

Nikkei Thailand Manufacturing PMI™

PMI signals an improvement in manufacturing conditions in June

Key points:

- Output returns to growth
- Employment stagnant
- Easing cost pressures prompt firms to keep charges steady

Data collected June 12-22

Thailand's manufacturing sector rounded off the second quarter on a positive note, registering an improvement in operating conditions in June after two months of deterioration. Driving the upturn were expansions in output and new orders. However, stagnant employment levels and input stock drawdown weighed again on the sector. Export growth remained positive while business confidence improved. Meanwhile, cost pressures eased further, which saw firms keep charges broadly steady.

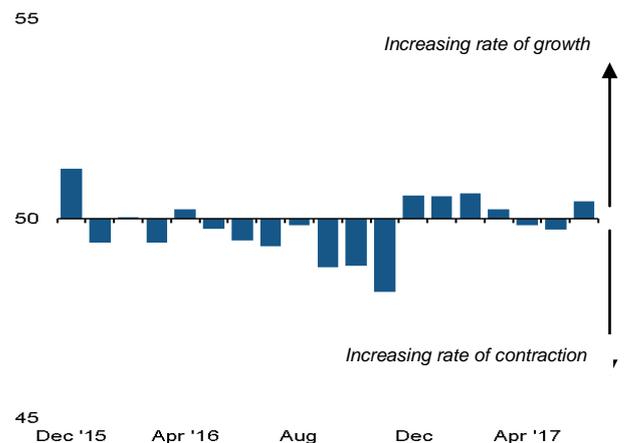
The seasonally adjusted Nikkei Thailand **Manufacturing Purchasing Managers' Index™ (PMI™)** rose from 49.7 in May to 50.4 in June, signalling the first improvement in the health of the manufacturing sector for three months. The latest reading was the highest since February, although the degree of improvement indicated was marginal.

Improving client demand at the end of the second quarter drove the upturn. Growth of new business volumes picked up in June, in line with a strengthening overseas market. Growth in both new orders and new export orders rose to three-month highs. Increased sales volumes helped to boost production levels. From a broadly unchanged level in May, output grew at the fastest rate for three months during June.

Despite busier production schedules, backlogs rose for the first time in three months amid higher sales. Moreover, the rate of increase was the joint-highest for the first half of this year, albeit still marginal.

Greater capacity pressures failed to lead to an increase in hiring although, for the first time since January, employment didn't fall. There was anecdotal evidence that some manufacturers raised workforce numbers to meet increased production demands.

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Sources: Nikkei, IHS Markit

Meanwhile, Thai factories remained cautious about their inventory planning; stock levels of inputs and finished goods declined further in June despite higher purchasing activity. In part, stock depletions were linked to greater usage of manufacturing materials and higher sales, according to panel respondents.

Firms raised buying levels for a seventh successive month but the rate of growth remained modest, which was well within the capacity of suppliers. In fact, vendor performance improved for a fourth month running.

Input cost inflation reached the lowest in eight months during June, which prompted manufacturers to keep selling prices steady. After six months of inflation, average prices charged for Thai's manufactured goods in June were broadly unchanged from May. There was evidence that some firms reduced prices after customer requests for discounts, while others cited lower prices for certain raw materials.

In line with order book growth, business optimism across Thailand's manufacturing sector improved further. Expectations of sustained export growth, new product launches and higher sales forecasts underpinned that confidence.

Comment:

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

“After two months of deteriorating business conditions, Thailand’s manufacturing sector showed signs of revival at the end of the second quarter. Output growth restarted and the expansion in new business strengthened, supported by a further increase in exports. That underpinned the rebound in the sector.

“However it will be premature to suggest that Thailand’s manufacturing industry is on an upswing. Other survey indices pointed towards lacklustre growth in coming months.

“First, improving client demand saw the trend of job cuts come to an end but there was no net increase in employment levels despite rising backlogs. Second, manufacturers remained cautious about their inventory planning, preferring to keep stock levels lean. Third, business optimism remained well below the series average despite recent improvements.”

-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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