

Nikkei Malaysia Manufacturing PMI™

Malaysian manufacturing sector remains subdued in March

Key points:

- New orders continue to fall markedly
- Sustained growth in output leads to rise in warehouse inventories
- Inflationary pressures remain high on back of unfavourable exchange rates

Data collected 13 - 27 March

The marginal contraction of the Malaysian manufacturing sector was sustained during March, extending the current run of decline to two years. The latest deterioration primarily reflected an ongoing contraction in new orders, which fell at a slightly faster rate. Output in contrast rose for a second month in a row, albeit modestly, with higher production used to build warehouse inventories. Manpower shortages were reported and employment was broadly unchanged.

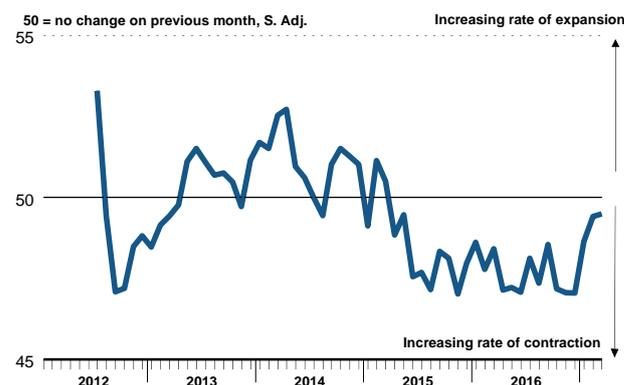
On the price front, average input costs continued to rise sharply, reportedly the result of unfavourable exchange rates. Despite waning demand, companies chose to raise charges.

The headline Nikkei Malaysia Manufacturing Purchasing Managers' Index™ (PMI)™ – a composite single-figure indicator of manufacturing performance – posted 49.5 in March, little changed on February's 49.4. The fractional improvement in the PMI ensured its best reading since May 2015, although nonetheless extended the current period of contraction to two years.

As noted, falling volumes of new orders continued to undermine the PMI during March. Latest data indicated a twenty-fifth consecutive monthly fall in new work, with the rate of contraction accelerating slightly since February and remaining solid. New orders from abroad also fell, albeit at a marginal pace. Panellists commented on underwhelming client demand, both at home and abroad.

Despite falling levels of new work, Malaysian manufacturers were able to boost output at their plants in March. Growth was modest, but nonetheless a second successive monthly rise in production was significant in being the first back-to-back increase for two years.

Nikkei Malaysia Manufacturing PMI



Sources: Nikkei, IHS Markit

With production rising at a time of ongoing deterioration, finished goods inventory was bolstered for a third straight month.

Meanwhile, backlogs of work continued to rise, in line with the trend seen since the start of the year. A number of panellists commented that growth reflected manpower shortages at their plants. However, overall employment was little changed, which was linked to some concern over future activity given the ongoing poor trend in sales.

These concerns were reflected in business expectations. Although signalling optimism for a fourth month in succession, overall confidence was undermined by worries about relatively underwhelming economic conditions. Where optimism was recorded, a number of companies signalled planned new plants and new project launches.

Finally, price pressures remained strong heading into the second quarter of 2017. Costs continued to increase markedly, which manufacturers blamed on unfavourable exchange rates pushing up the price of imported goods. Latest data showed that input prices rose at the second-fastest rate in the survey history, surpassed only by the pace seen in February.

A similar trend was seen for output charges, which continued to increase sharply as manufacturers sought to protect margins despite waning demand for their goods.

Comment:

Commenting on the Malaysian Manufacturing PMI survey data, **Paul Smith**, Senior Economist at IHS Markit, which compiles the survey, said:

“Malaysian manufacturers are currently finding themselves somewhat stuck between a rock and a hard place. On the one hand they need to maintain margin in the face of rising import costs, but on the other hand they face waning demand for their goods and a subsequent need to maintain competitiveness by keeping a lid on selling price increases.

“March’s data suggests that margin protection seems to be the order of the day at present, with rising output charges likely exacerbating an already underwhelming trend in demand. Moreover, it’s hard not to be a little pessimistic for the near-term, given production is merely rising to bolster warehouse inventories and order books are presently showing no sign of returning to growth.”

-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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