

Nikkei Malaysia Manufacturing PMI[®]

September PMI signals strongest improvement in 2018 so far

Key points:

- PMI rises to ten-month high of 51.5
- Strongest increase in manufacturing employment since first month of data collection in July 2012
- Input price inflation jumps with introduction of new SST

Data collected September 12 - 24

September PMI[®] data signalled the strongest improvement in Malaysian manufacturing conditions for ten months, driven by a faster rate of job creation. Manufacturers added to their payrolls at a rate not seen since the opening month of the survey in July 2012. Output and new business continued to rise at comparatively solid rates. The latest survey also revealed an inflationary impact from the recently-introduced Sales & Service Tax (SST).

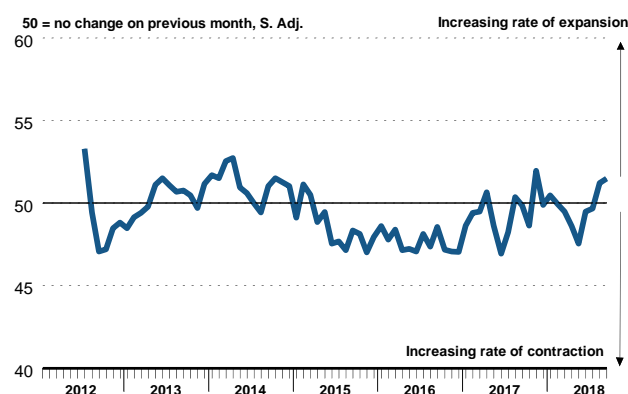
The headline Nikkei Malaysia Manufacturing Purchasing Managers' Index[™] (PMI) – a composite single-figure indicator of manufacturing performance – remained above 50.0 in September, marking the first sequence of positive readings in three-and-a-half years. Moreover, the headline figure rose to 51.5, from 51.2 in August, indicating the strongest overall manufacturing performance since November 2017.

The upward movement in the headline PMI was driven by a stronger rise in employment. The rate of job creation in the manufacturing sector was the strongest since the first month of the survey's operation in July 2012. Firms reported taking on more staff in preparation for expected workloads.

The volume of new work received by Malaysian manufacturers rose for the second month running in September, despite the introduction of the new SST at the start of the month. In fact, it was the first back-to-back rise in new business in the goods-producing sector for nearly four years. New export orders increased for the third month running, albeit at a weak rate.

Further growth of new work led to a third successive monthly gain in output in September.

Nikkei Malaysia Manufacturing PMI



Sources: Nikkei, IHS Markit

The rate of growth was little-changed since August, when workloads had been boosted somewhat in advance of the SST implementation, and remained relatively solid compared with the trend over the six-year survey history. The volume of outstanding business fell in September, having previously risen for the first time in over a year in August.

Purchasing activity and input stocks both increased for the second month running in September, as manufacturers supported current workloads and planned for expected customer orders. Suppliers' delivery times lengthened to the greatest degree in three months.

Input price inflation jumped to a six-month high in September. Firms mainly linked greater cost pressures to the introduction of the new Sales & Service Tax on 1 September. The month-on-month acceleration in the rate of inflation was the largest observed in over a year-and-a-half. Subsequently, manufacturers raised their own prices for the third month running, and at a stronger rate than in July and August.

Output expectations remained positive during September, with manufacturers generally expecting more business from customers over the next 12 months. The strength of sentiment weakened, however, reflecting concerns among some firms that the implementation of the new SST will lead to slower orders.

Comment:

Commenting on the Malaysian Manufacturing PMI survey data, **Paul Smith**, Economics Director at IHS Markit, which compiles the survey, said:

“Malaysia’s manufacturing economy defied the challenges of the recently introduced Sales & Services Tax (SST) to register its strongest rate of growth in ten months, led by the second sharpest gain in employment in the survey history.

“Both output and new orders rose since the previous month. That said, rates of growth remained relatively tepid, with confidence about the future dipping to a three-month low amid worries amongst firms on how the introduction of the SST will affect demand and subsequently production going forward.

“Indeed, the impact of the SST is already being felt on the pricing side, with input cost inflation jumping up to a six-month high in September and output charges being raised for a third successive month.”

-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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