News Release

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IHS Markit Philippines Manufacturing PMI®

Softer improvement in operating conditions during July

Key findings

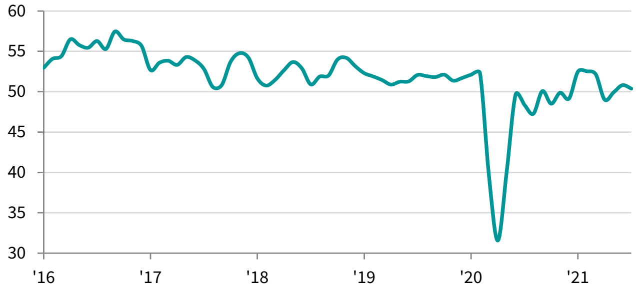
Output and new order volumes fall marginally

Input price inflation remains historically elevated

Sentiment improves to four-month high amid vaccination efforts

Data were collected 12-23 July 2021.

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



Source: IHS Markit.

Latest data revealed only a slight expansion in operating conditions across the Philippines manufacturing sector, with declines in output and new orders persisting in July. That said, the rate of job shedding eased to the softest since March, while firms continued to add to their pre- and post-production inventory holdings in anticipation of greater demand. Vaccination efforts meanwhile fuelled an improvement in output expectations, with respondents often mentioning hopes of a return to normality over the coming year.

Turning to prices, the rate of input price inflation was robust at the start of the third quarter. Raw material shortages and the introduction of value added tax (VAT) to some goods exerted upward pressures on costs. Consequently, firms continued to raise their selling prices.

The IHS Markit Philippines Manufacturing PMI® fell from 50.8 in June, to 50.4 in July registering above the 50.0 no-change threshold that separates expansion from contraction. The latest uptick was only marginal, but contrasted with declines seen in April and May.

Virus-related restrictions persisted in the Philippines, which contributed to weak domestic demand, and a general reluctance to spend in July. That said, the decline in new order volumes was broadly similar to that seen in June, and only marginal overall. In contrast, international demand for Filipino manufactured goods rose for the third successive months, and at a modest pace amid improvements in global economic conditions.

Production levels fell for the fourth month running, though at only a fractionally quicker pace to that seen in June. According to panel members, firms struggled to obtain new orders, which was largely linked to the pandemic and weak domestic demand.

Workforce numbers were cut for the seventeenth successive month in July. Voluntary resignations were often reportedly not replaced, although some panellists attributed the fall in employment to lower

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Comment

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

"Although the Philippines manufacturing sector recorded another improvement in operating conditions during July, latest data revealed domestic demand and production levels were still impacted by the pandemic. Meanwhile, case numbers have moderated somewhat from earlier on in the year, but are far from under control causing some restrictions to persist.

"Yet, encouragingly, vaccination efforts have provided a boost to the future outlook, in turn prompting input buying and rising stock volumes. Employment levels fell only marginally despite sustained declines in production. Moreover, anecdotal evidence suggested that this was mostly the non-replacement of voluntary leavers rather than redundancies.

"Nevertheless, domestic demand must improve throughout the second half of the year to help underpin growth in 2021."

output levels. The latest drop was the softest since March, and only marginally below the 50.0 no-change value, however.

Signs of spare capacity were again evident during July following another solid decline in backlogs. Incomplete work has now fallen in each month since March 2016.

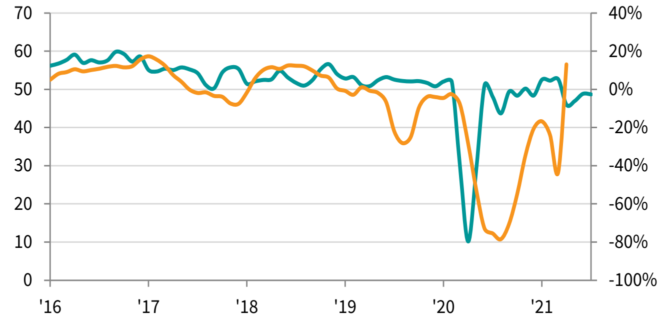
A combination of raw material shortages and virus-related restrictions led to another marked lengthening of supplier lead times. Vendor performance has now deteriorated in every month since August 2019.

Buying activity increased only marginally, with growth now seen in two consecutive months. Meanwhile, amid hopes of greater demand and efforts to cushion against any future shortages, firms raised their pre-and post-production inventories at marginal rates.

Higher prices for raw materials and the introduction of VAT to some goods added to input prices in July. The rate of inflation was sharp, despite moderating for the third month running.

Similarly, factory-gate prices rose during the month, with panel members noting a partial pass-through of higher expenses and the impact of the introduction of VAT. The rate of increase was faster than the long-run series average, but eased from June's two-and-a-half year peak.

Looking ahead, sentiment regarding output expectations over the next 12 months improved to a four-month high. The vaccination programme often underpinned hopes of a return to normality over the next year. New product launches, and expectations of a recovery in client demand were also cited by panellists in July.



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.

Data were collected 12-23 July 2021.

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

About IHS Markit

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About PMI

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.
ihsmarkit.com/products/pmi.html.