

# Nikkei Thailand Manufacturing PMI™

## Thai manufacturing conditions worsen in March

### Key points:

- Renewed falls in output, new orders and input stocks weigh on headline PMI
- Slower growth in export sales
- Business expectations turn negative for first time in survey history

Data collected March 12-21

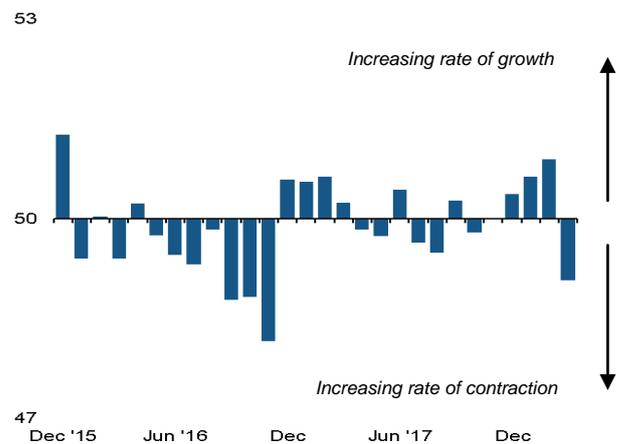
Thailand’s manufacturing conditions deteriorated at the end of the first quarter, following three months of improvement. Falls in output, new orders and input inventories weighed on the headline PMI. Factory job numbers fell further while the pressure on supply chains eased. For the first time in the survey history, business confidence turned negative. On the price front, inflationary pressures softened in March.

The seasonally adjusted **Nikkei Thailand Manufacturing Purchasing Managers’ Index™ (PMI™)** fell from 50.9 in February to 49.1 in March, marking the first deterioration in the health of the sector for five months. The latest reading was also the lowest since November 2016, although the rate of decline was marginal overall. Moreover, the average PMI reading for the first quarter was the highest for a year. 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 first quarter concluded, there were renewed signs of softer client demand. Inflows of new orders fell for the first time since November last year. Notably, growth in new export orders slowed and was marginal overall, with anecdotal evidence suggesting weaker overseas demand. Consistent with lower domestic demand and slower export growth, Thai manufacturers cut back on production. Output declined in March, ending a six-month period of growth.

Reduced output and lower sales also weighed on the manufacturing job market. Factory employment decreased again and at the steepest rate for six months. Thailand’s manufacturing sector has now not seen any job gains for 14 months.

Nikkei Thailand Manufacturing PMI



Sources: Nikkei, IHS Markit

Backlogs of work rose for a second straight month in March, but at a reduced rate compared to February.

Business confidence was also affected by the downturn, with firms expressing pessimism about the outlook in the year ahead for the first time since the survey started on December 2015.

A downbeat outlook contributed to manufacturers’ decision to limit growth of purchasing activity. Buying levels rose marginally and at the weakest pace for four months. This put less pressure on supply chains. March data showed largely unchanged delivery times after they had lengthened in the previous two months.

Meanwhile, inventories were down during March. Firms mentioned a preference to tap on existing input stocks to meet production demand as well as deliberate efforts to clear inventories of finished goods. On the price front, inflationary pressures were reported again by Thai manufacturers. However, the rate of inflation in both input costs and output prices was slower than February’s peak. Anecdotal evidence revealed higher prices for raw materials such as oil, and improved product quality as reasons for inflation.

## Comment:

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

*“Thailand’s manufacturing economy ended the first quarter on a low, with the Nikkei PMI data signalling a deterioration in business conditions for the first time since last October. Output, new orders and employment all fell. Inventories were also depleted for the first time this year.*

*“Most concerning were signs of pessimism with Thai manufacturers expecting lower output in the year ahead —the first time this happened in the survey history. Another area of concern was the further slowing of export growth in March.*

*“The recent appreciation of the baht could affect future export sales. The government’s trade policy and strategy office cautioned that Thai exporters’ income could come under pressure if the baht continues to strengthen. The Thai baht has risen around 4% against the US dollar since the start of the year, strengthening 0.6% in the first three weeks of March.*

*“While PMI data showed Thailand’s manufacturing sector enjoying the best quarter in a year during the first three months of 2018, the dip in the index in March suggests the sector may have lost some momentum as it heads into the second quarter.*

*“Inflationary pressures in the manufacturing sector also eased noticeably in March. The strength of the baht is believed to be containing imported inflation, suggesting that consumer inflation will likely remain subdued in coming months. Headline inflation remained well below the central bank’s target range of 1.0–4.0%, but further monetary easing is unlikely as the Bank of Thailand looks more to fiscal policy to play a larger role in stimulating the economy.”*

-Ends-

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**Notes to Editors:**

The Nikkei Thailand Manufacturing *PMI*<sup>™</sup> 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*<sup>™</sup> 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](mailto:economics@ihsmarkit.com).

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