NIKKEI

PMI® By IHS Markit

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Nikkei Malaysia Manufacturing PMI®

Deterioration in manufacturing sector worsens in November

Key points:

- Output and new orders fall at faster rates
- Firms scale back stocks of inputs and finished goods
- Cost pressures remain elevated

Data collected November 12 - 26

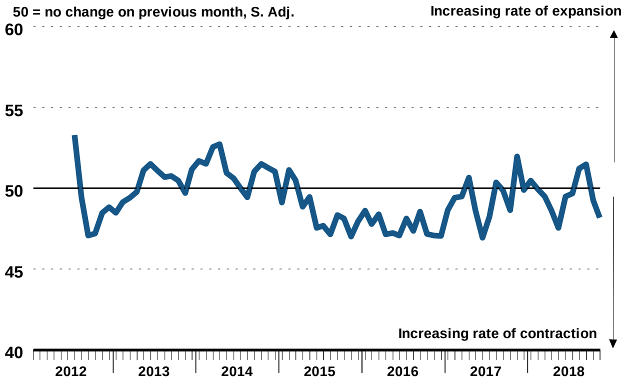
Malaysia's manufacturing economy observed a deeper decline in business conditions during November, with the headline PMI falling to a six-month low. Both production and new orders fell at quicker paces, leading firms to reduce input buying and subsequently reduce their stocks of purchases. However, weaker demand did lead to a softer lengthening of input delivery times. Firms also hired extra staff to the weakest extent since August. Survey data continued to highlight strong cost pressures, causing firms to raise output charges as part of efforts to alleviate margin erosion.

The headline Nikkei Malaysia Manufacturing *Purchasing Managers' Index™ (PMI)* – a composite single-figure indicator of manufacturing performance – fell further into negative territory during November. This was signalled by the headline index falling to 48.2, from 49.2 in October. Latest data pointed to the sharpest deterioration in the health the goods-producing sector since May and extended the current period of decline to two months.

Contributing to the latest monthly contraction in Malaysia's manufacturing sector was weaker demand pressures. New orders decreased markedly in November and to the greatest extent for six months. Meanwhile, export sales picked up from the previous month, indicating that the soft patch in order book volumes stemmed from domestic clients. However, the rise in new business from overseas was only marginal.

Nonetheless, Malaysian manufacturers continued to add to their payrolls. Although the rate of job creation was mild and slower than seen in October, it was broadly in line with the series average. Fewer new sales in conjunction with higher staffing levels enabled firms to channel additional resources to clearing outstanding business. Backlogs of work were reduced for a third month in succession during November and to the quickest extent since July 2017.

Nikkei Malaysia Manufacturing PMI



Sources: Nikkei, IHS Markit

Amid less favourable demand conditions, firms cut their purchasing activity and also stockpiled fewer inputs and finished goods in November. As a consequence of weaker buying levels, pressures on suppliers were less intense than seen in October, with delivery times lengthening to the least extent in four months.

On the price front, cost pressures reportedly stemmed from ringgit depreciation and higher raw material costs in November. Although the increase in input prices was softer than the 11-month peak seen in October, it was strong overall. However, the trend for output charges diverged, with selling prices rising at a faster rate. Firms mentioned efforts to pass-through higher costs to their clients as a factor behind the increase.

Despite the downward trend in current output volumes, Malaysian manufacturers expect production to pick up over the next 12 months. Forecasts of improved demand and planned new product introductions underpinned the optimistic view. That said, confidence eased as some firms raised concerns about the wider economy.

Continued…

Comment:

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

"Growth prospects for the fourth quarter took a turn for the worse in November, as the headline PMI indicated a second successive monthly decline in the manufacturing sector. Key forward-looking gauges of macroeconomic health also depicted downside risks, as overall demand fell sharply, leading firms to be less willing to hold stock.

"Following the introduction of the Sales and Service Tax (SST) in September, panellists have mentioned weaker demand pressures in Q4 so far. Survey data also pointed to slowing order growth from overseas clients in November, following some relative strength in October."

-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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