

Embargoed until 0730 ICT (0030 UTC) 3 August 2020

IHS Markit Thailand Manufacturing PMI™

Manufacturing downturn extends into start of the third quarter

Key findings

Output and new orders both fall at slower, but still sharp, rates

Export sales fall severely

Business expectations remain deeply pessimistic

Data were collected 13-23 July 2020

The contraction of Thailand's manufacturing sector persisted into July, with both output and new orders falling sharply, albeit at slower rates. Export sales continued to fall at a severe pace amid a global trade downturn. Job losses intensified, while firms continued to reduce their purchasing activity and inventories. Deflationary pressures built up in July. The survey also indicated widespread pessimism among Thai manufacturers about the year-ahead business outlook.

The Thailand Manufacturing *Purchasing Managers' Index™* (PMI™) rose from 43.5 in June to 45.9 in July, its highest level since March. However, the latest figure remained well below 50 and signalled a further marked deterioration in the performance of the sector.

The headline PMI is a composite index derived from a weighted average of five sub-indices: output, orders, employment, inventories and delivery times.

The Thai manufacturing economy continued to be adversely affected by the far-reaching impact of the COVID-19 pandemic, which weighed heavily on demand. Total new orders shrank for a sixth straight month, dropping at a pace amongst the fastest seen in the survey history, and was dragged down by a further severe decline in new exports. Anecdotal evidence showed that precautionary consumer savings and an uncertain economic environment were factors behind the fall in sales.

This paucity of demand saw Thai factories reduce output further in July. Production volumes contracted for a sixth month running and at a marked pace, albeit slightly slower than in recent survey periods.

Thailand Manufacturing PMI
sa, >50 = improvement since previous month



Source: IHS Markit.

Comment

Commenting on the latest survey results, Bernard Aw, Principal Economist at IHS Markit, said:

"The Thai manufacturing sector deteriorated further in July, according to the latest PMI data, adding to concerns about the depth of the economic downturn as the impact of the COVID-19 pandemic continued to weigh heavily on the sector.

"Thai factories continued to be adversely affected in particular by subdued global trade flows and a general reluctance of businesses and households to spend, which led to a further steep drop in new orders, especially exports.

"The likelihood of a recovery therefore remains uncertain as Thai firms continued to be pessimistic about the business outlook especially with international trade still subdued and rising factory unemployment possibly hitting household income in the coming months."

continued...

Facing a deteriorating sales trend, business sentiment for the year-ahead outlook consequently remained deeply pessimistic. Respondents primarily highlighted the longer-term effects of the coronavirus pandemic on economic activity.

With the downturn extending into the third quarter, manufacturing employment continued to fall during July amid an ongoing rise in spare capacity. The rate of job shedding was the second fastest since the survey began over four-and-a-half years ago. Anecdotal evidence showed that the drop in employment was driven by firms seeking to reduce costs.

Purchasing activity and input inventories were also reduced further in July, with both falling at solid rates. Stocks of finished goods were also depleted, with firms mentioning efforts to strengthen their cash positions. Delivery times were little changed.

Finally, deflationary pressures intensified during July. Companies continued to report lowering selling prices to boost sales, with output charges falling for a seventh successive month and at a record rate. Input costs also fell for a second month in a row, albeit marginally.



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Methodology

The IHS Markit Thailand Manufacturing PMI™ is compiled by IHS Markit from responses to monthly questionnaires sent to purchasing managers in a panel of around 400 manufacturers. The panel is stratified by detailed sector and company workforce size, based on contributions to GDP.

Survey responses are collected in the second half of each month and indicate the direction of change compared to the previous month. A diffusion index is calculated for each survey variable. The index is the sum of the percentage of 'higher' responses and half the percentage of 'unchanged' responses. The indices vary between 0 and 100, with a reading above 50 indicating an overall increase compared to the previous month, and below 50 an overall decrease. The indices are then seasonally adjusted.

The headline figure is the Purchasing Managers' Index™ (PMI). The PMI is a weighted average of the following five indices: New Orders (30%), Output (25%), Employment (20%), Suppliers' Delivery Times (15%) and Stocks of Purchases (10%). For the PMI calculation the Suppliers' Delivery Times index is inverted so that it moves in a comparable direction to the other indices.

Underlying survey data are not revised after publication, but seasonal adjustment factors may be revised from time to time as appropriate which will affect the seasonally adjusted data series.

July 2020 data were collected 13-23 July 2020.

For further information on the PMI survey methodology, please contact economics@ihsmarkit.com.

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About PMI

Purchasing Managers' Index™ (PMI™) surveys are now available for over 40 countries and also for key regions including the eurozone. They are the most closely watched business surveys in the world, favoured by central banks, financial markets and business decision makers for their ability to provide up-to-date, accurate and often unique monthly indicators of economic trends.
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