

## Nikkei Thailand Manufacturing PMI™

### Thai manufacturing sector deteriorates further despite stronger growth in exports

**Key points:**

- Fastest rise in exports since April 2016
- Baht rise helps rein in cost inflation
- Firms not optimistic about future output for first time in survey history

Data collected August 11-22

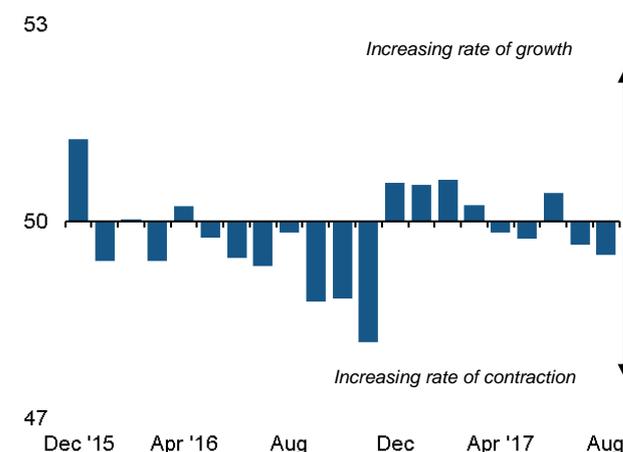
The downturn in Thailand’s manufacturing sector continued midway through the third quarter, weighed by further declines in output and new orders. Moreover in both cases, the rates of contraction were faster than seen in July. Demand weakness led to fewer hiring and lower inventories, although a bright spot was stronger export sales. On the price front, the sustained appreciation of the baht tempered inflationary pressures. Meanwhile, firms were not optimistic about the business outlook for the first time in the survey history.

The seasonally adjusted **Nikkei Thailand Manufacturing Purchasing Managers’ Index™ (PMI™)** recorded 49.5 in August, signalling a further deterioration in the health of the sector. Down slightly from 49.6 in July, the latest reading was the lowest for nine months.

August data showed concurrent decreases in both output and new business. As was the case with the headline PMI, rates of decline were quicker than in July, albeit still marginal overall. Notably, volumes of total new orders fell despite stronger growth in overseas sales. Survey data indicated that new export orders not only returned to growth but increased at the fastest rate for 16 months. Anecdotal evidence suggested that clients’ launch of new products fuelled demand for Thai manufactured goods.

Backlogs of work outstanding were again unchanged during August, as companies were able to work through orders amid lower demand. A lack of pressure on capacity prompted companies to hold back on hiring, as signalled by a second consecutive monthly fall in staffing levels. However, the decline was slower than the previous month and again marginal. Lower production requirements and leavers led to the fall in employment.

Nikkei Thailand Manufacturing PMI



Sources: Nikkei, IHS Markit

Meanwhile, there was evidence that a stronger exchange rate helped to rein in inflationary pressures. Operating costs were broadly stagnant in August, putting an end to 17 months of rising cost burdens. The absence of cost inflation led to firms’ restraint in raising factory gate prices.

Facing softer demand, Thai factories remained reluctant to build inventories. Lower purchasing activity was recorded for a second straight month, with the rate of decrease the steepest for nine months. Firms cited efforts to maintain leaner stocks as a key factor. Reduced buying levels led to the sixth monthly decline in pre-production inventory. The build in stocks of finished goods was also lower than the previous month, as manufacturers produced less. Reduced appetite for manufacturing inputs placed less pressure on supply chains. Vendor performance improved in August

The weak start to the third quarter dented business confidence among Thai manufacturers. In August – and for the first time since the survey started in December 2015 – the Future Output Index reached the no-change mark of 50.0. Some respondents that expected lower output in the year ahead cited market uncertainty.

## Comment:

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

*“August’s PMI survey provided another disappointing set of data on the health of Thailand’s manufacturing sector, with output, new orders and employment recording further declines.*

*“The downturn continued to be dominated by weakening demand in domestic markets, although foreign sales strengthened further. Notably, firms did not indicate optimism for higher output over the next 12 months – for the first time in the survey history. Political uncertainty relating to the postponement of the general elections may be holding back private-sector investments. Worsening manufacturing conditions also impacted employment prospects, and any further deterioration in the sector in the coming months will weigh on jobs growth.”*

-Ends-

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**Notes to Editors:**

The Nikkei Thailand Manufacturing *PMI*<sup>™</sup> 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*<sup>™</sup> 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](mailto:economics@ihsmarkit.com).

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