

Embargoed until 0830 PHT (0030 UTC) 3rd November 2020

# IHS Markit Philippines Manufacturing PMI®

## PMI signals renewed deterioration in manufacturing business conditions

### Key findings

Output and new orders contract amid weak demand conditions

Further marked reduction in workforce numbers

Sentiment remains positive and improves in October

Data were collected 12-23 October 2020.

Despite broadly stabilising in September, the latest PMI data signalled that operating conditions across the Philippines manufacturing sector worsened in October as the economic fallout from the coronavirus disease 2019 (COVID-19) pandemic persisted. Firms saw a renewed fall in new orders amid ongoing business closures and weakening client demand. Job losses extended into the fourth quarter, whilst purchasing activity also dropped. Business confidence remained positive, however, and improved amid hopes of higher production in the year ahead.

On the price front, average cost burdens rose for a sixth successive month, which respondents linked to supplier surcharges following raw material shortages. Factory-gate prices also increased, albeit fractionally.

The IHS Markit Philippines Manufacturing PMI® fell from 50.1 in September to 48.5 in October, posting below the 50.0 neutral mark that separates expansion from contraction. The latest reading dropped marginally after indicating a broad stabilisation across the sector during September, to signal a contraction in operating conditions.

Production volumes dropped again in October, with the rate of decline quickening. Firms reporting a downturn overwhelmingly attributed it to weaker demand conditions. That said, the rate of contraction was only marginal and much slower than the substantial decline seen in April.

Furthermore, manufacturers saw a decline in new orders at the start of the final quarter of 2020 despite a brief uptick seen in September. The downturn was driven by subdued domestic demand which firms linked to the pandemic, whilst new orders from abroad increased for a second month running.

Reflective of lower new orders, manufacturing firms in the Philippines reduced staffing levels sharply in the latest survey period. Employment fell for the eighth consecutive month. Panellists

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



Source: IHS Markit.

### Comment

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

"Despite broadly stabilising in September, latest PMI data indicated that the Philippines manufacturing sector fell into contraction territory in October. Weak client demand in domestic markets, a sharp contraction in employment and lower production weighed on the health of the sector, causing the overall PMI figure to drop.

"The reopening of businesses will support a pick-up in the economy, although, infection rates in the Philippines remain high compared to regional peers. Until virus cases are tamed domestically and globally, we are likely to see a protracted recovery in manufacturing production.

"For now, firms remain optimistic that production will improve over the coming year, however, it remains to be seen whether the latest contraction was temporary."

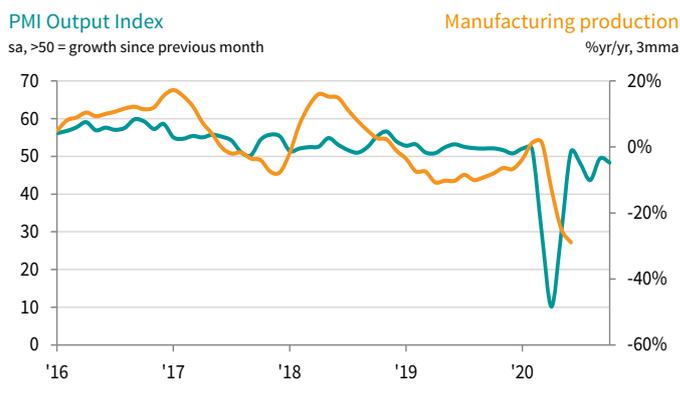
attributed the latest decline to voluntary resignations. Another monthly reduction in backlogs of work highlighted evidence that spare capacity persisted across the manufacturing sector.

A renewed fall in new order inflows led companies to reduce their stores of inputs in the latest survey period. Stocks of both raw materials and finished goods were depleted, which firms linked to supplier shortages and uncertainty in demand.

Supply chain issues remained evident as delivery times lengthened during October, extending the current period of deterioration in vendor performance to fifteen months. Longer delays were widely linked to transportation restrictions.

On the price front, input costs faced by manufacturers rose, with higher raw material costs and supplier surcharges contributing to inflation. That said, the latest increase eased and was the softest since May. Meanwhile, output charges rose fractionally. Where an increase was noted, panellists mentioned the partial passing on of higher cost burdens. Firms that registered a fall in selling prices, however, mentioned that discounting strategies were implemented to stimulate sales.

Finally, business expectations for the coming 12 months were positive in October, as has been the case since the start of the survey in January 2016. Firms that were optimistic regarding higher output levels by October 2021 mentioned plans of expansion and new product launches. The degree of confidence was below the long-run series average, however, as some firms continue to expect that COVID-19 will have a long-term impact on production.



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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.

October 2020 data were collected 12-23 October 2020.

For further information on the PMI survey methodology, please contact [economics@ihsmarkit.com](mailto: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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