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IHS Markit Thailand Manufacturing PMI™

Thai manufacturing sector moves towards stabilisation in August

Key findings

Output and new orders both return to growth

Export sales fall substantially

Business expectations broadly neutral

Data were collected 12-20 August 2020

Thailand's manufacturing conditions deteriorated at a much weaker pace in August, according to the latest PMI data, as the sector moved closer to stabilisation. After six months of declines, both production volumes and new orders rose marginally midway through the third quarter. Business confidence also improved when compared to recent months.

Despite the turnaround in output and sales, firms remained reluctant to invest in new capacity, with employment falling further and purchasing activity being reduced. Inventories also continued to shrink, albeit at a slower pace.

The Thailand Manufacturing *Purchasing Managers' Index™* (PMI™) rose from 45.9 in July to 49.7 in August, its highest level since January. The PMI continued to recover from April's record low, with the latest reading indicating only a marginal deterioration in the performance of the sector. The headline PMI is a composite index derived from a weighted average of five sub-indices: output, orders, employment, inventories and delivery times.

The Thai manufacturing sector showed signs of improvement. Firms reported a rise in output for the first time since January, with the rate of increase the fastest for ten months, albeit still marginal overall. Increased production volumes were linked to higher new orders and factories returning to work.

Higher output was accompanied by an increase in sales. Having fallen for six straight months, total new orders rose in August, despite another substantial drop in export sales.

The upturn in output and sales bolstered confidence among Thai manufacturers. The Future Output Index, a gauge of business expectations, improved markedly from July, rising just above 50 for the first time since February. Optimism was

continued...

Thailand Manufacturing PMI
sa, >50 = improvement since previous month



Source: IHS Markit.

Comment

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

"Latest PMI survey provided welcoming news, indicating that Thailand's manufacturing sector moved closer to stabilisation in August. Firms reported growth in production and new orders for the first time since January.

"Moreover, future expectations have improved noticeably, with confidence rising to the highest for six months as increasing numbers of firms anticipate better times over the coming year.

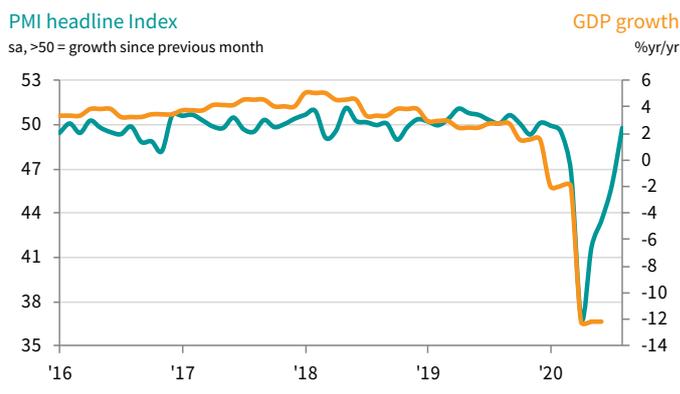
"But whether the recovery can be sustained in the coming months is by no means assured. Export orders continued to fall substantially, which reflected a still-subdued global trade environment. Companies also remained wary of investing in new capacity, with employment falling further and purchasing activity being reduced. Moreover, unused capacity continued to persist in the sector, pointing to the possibility of further job losses unless demand picks up considerably."

primarily based on expectations of the return to more normal market conditions in the coming months. However, pessimistic firms noted that the recovery was not as strong as expected, while others highlighted concerns over changes in operations and supply chain networks.

The upturn in sales was insufficient to soak up all the unused capacity, as reflected by a further decrease in backlogs of work. The existence of spare capacity in turn led to another round of job shedding. Factory jobs were reduced for the twenty-third month running, albeit at the slowest rate since February.

Average cost burdens fell further in July, with the decline driven by suppliers providing price discounts. The decrease in input prices was passed on to customers, with output charges falling for an eighth straight month. With firms looking to control costs, purchasing activity continued to be reduced, albeit only marginally. Companies that cut their buying levels generally mentioned about having sufficient stocks, efforts to maintain a lean inventory and cost-saving. Consequently, input inventories were depleted further. Stocks of finished goods also declined, though at a noticeably slower rate amid higher production.

Finally, the survey showed a further slight improvement in vendor performance during August, with delivery times shortening marginally amid reports of improved transportation capacity.



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Methodology

The IHS Markit Thailand Manufacturing PMI™ is compiled by IHS Markit from responses to monthly questionnaires sent to purchasing managers in a panel of around 400 manufacturers. The panel is 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. 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.

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.

August 2020 data were collected 12-20 August 2020.

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

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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.
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