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IHS Markit Philippines Manufacturing PMI®

Growth strengthens for second month running in January

Key findings

Solid new order growth supports quicker rise in production

Employment falls for first time in seven months

Supply chains disrupted by traffic and volcano

Filipino manufacturers enjoyed a solid start to the year, as business conditions improved at a stronger rate amid quicker growth in both output and new orders. Business confidence subsequently improved, although persistent weakness in the labour market led to a slight fall in employment. Meanwhile, the recent volcano eruption and ongoing traffic issues caused further difficulties for suppliers, while purchasing activity growth accelerated to a five-month high.

The IHS Markit Philippines Manufacturing PMI® rose for the second month in a row to 52.1 in January, from 51.7 in December, to signal a moderate improvement in operating conditions at goods-producing firms. The rate of growth was also the joint-strongest since January 2019.

Production levels grew at a notably stronger pace from the previous month, supported by a quicker rise in new orders and the beginning of new contracts. At the same time, some firms noted that output was limited by the recent Taal volcano eruption, though this only partly dented overall growth.

Meanwhile, manufacturing new orders continued to rise solidly, with panellists commenting on stronger demand from both domestic and foreign customers. Notably, export sales increased for the third time in four months, suggesting an improvement in the trade climate for goods exporters.

Greater output growth fed through to a stronger rise in purchasing activity at the start of the year, as firms commented on higher input requirements since December. The rate of growth was the fastest since last August. As a result, stocks of purchases grew solidly. By comparison, stocks of finished goods expanded only marginally.

Despite the upturn in output and new orders, hiring activity remained subdued in January. In fact, job numbers decreased

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



Source: IHS Markit.

Comment

Commenting on the latest survey results, David Owen, Economist at IHS Markit, said:

"Whilst some businesses were notably affected by the Taal volcano eruption in January, for the most part, the Philippines manufacturing sector continued to grow in January. Operating conditions improved at the joint-strongest pace for a year, with production increasing moderately amid stronger demand for goods.

"In particular, export sales have now risen in three out of the past four months, signalling an improving trade climate as US-China relations appear to brighten. If this is sustained, sales growth could strengthen further this year.

"However, one clear issue heightened by the eruption was road traffic, which has disrupted delivery times in each of the past six months. The government is seeking to address this with their "Build, Build, Build" project to place greater investment in road infrastructure. This is clearly an important project for manufacturers, with several pinning confidence around future output onto improved traffic conditions."

for the first time in seven months, after rising only slightly at the end of 2019. Several companies mentioned not replacing workers that had resigned, offsetting firms that hired additional labour. Nevertheless, volumes of outstanding work continued to fall.

At the same time, manufacturers reported a sharp deterioration in supplier performance, mainly due to the Taal volcanic eruption mid-way through the month that led to further traffic problems for vendors. As a result, lead times lengthened at the fastest rate for over two years, extending the current run of deterioration in vendor performance that began last August.

Selling charges meanwhile rose at a quicker pace in January. Manufacturers increased their charges in response to higher prices for raw materials, including oil and foodstuff. The rate of output price inflation was the sharpest in seven months, with input costs also rising at a faster pace.

Finally, the outlook among businesses for output in 12 months' time improved in January. The degree of optimism was the second-strongest in eight months (below November), as firms mentioned that their schedules of new projects should support greater activity. Panellists also mentioned the government's "Build, Build, Build" project as a key driver of potential growth, amid hopes this would reduce traffic issues and improve supply chains.



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.

January 2020 data were collected 13-24 January 2020.

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

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