

Nikkei Thailand Manufacturing PMI™

PMI signals another steady improvement in Thai manufacturing sector

Key points:

- Growth in new orders and production pick up but employment levels drop
- Capacity pressures continue to build, albeit modestly
- Firms further raise prices amid rising costs

Data collected February 10-20

Stable growth of Thailand's manufacturing industry was observed during February. Accelerated expansions in output, new orders and stocks of purchases helped to strengthen business conditions. However, a resumed decline in staff numbers restrained the overall improvement. Meanwhile suppliers' lead times were unchanged from the month before. Inflation remained modest in the sector.

At 50.6, the seasonally adjusted **Nikkei Thailand Manufacturing Purchasing Managers' Index™ (PMI™)** indicated another steady but marginal improvement in the health of the sector during February. The pace of growth was unchanged to rates seen during December and January.

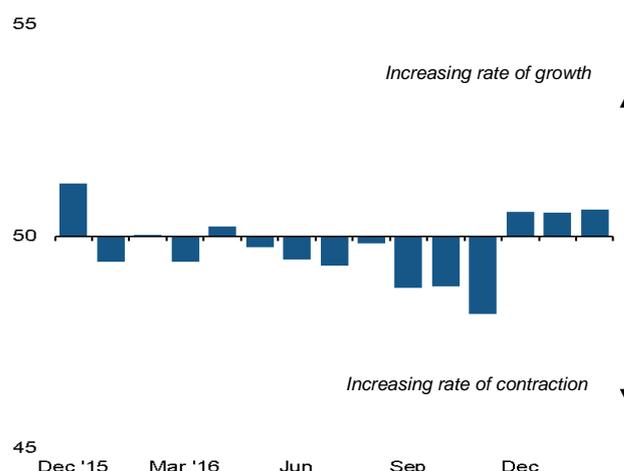
February data saw a pickup in growth of new orders for Thai manufactured products. Although the rate of increase was the quickest in 13 months, it remained modest overall. Overseas demand also strengthened, albeit marginally. A combination of improved market conditions and new product launches were cited to help support growth of order books.

Increased customer orders resulted in busier production schedules. Output at Thai manufacturers expanded for the third straight month, and at the greatest pace in the survey history.

Despite higher demand on production capacity, Thai factories reported a decline in employment after two months of jobs growth.

Reduced manpower and greater inflows of new business exerted greater pressure on capacity, with backlogs rising for a second month in a row, albeit fractionally.

Nikkei Thailand Manufacturing PMI



Sources: Nikkei, IHS Markit

Although there was stronger demand for Thai goods, suppliers were not taxed, with their performance stable since the previous month. Receding floods in the country also helped to normalise vendor operations.

As production schedules continued to increase, Thai firms maintained their expansionary inventory policies. Purchasing activity was raised for the third consecutive month, but at a slower pace. Greater input buying was generally linked to business expansions and the need to build stock. In tandem with more acquisitions of inputs, pre-production inventory levels rose again in February. Stocks of finished goods also increased as companies build more inventory to meet higher demand.

Steady growth in most key variables reflected a cautiously optimistic outlook among Thai manufacturers. The Future Output Index showed that business confidence in the sector remained mildly upbeat, with firms highlighting improving market and political conditions. Encouragingly, there were no survey respondents anticipating lower levels of production in the year ahead.

Meanwhile, Thai factories continued to face rising cost pressures. Price increases in oil, steel and packaging were cited as drivers for higher input

costs. Some firms reported that they had delayed purchases due to rising costs.

Although the rate of cost inflation remained modest, greater input prices nonetheless prompted Thai companies to hike their own selling prices again in February, though at a slower rate when compared to January. Some firms noted that they raised prices due to increased client demand.

Comment:

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

“Thai factories reported another steady improvement in business conditions in February, led by further expansions in output and new orders. The latest PMI data showed that the sector is enjoying a turnaround, fuelled by rising domestic demand. Even more encouraging was the fact that strengthening external demand has been supporting the growth of Thai exports. New export orders increased for a second straight month, though only marginally.

“That said, there was a dip in employment numbers, although this should not be a cause for alarm. Not only was the decline slight, it came on the back of a strong increase in jobs during January. Furthermore, firms highlighted that the fall was due to staff resignations, not job cuts.

“Meanwhile, Thai manufacturers continued to face rising cost pressures, although cost inflation remained manageable as firms were able to pass on some of these higher input costs to customers. Demand-pull inflationary pressure stayed low as much of the increase in prices had to do with rising costs for raw materials.

“Overall, prospects for the Thai economy look slightly brighter in 2017. Business confidence remained relatively upbeat, as indicated by the Future Output Index. After the slowdown in GDP growth in the previous quarter, further expansions in Thai manufacturing activity during the first two months of 2017, as indicated by the Nikkei Thai Manufacturing PMI, suggest that economic growth may pick up in the first quarter. Continued support from public expenditure and recovery in private consumption and investment, alongside strengthening export growth will drive further improvement in Thailand’s manufacturing industry.”

-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.

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 Markit. Please contact economics@ihsmarkit.com.

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