

Nikkei Thailand Manufacturing PMI™

Thai manufacturing growth slows in June

Key points:

- Further output growth but new orders return to decline
- Export sales fall for first time this year
- Business confidence down

Data collected June 12-21

Thailand's manufacturing industry concluded the second quarter on a positive note, reporting a further improvement in business conditions. Increases in both production and input inventories slightly offset a renewed decline in new business and lower employment.

Export sales also fell, reflecting soft overseas demand. The level of backlogs held steady, which further weighed on hiring. Business confidence relating to output also weakened. On the price front, inflationary pressures were subdued.

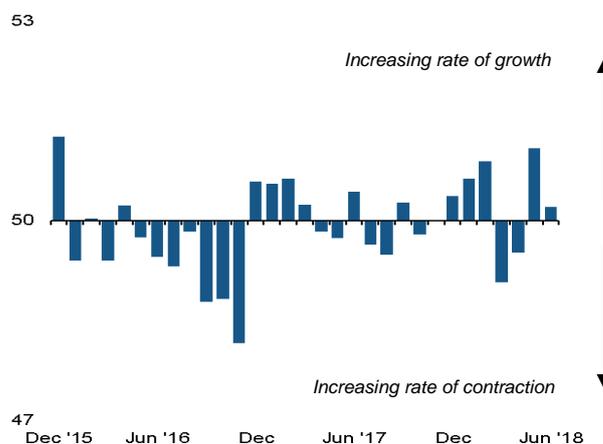
The seasonally adjusted **Nikkei Thailand Manufacturing Purchasing Managers' Index™ (PMI™)** came in at 50.2 in June, down from 51.1 in May to signal only a marginal improvement in the health of the sector. However, the average reading for the second quarter was the best since the opening three months of 2017.

The headline PMI provides a snapshot of the manufacturing performance in the country and derives from questions on output, new orders, employment, inventories and delivery times.

The latest survey brought renewed signs of weakening client demand. New orders returned to contraction, accompanied by a decline in export sales, indicating that demand in both domestic and foreign markets has softened at the end of the second quarter. Lower sales saw output increase at a slower pace.

However, higher production led firms to raise purchasing activity further. Higher buying levels were reported for a tenth month running, which also contributed to another rise in input inventories. That said, the gain in stocks of purchases was smaller than the previous month and only marginal.

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Sources: Nikkei, IHS Markit

Greater appetite of manufacturing inputs failed to put pressure on supply chains. On the contrary, vendor performance improved for a fourth straight month, albeit slightly. Output growth also helped Thai factories accumulate greater stocks of finished products. However, there were reports that lower sales led to higher levels of unsold inventories.

Fewer inflows of new orders enabled firms to work through their backlogs. The level of unfinished business was unchanged from the previous month, and the lack of capacity pressure weighed on hiring. Employment fell further in June, stretching the downtrend to a year. A number of panellists reported that employees had left for new jobs in June.

On the price front, inflationary pressure remained muted. While firms mentioned increased prices for raw materials, overall input cost inflation was generally marginal and below the historical average. Subdued cost increases encouraged firms to maintain selling prices.

Finally, business confidence relating to output was dented by concerns over weakening economic conditions.

Comment:

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

“Thailand’s manufacturing sector rounded off the second quarter on a positive note, with the Nikkei survey showing a further improvement in business conditions. However, there were further signs of easing demand, especially in export markets, raising questions over the sustainability of the current upturn.

“The most compelling sign of output growth possibly waning in July came from the survey’s index of new orders, which returned to contraction. More worrying was a disappointing export performance. Overseas sales fell for the first time so far this year, reflecting the current downturn in the global trade cycle, a development which is concerning for Thai business activity in the second half of 2018. Business confidence was also dented amid lower sales, with the Future Output Index falling to a three-month low.

“On the price front, survey data showed price pressures remaining subdued in June, suggesting that the recent jump in consumer inflation in May could prove short-lived. The CPI rose 1.5% in May on the back of higher fuel prices.”

-Ends-

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Notes to Editors:

The Nikkei Thailand Manufacturing *PMI*[™] is based on data compiled from monthly replies to questionnaires sent to purchasing executives in over 400 industrial companies. The panel is stratified by GDP and company workforce size. The manufacturing sector is divided into the following 8 broad categories: Basic Metals, Chemicals & Plastics, Electrical & Optical, Food & Drink, Mechanical Engineering, Textiles & Clothing, Timber & Paper and Transport.

Survey responses reflect the change, if any, in the current month compared to the previous month based on data collected mid-month. For each of the indicators the 'Report' shows the percentage reporting each response, the net difference between the number of higher/better responses and lower/worse responses, and the 'diffusion' index. This index is the sum of the positive responses plus a half of those responding 'the same'. Diffusion indexes have the properties of leading indicators and are convenient summary measures showing the prevailing direction of change. An index reading above 50 indicates an overall increase in that variable, below 50 an overall decrease.

The Nikkei Thailand Manufacturing *PMI*[™] is a composite index based on five of the individual indexes with the following weights: New Orders - 0.3, Output - 0.25, Employment - 0.2, Suppliers' Delivery Times - 0.15, Stock of Items Purchased - 0.1, with the Delivery Times Index inverted so that it moves in a comparable direction.

IHS Markit do not revise underlying survey data after first publication, but seasonal adjustment factors may be revised from time to time as appropriate which will affect the seasonally adjusted data series. Historical data relating to the underlying (unadjusted) numbers, first published seasonally adjusted series and subsequently revised data are available to subscribers from IHS Markit. Please contact economics@ihsmarkit.com.

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