

IHS Markit ASEAN Manufacturing PMI™

Operating conditions deteriorate in June

Key findings

Output growth marginal

New orders broadly unchanged

Employment falls at quickest pace in 20 months

ASEAN manufacturing conditions slipped into contraction territory in June, according to the headline IHS Markit Purchasing Managers' Index (PMI™), due to declining employment trends and only a weak expansion in output.

The headline index fell below the crucial 50.0 mark separating improvement from deterioration, posting 49.7 in June, down from 50.6 in May. It was the first slowdown at ASEAN manufacturing firms in four months, but was only fractional. In fact, five of the seven monitored countries continued to report stronger business conditions, although three of these saw growth weaken compared to the previous month.

Myanmar recorded a solid improvement in the health of its manufacturing sector (53.0) with sharp expansions in output and new orders. Vietnam also saw a strong improvement in operating conditions, with the joint-highest reading (52.5) seen in the year to-date.

The Philippines reported a subdued rate of growth (51.3), amid slower demand and an extended period of falling employment. Thailand also saw growth hampered by a drop in workforce numbers, posting a slightly lower headline reading (50.6) from May despite a faster expansion in output. Indonesia saw a similarly weak rate of improvement (50.6) after rising to a nine-month high in the previous month.

Malaysia recorded a ninth successive month of deterioration in manufacturing conditions (47.8), with the pace of contraction accelerating from May. Singapore's manufacturing sector posted the sharpest downturn in operating conditions (42.9) since the series began.

ASEAN's overall manufacturing sector struggled in June, partly due to the first fall in employment for 15 months. The rate of job losses was marginal and yet the most marked since October 2017. Thailand and the Philippines saw the sharpest

continued...

ASEAN Manufacturing PMI

sa, >50 = improvement since previous month



Source: IHS Markit.

Comment

Commenting on the latest survey results, David Owen, Economist at IHS Markit, said:

"The run of weak growth at ASEAN firms ended in June, as latest data signalled a slight deterioration in operating conditions spurred on by weak demand and falling job numbers. It was the third decline seen so far this year, reflective of a struggling global manufacturing industry.

"Of particular note, employment dropped for the first time in 15 months. This was mostly centred on manufacturing firms in Thailand and the Philippines, where there were numerous reports of voluntary leavers.

"Manufacturing exports meanwhile fell in June. After two months of broadly unchanged international sales volumes, companies reported a slight drop in export orders. This may be in reaction to higher tariffs in the US-China trade war, as businesses reorganise their buying activity. However, it remains to be seen what long-run effect the new tariffs have on the region, with some commentators suggesting a more positive impact should Chinese firms shift their trade to ASEAN countries."

contractions in staff numbers, which panellists attributed to not replacing voluntary leavers.

Output growth was marginal during June. Firms were restrained by demand weakness amid a renewed drop in new orders from abroad. Domestic sales helped to ease the impact on producers, leaving the total amount of new work relatively unchanged.

As such, companies pared back on their input purchases during June, following a marginal increase in May. Cuts to input buying were focused on Malaysia and Singapore, with the remaining monitored countries all registering higher input orders.

At the same time, stocks of purchased goods dropped at the quickest pace since February, while subdued production levels led to a renewed decline in finished goods inventories.

Reduced supply chain pressure allowed vendors to shorten lead times again at the end of the second quarter, thus extending the current period to five months. Only Myanmar saw delivery times increase during June.

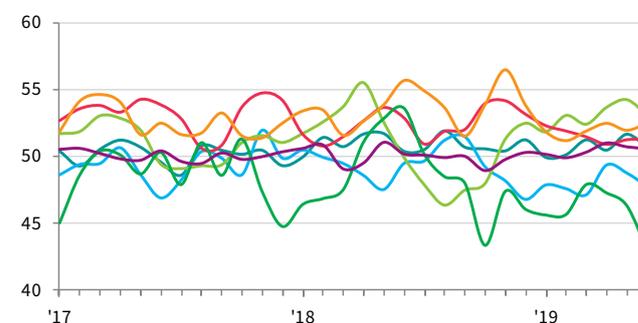
ASEAN firms reported only a modest increase in input prices, easing back from the highest level in five months recorded in May. This fed through to a smaller rise in selling charges, albeit still one of the fastest seen this year so far.

Finally, business sentiment for future output remained upbeat in June. Despite slipping from May's 30-month high, the level of optimism was still stronger than throughout much of the past two years. Indonesian firms were the most positive, while Singaporean businesses held a negative outlook for the first time in over two years.

Manufacturing PMI

Indonesia / Malaysia / Myanmar / Philippines
Singapore / Thailand / Vietnam

sa, >50 = improvement since previous month



Source: IHS Markit.

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Methodology

The IHS Markit ASEAN Manufacturing PMI™ is compiled by IHS Markit from responses to monthly questionnaires sent to purchasing managers in panels of manufacturers in Indonesia, Malaysia, Myanmar, the Philippines, Singapore, Thailand and Vietnam, totalling around 2,100 manufacturers. These countries account for 98% of ASEAN manufacturing value added*. The panels are stratified by detailed sector and company workforce size, based on contributions to GDP.

Survey responses are collected in the second half of each month and indicate the direction of change compared to the previous month. A diffusion index is calculated for each survey variable at the national level. The index is the sum of the percentage of 'higher' responses and half the percentage of 'unchanged' responses. The indices vary between 0 and 100, with a reading above 50 indicating an overall increase compared to the previous month, and below 50 an overall decrease. The indices are then seasonally adjusted. ASEAN indices are calculated by weighting together the national indices. Country weights are calculated from annual manufacturing value added*.

The headline figure is the Purchasing Managers' Index™ (PMI). The PMI is a weighted average of the following five indices: New Orders (30%), Output (25%), Employment (20%), Suppliers' Delivery Times (15%) and Stocks of Purchases (10%). For the PMI calculation the Suppliers' Delivery Times Index is inverted so that it moves in a comparable direction to the other indices.

Underlying survey data are not revised after publication, but seasonal adjustment factors may be revised from time to time as appropriate which will affect the seasonally adjusted data series.

June 2019 data were collected 12-24 June 2019.

For further information on the PMI survey methodology, please contact economics@ihsmarkit.com.

*Source: World Bank World Development Indicators.

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About PMI

Purchasing Managers' Index™ (PMI®) surveys are now available for over 40 countries and also for key regions including the eurozone. They are the most closely watched business surveys in the world, favoured by central banks, financial markets and business decision makers for their ability to provide up-to-date, accurate and often unique monthly indicators of economic trends. To learn more go to ihsmarkit.com/products/pmi.html.