

Thailand Macro Flash

Double-Digit Loss Persisted in the Manufacturing Index in Sep

- **Manufacturing index plunges by a lower than expected 13.7%YoY** (Survey: -9.6%YoY/Citi: -9.2%YoY) — The mfg production index (MPI) posted its 2nd straight monthly double-digit drop in Sep. On a seasonally-adjusted basis, MPI collapsed by 4.8%MoM SA from +0.9%MoM SA in Aug. The split by quarters indicated an MPI down by an average of 10.2%YoY in 3Q12 to eclipse the 1.6%YoY decline in 2Q12 and 6.9%YoY contraction in 1Q12. For Jan-Sep, MPI declined by 6.3%YoY.
- **More weakness in the heavy export industry cluster** — Split of the mfg index by export orientation indicated the further deterioration in the output of the heavy export industry cluster (export >60% of output) in Sep (-31.9%YoY) that began in Jun (-24.4%). During these months when production weakness intensified, the mfg constraints may have shifted away from supply disruption to external demand weakness. This was apparent with the index of office machinery, information & communications processing equipment with hard disk drive production at its core. Since Jun, this mfg index reported -31.4%YoY that consistently worsened to -40.7% in Sep. Except for a few, practically the entire set of the heavy export industry cluster posted larger drops in Sep vs those reported in 2Q12: Electronic valves, tubes & components (-28.3%YoY), wearing apparel (-17.4%), footwear (-28.4%), other general purpose machinery (-10.6%), and jewelry & related articles (-17.4%).
- **Gains posted by other mfg industries failed to mitigate mfg export weakness** — The mfg cluster with less export orientation (export <30% of output) grew 1.4%YoY in Sep although much less than the nine-month average growth of 6%YoY. Previously upbeat industries like textile articles (-9.6%YoY), soft drinks and mineral water (-0.1%YoY), malt liquors (-0.5%YoY) reported weaker changes while refined petroleum bucked the weakness (6.2%YoY growth) in Sep. Meanwhile the mid-export industry cluster (export 30%-60% of output) grew by a collective 22.5%YoY, driven by motor vehicle output gains (34.8%YoY in Sep).
- **Manufacturing ex-auto, ex-export, grew by 0.3%YoY** — Perhaps this measure best describes manufacturing weakness. Without autos, the index fell 20.2%YoY in our estimate. Without autos and the export industry cluster, the narrow MPI measure eked out 0.3%YoY growth following a 0.4%YoY decline in Aug. Muted gains of MPI ex-auto, ex-exports, in Sep fell below nine-month average of 4.8%YoY. Dissecting mfg weakness this way, coupled with heavy mfg export industries being unlikely to post strong recovery for the rest of the year, leads us to expect another rate easing before the year is over. We may see mfg index end its run of negatives in 4Q12 on the back of the base effect. However this won't delude anyone to believe that the demand constraints suffered by mfg will be lifted as well. Fiscal stimulus spending probably supported the cluster catering to the local markets. Clearly, flood-induced spending failed to lift onshore demand for manufactures.

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