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IHS Markit Philippines Manufacturing PMI®

Manufacturing business conditions deteriorate further in December

Key findings

Modest contraction recorded in output during December

Strong fall in workforce numbers

Sentiment improves to the highest since February

Data were collected 4-16 December 2020.

Despite some positive signs of the sector moving towards a recovery in November, latest PMI data signalled that operating conditions across the Philippines manufacturing sector worsened in the final month of 2020. Firms registered a modest contraction in output volumes amid ongoing pandemic restrictions, implemented to curb the surge in coronavirus disease 2019 (COVID-19) cases. New orders were broadly unchanged while job shedding persisted across the sector. Nevertheless, sentiment improved to the highest in ten months with hopes of greater demand in the new year often cited.

On the price front, material shortages led to a sharp rate of input price inflation during December. Firms were able to partially pass cost burdens onto customers, however.

The IHS Markit Philippines Manufacturing PMI® fell from 49.9 in November to 49.2 in December, posting below the 50.0 neutral value that separates expansion from contraction once again. The latest reading signalled a marginal deterioration in manufacturing conditions in December.

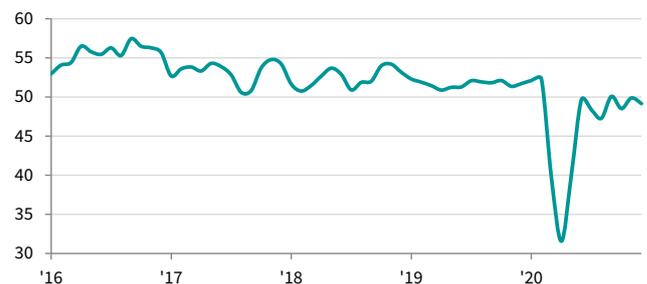
Ongoing lockdown restrictions and poor weather contributed to a decline in output volumes in December. Although modest, the rate of decline was among the fastest in the series history.

New orders were broadly unchanged in the final month of 2020. Firms mentioned that ongoing pandemic restrictions weighed on domestic demand. Demand from abroad continued to expand, however, with exports rising for the fourth month running. Greater demand for Filipino products in key export markets were reported by panellists.

The downturn in production, and muted demand conditions led firms to cut workforce numbers in the final month of 2020. Job shedding persisted at a strong rate which firms linked to restructuring efforts and voluntary resignations. Reflecting weaker demand conditions, survey data continued to show signs of spare capacity as backlogs of work fell further. The level of outstanding

continued...

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



Source: IHS Markit.

Comment

Commenting on the latest survey results, Shreeya Patel, Economist at IHS Markit, said:

"December data was indicative of another contraction in operating conditions across the Filipino goods-producing sector. The pandemic, and ongoing restrictions have hit manufacturers hard, impacting both demand and output, which remained historically weak."

"The addition of material shortages and supply chain pressures placed pressure on operating conditions, whilst reduced output led to another month of sharp job cuts."

"That said, positives can be drawn from the latest survey findings; new orders neared stability and sentiment recovered to levels seen before the start of the pandemic. At the same time, case numbers have moderated with expectations that restrictions will ease over the coming months."

"Although the latest overall sector contraction was only marginal, domestic demand remains challenging which may stymie progress on the lengthy road to recovery."

business has now fallen in each month since March 2016.

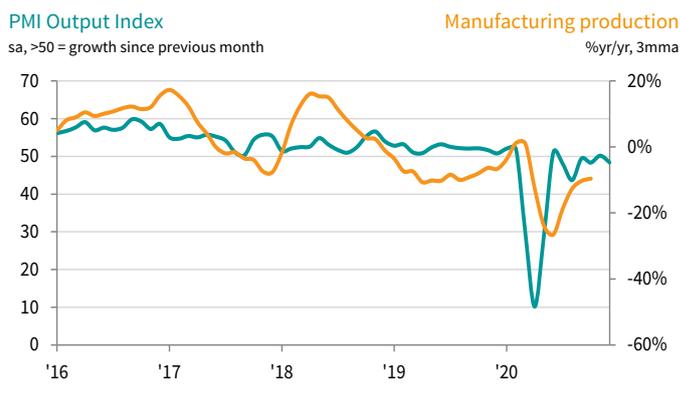
A combination of material shortages, and COVID-19 restrictions contributed to another monthly deterioration in vendor performance. Supply chain pressures have been registered each month since August 2019, with the latest extension to lead times marked overall.

Higher input costs and softer new order inflows led firms to reduce purchasing activity in December. In turn, stocks of both raw materials and finished goods were depleted.

Meanwhile, input prices rose for the eighth consecutive month as supply constraints were extended into the final month of 2020. Panellists mentioned that difficulties obtaining raw materials were caused by adverse weather conditions and pandemic restrictions. Notably, the rate of inflation was the fastest since November 2018.

Subsequently, selling prices rose as Filipino manufacturers chose to pass on part of the hike in costs to customers. The current sequence of increase in factory-gate charges that began in May was extended further in December, with the latest rise the joint-fastest in the aforementioned sequence.

Finally, sentiment regarding output in 2021 remained in positive territory, with the degree of confidence at its highest since February. New product launches, and hopes of greater demand fuelled optimism in December. That said, the level of positive sentiment was still below the series average, as respondents noted uncertainty surrounding COVID-19 weighed on expectations.



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.

December 2020 data were collected 4-16 December 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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