Manufacturing downturn continues into August

Key findings

- PMI remains firmly in contraction territory at 44.5
- Further rapid falls in output and new orders
- Business confidence weakest since July 2020

The ASEAN manufacturing sector remained in a downturn during August, according to the latest IHS Markit Purchasing Managers’ Index (PMI™) data, as rising COVID-19 cases and lockdown measures continued to impact the sector. Operating conditions declined sharply again amid further rapid falls in factory production and new orders, while sentiment among goods producers towards output over the year ahead slipped to a 13-month low.

The headline PMI posted 44.5 in August, down slightly from July’s reading of 44.6, to signal a third straight monthly deterioration in the health of the ASEAN manufacturing sector and one that was sharp overall.

For the first time since May 2020, each of the seven constituent nations recorded deteriorations in conditions during August. The steepest pace of contraction was seen in Myanmar, where the PMI (36.5) remained among the lowest on record. This was followed by Vietnam, where the headline index (40.2) fell to the lowest since April 2020 amid the ongoing COVID-19 outbreak. Elsewhere, sustained deteriorations were recorded in Malaysia and Indonesia, although both saw the rates of decline ease from July. Nonetheless, the latest PMI readings of 43.4 and 43.7, were indicative of sharp deteriorations in the health of the respective manufacturing sectors.

Renewed contractions were meanwhile registered in Singapore and the Philippines. In the former, the headline index (44.3) moderated noticeably from July’s more than eight year high, and sunk to the lowest since last September. In the Philippines, the latest reading (46.4) signalled the first deterioration in conditions since May and one that was the sharpest for 15 months.

Comment

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

"COVID-19 outbreaks and stricter lockdown measures continued to adversely impact the ASEAN manufacturing sector during August, which remained firmly mired in a downturn. Client demand continued to retreat, while factory production declined rapidly again. Subsequently, companies cut back on staffing, despite a record upturn in backlogs, while business confidence moderated to a 13-month low.

"Moreover, for the first time since May 2020, contractions were recorded across each of the seven constituent nations during August, highlighting the severe impact of rising COVID-19 cases and stronger lockdown measures across the region. The fastest rates of decline were recorded in Myanmar, Vietnam and Malaysia.

"Overall, the latest data provided little good news. Companies were still confident overall of higher output in 12 months’ time, however, with firms hopeful that once restrictions are eased the sector will once again rebound."
Finally, Thailand’s PMI dipped further below the 50.0 mark in August. At 48.3, the latest reading signalled the quickest rate of decline for three months, but one that was only marginal.

Overall, the ASEAN manufacturing sector remained firmly in contraction territory in August. Output and new orders fell for the third straight month, with the rates of decline little-changed since July and among the strongest on record, reflecting ongoing challenges posed by the reintroduction of stricter containment measures. Foreign demand also weakened during August, as new export orders decreased for the third month in a row and markedly, although the rate of reduction did ease since July.

As a result, ASEAN goods producers parred back on their purchasing again in August, extending the current sequence of declining buying activity which began in June. The rate of reduction was marked, despite slowing on the month. Subsequently, inventories declined further. Nonetheless, supply chain disruption remained substantial. Although delays were slightly less severe than in July, lead times for inputs lengthened to one of the greatest degrees on record.

Meanwhile, goods producers continued to trim their workforces in August, extending the current sequence of falling employment which began in June 2019. The rate of job shedding eased on the month, but was still strong overall. August data also highlighted sustained capacity pressures, as backlogs of work rose at a series record pace.

Inflationary pressures also remained elevated. Input costs increased markedly again, with firms raising their average charges at an accelerated pace as a result.

The continued downturn also weighed on business confidence during August. Although still optimistic overall, the level of positive sentiment towards output over the next year dipped to the weakest since June 2020 and was historically muted.