News Release

EMBARGOED UNTIL: 0830 (Kuala Lumpur) / 0030 (UTC) January 3rd 2017

Nikkei Malaysia Manufacturing PMI™

Manufacturing conditions deteriorate at solid pace

Key points:

- Production declines for twenty-first month running
- New orders decrease at rate little-changed from November's survey record
- Cost inflationary pressures accelerate to series-record high

Data collected 6-16 December

The manufacturing sector in Malaysia deteriorated throughout the final quarter of 2016. Both production and new orders declined, with the latter falling at a rate little-changed from November's survey record. A decrease in total new orders resulted partly from a drop in international demand, as new export orders declined at the sharpest rate in six months. Concurrently, employment growth eased from November's 13-month high to only a marginal rate.

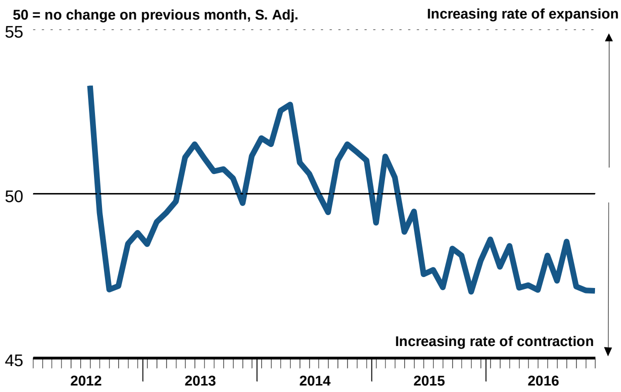
On the price front, reports of the weak Malaysian ringgit drove up input prices at the fastest rate since the survey began in July 2012.

The headline Nikkei Malaysia Manufacturing *Purchasing Managers' Index*™ *(PMI)* is a composite single-figure indicator of manufacturing performance. It is derived from indicators for new orders, output, employment, suppliers' delivery times and stocks of purchases. Any figure greater than 50.0 indicates overall improvement of sector operating conditions.

The headline PMI posted at 47.1 in December, the same reading as November, thereby signalling a deterioration at Malaysian manufacturers for the twenty-first consecutive month. Moreover, the latest reading contributed to the joint-lowest quarterly average (with Q2 2016) since the survey began in July 2012.

Contributing to the overall decline in manufacturing conditions was a fall in production. According to panellists, an unstable economy and a fall in new work inflows were factors behind the decrease in output. That said, the rate of decline was slightly weaker than the average over the current 21-month period of contraction.

Nikkei Malaysia Manufacturing PMI



Sources: Nikkei, IHS Markit

New order intakes at Malaysian goods producers decreased for the twenty-second month running in December. Almost 24% of the survey panel registered a decline in new work inflows, compared to only 13% that reported an expansion. Firms linked a fall in incoming new work to a decline in both domestic and international demand.

A drop in international demand was also reflected in the survey data, with new export orders declining at the sharpest rate since June. Greater global competition and a challenging worldwide economy contributed to the fall in new export orders, according to panellists.

Resulting from worsening operating conditions, buying activity was scaled back at a marked pace. In fact, the rate of decrease was sharper than the average over the current 19-month sequence of contraction. The rate of job creation also eased and was only marginal overall.

Finally, greater raw material costs stemming from the weakness of the ringgit drove up cost burdens further, as input prices rose at the sharpest rate in the survey's history. As a result, prices charged rose for the second consecutive month, albeit at only a slight rate.

Comment:

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

"The end of the final quarter of 2016 saw the Malaysian manufacturing sector remain in contraction territory. New orders declined at a rate little-changed from November's survey record, which led to a further contraction in production. Not surprisingly, manufacturers cut back on their buying activity and employment growth slowed to a marginal rate.

"Meanwhile, the weakness of the Malaysian ringgit continued to weigh heavily on goods producers' cost burdens, with input prices rising at the sharpest rate in the series history. IHS Markit forecasts consumer price to strengthen over the New Year, as manufacturers try to pass on their additional costs."

-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.

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 Markit. Please contact economics@ihsmarkit.com.

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