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IHS Markit Philippines Manufacturing PMI®

Manufacturing PMI signals modest improvement in operating conditions at the end of 2021

Key findings

Output expands for the first time since March, albeit only marginally

Sentiment improved to 23-month high

Input and output price inflation both moderate in December

Data were collected 6 - 16 December 2021.

Operating conditions in the Philippines manufacturing sector strengthened moderately in December, supported by the first monthly expansion in output for nine months. New orders continued to rise which encouraged companies to add to their input inventories for the fourth month running. As a result, firms raised their output expectations for the year ahead which improved to a near two-year high. That said, there were still widespread reports of material scarcity and supply-chain disruption.

On the price front, input and output price rises remained historically elevated following higher material and transportation expenses. The rates of inflation in both cases moderated, however.

The IHS Markit Philippines Manufacturing PMI® rose fractionally from 51.7 in November, to 51.8 in December, registering above the 50.0 no-change threshold that separates expansion from contraction. Although only modest, the latest uptick was the strongest in nine months, and broadly in line with the long-run series average.

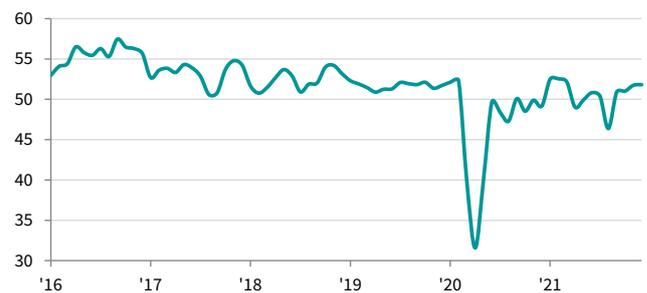
The improvement was partly driven by a quicker rise in new orders received by Filipino manufacturers. The overall rate of growth was modest with panel members continuing to highlight favourable domestic demand conditions. Contrary to the trend seen for total sales, new export orders fell sharply and at the quickest rate for four months. Tighter restrictions in international markets, linked to the Omicron variant, led to the downfall.

Production volumes meanwhile expanded for the first time since March, albeit at only a slight pace. Whilst some firms noted an improvement in domestic demand, others mentioned that raw material scarcity stymied growth.

With the output and new order growth trending upwards, firms reduced their workforces at a softer rate in December. Job shedding has now been seen in each of the last 22 months, with the latest fall the joint-softest since March. Panel comments suggested that

continued...

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:

"The Philippines manufacturing sector remained in a solid position during the closing month of 2021, with the headline PMI at a nine-month high. Supporting this was an improvement in domestic demand and a slight uptick in output, the first for nine months. Firms were also optimistic that demand will continue to improve in the coming months and as a result prepared through advance ordering strategies.

"However, supply-side issues and virus-related restrictions threatened the sector once again. Delivery delays were pronounced and often hindered production. Shortages meanwhile continued to drive up expenses, despite some signs of a moderation in input and output prices in December.

"Looking ahead, the Omicron variant will almost certainly hit the Philippines manufacturing sector, and in more ways than one. Supply-side issues are likely to persist while case numbers and input price inflation could climb further as we head into the new year."

while new orders increased, firms had sufficient capacity to deal with demand. A decline in outstanding business supported this, with backlogs falling at the third-steepest rate in the near six-year history of the survey.

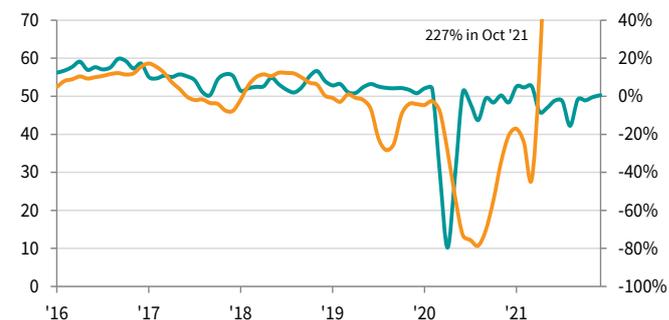
Elsewhere, there was further evidence that supply-chain issues persisted. Vendor performance deteriorated sharply with panel comments often blaming tighter virus-related restrictions in international markets, and difficulties obtaining inputs.

Widespread reports of material scarcity continued in December, with panellists again turning to advance ordering strategies. Anticipation of greater demand and future price hikes also encouraged firms to stockpile, according to panel comments. Buying activity rose at the quickest rate for six months while stocks of purchases expanded for the fourth month running.

Material scarcity and stretched supply chains led to another substantial increase in input prices during December. Encouragingly, however, the rate of cost inflation moderated from November to a three-month low. Firms chose to pass on part of the burden to clients through another rise in output charges, with the rate of increase sharp by historical standards.

Looking ahead, firms were upbeat about their output expectations for the next 12 month. Sentiment improved to the strongest since January 2020 with firms foreseeing higher customer numbers and a return to normality in 2022.

Philippines Manufacturing PMI Output Index Manufacturing production
sa, >50 = growth since previous month %yr/yr, 3mma



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.

Data were collected 6 - 16 December 2021.

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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