News Release

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Nikkei Malaysia Manufacturing PMI®

New orders contract at the fastest pace since July

Key points:

- Fractional growth in output during October
- Employment falls for the first time in four months
- Confidence eases to the weakest since May

Data collected October 12 - 24

The Malaysian manufacturing sector started the fourth quarter on a subdued note. Overall business conditions deteriorated at the sharpest rate since July, following a broad stagnation in the prior month. The downturn was driven by lower volumes of new business, with the rate of contraction the sharpest in three months. Production rose at a fractional pace, subsequently.

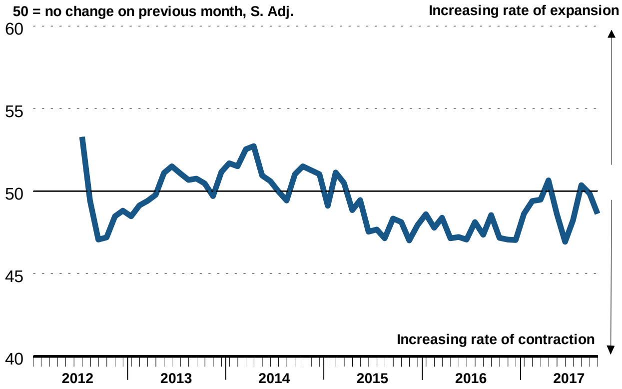
In response to subdued demand conditions and spare operating capacity, firms decreased their payroll numbers at the fastest pace since August 2016. Firms also cut purchasing activity whilst, on the price front, they continued to face sharp inflationary pressures. However, firms were restricted in their ability to pass on higher cost burdens to price-sensitive customers.

The headline Nikkei Malaysia Manufacturing Purchasing Managers' Index™ (PMI®) – a composite single-figure indicator of manufacturing performance – fell to 48.6 in October from 49.9 in September. This was consistent with a modest deterioration in the health of Malaysia's manufacturing sector. Notably, the PMI reading was below the long-run series average (49.3).

The overall downturn was mainly driven by a reduction in new work. The rate of contraction was solid and the fastest since July. Survey respondents associated the fall in new orders to subdued demand conditions. Meanwhile, new export orders fell for the second consecutive month. The rate of contraction quickened to the greatest since December 2016.

The manufacturing sector recorded a rise in output during October. That said, the rate of growth was only fractional.

Nikkei Malaysia Manufacturing PMI



Sources: Nikkei, IHS Markit

In response to lower levels of new work, firms decreased their payroll numbers for the first time in four months. The pace of job shedding was the sharpest since August 2016.

Reflecting weak underlying demand conditions, manufacturers reduced their input buying again in October. At the same time, companies were discouraged from adding to their pre-production inventories at a solid pace.

Firms continued to face higher input costs. The rate of inflation remained sharp overall, but eased from the prior month. There were reports that currency weakness relative to the US dollar contributed to a general rise in market prices for raw materials. Firms raised their average selling costs, albeit at a marginal pace.

Delivery times improved for the second consecutive month, but at a fractional pace. Faster times were associated with weak capacity pressures at vendors.

Manufacturers retained positive expectations for output in October, although confidence was the weakest since May. Firms commented on expected improvements in demand, plus planned investments and plant expansions.

Comment:

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

"The sector entered a bumpy terrain in October, as manufacturing conditions deteriorated at the fastest pace since July. The downturn was mainly driven by falling domestic and overseas demand for Malaysian goods: new orders and new export orders declined at the fastest rates since July 2017 and December 2016 respectively.

"In response to weakening business conditions, the manufacturing sector decreased payroll numbers for the first time in four months, and at the greatest extent since August 2016. At the same time, business confidence towards the 12-month outlook for output eased to the weakest since May.

"Although strong, there was a silver lining for manufacturing firms as inflationary pressures eased from the prior 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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