

Nikkei Malaysia Manufacturing PMI[®]

Manufacturing business conditions deteriorate further in April

Key points:

- PMI falls to six-month low of 48.6
- Output and new orders decline at faster rates...
- ...but business confidence highest since October 2013

Data collected April 12 - 24

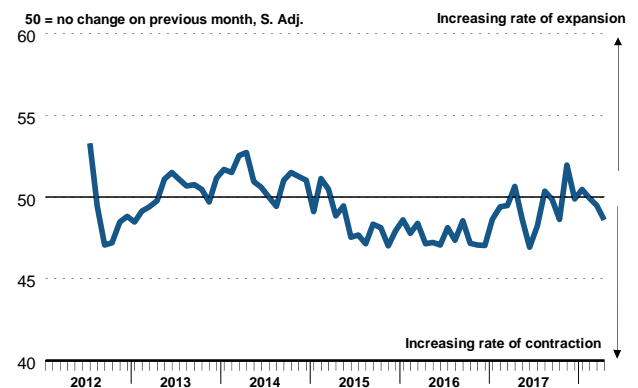
Malaysian manufacturing conditions deteriorated for the third successive month during April, driven by faster declines in output and new orders. Lower production requirements and subdued demand conditions led to firms reducing their purchasing activity and pre-production inventories. Meanwhile, input cost inflation was sharp and in line with the series trend. At the same time, business sentiment was the highest in four-and-a-half years. Subsequently, Malaysian manufacturing companies continued to raise their staffing levels.

The headline Nikkei Malaysia Manufacturing Purchasing Managers' Index[™] (PMI[®]) – a composite single-figure indicator of manufacturing performance – fell from 49.5 to 48.6 in April. This was indicative of a modest deterioration in the health of the sector that was the strongest since October 2017. Notably, the latest decline outstripped the series trend.

Central to the overall downturn was a marked reduction in new orders during April. Moreover, the rate of contraction quickened to the fastest since July 2017. Lacklustre demand was cited by panellists as the key factor contributing to a decline in new work. Meanwhile, new export orders fell at a solid pace that was the strongest since December 2016.

Another key factor contributing to the downward movement in the headline PMI Index was a fall in output for the second consecutive month in April. Though modest, the pace of decline quickened to the fastest since July 2017. According to anecdotal evidence, weak demand conditions were behind the latest downturn.

Nikkei Malaysia Manufacturing PMI



Sources: Nikkei, IHS Markit

Outstanding business was reduced at the start of the second quarter. That said, the rate of contraction moderated for the second month in a row to a fractional pace. Despite ongoing spare capacity, Malaysian manufacturing companies raised their staffing levels during April, albeit only marginally.

On the price front, Malaysia's manufacturing sector faced higher input costs for the thirty-ninth consecutive month in April. That said, the rate of inflation was sharp and broadly in line with the historical average.

Meanwhile, manufacturers raised their output prices during April, thereby extending the current period of inflation to 18 months. Moreover, the latest increase was the fastest since last September. There were reports that Malaysian firms raised their selling prices to pass on higher input costs to customers.

Reflecting weak demand conditions, purchasing activity fell across Malaysia's manufacturing sector for the fifth successive month during April. The contraction quickened to a solid pace that was the fastest since the end of 2017. Subsequently, both pre-and post-production inventories fell over the latest survey period.

Lastly, the Future Output Index climbed to the highest since October 2013 in April. Expected improvements in demand conditions and new projects underpinned business confidence, according to panellists.

Comment:

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

“The health of the manufacturing economy deteriorated at the strongest pace since October 2017 in April, reflecting lacklustre demand from domestic and international markets. Subsequently, total new orders and new export orders contracted at the fastest rates since July 2017 and December 2016 respectively.

“The recent build-up of inflationary pressures faced by manufacturers softened in April, with input cost inflation broadly in line with the historical average. On the other hand, output charge inflation was solid and the fastest since last September.

“On the bright side, business sentiment towards the 12-month outlook for output was at the strongest level since October 2013. As firms were upbeat about their prospects, firms continued to expand capacity by raising their payroll numbers.”

-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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