

IHS Markit ASEAN Manufacturing PMI™

ASEAN manufacturing sector remains mired in a downturn

Key findings

Conditions deteriorate for eighth month running

Output and new orders decline modestly

Business confidence picks up to highest since January

Data were collected 12-26 October 2020.

The downturn in the ASEAN manufacturing sector continued into October, according to latest IHS Markit Purchasing Managers' Index (PMI™) data. Operating conditions deteriorated for the eighth month running, although the rate of decline did ease slightly on the month and was mild. Driving the latest decline were further contractions in both output and order book volumes, with the rates of reduction slowing only slightly and remaining modest overall. Nonetheless, firms remained optimistic of the 12-month outlook for output. In fact, the level of positive sentiment was the highest since January.

At 48.6 in October, the headline PMI was up slightly from September's reading of 48.3, but still below the crucial 50.0 threshold and indicative of a moderate deterioration in the health of the ASEAN goods producing sector.

At the national level, four of the seven constituent countries registered a deterioration in conditions during October. The sharpest contraction was recorded in Myanmar, where the headline index dropped to a near-record low (30.6) and signalled a rapid deterioration in the health of the sector.

Elsewhere, conditions in Indonesia deteriorated for the second month running. The headline index (47.8) was indicative of a moderate decline, albeit one that was softer than in September. In contrast, Malaysia saw a quicker rate of contraction, although at 48.5, the headline figure signalled only a mild deterioration in conditions overall.

The Philippines was the only other constituent country to record a headline PMI below the 50.0 mark in October. Following broadly stable conditions in September, the headline figure (48.5) dipped back below the 50.0 threshold to signal a renewed deterioration in the health of the manufacturing sector.

continued...

ASEAN Manufacturing PMI

sa, >50 = improvement since previous month



Source: IHS Markit.

Comment

Commenting on the latest survey results, Lewis Cooper, Economist at IHS Markit, said:

"October data highlighted a sustained downturn in the ASEAN manufacturing sector. Operating conditions deteriorated for the eighth month in a row amid further falls in factory production and new orders, with the rates of decline easing only slightly on the month."

"Meanwhile, with demand still muted and capacity pressures weak, firms continued to cut back on workforce numbers. The rate of job shedding was little-changed on the month and solid overall."

"The only real positive sign in October came from the Future Output Index, which remained well above the 50.0 mark to signal overall optimism with regards to output over the coming 12 months. Moreover, the level of positive sentiment was the highest since January, with firms clearly confident a recovery is on the medium-term horizon."

"But, data are yet to provide signs of such a recovery, and with further COVID-19 related restrictions being implemented around the world, "second lockdowns" may further hinder any move towards an economic rebound."

At the same time, Thailand registered the first improvement in conditions since December 2019. The headline index (50.8) was the highest for over a year-and-a-half, but indicative of only a mild improvement in the health of the sector. Meanwhile, Vietnam saw sustained growth in October, with the headline PMI (51.8) signalling a moderate rate of expansion.

Finally, Singapore registered an improvement in manufacturing conditions for the first time since July 2018 during October. The headline figure (52.0) pointed to a moderate rate of growth.

Overall, conditions in the ASEAN manufacturing sector remained challenging in October. Further reductions in factory production and new orders were primarily responsible for the overall deterioration in conditions. However, rates of decline were not as marked as those seen in September. Weak demand abroad also remained a key drag, as new export orders continued to fall sharply.

Latest data also highlighted further signs of weak capacity pressures, as backlogs declined again. As a result, job shedding continued, with the pace of reduction in staff numbers little-changed on the month and sharp overall.

Amid weak client demand, firms continued to pare back on their purchasing activity in October. The latest reduction was the softest since February, but still solid. Supply chain disruptions continued, however, with average lead times for inputs lengthening to a greater extent than in September.

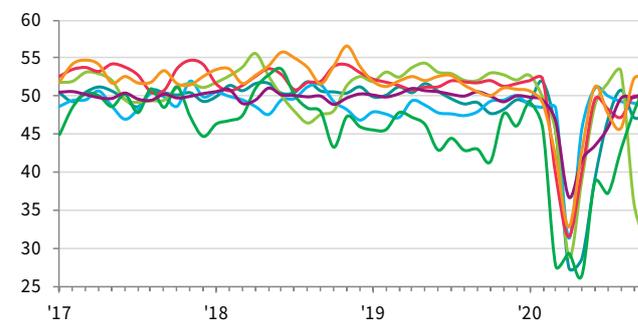
Profit margins came under further pressure, as input prices rose at a quicker rate than in September and solidly overall, whilst average charges declined again.

Looking ahead, firms remained confident that output would rise over the year ahead in October. Sentiment was the highest since January and only slightly below the long-run series average.

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.

October 2020 data were collected 12-26 October 2020.

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

*Source: World Bank World Development Indicators.

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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.

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