

Nikkei Thailand Manufacturing PMI™

Thai manufacturing returns to growth in May

Key points:

- Solid output growth plus renewed rises in new orders and input stocks boost headline PMI
- Lower employment persists
- Optimism hits highest since December 2016

Data collected May 12-21

Thai manufacturing conditions improved midway through the second quarter as client demand picked up. A faster increase in output and renewed growth in sales drove the headline PMI higher. Increased inventories and higher purchasing activity also supported the upturn. However, supply chains were not under strain despite greater input demand.

Meanwhile, operating capacity was stretched, albeit only modestly, as reflected in rising backlogs. Staff numbers shrank further, while inflationary pressures eased. Business confidence remained upbeat.

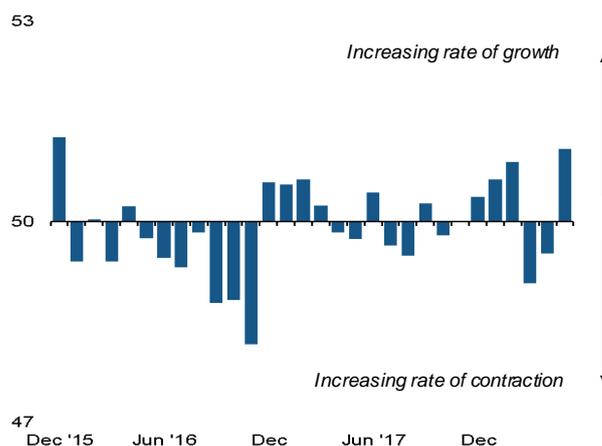
The seasonally adjusted **Nikkei Thailand Manufacturing Purchasing Managers' Index™ (PMI™)** rose from 49.5 in April to 51.1, signalling the first improvement in the health of the sector for three months. The latest reading was the second highest since the survey started in December 2015.

The survey data brought signs of improving client demand as new business volumes rose in May following two months of declines, partly a symptom of higher domestic demand. Export orders were flat after a four-month period of expansion, with poor weather cited as a reason for lacklustre export performance.

The increase in overall sales encouraged firms to scale up production, according to anecdotal evidence. After showing broadly unchanged levels in April, output volumes rose by the greatest extent in the survey history during the middle of the second quarter. Moreover, goods producers also stepped up purchasing activity in response to greater production requirements. Buying levels saw the largest monthly rise since the survey inception.

Higher output and greater input buying boosted inventory levels. Higher stocks of both inputs and finished goods were reported for the first time in three months.

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Sources: Nikkei, IHS Markit

Suppliers were able to meet the rise in input demand and even improve on their performance. Shorter delivery times were recorded for a third month in a row. However, there were some reports of bad weather disrupting supply chains.

Despite greater demand, firms remained reluctant to take on more workers. Labour numbers fell further in May. Notably, job creation has not been seen for nearly one-and-a-half years. Lower employment contributed to a further rise in incomplete businesses amid higher sales. Backlogs of work were up for a fourth consecutive month.

On the inflation front, there were signs of easing price pressures. The rate of input cost inflation was the weakest for six months, which saw firms raising selling prices at the slowest pace since November last year. Higher product prices were the key reason for inflation.

Business expectations about output over the next 12 months improved during May. The Future Output Index rose to the highest level since December 2016. A range of reasons were cited for optimism, including new marketing plans, increased market demand and planned business expansions.

Comment:

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

“Midway through the second quarter, Thailand’s manufacturing sector lurched back to life, with the Nikkei PMI data indicating an improvement in business conditions for the first time in three months.

“Renewed growth in new business was instrumental in the upturn, with evidence of domestic demand accounting for much of the increase. Export volumes were unchanged during May. Increased sales encouraged firms to ramp up production, resulting in the largest monthly output growth in the survey history. Higher output requirements, in turn, lifted purchasing activity. Inventories were built-up.

“However, the upturn failed to boost hiring, with a further drop in staff numbers. Nonetheless, the outlook for the labour market in the manufacturing industry may well brighten in coming months as prospects for the sector improved. Optimism reached the highest in nearly one-and-a-half years, while operating capacity remained under pressure.

“While May PMI data suggest that economic activity has built on the growth momentum seen in the first quarter, inflationary pressures remained muted, supporting the central bank decision to keep monetary policy accommodative.”

-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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