

Nikkei ASEAN Manufacturing PMI™

ASEAN manufacturing growth gains pace in May

Key points:

- Headline PMI hits near four-year high
- Faster rises in output and new orders
- Cost pressures remain marked

ASEAN manufacturing growth gained further momentum midway through the second quarter, with the headline **Nikkei ASEAN Manufacturing Purchasing Managers' Index (PMI™)** reaching the highest level since July 2014.

The headline PMI rose from 51.0 in April to 51.5 in May, signalling a fifth monthly improvement in the health of the sector. May data showed six of the seven countries covered by the survey indicating an improvement in manufacturing conditions, up from five in April.

Vietnam overtook Myanmar to lead the ASEAN manufacturing PMI rankings, as growth in its manufacturing sector picked up in May. The Philippines was close behind after registering a faster improvement in operating conditions. The health of Myanmar's manufacturing economy strengthened at a weaker pace than in April, which saw the nation slip to fourth position in the rankings.

Singapore and Indonesia built on April's growth momentum, with both indicating stronger improvements in manufacturing conditions in May. Thailand returned to growth for the first time in three months. Malaysia was the only country signalling a decline in the health of its manufacturing sector, with the pace of deterioration the steepest for nearly a year.

There were further signs of strengthening demand conditions across the region in May. Survey data saw the largest monthly rise in new orders since July 2014, supported by a renewed upturn in export sales.

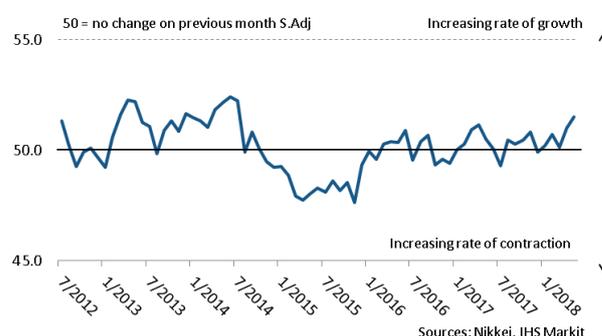
The stronger rise in new business encouraged manufacturers to scale up production across the region. The rate of output growth picked up to the strongest for almost four years.

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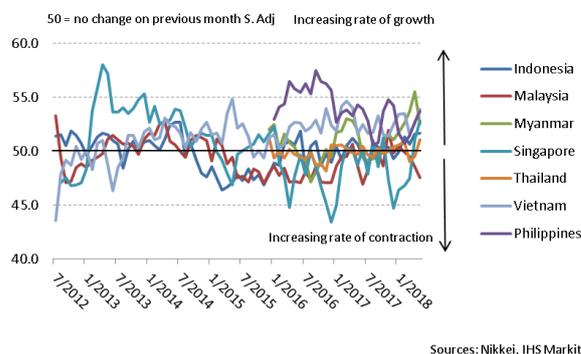
Countries ranked by Manufacturing PMI™

May	PMI	Change signalled
Vietnam	53.9	Solid increase (faster than April)
Philippines	53.7	Solid increase (faster than April)
Singapore	52.8	Solid increase (faster than April)
Myanmar	52.6	Modest increase (slower than April)
Indonesia	51.7	Modest increase (faster than April)
Thailand	51.1	Modest increase (change in direction)
Malaysia	47.6	Modest decrease (faster than April)

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National Manufacturing PMI™



At the same time, firms took on additional workers, with higher employment being reported for a second straight month. However, despite stronger client demand, there were signs of ongoing spare capacity, which in turn restricted the overall pace of jobs growth. Backlogs of unfinished work fell again in May, stretching the current sequence to nearly four years.

In response to increased production requirements, firms boosted purchasing activity in May. In line with the trend for output, input buying rose to the greatest extent in almost four years. However, increased appetite for inputs put further strain on supply chains. Longer lead times were reported for a third straight month in May. Anecdotal evidence suggested global supply shortages contributed to delivery delays.

Despite greater purchasing activity and higher output, inventories of both inputs and final goods declined further, albeit at marginal rates.

Companies' input costs continued to increase in the middle of the second quarter. The rate of inflation accelerated from April to one of the highest in the past year. All seven countries monitored by the survey reported higher input prices, though Thailand saw only a marginal rise. The Philippines continued to report the steepest rate of cost inflation. Consequently, average selling prices rose further, with the Philippines once again recording the largest increase in factory gate prices.

Optimism towards the year ahead improved across the region in May, with the Future Output Index climbing to a three-month high.

Comment:

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

“The May PMI report saw further growth in the ASEAN manufacturing sector, lifted by strengthening demand conditions. Furthermore, the headline Nikkei PMI climbed to the highest level for nearly four years.”

“Most encouraging were signs of a broadening upturn across the region. All nations except Malaysia signalled an improvement in the health of their respective manufacturing sectors during May. The last time we had such a broad-based expansion was slightly over a year ago.”

“Therefore, it’s becoming increasingly apparent that underlying growth momentum has picked up in recent months, especially in terms of new business. However, the upturn remained marred by rising costs. Increased prices for raw materials, especially oil and metal, as well as global shortages, continued to push firms’ costs higher. In some cases, in particular the Philippines and Indonesia, a weaker exchange rate aggravated imported inflation.”

“While demand is improving, it remained fairly modest, which meant companies faced constraints with regard to the extent that they could pass on these increased costs to customers. As a result, profit margins remained under pressure.”

“Clearly aware that inflation is mostly external-driven, while domestic economic activity still requires policy support, central banks across the region are in a bit of a bind when it comes to policy direction. Although two regional central banks have recently hiked key interest rates, it is unlikely to be the start of a policy-tightening trend, at least until growth momentum gains a stronger footing.”

-Ends-

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Notes to Editors:

The ASEAN Manufacturing *PMI*[™] (*Purchasing Managers' Index*[™]) is produced by IHS 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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