

# Nikkei Myanmar Manufacturing PMI™

## Business conditions improve at fastest rate in over a year

### Key points:

- PMI edges higher amid solid growth of output and new work...
- ...but optimism weakens to survey-record low
- Exchange rate fluctuations contribute to another steep rise in input costs

Data collected February 10-20

Myanmar's manufacturing sector continued its positive start to 2017 during February, as business conditions improved for the second straight month. Both output and new orders rose at the fastest rates for more than a year. That said, spare capacity remained evident amid a further steep reduction in backlogs of work. Meanwhile, price pressures were marked, with companies largely blaming a volatile exchange rate for higher costs.

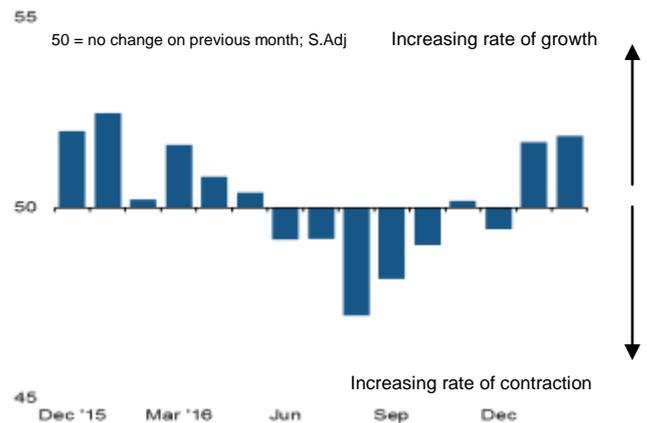
Adjusted for seasonal influences, the headline Nikkei Myanmar Manufacturing *Purchasing Managers Index (PMI)*™ – a composite single-figure indicator of manufacturing performance – inched up to 51.9 in February, from 51.7 in January. As well as marking a second successive improvement in business conditions, the latest figure was the highest in 13 months.

Stronger expansions in output and new work were key factors behind the rise in the headline index. New orders increased at the sharpest rate since the beginning of last year, with anecdotal evidence pointing to new business wins both domestically and abroad. There were also reports of greater demand generated by government projects. In turn, Myanmar manufacturers raised production to the greatest extent for 14 months.

With growth of new business picking up, goods producers in Myanmar took on extra staff in February. However, the rate of hiring slowed in the latest period and was only modest.

Purchasing activity also increased in February. After having either fallen or broadly stagnated since June last year, input buying rose at the fastest rate in nine months. In contrast, both pre- and post-production inventories continued to decline. Survey participants indicated that they had drawn on existing stocks in order to satisfy incoming new work.

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Sources: Nikkei, IHS Markit

Meanwhile, the improvement in underlying demand failed to create pressure on operating capacity during February. In fact, companies were able to work through outstanding business to a considerable extent. The rate of backlog depletion accelerated to the second-sharpest in the survey's short history.

On the price front, exchange rate instability remained the principal driver of input cost inflation in Myanmar's manufacturing sector. Although easing for the second month running following December's series-peak, cost pressures remained substantial.

Greater input costs barely showed up in firms' charges, however. Panellists suggested that strong competition had restricted their pricing power.

Despite the overall upturn in business conditions, Myanmar manufacturers were the least optimistic regarding the 12-month outlook for output since the survey started in December 2015. The vast majority of respondents expect their output to be the same in a year's time.

Finally, average lead times shortened for the first time in 15 months of data collection. That said, the rate of improvement in vendor performance was only marginal overall.

**Comment:**

Commenting on the Myanmar Manufacturing PMI survey data, **Paul Smith, Senior Economist** at IHS Markit, which compiles the survey, said:

*“February data painted a mixed picture of Myanmar’s manufacturing sector. On the one hand, business conditions improved for the second straight month and at the fastest pace for over a year. There was robust growth of output and new work, alongside a further round of job creation.*

*“However, there remains clear room for improvement. Backlogs of work continued to fall substantially, pointing to spare capacity within the sector. Moreover, firms continue to see their margins suppressed. Input costs rose sharply amid exchange rate instability, whereas selling prices nearly stagnated thanks to competitive pressures. Together, these concerns appear to have offset optimism linked to the current upturn. Business sentiment is running at its weakest in the series history.”*

-Ends-

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**Notes to Editors:**

The Nikkei Myanmar 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, 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 Myanmar 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 does 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@markit.com](mailto:economics@markit.com).

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