

IHS Markit ASEAN Manufacturing PMI™

Operating conditions deteriorate again in September

Key findings

Renewed decline in output as new orders fall further

Job shedding continues for sixteenth month running

Output expectations improve to strongest since January

Data were collected 11-24 September 2020.

ASEAN manufacturing conditions remained challenging at the close of the third quarter, according to latest IHS Markit Purchasing Managers' Index (PMI™) data. After stabilising in August, factory production fell amid a further decline in new business. Meanwhile, firms cut their staffing levels for the sixteenth month running, with the rate of job shedding easing only slightly since August. There were some positive signs, however, as sentiment around the 12-month outlook for output reached a eight-month high, as companies were generally more confident of an economic recovery.

Falling from 49.0 in August to 48.3 in September, the headline PMI signalled a modest deterioration in the health of the ASEAN manufacturing sector. That said, the latest reading remained well above those seen at the height of the coronavirus disease 2019 (COVID-19) pandemic in the spring. Central to the overall decline was a renewed contraction in manufacturing output, alongside a seventh consecutive monthly reduction in order book volumes, although rates of decline were modest.

Across the seven constituent countries, Myanmar recorded by far the most marked deterioration in conditions. The headline figure plunged to a near-record low of 35.9 in September, to highlight a marked weakening in the performance of the sector amid stricter lockdown measures. Indonesia also saw a renewed contraction, following slightly improved conditions in August. The headline index (47.2) was indicative of a much softer decline than those seen during the height of the pandemic, but one that was solid nonetheless.

Elsewhere, further contractions were recorded in Singapore and Malaysia. In the former, the latest deterioration in conditions was the softest since January and mild overall (index at 48.0). Malaysian goods producers recorded a slightly faster rate of

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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:

"Conditions across the ASEAN manufacturing sector remained challenging at the end of the third quarter. The headline PMI signalled a seventh consecutive deterioration in the health of the sector, amid a renewed decline in factory production and a further fall in total new orders."

"With demand conditions still muted both domestically and abroad, and capacity pressures remaining weak, firms made further cuts to their staffing levels. The rate of job shedding did ease slightly, but was still solid."

"Only two of the seven constituent countries registered a headline PMI figure above the 50.0 threshold, reflecting the challenging conditions at present. Still, firms were confident about output over the next year, with sentiment picking up to the highest since January."

"But, with virus cases rising in some countries and in other parts of the world, the downside risks from the reintroduction of stricter lockdown measures are concerning. A near-record rate of deterioration in the health of Myanmar's manufacturing sector was recorded in September as a result of stricter COVID-19 related measures. If more stringent lockdown measures are necessary across the rest of the region, there is potential for ASEAN as a whole to record a similar dip in performance, before any recovery."

decline, however, with the headline index 49.0 falling to a four-month low at 49.0. Meanwhile, conditions were broadly stable in both Thailand and the Philippines. The headline figures registered around the 50.0 mark, at 49.9 and 50.1, respectively.

Finally, the Vietnamese manufacturing sector saw the first improvement in operating conditions for three months during September. Moreover, the headline index (52.2) was the highest since July 2019 and signalled a modest improvement in conditions.

Overall, September data highlighted challenging conditions across the ASEAN manufacturing sector. Ongoing weakness in client demand was reflected in a quicker reduction of total order book volumes, with factory production declining as a result. Weakness in international markets was also evident, as new export orders continued to fall markedly.

Subsequently, backlogs of work continued to decline sharply, and goods producers made further cuts to their staff numbers. Though solid, the rate of decline was the slowest since February.

Lower production requirements led ASEAN manufacturing companies to reduce their buying activity, extending the current sequence of decline to 16 months. At the same time, vendor performance deteriorated further, although the extent to which lead times lengthened was the slowest in the current eight-month sequence of longer delivery times.

Concurrently, input costs rose for the sixth consecutive month. The rate of increase was the slowest since May, but still solid. As part of efforts to increase sales, firms discounted their selling prices during the latest survey period. The rate of reduction was only marginal, however.

Looking ahead, the 12-month outlook for output improved for the second month in a row, with the level of positive sentiment reaching an eight-month high.

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.

September 2020 data were collected 11-24 September 2020.

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

*Source: World Bank World Development Indicators.

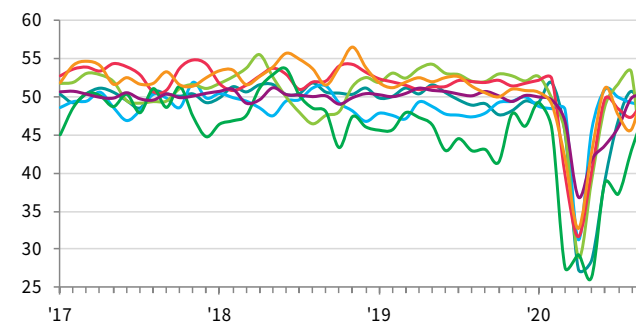
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Manufacturing PMI

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

sa, >50 = improvement since previous month



Source: IHS Markit.

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