Nikkei Philippines Manufacturing PMI™

Manufacturing growth improves further in June

Key points:

- Slower rises in both output and new orders
- Employment levels broadly steady
- Inflationary pressures remain strong

Data collected from June 12–22

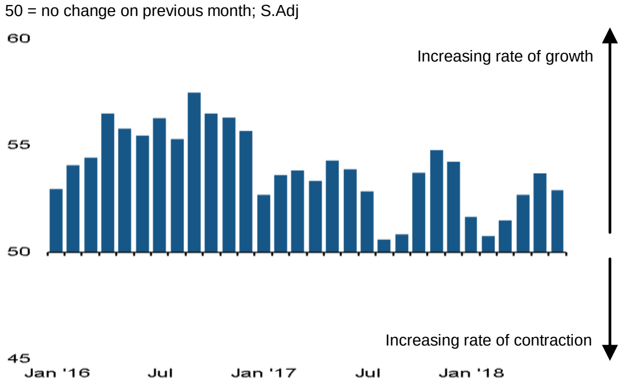
Manufacturing conditions in the Philippines improved further at the end of the second quarter, buoyed by increases in both output and new orders. Higher input inventories and stretched supply chains also boosted the headline PMI. However, greater manufacturing activity failed to test firms' operating capacity as reflected by lower backlogs which, in turn, weighed on hiring. Employment levels were broadly steady. Inflation meanwhile remained elevated, as did business confidence.

The seasonally adjusted **Nikkei Philippines Manufacturing Purchasing Managers' Index (PMI™)** slipped from 53.7 in May to 52.9 in June, representing another solid improvement in the health of the sector. With June data, the average reading for the second quarter was noticeably higher than the opening quarter of 2018. The headline PMI provides a quick overview of the performance of the manufacturing sector, drawing from questions on output, new orders, jobs, inventories and delivery times.

Demand for Filipino manufactured products remained robust in June. Intakes of new business continued to increase at a marked pace, albeit slower than May, supported also by rising exports. In response to strong demand, firms continued to raise production. Anecdotal evidence also suggested that efforts to build-up stocks motivated firms to raise output.

Higher output requirements also led firms to increase buying activity which, in turn, contributed to a further rise in stocks of purchases. However, higher production usage limited the inventory gain. While input stocks increased, inventories of finished products fell for the first time in four months. Firms attributed the depletion to higher demand from distributors and increased sales. Meanwhile, greater appetite for manufacturing inputs put further pressure on supply chains. Vendor performance deteriorated at the fastest rate so far this year.

Nikkei Philippines Manufacturing PMI



Sources: Nikkei, IHS Markit

Longer delivery times were linked to several factors, including supply shortages, bad weather, port congestions and delayed customs clearance.

Despite firm demand, survey data continued to show signs of spare capacity as evident in another fall in backlogs of work, which has been the case for nearly two-and-a-half years. Firms noted that raising output and improving productivity helped them to clear backlogs. However, the lack of capacity pressure discouraged manufacturers from hiring. After two months of expansion, staff numbers were broadly steady in June.

The upturn in the manufacturing sector was accompanied by higher inflation. Input costs continued to rise sharply, with both domestic and external factors responsible. There was evidence that a weaker peso, higher taxes, and increased prices for raw materials, especially fuel and copper, contributed to inflation. Consequently, firms raised selling prices again to protect profit margins.

Finally, business expectations relating to future output remained elevated. Optimism was generally connected to higher sales forecasts, new product launches, planned business expansions and increased operating capacity.

Comment:

Commenting on the Philippines Manufacturing PMI survey data, **Bernard Aw, Principal Economist** at IHS Markit, which compiles the survey, said**:**

"As the first half of the year concluded, the Philippines manufacturing economy continued to recover from the implementation of the TRAIN tax reforms at the start of the year. The latest Nikkei survey showed improving demand conditions at the end of the second quarter.

"The average PMI reading for the three months to June was noticeably higher than the first quarter average. However, input cost inflation remained steep, as a combination of domestic and external factors were responsible for the upward pressure. The depreciation of the peso, increased taxes, supply shortages, higher global commodity prices, especially for fuel, all contributed to inflation.

"As a result, factory gate price hikes remained sharp, which could feed through to consumer inflation in coming months, thereby adding to expectations for further rate hikes. The headline CPI surged to the highest in six-and-a-half years in May, marking the third straight month that inflation was above 4%, the upper limit of the central bank's inflation range."

-Ends-

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Notes to Editors:

The Nikkei Philippines Manufacturing *PMI*™ is based on data compiled from monthly replies to questionnaires sent to purchasing executives in over 400 industrial companies. The panel is stratified by GDP and company workforce size. The manufacturing sector is divided into the following 8 broad categories: Basic Metals, Chemicals & Plastics, Electrical & Optical, Food & Drink, Mechanical Engineering, Textiles & Clothing, Timber & Paper, Transport.

Survey responses reflect the change, if any, in the current month compared to the previous month based on data collected mid-month. For each of the indicators the 'Report' shows the percentage reporting each response, the net difference between the number of higher/better responses and lower/worse responses, and the 'diffusion' index. This index is the sum of the positive responses plus a half of those responding 'the same'. Diffusion indexes have the properties of leading indicators and are convenient summary measures showing the prevailing direction of change. An index reading above 50 indicates an overall increase in that variable, below 50 an overall decrease.

The Nikkei Philippines Manufacturing *PMI*™ is a composite index based on five of the individual indexes with the following weights: New Orders - 0.3, Output - 0.25, Employment - 0.2, Suppliers' Delivery Times - 0.15, Stock of Items Purchased - 0.1, with the Delivery Times Index inverted so that it moves in a comparable direction.

IHS Markit do not revise underlying survey data after first publication, but seasonal adjustment factors may be revised from time to time as appropriate which will affect the seasonally adjusted data series. Historical data relating to the underlying (unadjusted) numbers, first published seasonally adjusted series and subsequently revised data are available to subscribers from IHS Markit. 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. To learn more go to https://ihsmarkit.com/products/pmi.html.