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IHS Markit Philippines Manufacturing PMI®

Resurgence in COVID-19 case numbers prompts factory closures and renewed fall in output in April

Key findings

Output contraction among the quickest on record

Renewed decline in purchasing activity

Input price inflation quickens to two-and-a-half year high

Data were collected 12-23 April 2021.

The Philippines manufacturing PMI™ revealed a renewed contraction in output levels across the goods-producing sector during April. A resurgence in COVID-19 case numbers led to tighter lockdown restrictions amid efforts to control the spread of the disease. As a result, many factories suspended their operations, and client demand declined sharply. Lower output requirements led to a fourteenth consecutive reduction in employment while material shortages added to delivery delays. Meanwhile, the 12-month outlook for output slipped further at the start of the quarter and was among the weakest in the series history.

On the price front, material shortages and higher freight charges, both linked to the pandemic, resulted in a faster uptick in input prices. Businesses responded with a rise in selling charges.

The IHS Markit Philippines Manufacturing PMI® registered at 49.0 in April, down sharply from 52.2 to signal a marginal contraction in operating conditions across the Filipino manufacturing sector. The headline index dropped below the 50.0 neutral value after three successive months of growth.

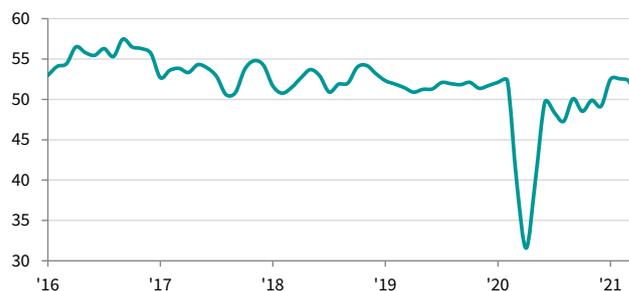
Manufacturers in the Philippines highlighted a steep decline in output at the start of the quarter, which was largely attributed to enhanced community quarantine (ECQ) measures, undertaken to control the spread of the disease. The rate of decline was solid, and among the quickest in the survey to date.

As a result of tightening lockdown measures, many clients suspended their operations with demand faltering for the first time since December 2020. Domestic demand was especially subdued with the rate of reduction among the sharpest in the series. Higher sales to European markets which have begun to gradually reopen, reportedly led to a softer deterioration in exports, however.

Firms scaled back on their hiring efforts during the month with a weak demand environment and voluntary resignations often mentioned as driving the decline in employment. Job shedding has

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:

"April survey data revealed a setback for the Filipino economy, with operating conditions falling back into contraction territory after only one full quarter of growth. Tightening restrictions led to another round of factory and business closures, with output particularly hard-hit. Meanwhile, labour force cuts extended into the second quarter of 2021."

"Supply-side pressures and rising costs were again evident throughout the latest survey period with material shortages and transportation bottlenecks widely reported. Firms will hope that these issues are resolved, but with the full impact of the Suez blockage yet to take effect, the disruption to global trade is expected to reverberate."

"On the brighter side, policy-makers have stressed the importance of the vaccination programme in bringing a return to normality and while the initial progression was somewhat slow, the roll-out seems to have gathered pace in recent weeks."

now been seen in each month since February 2020, with the latest decline the quickest in four months. That said, a sustained period of depleting backlogs suggested sufficient capacity at Filipino manufacturers.

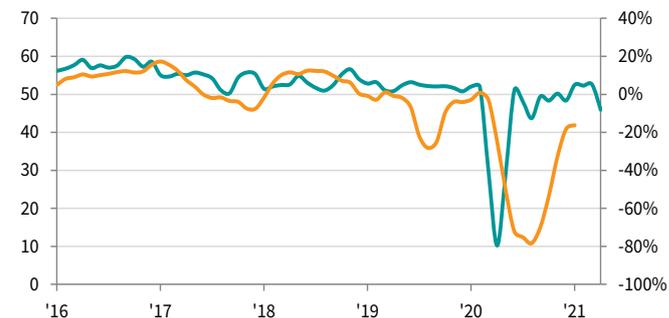
Goods producers saw another severe decline in supplier performance during April with respondents noting that virus-related restrictions had markedly increased lead times and limited raw material availability. Consequently, firms faced additional surcharges and higher freight costs.

A renewed fall in output and new orders led companies to reduce their purchasing activity. The rate of decline was the fourth-quickest in the series history. Meanwhile, pre- and post- production inventory growth moderated amid a weaker demand environment and greater raw material costs.

Input shortages and higher raw material costs were widely reported in the latest survey period. Input price inflation accelerated for the sixth month running, with the latest uptick the strongest in over two-and-a-half years. In turn, this reportedly led to a faster uptick in output charges set by manufacturers, as firms sought to partially pass on greater costs to clients.

Declines in production and new orders also hit business confidence in April, with the degree of optimism regarding an increase in output over the coming year dropping to an eight-month low. Despite this, the outlook remained positive overall with mentions of vaccination efforts fuelling hopes.

Philippines Manufacturing PMI Output Index Manufacturing production
sa, >50 = growth since previous month %yr/yr, 3mma



Sources: IHS Markit, PSA.

Contact

Shreeya Patel
Economist
IHS Markit
T: +44 134 432 8196
shreeya.patel1@ihsmarkit.com

Joanna Vickers
Corporate Communications
IHS Markit
T: +44 207 260 2234
joanna.vickers@ihsmarkit.com

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.

Data were collected 12-23 April 2021.

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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