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Nikkei Malaysia Manufacturing PMI®

PMI drops to survey-record low in June

Key points:

- Output and new orders fall at steeper rates
- Record downturns in buying activity and input stocks
- Staffing levels stagnate

Data collected 12 - 26 June

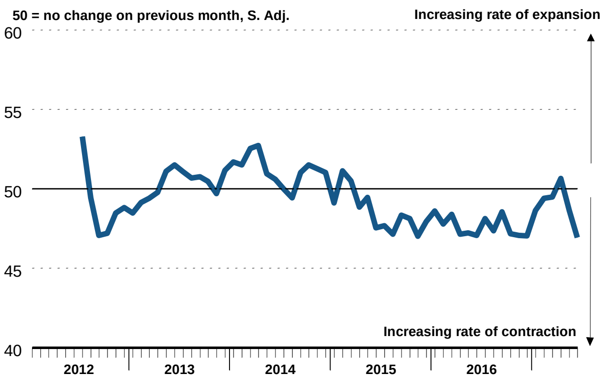
June data pointed to the worst downturn at Malaysian manufacturers since data collection started five years ago. Business conditions worsened noticeably, with both output and new orders falling more quickly than in May. Employment was broadly stagnant, while purchasing activity and input stocks declined at survey-record rates. Despite underlying weakness in client demand, manufacturers remained upbeat about the year ahead, with optimism improved slightly since May. On the price front, cost pressures eased to the weakest in eight months.

At 46.9, the headline Nikkei Malaysia Manufacturing *Purchasing Managers' Index*TM *(PMI)*® – a composite single-figure indicator of manufacturing performance – pointed to a solid downturn in June. Down from 48.7 in May, the latest reading was the lowest in the survey's five-year history. It also meant that business conditions deteriorated across the second quarter as a whole (average: 48.7).

Both output and new orders decreased solidly in June. Production fell at the fastest rate since June 2016, while the rate of decline in new work accelerated to the most marked since the end of last year. There were reports of a downturn in client demand and an economic slowdown in the latest period.

The fall in total new business was marginally offset by higher exports in June. New orders from abroad rose for the second time in three months, albeit only modestly. Panellists mentioned incoming new work from fellow Asian economies including China, Vietnam and India.

Nikkei Malaysia Manufacturing PMI



Sources: Nikkei, IHS Markit

Lower demand and output requirements had the knock-on effect of reduced purchasing activity in Malaysia's manufacturing sector. A number of monitored firms commented on efforts to streamline stocks. Both input buying and stocks of purchases dropped at survey-record rates. Inventories of finished goods also declined, as has been the case throughout the second quarter.

After having risen in the prior month, employment was broadly stagnant in June. Some panel members suggested that foreign workers had left their posts to return to their home country. Meanwhile, backlogs of work fell for the second time in three months amid a lack of incoming new business. However, the rate of depletion was only moderate overall.

The rate of input price inflation eased to the least marked since October 2016 during June. Reports of exchange rate volatility and higher raw material costs were less prevalent than in preceding months. Output charges also rose more slowly. Both increases were nevertheless faster than their respective series averages.

On a brighter note, June's downturn did little to dampen optimism at Malaysian manufacturers. The Future Output Index was above the average since the beginning of 2016. According to anecdotal evidence, positive output expectations were based on hopes of an improvement in demand.

Comment:

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

"Malaysia's Manufacturing PMI sank to a record low in June, just two months after signalling growth in April. Sharper falls in output and new work were the main factors behind the sector's plight. With underlying demand worsening, goods producers took steps to limit workforce growth and streamline inventories – employment stagnated and stocks of purchases fell at a survey-record rate.

"However, firms' optimism was undeterred, with sentiment instead improving since May. A number of panellists predicted a turnaround in client demand."

-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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