

Nikkei ASEAN Manufacturing PMI™

ASEAN manufacturing conditions improve at start of 2018

Key points:

- Output, new orders and employment all increase slightly
- Export sales contract further
- Marked rise in average input prices

Countries ranked by Manufacturing PMI™: January

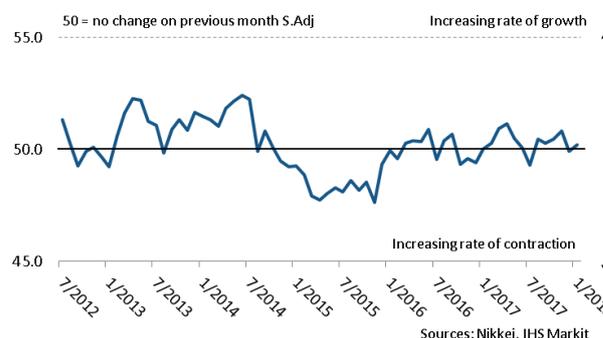
	PMI	Change signalled
Vietnam	53.4	Solid increase (faster than December)
Myanmar	51.7	Modest increase (faster than December)
Philippines	51.7	Modest increase (slower than December)
Thailand	50.6	Marginal increase (faster than December)
Malaysia	50.5	Marginal increase (change in direction)
Indonesia	49.9	Marginal decrease (slower than December)
Singapore	46.4	Solid decrease (slower than December)

The ASEAN manufacturing economy started 2018 on a positive note, with the **Nikkei ASEAN Manufacturing Purchasing Managers' Index (PMI™)** indicating a return to growth in January after a subdued end to last year.

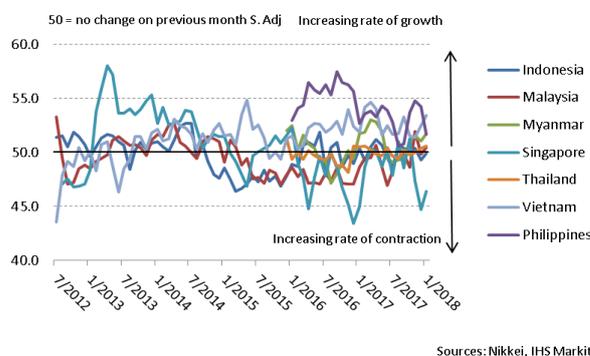
The headline PMI rose from 49.9 in December to 50.2 in January, signalling a marginal improvement in the health of the sector across the region. Renewed increases in new orders and employment were key factors boosting the headline index, alongside a further rise in production. However, rates of growth were marginal in all three cases.

January data showed that the upturn was relatively broad-based, with five of the seven countries covered by the survey reporting an improvement in business conditions, up from four at the end of 2017. Only Indonesia and Singapore failed to see an improvement in sector conditions.

Nikkei ASEAN Manufacturing PMI



National Manufacturing PMI



Vietnam displaced the Philippines to lead the growth rankings across the region at the start of 2018 as growth in its manufacturing sector picked up to a nine-month high. In contrast, the Philippines saw a markedly slower improvement in manufacturing operating conditions, falling from the top position to tie with Myanmar in second place.

Thai manufacturers registered a slightly quicker pace of improvement in operating conditions, while Malaysia returned to growth in January after business conditions were largely stagnant in December. Indonesia saw broadly unchanged manufacturing conditions while Singapore's factories reported a slower, albeit still solid, rate of deterioration.

Overall client demand improved in January, with survey data suggesting that higher domestic demand was a key reason for increased new orders.

Furthermore, export sales fell for a second straight month, albeit at a slower rate than in December.

Higher total new business intakes prompted ASEAN manufacturers to raise output further in January, although the rate of expansion was the same as that seen in the previous month and marginal.

Employment also rose slightly in the latest survey period as businesses were more confident about the outlook for production in the year ahead. The Future Output Index held steady at a near one-year high.

However, there was further evidence of spare capacity within the ASEAN manufacturing sector. The level of incomplete work fell again in January, which extended the current period of falling backlogs to over three-and-a-half years.

Despite improved demand, firms remained cautious around their purchasing activity. Input buying was unchanged in January following a decline in December. Inventories continued to be drawn down, with stocks of finished goods depleting at the fastest rate in two years.

Meanwhile, vendor performance deteriorated further in January. Anecdotal evidence indicated that shortages of raw materials such as industrial metals and plastics led to longer delivery times.

Although slightly down from December, the rate of input cost inflation remained marked in January. Cost inflation remained strongest in Myanmar, a trend that has been evident since May last year, as firms blamed supply constraints and a weak exchange rate for higher prices. Vietnam and the Philippines also reported steep cost increases while Thailand continued to see only a modest rise in input prices.

To protect profit margins, ASEAN manufacturers raised charges for their products further in January and at the fastest rate since April 2017. All the covered nations registered higher selling prices at the start of the year.

Comment:

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

“The ASEAN manufacturing economy started 2018 on a positive footing, but growth remained fragile.

“Both output and total new orders grew marginally, but export sales contracted for a second month running. Factories remained cautious about purchasing activity, which contributed to a further drop in inventories.

“While there was a slight increase in employment, the ongoing presence of spare capacity will likely weigh on hiring in coming months. It may not be a surprise to see jobs growth turning lower as firms tap on existing resources for operation needs.

“The positive start to the year was also marred by strong cost pressures. There were reports of shortages in key materials, such as industrial metal and plastics, pushing costs higher. As a result, firms suffered a further squeeze on their profit margins as they weren’t able to raise selling prices as quickly as the rise in costs.

“Encouragingly, business confidence about output in the year ahead remained strong, with optimism holding steady at a near one-year high. Furthermore, recent depletions in stocks of finished goods could encourage manufacturers to raise production as part of efforts to replenish inventories.”

-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.

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.

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 revised data are available to subscribers from IHS Markit. Please contact economics@ihsmarkit.com.

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