

Nikkei ASEAN Manufacturing PMI™

ASEAN manufacturing stagnates during January

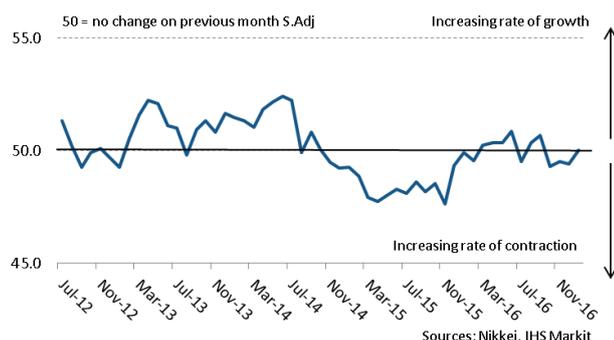
Key points:

- Marginal rises in output and new orders
- Regional firms raise prices again as cost inflation intensifies
- Confidence over 12-month outlook remains high

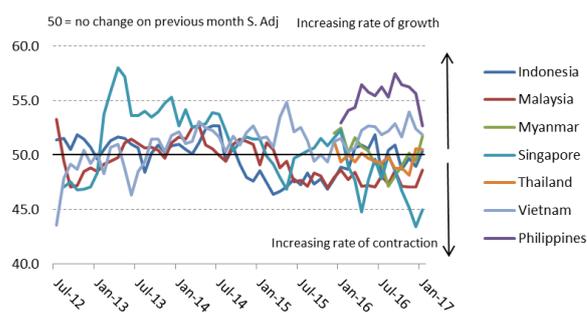
Countries ranked by Manufacturing PMI™: January

Philippines	52.7	record low
Vietnam	51.9	3-month low
Myanmar	51.7	12-month high
Thailand	50.6	unchanged
Indonesia	50.4	4-month high
Malaysia	48.6	4-month high
Singapore	45.0	2-month high

Nikkei ASEAN Manufacturing PMI



National Manufacturing PMI



Sources: Nikkei, IHS Markit

Manufacturing operating conditions were unchanged at the start of 2017, according to the latest Nikkei ASEAN Manufacturing *Purchasing Managers' Index (PMI)™* which recorded 50.0 in January. Up from 49.4 in December, the latest data marked the first time that the PMI has not posted below the no-change mark since last September.

Increases in both output and total new orders provided key supports to the headline index during January. Both sub-indices registered growth for the first time since September 2016, although in each case the rate of expansion was marginal.

National data pointed to a broad underlying improvement in operating conditions, although two countries – Malaysia and Singapore – both continued to record deteriorations.

Growth remained strongest in the Philippines, although the pace of expansion was noticeably slower. Myanmar saw the best improvement in manufacturing operating conditions for 12 months, growth held steady in Thailand and modest expansion was seen in Vietnam. Indonesia saw a return to marginal growth.

Looking at the national PMI data in greater detail, five out of the seven nations covered by the survey recorded increases in output and new business over the month, albeit at differing paces. In contrast, ongoing contractions in both variables were seen in Malaysia and Singapore.

Demand for ASEAN products appeared to be primarily driven by domestic markets rather than external sources. New export orders declined for the fourth successive month, albeit at a slightly slower pace in January. The relative weakness in foreign demand persisted despite more competitive regional exchange rates.

Soft demand resulted in a lack of pressure on manufacturing capacity as reflected by the sequence of backlog depletion reaching 31 months. Spare capacity, in turn, restrained job creation, with staffing levels rising only marginally in most of the economies covered. Indonesia in contrast saw a sharper decrease in jobs.

Cost pressures intensified during January, with input price inflation at the sharpest since October 2015. Weaker regional currencies as well as higher

global commodity prices led to increased import prices. Increases in costs were seen in all countries covered, with Malaysia, Myanmar and Vietnam recording the strongest monthly rises.

At the same time, average vendor performance was unchanged, in part due to soft demand (as evidenced by a fall in purchasing activity). This helped to restrict the rise in input costs to some extent.

Higher costs were partially passed on to clients during January, as charge inflation accelerated to the fastest rate since November 2015. With the exception of Singapore, selling prices were raised across all of the countries covered, with the steepest increases registered in the Philippines, Myanmar and Vietnam.

Encouragingly, firms remained optimistic about future prospects*, with business confidence strengthening to a two-month high in January.

**The January survey includes a newly released index tracking manufacturers' outlook about their production levels over the next 12 months. What's unique about this new series is that it is based on panellist views on the outlook rather than factual data as is the case with all other PMI variables.*

Comment:

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

"Following a subdued end to 2016, ASEAN manufacturers entered 2017 on an even keel, with operating conditions unchanged since December.

"Yet, looking at the PMI data in detail shows that the regional manufacturing sector is not out of the woods. Foreign demand for ASEAN products remains weak despite more competitive exchange rates. Export growth could get more challenging with greater global trade uncertainty on the horizon. This suggests that domestic markets will likely be the main engine for manufacturing growth.

"Another key area of concern is the lack of employment growth. Companies are unlikely to boost hiring given ongoing spare capacity and weak growth in production. Only stronger rises in demand will compel them to create more jobs.

"Job creation is made even more difficult by rising manufacturing costs. Weaker regional currencies and rising global prices for raw materials continue to see input cost inflation running above that for prices that manufacturers charge.

"Despite all these challenges, what's especially encouraging is the continued optimism of ASEAN manufacturers, as reflected by the newly released Future Output Index."

-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.

The *Purchasing Managers' Index (PMI)* survey methodology has developed an outstanding reputation for providing the most up-to-date possible indication of what is really happening in the private sector economy by tracking variables such as sales, employment, inventories and prices. The indices are widely used by businesses, governments and economic analysts in financial institutions to help better understand business conditions and guide corporate and investment strategy. In particular, central banks in many countries (including the European Central Bank) use the data to help make interest rate decisions. *PMI* surveys are the first indicators of economic conditions published each month and are therefore available well ahead of comparable data produced by government bodies.

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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