

Nikkei ASEAN Manufacturing PMI™

ASEAN manufacturing growth eases slightly in June

Key points:

- Headline PMI slips from the previous month, but remains relatively steady
- Weaker rises in both output and new orders
- Optimism hits survey-record low

Latest PMI™ data signalled steady growth momentum in the ASEAN manufacturing sector at the end of the second quarter, with business conditions improving at a modest rate.

The headline **Nikkei ASEAN Manufacturing Purchasing Managers' Index (PMI™)**, compiled by IHS Markit, slipped from 51.4 in May to 51.0 in June. Nevertheless, the latest reading took the quarterly average to the best seen in four years.

Survey data continued to show a largely broad-based upturn. June saw five of the seven countries indicating an improvement in manufacturing conditions, down from six in May. Myanmar reported no change in its manufacturing sector.

Vietnam strengthened its lead in the ASEAN manufacturing PMI rankings, as growth in its goods-producing sector picked up noticeably to the second-fastest in its survey history. Singapore overtook the Philippines to clinch second place after registering a faster improvement in operating conditions. The Philippines fell to third position, with the health of its manufacturing economy improving at a weaker pace than in May.

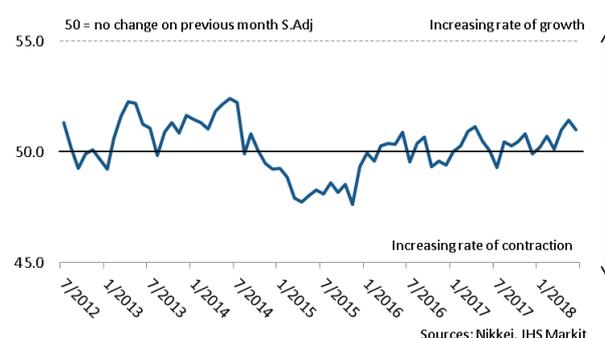
Indonesia and Thailand both indicated softer improvements in manufacturing conditions in June. Myanmar reported no change to its operating conditions. Malaysia remained the only country to signal a decline in the health of its manufacturing sector, although the pace of deterioration was noticeably slower than May.

Demand conditions continued to improve at the end of the second quarter. Although total new orders increased at a slower pace in June, growth remained above the historical trend. Underlying data suggested that firmer domestic demand was the primary driver of growth due to poor export performances. Overseas sales returned to decline in June.

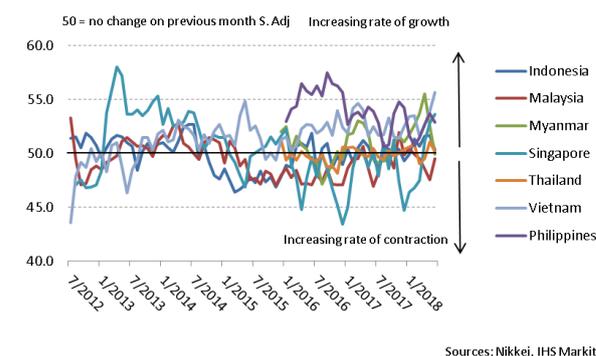
Countries ranked by Manufacturing PMI™

June	PMI	Change signalled
Vietnam	55.7	Sharp increase (faster than May)
Singapore	53.6	Solid increase (faster than May)
Philippines	52.9	Solid increase (slower than May)
Indonesia	50.3	Marginal increase (slower than May)
Thailand	50.2	Marginal increase (slower than May)
Myanmar	50.0	No change (improvement in May)
Malaysia	49.5	Marginal decrease (slower than May)

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National Manufacturing PMI™



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The sustained increase in output encouraged ASEAN factories to scale up purchasing activity, albeit at a weaker pace. However, greater usage of inputs for production resulted in another fall in pre-production inventories which, in turn, weighed on the headline PMI. Stocks of purchases have now fallen for 21 successive months.

The increase in appetite for inputs put further pressure on supply chains. Vendor performance deteriorated for a fourth consecutive month in June. Anecdotal evidence pointed to a lack of materials at distributors which, in some cases, also disrupted stock-building.

Despite higher output, inventories of finished goods declined at the end of the second quarter, as has been the case in each of the past seven months.

There remained no signs of capacity pressures across the region, as backlogs of unfinished work fell again in June. However, ongoing spare capacity failed to discourage manufacturers from hiring. On the contrary, a net employment gain was seen for a third successive month during June, though the rate of job creation remained marginal.

Manufacturers across the region continued to face input cost inflation at the end of the first half of the year. The rate of increase eased from May, but remained steep overall. Global supply shortages and higher prices for raw materials (especially oil) were common reasons cited for inflation. In some countries, unfavourable exchange rates aggravated imported inflation. All seven countries monitored by the survey reported higher input prices. Myanmar saw the sharpest rate of cost inflation, followed by the Philippines. Consistent with greater costs, average selling prices also rose, with the Philippines recording the quickest pace of inflation.

Business expectations relating to output over the next year deteriorated in June. Although still in positive territory, the Future Output Index slipped to a survey-record low.

Comment:

Commenting on the ASEAN Manufacturing PMI survey data, **Bernard Aw, Principal Economist** at IHS Markit, which compiles the survey, said:

“The ASEAN manufacturing sector had its best quarter in four years, according to latest PMI data. However, firms’ optimism about longer-term prospects dipped in June.

“The latest Nikkei PMI survey pointed to another steady month of expansion for ASEAN manufacturers at the end of the second quarter, with the headline reading similar to recent months and above the historical average. However, both output and new orders grew at slower rates, while export demand weakened.

“More concerning was new orders have now grown at a slower rate than output for three consecutive months, suggesting that production capacity could start to be reined-in in coming months. Furthermore, business confidence relating to future output fell to the lowest in the survey history.

“Another area of concern is the potential negative effects from strained supply chains. While the deterioration in vendor performance remained mild, ongoing global shortages and rising prices for raw materials, especially oil, could subsequently weigh on supplies and stoke stronger inflationary pressures.

“Higher prices will then put central banks across the region on high alert at a time where policymakers are worried about the potential damaging impact of rising trade tensions on their economies.”

-Ends-

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Notes to Editors:

The ASEAN Manufacturing *PMI*[™] (*Purchasing Managers' Index*[™]) is produced by IHS Markit and is based on original survey data collected from a representative panel of around 2100 manufacturing firms. National data are included for Indonesia, Malaysia, Myanmar, the Philippines, Singapore, Thailand and Vietnam. Taken together, these countries account for an estimated 98% of ASEAN manufacturing activity.

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