Nikkei Malaysia Manufacturing PMI®

PMI hits new survey low in December

Key points:

- Marked reduction in output levels
- Domestic and overseas demand both weaken
- Stock levels drop, while employment stagnates

Data collected December 5 - 17

Latest Malaysian survey data concluded the fourth quarter by signalling the sharpest deterioration in manufacturing business conditions since the survey began six-and-a-half years ago. Harsher reductions in production and new business dragged the headline index deeper into negative territory in December. Concerns over demand led companies to use existing stocks to clear backlogs and cut back input purchasing. As a result, supply chain pressures alleviated, while purchasing costs increased to a weaker extent. Nonetheless, confidence strengthened amid upbeat sales forecasts for 2019.

The headline Nikkei Malaysia Manufacturing *Purchasing Managers' Index™ (PMI)* – a composite single-figure indicator of manufacturing performance – hit 46.8 in December, down from 48.2 in November, to reach the lowest level since the survey started in July 2012. The latest reading was consistent with a marked deterioration in the health of the manufacturing economy, and meant the sector contracted in each month of the fourth quarter.

Pulling the headline Index further into negative territory was the one of the sharpest contraction in demand in the survey history. Panellists indicated that the fall in sales reflected a general slowdown across the marketplace. Malaysian manufacturers also received unfavourable intakes of new work from overseas in December. Orders from clients in European and the Asia-Pacific region were reportedly down on the month. That said, the fall in foreign demand was only mild.

Concerns about demand conditions led firms to clear their post-production inventories. Stocks were depleted to the greatest extent since November 2016. Holdings of finished goods were used to clear outstanding orders, according to some firms. According to survey data, backlogs of work were

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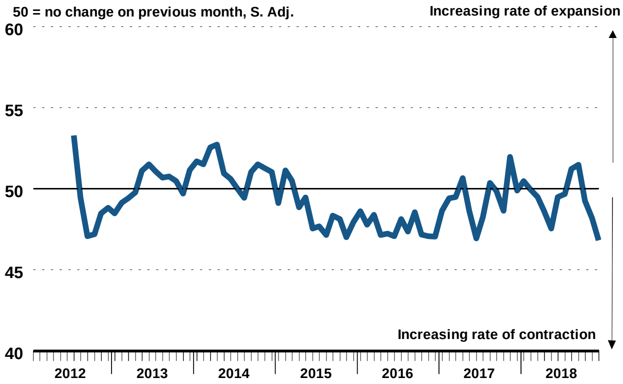

Sources: Nikkei, IHS Markit

reduced, with the rate of depletion accelerating to a near one-and-a-half-year peak.

Subdued sales performances also encouraged goods producers to scale back their input purchasing. Buying activity fell for a third successive month and to the most marked degree since June 2017. Reduced purchasing activity alleviated pressure on vendors; however, with supplier delivery times shortening for the first time since February.

The deterioration in manufacturing sector health was also fuelled by a stagnation in employment, ending six straight months of job creation. The loss of growth momentum was attributed to resignations.

On the price front, operating expenses continued their ascent, rising solidly amid reports of unfavourable exchange rate movement and greater raw material costs. That said, the rate of inflation eased to a four-month low. Selling prices were subsequently increased in December, but competition and requests for discounts restricted the rise to a mild pace.

Meanwhile, the trend in business confidence diverged from survey data on current conditions, with optimism strengthening to a four-month peak.

Continued…

Comment:

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

"December data revealed the strongest contraction in the Malaysian manufacturing sector that has ever been recorded in the survey's six-and-a-half-year history. Negative readings of the PMI have been recorded across each month of Q4, signalling that the goods-producing sector is likely to heavily weigh on the final GDP print of 2018.

"Sub-indices provide some deeply concerning trends. Most notably, demand fell markedly, while export orders dropped for the first time since June amid reports of economic weakness across the Asia-Pacific region. With production falling, firms cut back stocks of inputs and finished goods, suggesting that prospects for the start of 2019 are likely to remain negative."

-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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