Nikkei Malaysia Manufacturing PMI®

Manufacturing conditions deteriorate further in May

Key points:

- PMI falls to an 11-month low of 47.6
- Faster contractions in output and new business
- Input cost inflation eases to weakest since October 2016

Data collected May 11 - 24

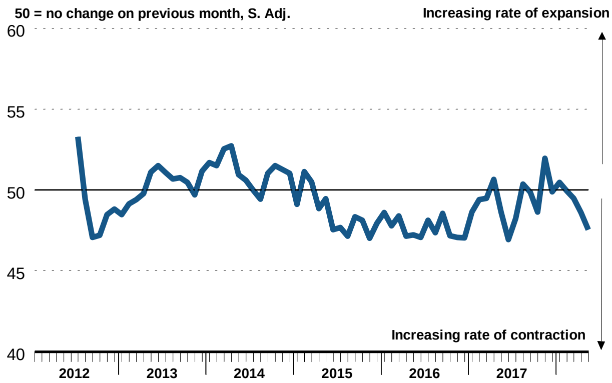
Operating conditions across Malaysia's manufacturing sector deteriorated in May, thereby stretching the current period of decline to four months. This was predominantly driven by the sharpest fall in new business since December 2016. On the price front, input cost and output charge inflation eased to the slowest since October 2016 and February respectively. At the same time, business sentiment remained above the historical average.

The headline Nikkei Malaysia *Manufacturing Purchasing Managers' Index™ (PMI®)* – a composite single-figure indicator of manufacturing performance – fell from 48.6 in April to 47.6 in May. This indicated a solid deterioration in operating conditions that was the strongest since June 2017.

A fall in new orders was a key factor contributing to the downward movement in the headline index. Moreover, the rate of contraction was the strongest in nearly one-and-a-half years. Lacklustre demand was cited by panellists as the main reason behind lower new business. Meanwhile, new export orders fell for the fourth successive month in May. That said, the rate of decline moderated to the weakest in three months.

Output across Malaysia's manufacturing sector declined in May. Moreover, the decline was the fastest in the current three-month sequence of contraction. Panellists commented on weak underlying demand conditions.

Nikkei Malaysia Manufacturing PMI



Sources: Nikkei, IHS Markit

For the first time in seven months, Malaysian manufacturing companies reduced their payroll numbers in May. Cost-cutting measures and poor demand conditions were the key factors behind lower payroll numbers, according to anecdotal evidence. At the same time, backlogs continued to reduce in May. Lower volumes of new work enabled a timely completion of unfinished business, according to anecdotal evidence.

As has been the case since February 2015, Malaysian manufacturing companies faced higher input prices during May. Panellists reported that there was a general increase in raw material prices. That said, input cost inflation eased to the slowest since October 2016.

As has been the case since November 2016, average prices charged by Malaysian manufacturers rose in May. Reflecting the easing of cost inflationary pressures, however, output charge inflation was modest and eased from April's seven-month high.

Amid reports of poor demand conditions, purchasing activity declined at the fastest pace since last June. Subsequently, pre-production inventories reduced in May, albeit marginally.

Despite easing slightly from April's recent high, Malaysian manufacturers retained strong projections for output in the year ahead. Optimism was rooted in hopes that the new government will spur business activity and improve demand conditions, according to anecdotal evidence.

Comment:

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

"Latest survey data highlighted that Malaysian manufacturing conditions deteriorated at the fastest pace since June 2017, primarily driven by the sharpest fall in new business since December 2016. PMI data suggested that weak demand emanated from both the domestic and foreign markets.

"In response to lower output requirements, firms were discouraged from engaging in input buying and job recruitment. However, on the price front, manufacturers felt some respite around inflationary pressures with input cost inflation easing to the weakest since October 2016."

"A key PMI finding was that the manufacturers retained strong projections for output in the next 12 months, rooted in hopes that the new government will spur business activity in the year head."

-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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