

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

## Manufacturing business conditions deteriorate in March

### Key points:

- PMI falls to five-month low of 49.5 in March
- Output declines for first time in eight months...
- ...driven by lower volumes of new business

Data collected March 12 - 23

March data pointed to a deterioration in conditions in the Malaysian manufacturing sector at the end of the first quarter. Moreover, production fell for the first time in eight months, while new orders continued to decline during March. Reflecting poor demand conditions, firms continued to decrease their purchasing activity and pre-production inventories. On the price front, price pressures continued to escalate, with both input and output prices rising at faster rates.

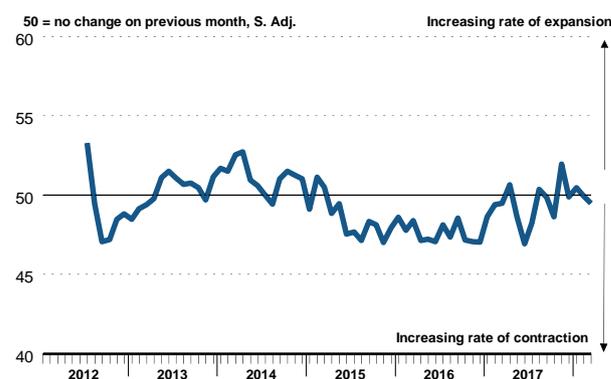
The headline Nikkei Malaysia *Manufacturing Purchasing Managers' Index*<sup>TM</sup> (PMI<sup>®</sup>) – a composite single-figure indicator of manufacturing performance – fell from 49.9 in February to 49.5 in March. This was consistent with a marginal deterioration in operating conditions. The latest figure was broadly in line with the long-run series average (49.4) since July 2012.

Central to the downward movement in the headline PMI was a fall in manufacturing production for the first time in eight months. Panellists widely associated falls in output with lower order book volumes. That said, the rate of contraction was marginal.

The poor performance in the sector was also driven by a decline in new business placed at Malaysian manufacturing firms. Weak underlying demand was the key factor behind lower volumes of new work, according to panellists. However, the rate of contraction was only marginal overall.

Amid reports of lower demand from international markets, new export orders declined for the second consecutive month in March. The rate of contraction accelerated since February but remained modest.

### Nikkei Malaysia Manufacturing PMI



Sources: Nikkei, IHS Markit

There was evidence of ongoing spare operating capacity as outstanding business declined for the tenth consecutive month. Lacklustre demand was the main reason behind lower work-in-hand, according to panellists. Meanwhile, manufacturers raised their staffing levels, albeit at a fractional pace.

Reflecting subdued demand conditions, firms decreased their purchasing activity at a solid pace. As a result, pre-production inventories fell for the fourth month running.

Malaysia's manufacturing sector faced higher cost pressures at the end of the quarter. Moreover, input cost inflation intensified to the sharpest in 2018 so far. Higher cost burdens were attributed by panellists to a general rise in raw materials.

Average selling prices rose in March, thereby extending the current sequence of inflation to nearly one-and-a-half years. According to panellists, higher selling prices reflected the pass-through of higher input costs to clients. However, factory gate charges only increased at a modest pace, to suggest that firms' margins remained under pressure.

Entry into new markets, more projects and expected improvements in demand supported optimism among manufacturers that output will increase over the coming 12 months. However, the level of positive sentiment eased to the weakest in 2018 so far and was slightly 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:

*“Malaysia’s manufacturing sector ended Q1 2018 on a slightly weaker footing, with output declining for the first time in eight months amid reports of poor demand conditions.*

*“Moreover, the New Export Orders Index registered at a 15-month low, highlighting falling demand for Malaysian goods from international markets.*

*“Price pressures continued to escalate, with both input and output prices rising at faster rates. However, firms’ margins remained under pressure as they continued to face limited pricing power.*

*“Business sentiment eased to the weakest since last December, reflecting some concerns towards the 12-month outlook for output. A downbeat mood was also reflected with jobs growth slowing to the weakest in the current period of staff recruitment.”*

-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](mailto:economics@ihsmarkit.com).

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