Nikkei Malaysia Manufacturing PMI®

Marginal improvement in manufacturing conditions

Key points:

- PMI registers 50.5 in January
- Output stagnates
- Renewed rise in new orders

Data collected January 12 - 25

Following a broad stagnation in December, manufacturing conditions improved at the start of 2018, albeit only marginally. The overall upturn was mainly driven by a renewed rise in new business. In response to greater inflows of new work, firms raised their payroll numbers during January. Despite easing slightly, input cost inflation remained sharp overall. Subsequently, firms raised their average selling prices to pass on higher cost burdens to customers.

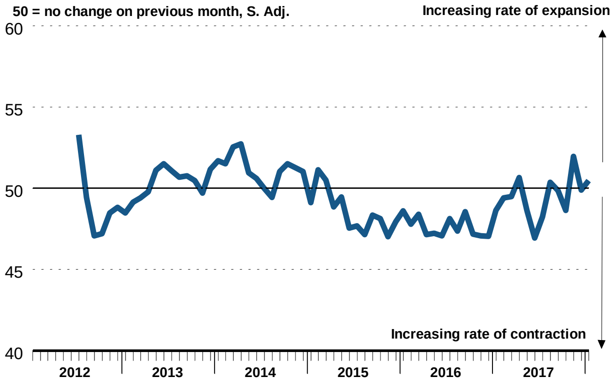
The headline Nikkei Malaysia *Manufacturing Purchasing Managers' Index™ (PMI)* – a composite single-figure indicator of manufacturing performance – rose from 49.9 in December to 50.5 in January. This was consistent with a marginal improvement in operating conditions across Malaysia's manufacturing sector. The health of the sector has strengthened in two of the past three months.

The improvement was recorded despite a broad stagnation in output, following increases in each of the previous five months.

Malaysia's goods-producing sector recorded a renewed increase in new business at the start of the first quarter. Panellists linked a rise in new orders to improved underlying demand conditions. That said, the rate of expansion was marginal. New export orders rose for the third consecutive month. Europe and Asia were cited by panellists as key sources of new client wins.

Reflecting greater inflows of new work, Malaysian manufacturers raised their payroll numbers for the third month in succession during January. That said, the rate of job creation was marginal.

Nikkei Malaysia Manufacturing PMI



Sources: Nikkei, IHS Markit

Input buying fell for the second month in succession during January. According to anecdotal evidence, lacklustre demand led firms to adopt a more cautious approach towards input buying. That said, the pace of contraction eased to a fractional pace.

Meanwhile, firms reduced their pre-production inventories in January, but at a marginal pace. Stocks of finished goods also fell, the first time in three months in which this has been the case.

On the price front, firms faced higher input costs. According to anecdotal evidence, higher raw material prices emanated from currency weakness. Despite easing for the second month running, input cost inflation remained sharp overall. Concurrently, firms raised their average selling prices for the fifteenth consecutive month. Panellists reportedly raised their factory gate charges to pass on higher input costs to customers.

Amid reports of difficulties in obtaining raw materials, average lead times increased during January.

The level of positive sentiment towards the 12-month outlook for output was the joint-strongest since December 2013. Expectations of an improvement in demand conditions and company expansion plans were the key factors behind business confidence, according to anecdotal evidence.

Comment:

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

"The recent steady run of output growth lost some steam in January, but the manufacturing PMI data signalled a return to expansion of new orders. This, alongside rising employment and buoyant sentiment, suggests that output could regain momentum as the year progresses."

-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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