Nikkei Malaysia Manufacturing PMI®

Deterioration in manufacturing conditions slows in June

Key points:

- PMI rises to three-month high of 49.5
- Slowest falls in output and new orders since March
- Cost pressures eases to the weakest since March 2015

Data collected June 12 - 25

Business conditions across Malaysia's manufacturing sector deteriorated at a slower pace in June. Rates of contraction in output and new business both eased to the weakest since March. On the price front, input cost inflation eased to the weakest since March 2015, whilst output charges were unchanged. Looking ahead, the Future Output Index fell to the lowest since last October, however, indicating weaker sentiment.

The headline Nikkei Malaysia Manufacturing *Purchasing Managers' Index™ (PMI®)* – a composite single-figure indicator of manufacturing performance – registered below the neutral 50.0 threshold during June, but rose from 47.6 in May to 49.5. This pointed to the weakest deterioration in business conditions since March.

Output declined further in June, but at a slower pace. Where a decrease was registered, panellists commented on unfavourable economic conditions.

In line with the trend of output, new business declined for the fifth consecutive month in June. The fall in new business was linked to lacklustre demand, according to anecdotal evidence. That said, the rate of decline moderated to the slowest since March.

Amid reports of weaker demand from international markets, new export orders declined at the end of the second quarter. That said, the latest downturn was the slowest since February.

Despite a sustained period of decline in output and new orders, Malaysian companies reported a renewed expansion in payroll numbers. That said, the rate of job creation was marginal.

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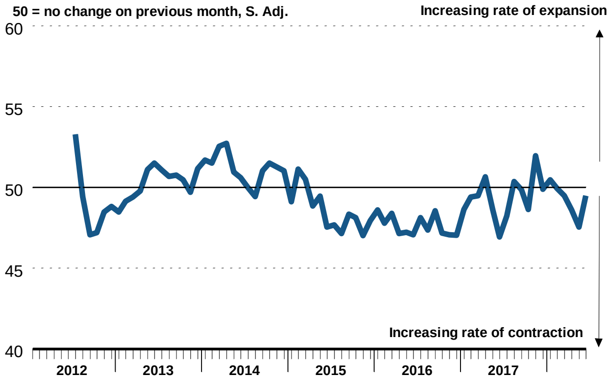

Sources: Nikkei, IHS Markit

On the price front, firms faced higher input costs during June, thereby stretching the current period of inflation to 41 months. That said, input cost inflation eased for the third successive month to the weakest since March 2015. Meanwhile, there was no change in average selling prices during June, thereby ending a 19-month sequence of inflation.

Average lead times lengthened for the third month in succession during June. That said, the degree of deterioration was modest. According to anecdotal evidence, raw material shortages contributed to delays across Malaysia's supply chains.

Malaysian manufacturing companies were discouraged from engaging in input buying for the seventh month in succession during June. That said, the rate of decline eased to the slowest since February. Meanwhile, pre-production inventories declined for the seventh consecutive month in June. Panellists commented on weak demand requirements.

Looking ahead, Malaysian manufacturing firms retained positive forecasts for output in the next 12 months. Panellists reported that expectations of an improvement in underlying demand underpinned confidence. That said, the level of confidence dipped to the lowest since October 2017.

Comment:

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

"June data indicated that manufacturing conditions in Malaysia deteriorated at the slowest pace since March, as the rates of contraction in output and new business eased to the slowest since March. Anecdotal evidence highlighted weak underlying demand for Malaysian goods from both domestic and international markets.

"Surprisingly, firms raised their staffing levels during June, despite a sustained period of decline in output and new orders. That said, the rate of job creation was only marginal.

"There were some reports that the abolition of the Goods and Services Tax alleviated pressure on firms' costs burdens. Subsequently, input cost inflation moderated to the slowest since March 2015.

"Malaysian manufacturing companies retained positive forecasts for output in the next 12 months. That said, business confidence eased to the weakest since October 2017."

-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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