

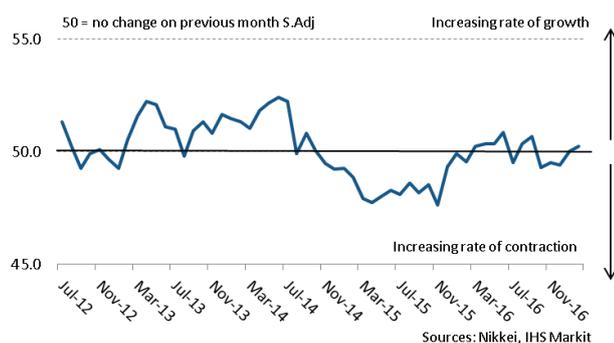
Nikkei ASEAN Manufacturing PMI™

ASEAN manufacturing sector expands slightly in February

Key points:

- Marginal increases in output and new orders
- Firms raise prices again as input cost inflation intensifies
- Business optimism at 32-month low

Nikkei ASEAN Manufacturing PMI



After stagnating at the start of the year, ASEAN manufacturing conditions picked up during February, according to the Nikkei ASEAN Manufacturing Purchasing Managers' Index (PMI™).

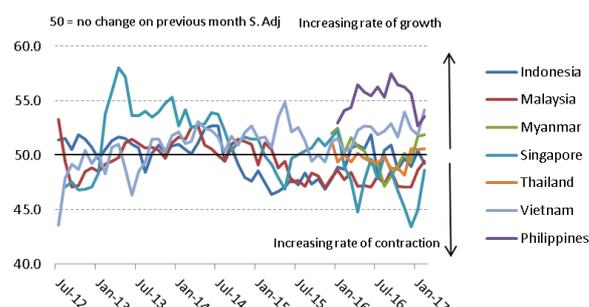
At 50.3 in February, the latest PMI was up from 50.0 in January to signal the first improvement since September 2016, albeit only marginal. Growth in output and new orders supported the higher index reading, though rates of expansion were only slightly. Operating conditions improved in most of the ASEAN economies, with the exception of Indonesia, Malaysia and Singapore.

Vietnam overtook the Philippines to record the strongest growth in February, and registered the best improvement in operating conditions for 21 months. Manufacturers in the Philippines saw a robust pace of expansion, albeit one that was weaker than the average for 2016 as a whole. Myanmar recorded a slightly stronger rate of growth while Thailand's manufacturing sector continued to expand at a marginal pace. At the same time, Malaysia and Singapore signalled slower rates of deterioration, while Indonesia saw a return to contraction.

Countries ranked by Manufacturing PMI™: February

Vietnam	54.2	21-month high
Philippines	53.6	2-month high
Myanmar	51.9	13-month high
Thailand	50.6	Unchanged
Malaysia	49.4	21-month high
Indonesia	49.3	2-month low
Singapore	48.6	5-month high

National Manufacturing PMI



Sources: Nikkei, IHS Markit

National PMI data pointed out that four of the seven nations covered by the survey saw an improvement in manufacturing sector conditions. This was down from five in January as Indonesia signalled renewed falls in both output and new business in February.

Firm domestic demand continued to drive ASEAN manufacturing growth, as total new business continued to expand marginally despite a further fall in new export sales.

Higher client demand contributed to the first increase in purchasing activity across the region for five months. At the same time, greater output led to higher inventories of finished products. Pre-production stocks were meanwhile broadly stable.

Despite further rises in output and new business, employment remained broadly stagnant in February. However, latest data signalled an ongoing lack of pressure on operational capacity as highlighted by a further decline in backlogs of work. Rising costs continued to be reported across the ASEAN manufacturing industry, with the rate of inflation reaching the highest in three years. Depreciation of regional currencies and greater prices for raw

materials were primarily responsible for upward cost pressures, according to anecdotal evidence. While inflation was seen in all countries covered, Malaysia recorded the strongest rise in input costs, which hit a record pace. Survey respondents pointed out depreciation of the ringgit as a key reason.

Sharp increases in cost burdens caused manufacturers to increase their selling prices at a faster pace. Overall, output charges across the ASEAN manufacturing sector rose at the fastest rate since October 2015. All countries covered reported higher selling prices, with the steepest increase recorded in Malaysia.

Suppliers performance deteriorated slightly in February, partly due to improved purchasing trends. However, only three of the seven countries covered by the survey registered longer lead times.

Looking ahead, business confidence in the ASEAN manufacturing sector remained below the historical average, reaching the lowest in 32 months. A look at the national PMI data revealed substantial variations in future expectations for manufacturing output across the region.

Comment:

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

“As a whole, ASEAN manufacturers signalled a renewed improvement in overall business conditions in February after a subdued start to 2017. Broad improvements were observed in most countries in the region. But individually, economies’ manufacturing industries were still growing at different speeds.

“This was reflected in the substantial variation in business confidence across ASEAN manufacturers. While the majority of good producers in the Philippines, Indonesia and Vietnam were optimistic about their 12-month outlook, the degree of optimism was considerably less in Thailand, Malaysia and Myanmar. Singaporean manufacturers were the only ones expressing pessimism about future output in the year ahead.

“In part, fairly weak demand for ASEAN goods explained the confidence divergence, especially for countries that depend more on overseas demand for growth. Recent weakness in regional currencies has not seen to provide a boost to foreign demand, but instead aggravated a rising cost environment.

“Surging operating costs remained a key concern for ASEAN manufacturers, who had to pass on some of the higher input prices, if they can, to customers. But input cost inflation continued to run above that for prices that manufacturers charged, putting more pressure on profit margins.

“In terms of policies, rising inflation may tie the hands of central bankers in ASEAN to provide more monetary stimulus. This implies that fiscal policy likely has to step up to stimulate growth, which has already been observed in some ASEAN economies.”

-Ends-

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Notes to Editors:

The ASEAN Manufacturing PMI[®] (*Purchasing Managers' Index*[®]) is produced by 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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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 revised data are available to subscribers from Markit. Please contact economics@ihsmarkit.com.

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