Thai factory output falls further in May as exports register record decline

IHS Markit
Thailand Manufacturing PMI™

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Key findings

- Production volumes down sharply
- New orders fall again, led by a record decline in exports
- Business sentiment remains deeply negative

The latest PMI data signalled a further sharp deterioration of Thai manufacturing conditions during May as a result of measures to contain the COVID-19 pandemic. Output fell further after April’s slump, and accompanied by a further sharp decline in new orders, linked to a record fall in exports. Business expectations remained downbeat as the uncertainty about the future weighed heavily on sentiment.

The Thailand Manufacturing Purchasing Managers’ Index™ (PMI™) came in at 41.6 in May, up from 36.8 in April, but nonetheless signalling a steep deterioration in the performance of the sector. In fact, the latest reading was the second lowest since the survey started four-and-a-half years ago.

The impact of domestic emergency measures to control the spread of COVID-19 on the manufacturing sector remained severe during May. Production volumes continued to fall sharply, though the rate of contraction eased from April. Firms pointed to a poor sales trend as a key reason for lower output, while some firms also highlighted curbs on operations due to social distancing rules.

The global economic downturn severely impacted demand for Thai manufactured goods. Total new sales declined steeply, although at a slower pace than in April. Sales were led downwards by a record decline in foreign orders. Panellists also noted that widespread business closures contributed to reduced sales.

Meanwhile, firms worried about excess capacity sought to contain costs by cutting staff numbers in May. While the rate of decrease slowed from April’s record, it was the second fastest in the series history and marked overall.

Comment

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

"Thailand’s manufacturing sector remained mired in a sharp downturn during May amid a slump in exports, setting the scene for the economy to slip further into recession.

"Measures taken domestically and globally to control the COVID-19 pandemic continued to severely affect Thailand’s goods production, for which demand had deteriorated markedly. Overall new orders fell sharply, dragged down by a record drop in export sales.

"Facing falling revenue, firms sought to contain costs by cutting jobs and inventories. Job shedding was again reported amid evidence of layoffs, while stocks were depleted.

"The global downturn will make it challenging for any recovery in the Thai manufacturing sector. Indeed, business expectations about the year-ahead outlook remained deeply negative. Firms were predominantly concerned about the uncertainty over the duration of the coronavirus pandemic and its impact on economic activity."

Data were collected 12-20 May 2020

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Manufacturers continued to display a reluctance in holding inventories, with stocks of inputs and finished goods both falling further in May. Firms also cut back on purchasing activity in the face of falling sales and reduced operational requirements.

On the inflation front, price levels were broadly stable, with little change to both input costs and selling prices seen during May when compared to the previous month.

Finally, business expectations remained deep inside negative territory during May. The Future Output Index, a measure of confidence, remained well below the neutral 50.0 level, indicating a considerable proportion of firms anticipate lower output in the coming 12 months. According to panel comments, concerns over the longer-term impact of the COVID-19 pandemic on manufacturing activity remained a dominant reason behind negative sentiment.