News Release

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Nikkei Malaysia Manufacturing PMI®

Output expands despite reduction in new work

Key points:

- Output rises in September, albeit fractionally
- New orders fall for fifth consecutive month...
- ....but employment rises further

Data collected September 11 - 25

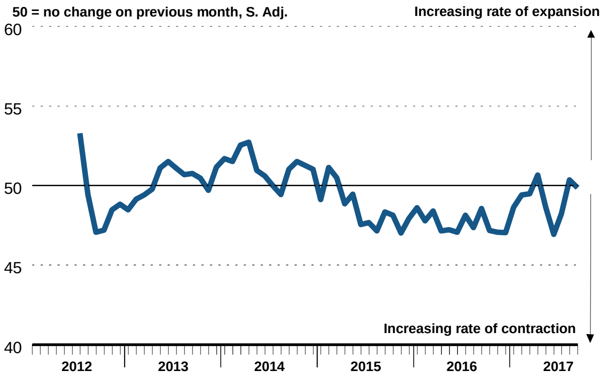
After having improved in August for the first time in four months, business conditions in the Malaysian manufacturing sector were broadly unchanged in September. New orders continued to decline amid reports of weak demand from domestic and international sources. Moreover, output growth slowed to a fractional pace. On a positive note, firms continued to raise their staffing levels, with the rate of employment growth the second-fastest since October 2015. On the price front, a sharp and accelerated increase in input costs prompted firms to raise their output charges in order to protect margins.

The headline Nikkei Malaysia Manufacturing *Purchasing Managers' Index™ (PMI®)* – a composite single-figure indicator of manufacturing performance – dipped from 50.4 in August to 49.9 in September. This signalled broadly unchanged business conditions. That said, the PMI average over the third quarter of 2017 as a whole was the highest since Q1 2015.

The fall in the PMI was mainly driven by reduced new business, which declined for the fifth successive month. Those firms that recorded a decrease in new orders commented on weak underlying demand. Meanwhile, new export orders decreased following an expansion in August.

Manufacturing output rose further at the end of the third quarter. However, the rate of expansion was only fractional and softened from August's six-month high. Malaysian manufacturers continued to raise their staffing levels despite the ongoing decline in new work. The rate of employment growth was modest, but the second-fastest since October 2015. Evidently, there were sufficient resources to enable a timely completion of unfinished business, with backlogs decreasing for the fourth consecutive month.

Nikkei Malaysia Manufacturing PMI



Sources: Nikkei, IHS Markit

Firms faced sharp cost inflationary pressures due to a general rise in raw material prices. Reflecting higher cost burdens, firms raised their charges again in September. Rates of inflation for both input costs and selling prices quickened to the fastest since May.

Purchasing activity fell at a solid pace in response to lower sales volumes. As a consequence, stocks of purchases also declined.

Delivery times shortened for the first time in seven months during September, albeit fractionally. The improvement in vendor performance reflected special requests for faster deliveries, according to survey respondents.

Stocks of finished goods declined for the sixth consecutive month during September, with panellists reporting efforts to streamline inventories.

Firms remained confident towards the 12-month outlook for output. Panellists commented on planned expansions and expected improvements in market demand.

Comment:

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

"The underlying indicators that signalled some signs of recovery in the manufacturing sector in August proved to be transitory as operating conditions were broadly unchanged in September.

Weak demand contributed to reduced new business and only a fractional expansion in output. Moreover, there was a renewed decline in new export orders.

"On the bright side, employment rose for the third successive month.

"Over the third quarter of 2017 as a whole, the PMI showed the highest average since Q1 2015. IHS Markit forecasts industrial production growth of +4.6% in 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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