Philippine manufacturers saw a stronger improvement in business conditions in July, as sales growth reached a six-month high and enabled a solid increase in production. Employment and input purchases were also up from June. At the same time, selling prices rose only modestly as cost pressures remained relatively soft.

The IHS Markit Philippines Manufacturing PMI® increased from 51.3 in June to 52.1 in July, signalling a moderate improvement in the health of the sector that was the strongest seen since the start of the year. However, it was also weaker than the average recorded throughout the series history (since January 2016).

Contributing to the growth upturn was a notable acceleration in the rate at which new orders increased in July. Companies noted higher demand for manufactured goods compared to the previous month, with some highlighting the impact of new projects and higher spending power among customers.

The increase in demand was largely domestic, as latest data indicated a second successive monthly fall in new export orders. A number of firms reported a lack of orders from foreign clients, although the overall rate of decline was slightly softer than in June.

Concurrently, production at Filipino goods manufacturers increased solidly. However, the rate of expansion was softer than in June, despite faster new order growth, and was weaker than the survey average.

A key impact of increased demand was that firms raised input spending at the quickest rate in eight months during July. Nevertheless, suppliers were able to handle input orders, with lead times relatively unchanged from the previous month. There were some mentions of continued congestion around the port of Manila, but these were fewer than seen earlier in the year.

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

"New order growth was up notably in July, easing some worries in recent months that the manufacturing environment was facing a slowdown. Output meanwhile increased at a solid rate, albeit one that was weaker-than-average for the Filipino goods-producing sector.

"Despite the sudden uplift in demand, price pressures appeared unaffected. Input prices rose at only a modest pace, with an improvement in the exchange rate with the US dollar helping to ease the impact of higher raw material prices. This fed through into the softest increase in selling prices at manufacturers since June 2017. Overall, this should help to maintain strong sales growth if demand conditions remain elevated."

© 2019 IHS Markit
Firms also sought to build stocks of purchases in July. The rate of growth was only marginal though, as businesses reportedly used up previous stocks in production. Inventories of finished goods meanwhile dropped slightly compared to June levels.

Employment at manufacturers also increased in July, marking the first rise in job numbers since February. Companies often expanded their workforces to meet higher output requirements, whereas others saw employment reduced due to resignations and decreased hiring activity.

At the same time, selling prices were subdued, with companies raising their charges at the softest rate in over two years. Only 3% of respondents reported an uptick, driven by stronger sales and increased costs.

Input cost inflation was also relatively soft, despite increasing marginally from June. While some saw higher raw material prices, an improved exchange rate with the US dollar helped to ease cost burdens.

With output and sales growth remaining strong, businesses remained optimistic regarding future activity. New products and company development often underpinned the positive outlook.

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.

July 2019 data were collected 12-24 July 2019.

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