Thai manufacturing conditions deteriorate in February

Key findings

Slight fall in both production volumes and new orders

Intensified job shedding and accelerated depletion of input stocks

Subdued business confidence about year-ahead outlook

February saw a deterioration of operating conditions of Thailand’s manufacturing sector as both production and new orders fell, according to latest PMI data. Lower sales contributed to a decline in backlogs of work which, in turn, dampened hiring. Job shedding intensified in the month. Meanwhile, inventories of both input and finished goods shrank further. Business confidence remained subdued while inflation was muted.

The Thailand Manufacturing Purchasing Managers’ Index™ (PMI™) fell to 49.5 in February, down from 49.9 in January, indicating a decline in the performance of the sector. The headline index is derived from questions on output, orders, employment, inventories and delivery times, thereby providing a quick snapshot of the health of the manufacturing sector.

After a marginal expansion at the start of 2020, production volumes fell in February, albeit fractionally. This occurred concurrently with a reduction of new orders, in which the latter was linked by panellists to an economic slowdown and a strong Thai baht. Survey evidence showed a weakening of domestic demand conditions as reflected by overall new sales falling despite a slight gain in export orders.

Lower sales led to a renewed decline in the level of unfinished workloads. Lower backlogs reflected a development of spare capacity, which weighed on hiring. Employment fell for a seventeenth straight month and at the fastest pace since November last year. Firms pointed to voluntary leavers as the primary reason for job shedding.

Although firms raised purchasing activity in February, the gain was marginal. Anecdotal evidence suggested that increased purchases were connected to efforts to replenish stocks. Meanwhile, inventories continued to fall midway through the first quarter. Despite greater purchasing activity, stocks of

Comment

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

"Latest PMI data signalled further weakness in the Thai manufacturing sector in February. Business conditions in the sector deteriorated in the month, dragged down by a renewed fall in both output and new orders.

"A slowing economic environment and a relatively strong baht had dampened demand for Thai manufactured goods, according to survey evidence. Business confidence, though improved slightly from January, remained subdued, with concerns of weakening economic conditions, declining profits and the impact of the coronavirus outbreak weighing on growth.

"Factory jobs continued to be reduced, while stocks of purchases and inventories of finished goods shrank further, reflecting Thai manufacturers’ efforts to reduce costs and improve their margins amid the weakening sales trend."
purchases contracted for a second month running, with the decline the steepest for a year. Survey respondents highlighted that lower sales were a key factor behind stock depletion. Inventories of finished goods also fell for a second successive month.

Suppliers faced difficulty in delivering inputs on time, with longer delivery times reported in February. Nevertheless, the extent to which vendor performance deteriorated was only marginal.

On the price front, the survey data showed subdued price pressures during February. Both input costs and output charges were broadly stable. There were however reports of the coronavirus outbreak having disrupted supply chains which in turn contributed to higher input prices at some firms.

Finally, business expectations improved slightly in February. However, the level of confidence remained subdued in the historical context. While higher sales forecasts, planned staff hiring and promotional activity were reasons cited for optimism, pessimistic firms pointed to declining profits and the economic impact of the coronavirus as factors with the potential to dampen future output.

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.

February 2020 data were collected 12-20 February 2020.

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

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