Nikkei Malaysia Manufacturing PMI™

Operating conditions deteriorate at slower pace at start of 2017

Key points:

- Production and new orders decline at slower rates
- Survey-record increase in input prices
- Buying activity contracts at weakest pace in four months

Data collected 12 - 25 January

The latest PMI™ survey data showed signs that the Malaysian manufacturing sector had come through the worst of its downturn as operating conditions deteriorated at a slower pace. January saw weaker declines in both production and new orders, with the former declining at the softest pace in over one-and-a-half years. Buying activity also contracted at a weaker rate, although one that remained solid overall. On the price front, input prices rose at the sharpest rate in the series history, leading to a further rise in charges.

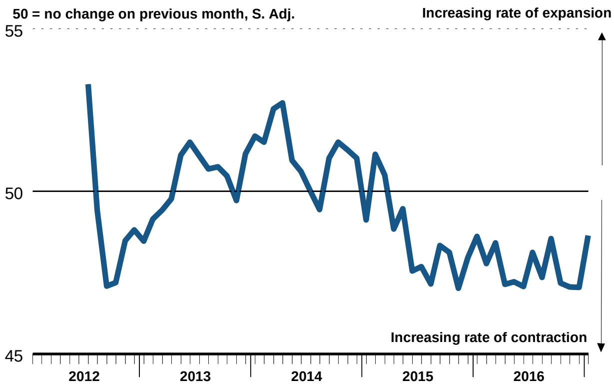
The newly-launched Future Output Index (which asks panellists whether they think output will be higher or lower in 12 months' time) was in positive territory at the start of 2017 and signalled stronger confidence towards the outlook.

The headline Nikkei Malaysia Manufacturing *Purchasing Managers' Index™ (PMI)* – a composite single-figure indicator of manufacturing performance – posted 48.6 in January, up from 47.1 in December, signalling a slower deterioration in operating conditions at Malaysian goods producers. In fact, the latest reading was the highest in 20 months suggesting the Malaysia manufacturing sector had come through the worst of the contraction observed since April 2015.

Helping to ease the overall decline in operating conditions was a slowdown in the rate of contraction in production. In fact, the rate of decrease was the weakest since May 2015. Where output fell, survey respondents mentioned a lack of new work inflows and subdued demand conditions.

A softer fall in production was matched by a weaker decrease in total new orders. The rate of decline eased to a four-month low, but was nevertheless in line with the average seen over the current 23-month sequence of contraction. Data suggested that a fall in domestic demand was the key factor behind the decline in total new orders, as international demand rose slightly.

Nikkei Malaysia Manufacturing PMI



Sources: Nikkei, IHS Markit

For the first time in eight months, new export orders at Malaysian goods producers rose in January. Firms linked this to the weakness of the Malaysian ringgit helping to boost global competitiveness. However, the rate of expansion was only slight.

Employment remained in growth territory for the fifth consecutive month. That said, the rate of job creation eased further from November's 13-month high and was only marginal overall.

Although helping to boost exports, the weakness of the Malaysian ringgit continued to exert upward pressures on cost burdens, with input prices increasing at the quickest rate in the series history. Concurrently, prices charged rose at the sharpest rate since May 2016.

Finally, business sentiment picked up to a four-month high at the start of 2017. Expectations of stronger demand conditions and new product launches were cited as factors behind the confidence. However, the degree of optimism was still much weaker than the long-run series average.

Comment:

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

"Operating conditions at Malaysian manufacturers deteriorated at the weakest rate in 20 months at the start of 2017, showing signs that goods producers had come through the worst of the current downturn. The newly-released Future Output Index also signalled confidence towards the outlook, although optimism was relatively subdued when compared with the series back history.

"Both production and new orders fell at slower rates, with the former declining at the weakest rate in over one-and-a-half years. New export orders also picked up for the first time in eight months, with the weakness of the Malaysian ringgit improving global competitiveness. However, the weakness of the currency had adverse effects on cost burdens, with input prices rising at a series-record rate."

-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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