News Release

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IHS Markit Philippines Manufacturing PMI®

Resurgence in COVID-19 cases forces tighter restrictions and factory closures in August

Key findings

Marked decline in output and new orders

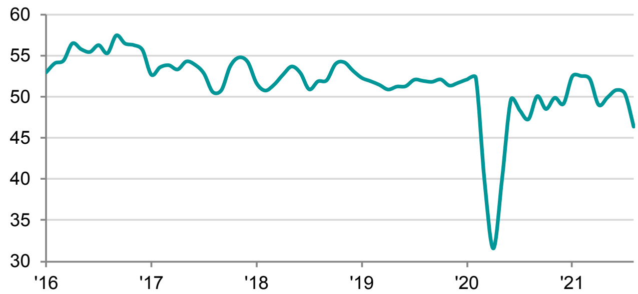
Renewed contractions in pre- and post-production inventories

Inflationary pressures remain historically elevated

Data were collected 12-23 August 2021.

Philippines Manufacturing PMI

sa, >50 = improvement since previous month



Source: IHS Markit.

The re-introduction of Enhanced Quarantine Measures (ECQ) in Metro Manilla forced factory and business closures in one of the Philippines largest manufacturing regions in August. Output and new orders fell sharply, although the rates of decline were not as severe as those seen during the first lockdown in March-May 2020. Nevertheless, weak demand led to cost saving efforts and the consequent reduction in inventory levels and employment in August. Meanwhile, virus-related restrictions weighed heavily on lead times with port congestions and material shortages again a key theme in the latest survey period.

On the price front, cost pressures showed signs of easing with output and input price inflation moderating slightly from that in July.

The IHS Markit Philippines Manufacturing PMI® fell sharply from 50.4 in July to 46.4 in August, registering below the 50.0 no-change threshold that separates expansion from contraction. The latest decline indicated a renewed contraction in operating conditions in the Philippines manufacturing sector, and one which was the steepest since May 2020.

Production volumes fell for the fifth month in a row, with the rate of decline quickening to one which was the fourth quickest in the series history. The contraction was linked to the third wave of COVID-19 cases and the subsequent tightening of restrictions which led to factory and business closures during the month.

Customer demand also fell sharply with the volume of new orders declining at one of the quickest rates in the series history. Tighter restrictions on travel and the closure of businesses led clients to curb orders. Weak domestic sales were accompanied by a renewed contraction in foreign demand. In fact, exports fell at the quickest rate since July 2020.

Lower output requirements led to sharp declines in purchasing activity as firms looked to recover some costs and restructure

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Comment

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

"With the announcement of tightening ECQ measures in early August, the latest contraction in operating conditions in the Philippines manufacturing sector came as no surprise. Factories and their clients in the metro Manilla area once again paused their production lines in a bid to curb the spread of the new delta variant. Consequently, all five of the PMI components worsened, or fell deeper into contraction territory, with the PMI at a 15-month low in August.

"On a brighter note, firms' expectations towards the outlook remained optimistic owing to hopes that the latest downturn is only temporary. Looking at prices, easing input costs suggests that the sharp price pressures seen since the start of the year are starting to ease.

"As with all regions, vaccinations remain paramount to controlling the spread of the disease and the associated variants. Policymakers have once again re-iterated the importance of inoculating the population, which it endeavours to do by early next year. Firms will hope shocks to the supply of vaccines are brought under control to prevent this being pushed back again."

stocks in line with weak demand. As a result, inventories of pre-production goods fell, although only moderately.

Tighter measures, port congestions and supplier shortages led to a sharp deterioration in supplier performance. Delivery times lengthened at the most marked rate since August 2020 and was among the lengthiest in the over five-and-a-half-year history of the survey.

Employment levels at Filipino goods-producers fell at a sharp and accelerated pace in August. This was largely attributed to factory shutdowns which meant employees were unable to work, leading to reports of resignations and layoffs. The relatively weak demand environment combined with sufficient capacity allowed firms to clear their backlogs and at an unchanged rate to that seen in July.

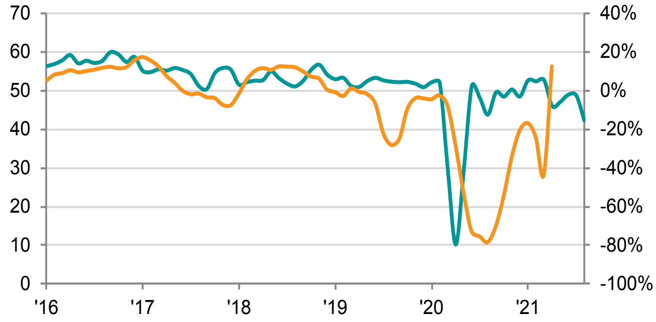
Global raw material shortages and delivery delays continued to feed through in the form of higher input prices. Average cost burdens rose for the sixteenth month in a row, and with a rate of inflation that was sharp by historical standards. That said, there were signs of moderation with costs rising at the softest pace in seven months.

Firms sought to pass on part of the burden by raising their selling charges. Similar to the trend for input costs, the rate at which manufacturers increased their charges softened during the month.

Finally, firms' expectations surrounding output levels over the next 12 months fell to a four-month low in August, though still remained firmly in positive territory. Vaccination efforts fuelled hopes of a return to normality, although some firms recorded uncertainty surrounding the longer-term implications of COVID-19.

Philippines Manufacturing PMI Output Index
sa, >50 = growth since previous month

Manufacturing production
%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 August 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.