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IHS Markit Philippines Manufacturing PMI®

PMI falls to three-month low in August as COVID-19 quarantine tightens

Key findings

Stronger quarantine measures drive economic downturn

Production and new orders fall at quickest pace since May

Employee numbers cut for sixth month running

Data were collected 12-21 August 2020.

The Philippines manufacturing sector headed into a steeper downturn in August as quarantine measures in a number of provinces were tightened. New orders fell sharply, as the latest PMI survey data indicated a second consecutive drop in production. Employee numbers were reduced for the sixth month running, while inventories were also run down. Meanwhile, input cost inflation quickened to an 18-month high, driving a faster but still modest uptick in output charges.

The IHS Markit Philippines Manufacturing PMI® fell for the second month running from 48.4 in July to 47.3 in August, to signal a stronger deterioration in operating conditions. That said, the index remained well above its record low of 31.6 in April.

Leading the negative directional influence on the headline PMI were falls in two key sub-indices, Output and New Orders, both of which pointed to stronger declines in August. Output levels contracted for the second successive month, while manufacturing new orders have remained in negative territory since the escalation of the coronavirus disease 2019 (COVID-19) pandemic in the Philippines in March.

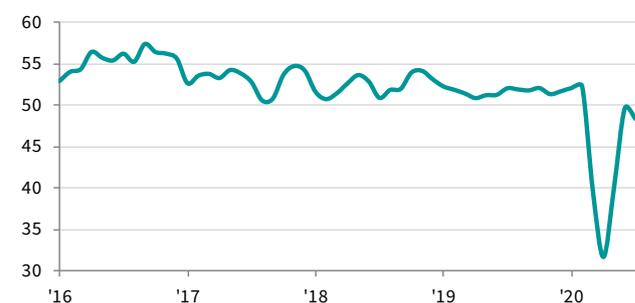
The imposition of stronger quarantine measures in Manila and some of the surrounding provinces had an adverse impact on demand in August. New work inflows contracted sharply as movement was restricted, while some sectors were forced to operate at reduced capacity. Notably, the fall in new orders was the fastest seen in three months. Export sales also declined, but only at a modest rate as global COVID-19 restrictions were generally relaxed.

The reduction in manufacturing production was markedly quicker than that seen in July. That said, the overall strength of the downturn was much softer than seen in the period between March and May when most of the country faced strict quarantine rules.

Employment fell at the softest pace for three months in August, although job losses were still marked. Some companies placed

continued...

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:

"The recent steep increase in new COVID-19 cases led the government to impose stricter quarantine measures in Manila and the surrounding provinces in August. The new measures meant that certain groups were unable to travel and some businesses were forced to reduce operating capacity.

"As a result, the Philippines Manufacturing PMI fell back to its lowest in three months in August. At 47.3, the reading signalled a solid decline in the health of the sector. The downturn was linked to a sharp drop in new orders and a subsequently steep reduction in output, as client demand fell notably due to the new restrictions.

"Job losses remained apparent as firms continued to trim capacity at a steep rate to adapt to the new economic environment. Stocks were also reduced, extending the run of depletion to six months. Businesses remain less confident than normal of an increase in output over the coming year, reflecting the uncertainty of the path of the pandemic and lockdown measures."

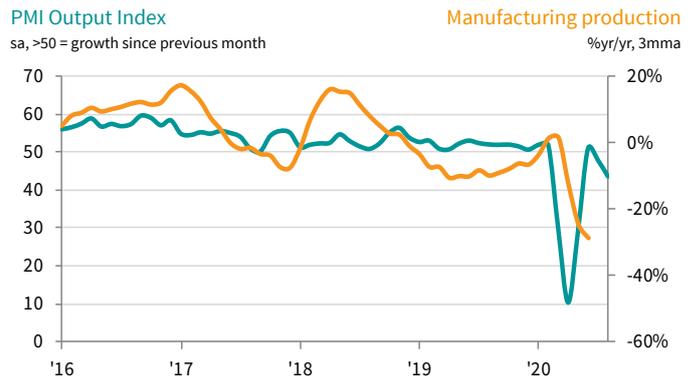
under new restrictions made redundancies, while others continued to limit employee counts.

Stocks of purchased items fell for the sixth month running in August, although the rate of contraction was softer than that seen in July. Firms that reduced holdings mostly linked this to weak demand during the pandemic. At the same time, finished goods inventories dropped at a solid pace.

Delivery times at Filipino manufacturing firms lengthened again in the latest survey period, as has been the case in each month since August 2019. Panellists noted that ongoing community quarantines, as well as fresh COVID-19 measures, led to further difficulties in acquiring inputs on time.

Meanwhile, input prices rose at the sharpest pace since February 2019. Panellists stated that this was mainly driven by supplier shortages and increased import costs. Some manufacturers passed higher costs onto consumers through a rise in output charges. However, the overall mark-up was modest, due to some firms continuing to offer discounts in order to stimulate sales.

Finally, the outlook for the manufacturing sector remained subdued in August and was broadly in line with that seen in July. More businesses predict that output will improve in the year ahead than those expecting a decline, but confidence was much weaker than the series trend.



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.

August 2020 data were collected 12-21 August 2020.

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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