

IHS Markit ASEAN Manufacturing PMI™

PMI at two-year low in July

Key findings

Output falls for the first time in two years...

... despite a slight rise in new orders

Employment falls for the second month running

Latest data pointed to a further deterioration in manufacturing conditions across ASEAN at the start of the third quarter, according to the headline IHS Markit Purchasing Managers' Index (PMI™).

The headline index fell from 49.7 in June to 49.5 in July, signalling a second successive monthly deterioration in operating conditions at ASEAN manufacturers. Furthermore, this marked the lowest reading in exactly two years.

Contributing to the decline was a slight reduction in overall output, the first recorded since July 2017. This occurred alongside only a marginal increase in new orders, although the rate of growth was slightly stronger than in June. Demand conditions were also strengthened by the fastest rise in foreign sales for a year. However, employment continued to fall.

Country-level data showed business conditions improving in four of the seven monitored areas. Myanmar's manufacturing sector continued its run of solid improvements, posting a headline reading (52.9) broadly in line with that seen in June. Vietnam also saw a strong rate of growth during July (52.6) that was the most marked for seven months.

The Philippines meanwhile recorded a moderate improvement in manufacturing conditions, with the headline index (52.1) rising for the third month in a row. By comparison, Thailand saw growth slow to only a marginal pace in July (50.3).

Indonesia's manufacturing sector meanwhile slipped into decline, with firms reporting the quickest deterioration in operating conditions since the end of 2017 (49.6). Malaysia continued to signal weakening manufacturing conditions, as the headline index fell to a four-month low (47.6). Lastly, Singapore extended the current run of deterioration in its manufacturing sector to one year, although the downturn in July (44.5) was softer than in June.

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 ASEAN manufacturing sector remained in decline in July, according to the latest PMI survey data. In fact, the rate of deterioration was the steepest in two years, driven by lower output and employment. Firms were led to reduce production levels on the back of only marginal increases in new orders in recent months."

"As such, manufacturers appear in a difficult position, and require stronger demand growth to lift them out of the current soft patch. Output prices also rose at a subdued pace, the joint-lowest since August 2016, suggesting that some firms are relying on discounts to attract customers. Thus, next month's data will show whether the downturn in the ASEAN region is temporary or long-term."

Overall demand conditions at ASEAN manufacturers improved in July. The rate of new order growth was marginal, albeit faster than in the previous month. Furthermore, new export orders grew to the greatest extent for a year, offsetting a slight reduction during June.

Nevertheless, the increase in total new orders did not stop companies from lowering production, although the rate of decrease was only slight. Firms also pared back on input purchases for the second month running, leading to a moderate drop in pre-production stock levels. Relatively subdued output and new order trends contributed to a marginal fall in stocks of finished items.

Employment at ASEAN manufacturing firms also decreased in July. This marked the second successive monthly reduction in workforce numbers, as well as the quickest rate of job shedding in over three-and-a-half years. Notably, four of the monitored countries recorded a drop in employment, while the other three saw only marginal increases.

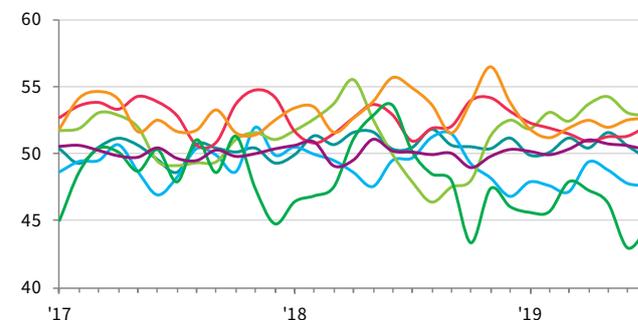
Meanwhile, input prices rose only modestly, with the rate of inflation unchanged from the previous month. Along with weak demand growth, this led firms to raise selling prices at the joint-softest rate in nearly three years.

Finally, sentiment regarding future output dropped during July after relatively strong levels of optimism over the prior two months. Only Vietnam and the Philippines saw sentiment improve from June, while Singapore recorded a pessimistic forecast for the second month in a row.

Manufacturing PMI

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

sa, >50 = improvement since previous month



Source: IHS Markit.

Contact

David Owen
Economist
IHS Markit
T: +44 207 064 6237
david.owen@ihsmarkit.com

Bernard Aw
Principal Economist
IHS Markit
T: +65 6922 4226
bernard.aw@ihsmarkit.com

Joanna Vickers
Corporate Communications
IHS Markit
T: +44-207-260-2234
joanna.vickers@ihsmarkit.com

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.

July 2019 data were collected 12-25 July 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.