Thai manufacturing conditions worsen at record pace in April on anti-virus rules

Key findings

Production volumes and new orders both slump

Record rate of job losses as spare capacity builds up

Business expectations severely pessimistic amid pandemic

Manufacturing conditions across Thailand deteriorated at a pace unprecedented in the survey history during April, amid a record decline in output as stricter social distancing measures hit demand. New orders fell at a severe rate, aggravated by a slump in export sales. This contributed to a rapid development of spare capacity that, in turn, severely hit employment. Firms also cut down on both purchasing and stock-building activities. The severity of the COVID-19 crisis led to a collapse of business confidence.

The Thailand Manufacturing Purchasing Managers’ Index™ (PMI™) plunged from 46.7 in March to 36.8 in April, its lowest since the survey started nearly four-and-a-half years ago, indicating a severe deterioration in the performance of the sector.

Thailand’s manufacturing sector was hit hard from global measures to halt the spread of the coronavirus disease 2019 (COVID-19) virus. Factory closures, social distancing rules and slumping demand reportedly led to the steepest fall in production in the series history. New orders for Thai manufactured goods fell sharply, dropping at the fastest rate on record, also in part driven by a slump in export sales.

Sharply lower sales led to an accelerated rise in spare capacity, as reflected by a record fall in the level of backlogs. This in turn weighed heavily on hiring. Employment fell for a nineteenth straight month and at the fastest rate since the survey started in December 2015. There was anecdotal evidence of forced layoffs.

Manufacturers also reduced sharply their purchases of input materials as a result of weak sales, preferring to tap into existing stocks to meet dwindling production requirements. Purchasing activity contracted at a record rate, contributing to the steepest fall in input inventories in the survey history.

Comment

Commenting on the latest survey results, Bernard Aw, Principal Economist at IHS Markit, said:

"Thailand’s manufacturing sector was hit further by the COVID-19 crisis in April, with PMI data showing that the factory downturn accelerated sharply.

"Stricter measures to contain the spread of the coronavirus, such as work stoppages and business closures, saw manufacturing output plunging at a record rate. This coincided with demand for Thai manufactured products being hit hard. New business inflows plunged at the fastest rate in the survey history, aggravated also by slumping export sales.

"As a result of the rapidly deteriorating sales trend, firms sought to bolster their financial positions by cutting sharply on staffing and purchasing activity, while inventories fell markedly. Business confidence also collapsed, with a large majority of firms expecting the economic impact of COVID-19 to weigh heavily on output in the year ahead.

"The latest PMI reading pointed to an inevitable weakening of the Thai economy at the start of the second quarter."
decline in stocks of final goods accelerated sharply to the fastest pace on record. Firms generally mentioned efforts to reduce stock-holdings amid the rapidly worsening sales trend.

Business sentiment for the year-ahead outlook deteriorated sharply. The Future Output Index, a measure of confidence, plunged to its lowest level in the series history, with a large majority of panellists expecting reduced output over the next 12 months. The severe pessimism was dominated by concerns of the economic impact of COVID-19 measures and the uncertainty over the timing of a recovery.

Supply chains improved further in April as lower appetite for inputs enabled timely deliveries. In fact, the extent to which vendor performance improved was the second-greatest in the survey history.

Finally, considerably weaker demand was accompanied by falling prices. Survey data showed a decline in input costs, where the rate of decrease was the fastest for nearly one-and-a-half years, although marginal overall. Lower costs were linked to business closures and reduced sales. Falling business expenses were joined by a fourth straight monthly decrease in output charges, where the pace of decline accelerated to the fastest since February 2016.