Thai manufacturing growth slows at start of third quarter

Key findings

- Both output and new orders rise at slower rates
- Business sentiment sinks to ten-month low
- Factory employment continues to decline

Thailand’s manufacturing conditions improved at a slower rate in July, with the latest PMI data indicating softer growth in output amid weakening demand conditions. New order growth weakened, dragged down by a modest rise in export sales. Business confidence fell to the lowest since last September while firms cut back on hiring again.

At 50.3 in July (June: 50.6), the Thailand Manufacturing Purchasing Managers’ Index™ (PMI™) pointed to the weakest improvement in the health of the sector since March. July data saw the smallest rise in production in the current sequence of growth that has been running for nine months. The pull-back was linked to weakening demand conditions at the start of the third quarter. Order book growth eased to a four-month low and was modest overall. A slowdown in the rate of expansion of export orders contributed in part to slower overall sales growth.

Softer demand hurt business sentiment, with optimism dropping in July to the lowest since last September. The Future Output Index, a gauge of optimism, registered slightly above the neutral 50.0 level, indicating that the proportion of optimists was only marginally more than that of pessimists. Respondents highlighted concerns relating to softening economic conditions, greater competition and government policy uncertainty.

With backlogs rising only mildly, there was scant pressure for firms to expand operating capacity. On the contrary, Thai goods producers reported a decline in staff numbers again amid reports of the non-replacement of voluntary leavers.

Firms continued to purchase additional inputs to meet higher output requirements at the beginning of the third quarter, though the rate of increase eased. Holdings of input stocks rebounded in July, but the rate of accumulation was mild.

Comment

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

“Thai manufacturers started the third quarter on a softer footing, with the latest IHS Markit PMI data showing the weakest improvement in business conditions for four months.

“Production growth was notably weaker amid signs of softening demand conditions. New order inflows rose only modestly, weighed down by a softening in new export growth, according to PMI data.

“Thai goods producers also became less optimistic, as indicated by the PMI’s gauge of business sentiment, the Future Output Index, falling to the lowest in ten months. The survey highlighted companies’ concerns ranging from slowing growth momentum and higher competition to uncertainty over the new government’s economic policies.

“Weakening manufacturing expansion, as indicated by PMI surveys, therefore builds the case for greater monetary support, which could also help contain the recent appreciation in the baht.”
Meanwhile, inventories of finished goods fell for a third straight month, with anecdotal evidence suggesting that factories were reluctant to keep excessive stocks amid slower demand growth. While purchasing activity rose, suppliers had no problem fulfilling orders for inputs. In fact, vendors improved on their performance further in July. However, the rate at which delivery times shortened was only marginal.

On the price front, cost pressures intensified in July, with reports of greater prices for raw materials, such as fuel, fabricated metal products and auto parts, alongside increased delivery fees. Facing greater costs, Thai manufacturers were only able to pass on some of the higher expenses to their customers. Survey data showed only a marginal rise in factory gate prices in July. There were reports of firms offering discounts to clear stocks.