

Nikkei Thailand Manufacturing PMI™

Thai manufacturing sees positive start to 2018

Key points:

- Both output and new orders expand further
- Export sales return to growth
- Optimism at highest for just over a year

Data collected January 12-23

Thai manufacturing companies enjoyed a positive start to 2018, with business conditions improving further in January. Not only did growth in both output and new orders increase, input inventories grew for the first time in nearly a year, reflecting improved optimism. However, a persistent lack of capacity pressure, as signalled by declining backlogs of work, weighed on hiring. Lower employment was reported again. Meanwhile, inflationary pressure remained modest.

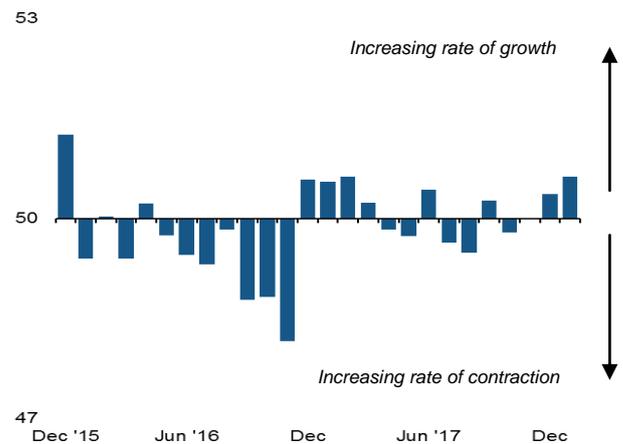
The seasonally adjusted **Nikkei Thailand Manufacturing Purchasing Managers' Index™ (PMI™)** is a composite indicator derived from survey questions on new orders, output, employment, inventories and suppliers' delivery time, providing a quick snapshot of the current state of the manufacturing economy.

The headline figure rose to 50.6 in January, up slightly from 50.4 in December, signalling further improvement in the health of the sector. While the latest reading was the highest since February 2017, the gain remained slight, reflecting broadly stable manufacturing conditions.

Output growth was recorded in January. Although down from December, the rate of output expansion remained among the highest in the survey's two-year history. Higher production was matched with a further rise in new orders, which was supported by the first increase in export sales for four months.

However, with modest sales trends, Thai goods producers were not stretched in meeting current demand. On the contrary, backlogs of work fell further at the start of the year, marking a fifth straight month of decline. The lack of capacity pressure weighed on employment, which dropped again in January. Jobs growth has now not been seen for a year.

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Sources: Nikkei, IHS Markit

Buying activity continued to expand, in line with expectations of greater output requirements, albeit modestly. Firms attributed a further rise in purchasing activity to higher sales and efforts to replenish input stocks. Increased appetite for inputs led to a worsening of vendor performance following two months of improvements, though the rate of deterioration was only marginal.

Consistent with higher purchasing activity, pre-production stocks rose for the first time in almost a year, with the rate of accumulation the second-strongest in the survey history. Likewise, inventories of finished goods were up for a third month running and at the fastest pace since December 2016.

Both prices charged and input costs rose in January, but the rates of inflation remained modest. Panellists generally blamed inflation on an increase in global raw material prices, in particular oil and plastics.

Finally, business confidence strengthened at the start of the year, with the degree of optimism rising to the highest for just over a year. Positive expectations for output in the year ahead were linked to an improving economic climate, promotional activity, stronger household spending and quality improvement plans.

Comment:

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

“The positive growth momentum in Thailand’s manufacturing economy seen at the end of last year extended into 2018 as business conditions improved further in January, according to the Nikkei Thailand Manufacturing PMI.

“Most encouraging was the survey showing a broadening of demand for Thai goods at the start of the year, with export sales returning to growth for the first time in four months. The upturn engendered an increase in input inventories for the first time in nearly a year, which boosted the headline PMI, as confidence about output in the year ahead strengthened.

“The only fly in the ointment is the lack of jobs growth. Survey data showed that net employment has not increased for a year, with January seeing another fall in payroll numbers. In part, a lack of capacity pressure in the manufacturing sector dampens hiring intentions. Despite higher demand, the growth rate in sales remained well within the capacity of Thai manufacturers as indicated by a persistent fall in backlogs of work.

“Meanwhile, inflationary pressures were linked to higher global commodity prices rather than greater demand, though remained modest. Rising raw material costs, especially in oil and plastics, were blamed for higher import costs, according to anecdotal evidence.

“The latest PMI survey paints a generally positive economic picture, suggesting that additional monetary stimulus is not needed for the moment. However, subdued rates of growth in manufacturing activity and inflation back the view that current accommodative monetary conditions remain necessary to foster stronger economic growth, especially when the recent appreciation in baht could have an adverse impact on export sales.”

-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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