

Nikkei Thailand Manufacturing PMI™

Thai manufacturing conditions worsen in April

Key points:

- Falls in new orders, employment and input stocks weigh on headline PMI...
- ... but business expectations turn positive
- Inflationary pressures remain modest

Data collected April 12-22

Manufacturing conditions in Thailand deteriorated at the beginning of the second quarter, albeit at a slower pace. Lower sales and job losses weighed on the headline PMI again, though survey data also showed a stabilisation in output. In response to reduced orders, firms depleted inventories further. However, backlogs of work rose again while business confidence returned to optimism. On the price front, inflationary pressures remained modest.

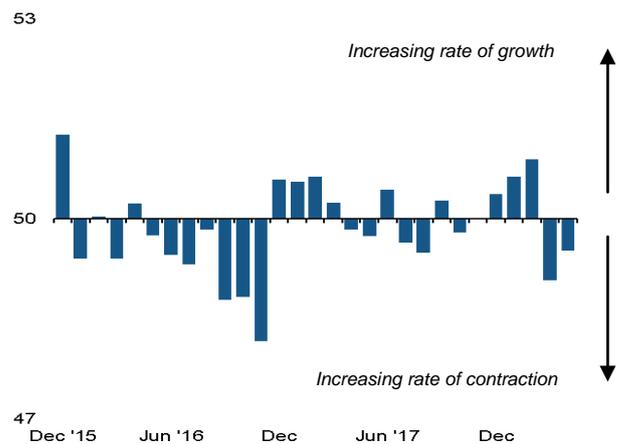
The seasonally adjusted **Nikkei Thailand Manufacturing Purchasing Managers' Index™ (PMI™)** rose from 49.1 in March to 49.5 in April, marking a second straight monthly deterioration in the health of the sector. However, the rate of decline remained marginal. The headline PMI is a composite indicator derived from survey questions on new orders, output, employment, inventories and suppliers' delivery times, providing a quick snapshot of the current state of the manufacturing economy.

As the second quarter began, there were further signs of weaker client demand. Inflows of new orders fell again in April despite a sustained rise in export sales. There was survey evidence that higher selling prices weighed on order book growth. Despite reduced sales, production volumes were broadly unchanged.

Despite lower sales, capacity pressures continued to build in the Thai manufacturing sector. Backlogs of work rose for a third straight month, albeit modestly. Meanwhile, jobs were cut for a tenth month running. While there were reports of voluntary leavers, some firms mentioned efforts to cut costs.

Companies stepped up purchasing activity in April, but the rate of growth was the weakest for six months and marginal overall. The slight rise in appetite for inputs failed to weigh on supply chains.

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Sources: Nikkei, IHS Markit

On the contrary, delivery times improved in April. At the same time, both input and finished goods inventories fell for a second straight month as firms indicated a preference to tap on existing stocks to meet demand.

On the price front, firms raised factory gate prices again to pass on higher costs, including for fuel, to customers. However, the rate of inflation was the slowest for five months. Higher input prices were recorded in April, stretching the current trend of higher costs to eight months. While accelerating from March, the pace of increase was modest. The latest inflation was attributed to higher prices for transport services and raw materials such as oil and auto parts.

Having indicated negative sentiment at the end of the first quarter, business confidence improved in April as more panellists expect higher output over the next 12 months compared to those anticipating a decrease.

Comment:

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

“Thailand’s manufacturing sector started the second quarter on a weaker footing, according to the Nikkei PMI data. While production volumes were broadly stable, weak sales, lower employment and falling inventories all continued to weigh on the headline PMI.

“Overall new business fell further despite a sustained, but mild, rise in export sales, suggesting that softer domestic demand is at play. Although backlogs rose further, it was partially due to an ongoing reduction in capacity as reflected by shrinking workforce numbers. The good news was that business confidence turned positive, indicating that output could rise in coming months. However, with the current trend of declining sales, any growth in production will be limited.

“The weak start to the second quarter builds the case for the Bank of Thailand to keep monetary policy accommodative for the time being, amid speculations that the central bank could start to consider tightening interest rates after a unanimous decision at its recent policy meeting. Furthermore, PMI surveys indicated that inflationary pressures remained modest which, in turn, suggests a mild pass-through to consumer prices in the near term.”

-Ends-

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Notes to Editors:

The Nikkei Thailand Manufacturing *PMI*[™] 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*[™] 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.

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