11 - 25

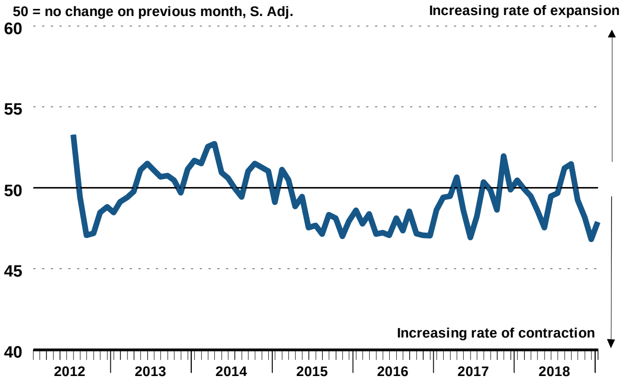
The Malaysian manufacturing sector began 2019 with a fourth successive monthly deterioration in operating conditions, with output and new business both declining during January. Export sales also declined, while easing demand pressures enabled firms to reduce backlogs of work. Although there was a marginal up-tick in employment, costs were cut elsewhere as input buying decreased and stocks were scaled back. Elsewhere, survey data indicated falling purchasing prices, enabling firms to raise their own prices more slowly. Looking ahead, companies were optimistic that output would be higher in 12 months.

The headline Nikkei Malaysia Manufacturing *Purchasing Managers' Index™ (PMI)* – a composite single-figure indicator of manufacturing performance – remained below the neutral 50.0 mark in January to signal a further deterioration in manufacturing business conditions. The PMI registered 47.9 in January, up from 46.8 in December, extending the current period of contraction to four months.

Also declining for a fourth month were new business inflows. Although demand weakened in January at a softer pace than in December, the decline was strong overall. Panellists reported that economic conditions had been unfavourable. Export sales also fell in the latest survey period, with softer demand arising from China, Japan and South Korea.

Decreased order book volumes weighed on production in January. Output was reduced, but the rate of contraction eased since December. In line with lower production requirements, Malaysian manufacturers decreased purchasing activity. The decline was solid overall, with panellists indicating that excessive stock levels and a challenging business environment prompted lower input buying.

Nikkei Malaysia Manufacturing PMI



Sources: Nikkei, IHS Markit

Inventories of both pre- and post-production items were scaled down in January.

Stocks of manufactured goods were reportedly used to clear outstanding orders. Backlogs of work fell in January, albeit to the softest extent since last September. However, survey data pointed to renewed pressures on supply chains, with input lead times lengthening. Logistic issues at vendors were mentioned by panellists.

Elsewhere, survey data revealed the first fall in operating expenses for four years in January. In fact, the rate of deflation was the strongest since data collection began in July 2012. That said, firms continued to raise selling prices, albeit only marginally and at the softest rate since last August. Labour costs were mentioned as a source of inflationary pressures. Indeed, employment increased in January for the first time since last November.

The downturn in current output volumes did not impact business confidence in January, with optimism regarding future production rising to its highest level in five months. Forecasts of improved demand, new projects and greater sales to overseas clients underpinned positive sentiment in January.

Continued…

Comment:

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

"Malaysia's manufacturing sector continued to deteriorate during January. Keeping the headline index in negative territory were further reductions in new business and output. Demand conditions were reportedly unfavourable within the domestic market, but survey data also highlighted fewer sales overseas, with declines attributed to weakness in China, Japan and South Korea.

"With survey data also showing pull-backs to inventories, slowing output price inflation and falling input buying, near-term prospects appear highly skewed to the downside for Malaysian goods producers."

-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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