

IHS Markit ASEAN Manufacturing PMI™

Manufacturing downturn continues to ease in July

Key findings

Output and new orders both fall at softest rates for five months

Downturn in export sales eases

Employment continues to decline sharply

Data were collected 13-27 July 2020.

July data signalled a further deterioration in ASEAN manufacturing conditions as the coronavirus disease 2019 (COVID-19) pandemic continued to impact the sector, according to latest IHS Markit Purchasing Managers' Index (PMI™) data. The rate of contraction was the softest in the current five-month sequence of decline, however, with both factory production and new orders falling at slower rates.

The headline PMI rose from 43.7 in June to 46.5 in July to signal a softer decline in the health of the sector, although the latest figure remained firmly below the no-change 50.0 mark to signal a fifth consecutive deterioration in manufacturing conditions nonetheless. Central to the latest contraction were falls in both output and new orders, although the rates of decline were the softest recorded for five months. Underlying data suggested that any improvements in sales were primarily driven by firmer domestic demand, as export orders dropped markedly again. Concurrently, firms cut staffing levels for the fourteenth month running, with the rate of job shedding remaining sharp.

Across the seven constituent countries, only Myanmar registered an improvement in operating conditions during July. At 51.7, Myanmar's headline figure was the highest for six months, with the overall expansion driven primarily by stronger growth of output and new orders. Elsewhere, after a mild improvement in June, operating conditions in Malaysia stagnated, with the headline figure posting at the no-change 50.0 mark in July.

Meanwhile, the downturn in the Philippines continued for a fifth successive month. Moreover, the headline figure (48.4) signalled a sharper rate of deterioration than in June amid a renewed drop in output. Vietnam also saw a deterioration in business conditions. The headline index (47.6) dropped back below the 50.0 mark in July and signalled a modest rate of contraction.

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ASEAN Manufacturing PMI

sa, >50 = improvement since previous month



Source: IHS Markit.

Comment

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

"The downturn in the ASEAN manufacturing sector continued in July, with operating conditions deteriorating for a fifth successive month. The pace of deterioration continued to ease, however, as rates of decline across many indices softened from June, with output and new orders falling at the slowest rates for five months.

"Demand conditions remained muted, however, with the marked reduction in foreign orders highlighting export markets as a particular source of weakness. With substantial uncertainty surrounding the near-term outlook for demand, ASEAN goods producers continued to cut staffing levels sharply, while confidence regarding the 12-month outlook for output also remained subdued.

"The latest data did offer some encouraging signs towards a recovery as we enter the second half of the year, as the worst of the downturn looks to have passed. Nonetheless, overall demand will need to improve, and factories will need to ramp up production further towards full capacity before we will see any meaningful recovery. Given the potential for a resurgence of the pandemic and the reintroduction of lockdown measures, the downside risks remain notable."

At the same time, Indonesian manufacturers registered a further deterioration in the health of the goods producing sector, extending the current sequence of contraction to five months. Rising to 46.9 in July, the headline figure signalled a much softer rate of reduction than in June and one that was only moderate overall, however. Similarly, the downturn in Thailand eased again, although the headline figure (45.9) still pointed to a solid rate of contraction overall.

Finally, Singaporean manufacturers recorded the worst performance of the seven constituent ASEAN nations, as has been the case in each of the past three months. The headline figure dipped to 37.3 in July, indicative of another marked deterioration in the health of the sector, albeit not as severe as those seen in March, April and May.

July data, on the whole, highlighted ongoing weakness in the ASEAN manufacturing sector going into the second half of 2020, with the downturn persisting for a fifth month running. That said, the deterioration in operating conditions was the softest in the aforementioned sequence, with contractions in key metrics, including output, new orders and employment indicators, easing from the previous survey period. Notably, export markets remained a key source of weakness, as foreign demand continued to decline markedly.

On the price front, cost burdens increased, extending the current sequence of inflation to four months. The uptick was solid, albeit slightly slower than in June. Firms partially passed on greater input costs to clients in the form of higher charges. The rate of charge inflation was the quickest for nearly a year, albeit mild overall.

Looking ahead, the 12-month outlook for output remained positive in July. That said, sentiment weakened slightly from June and remained heavily subdued in the context of historical data.

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 2020 data were collected 13-27 July 2020.

For further information on the PMI survey methodology, please contact economics@ihsmarkit.com.

*Source: World Bank World Development Indicators.

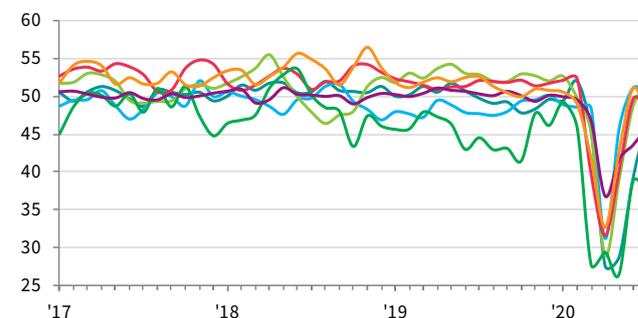
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Manufacturing PMI

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

sa, >50 = improvement since previous month



Source: IHS Markit.

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