

# Nikkei Malaysia Manufacturing PMI<sup>®</sup>

## Malaysia's manufacturing economy stagnates at end of 2017

### Key points:

- PMI falls just below the neutral 50.0 threshold
- Output increases for fifth consecutive month
- December sees renewed decline in new orders

Data collected December 5 - 18

Business conditions in the Malaysian manufacturing sector broadly stagnated in December, following an improvement in November. The fall in the headline PMI<sup>®</sup> was driven by a contraction in new orders. Moreover, output growth slowed to a modest pace. Despite reports of subdued demand conditions, firms raised their payroll numbers to meet production requirements. On the price front, input cost inflation remained sharp overall and continued to place pressure on firms' margins.

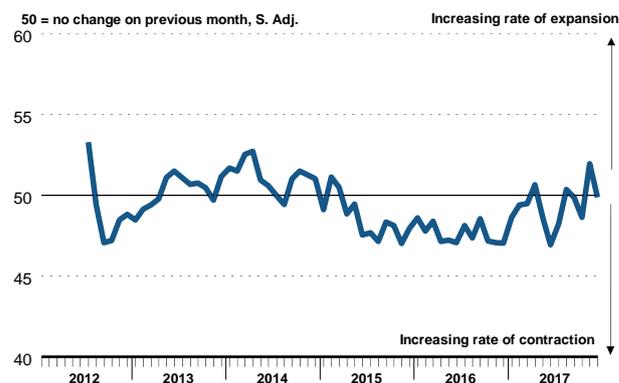
The headline Nikkei Malaysia Manufacturing Purchasing Managers' Index<sup>™</sup> (PMI) – a composite single-figure indicator of manufacturing performance – fell from 52.0 in November to 49.9 in December. This signalled a broad stagnation in the goods-producing economy, following the strongest growth in over three-and-a-half years in the previous month.

Malaysia's manufacturing sector observed a renewed decline in new orders at the end of the year. That said, the rate of contraction was marginal. Weak domestic demand was reported as the key reason behind lower volumes of new business, as new export orders rose for the second month in succession. Panellists reported that international demand for Malaysian goods increased from key markets, including Thailand and the Middle East.

December data pointed to another increase in manufacturing output. That said, the rate of growth slowed from the previous month and was modest overall.

Reflecting greater production, firms raised their payroll numbers in December. Nonetheless, job creation slowed and was only slight.

### Nikkei Malaysia Manufacturing PMI



Sources: Nikkei, IHS Markit

On the price front, input cost inflationary pressures remained sharp despite easing from the prior month. There were reports of a general increase in raw material prices. As a consequence, firms raised their average selling prices to pass on some of these burdens to clients.

Purchasing activity decreased during December. The rate of deterioration was the strongest since September and solid overall. Respondents linked reduced purchasing activity with subdued demand conditions. Consequently, firms reduced their pre-production inventories accordingly.

Outstanding business declined for a seventh successive month during December, providing evidence of ongoing spare capacity in the manufacturing sector. Panellists commented on reduced volumes of new business. The rate of depletion was only marginal, however.

Businesses retained positive forecasts for output over the next 12 months. Projections of an improvement in underlying demand conditions was the key reason behind business confidence, according to anecdotal evidence. That said, the level of business sentiment eased from November's 47-month high and remained weaker than the series average.

**Comment:**

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

*“Operating conditions in Malaysia’s manufacturing economy broadly stagnated in December, following an improvement in November. The goods-producing sector observed a renewed fall in new orders amid reports of weak demand conditions in the domestic market.*

*“On a positive note, international demand for Malaysian goods continued to increase during December. That said, the rate of expansion slowed from November’s 46-month high to a slight pace.*

*“Although inflationary cost pressures eased from the prior month, it remained stronger than the trend observed over the survey history. This further placed pressure on firms’ margins as their ability to fully pass on higher cost burdens to price-sensitive customers was limited.*

*“Encouragingly, firms added to their staffing levels in response to greater production. That said, the pace of job creation was only slight overall.”*

-Ends-

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**IHS Markit (About PMI and its comment)**

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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](mailto:economics@ihsmarkit.com).

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