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IHS Markit Philippines Manufacturing PMI®

Manufacturing conditions near stability as output expands in June

Key findings

Manufacturers raise output levels for first time since February

New orders continue to fall, but rate of decline eases considerably

Job shedding accelerates to quickest for three months

Data were collected 12-23 June 2020.

June PMI survey data showed a further considerable easing in the downturn across the Filipino manufacturing sector, as operating conditions were close to stabilisation and output levels increased for the first time since February. New orders remained in decline though, which led to a further sharp cut to employment and drops in both purchases and inventories. Price pressures ticked up, driving a second consecutive rise in selling charges for manufactured goods.

Meanwhile, the relaxation of quarantine measures relating to the coronavirus disease 2019 (COVID-19) pandemic led to another improvement in business confidence in June, as firms expressed hopes that greater freedom of movement will encourage a surge in sales.

The IHS Markit Philippines Manufacturing PMI® rose from 40.1 in May to 49.7 in June, posting just below the neutral 50.0 mark that separates expansion from contraction. The latest reading was the highest since February, and signalled a further movement toward stabilisation in the Filipino goods-producing sector.

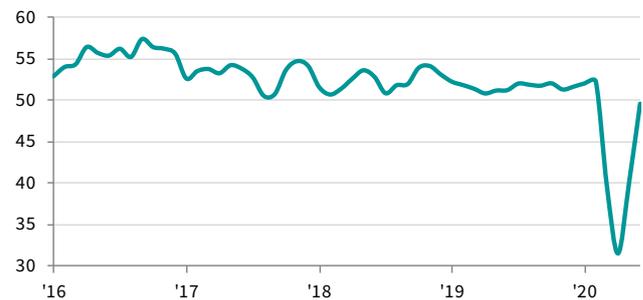
The headline reading was bolstered by the first expansion in output levels in four months, albeit one that was only marginal. Companies found that the relaxation of lockdown measures across much of the country allowed them to increase production, with many reopening for the first time since being shut down.

The overall demand picture also notably improved, with new orders at manufacturers still falling but at a greatly reduced speed compared to May. Firms commented that new work remained weak due to the pandemic and ongoing restrictions, however many panellists did see a pick-up in demand and rising customer orders. In addition, new orders from overseas fell at the softest rate in four months, helped by relaxed measures both domestically and abroad.

Despite a return to output growth, job numbers continued to decline, with the rate of contraction quickening to the fastest seen

continued...

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



Source: IHS Markit.

Comment

Commenting on the latest survey results, David Owen, Economist at IHS Markit, said:

"The change in government COVID-19 rules to the General Community Quarantine helped the manufacturing sector make large strides towards stability in June. Most importantly, production was raised for the first time since before the lockdown which, while marginal overall, marked a significant milestone in the reopening of the sector.

"However, many firms did remain closed or operated at much lower capacity, suggesting that parts of the sector have some way to go to restore production to pre-pandemic levels. Demand also fell, although the rate of decline was far softer than in May. Firms have noticeably held back from hiring as a result of weak demand, as employment numbers dropped at the steepest rate since March.

"The sharper decline in workforces suggests that manufacturers may need to see a strong rebound in goods demand before job levels can expand. Signs from new orders and export orders data are encouraging, but the recovery may still be gradual as the pandemic continues and even accelerates in some regions."

since March. While some firms increased workforces in order to improve capacity, many respondents chose to keep employment at minimal levels and did not replace workers leaving for other roles. Nevertheless, firms were able to lower backlogs, as demand remained weak.

Purchasing activity meanwhile dropped for the fourth successive month, although the rate of reduction was by far the softest in this sequence and only fractional overall. Inventories of both pre- and post-production goods were again curbed, due to lower buying and efforts to produce only what firms needed to meet current order book volumes.

On the receipt of purchased items, manufacturers saw a further lengthening of lead times during June which signalled the eleventh monthly extension in a row. Firms mentioned that since many suppliers operated with minimal workforces due to COVID-19, delivery services were limited.

Input prices meanwhile rose sharply, with the rate of inflation soaring to a 16-month high as firms saw a quicker increase in supplier prices amid transport difficulties and higher freight charges. Businesses partly passed higher costs onto consumers through a slight increase in selling prices. That said, some firms reportedly offered discounts in an effort to improve sales.

Finally, the year-ahead outlook for manufacturing output rose its highest since February, with companies seeing greater reason for optimism as the government relaxed COVID-19 quarantine measures. Many firms cited hopes that this would help them regain customers and resume plans to develop new products.



Sources: IHS Markit, PSA.

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Methodology

The IHS Markit Philippines 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.

June 2020 data were collected 12-23 June 2020.

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

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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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