Nikkei Philippines Manufacturing PMI™

Manufacturing growth regains pace in August

Key points:

- Softer rise in output but new orders pick up pace
- Job creation resumes
- Inflationary pressures remain marked

Data collected from August 13–23

Business conditions in the Philippines manufacturing sector improved further midway through the third quarter. While output growth softened, new business inflows picked up pace, and optimism improved. Job creation was also reported for the first time in three months.

Firms continued to scale up purchasing activity, which contributed to a further accumulation in input inventories. Meanwhile, inflationary pressures remained strong, with both input costs and output prices rising at marked rates.

The seasonally adjusted **Nikkei Philippines Manufacturing Purchasing Managers' Index (PMI™)** rose to 51.9 in August, up from 50.9 in July, indicating a modest improvement in the health of the sector.

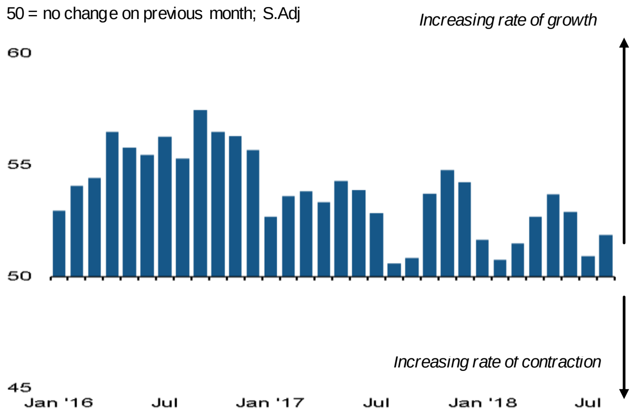
The headline PMI provides a quick overview of the national performance in the manufacturing sector, drawing from questions on output, new orders, jobs, inventories and delivery times.

August data showed signs of improvement in client demand. Order book growth accelerated from a survey-record low in July and was solid overall.

However, survey details revealed that domestic markets were the primary driver of higher demand as export sales grew at a noticeably slower pace. Growth in export orders was the weakest in the current six-month period of expansion.

Despite firmer sales growth, production volumes increased at the slowest rate for nearly a year. An accumulation of finished goods inventories was a factor behind softer output growth, with firms reporting sufficient stocks to meet demand. Post-production stocks rose for a second straight month, with another solid rate of increase indicated.

Nikkei Philippines Manufacturing PMI



Sources: Nikkei, IHS Markit

Greater labour capacity enabled firms to work through their backlogs. The level of unfinished business fell at the steepest rate for just over a year, extending the trend of lower backlogs to 30 months.

Companies stepped up acquisitions of manufacturing inputs to meet greater operating demand, which contributed to another gain in pre-production stocks. Increased demand for inputs put pressure on supply chains, which saw vendor performance deteriorating in the middle of the third quarter. Firms cited other reasons for delivery delays, including inclement weather, supply shortages and poor traffic conditions.

Filipino manufacturers continued to face strong cost pressures. Input cost inflation remained sharp during August, partially reflecting the impact of the TRAIN law rollout at the start of this year. Anecdotal evidence suggested that higher prices for raw materials and an unfavourable exchange rate also contributed to inflation. Consequently, firms raised selling prices further to pass on higher costs to customers. Output prices increased at a marked pace.

Finally, business confidence about output in the year ahead improved in August.

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Comment:

Commenting on the Philippines Manufacturing PMI survey data, **Bernard Aw, Principal Economist** at IHS Markit, which compiles the survey, said**:**

"The Nikkei survey data indicated that the Philippines manufacturing sector looks to have regained some growth momentum in August, raising hopes that the demand slowdown in July was just a blip.

"While output growth eased, new business inflows picked up pace, driven by domestic demand. Job creation resumed after two months of lower employment and business confidence also improved. However, the improvement in the health of the manufacturing sector was marred by strong inflationary pressures. Input cost inflation remained elevated and similar to recent months.

"With the indicators of price gauges remaining elevated, the August survey sends a hawkish message to policymakers. Consumer inflation rose to 5.7% in July, with the central bank expecting a faster annual rate in August. According to the latest Nikkei survey, the TRAIN laws, higher prices for raw materials and an unfavourable exchange rate all contributed to inflation."

-Ends-

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Notes to Editors:

The Nikkei Philippines Manufacturing *PMI*™ is based on data compiled from monthly replies to questionnaires sent to purchasing executives in over 400 industrial companies. The panel is stratified by GDP and company workforce size. The manufacturing sector is divided into the following 8 broad categories: Basic Metals, Chemicals & Plastics, Electrical & Optical, Food & Drink, Mechanical Engineering, Textiles & Clothing, Timber & Paper, Transport.

Survey responses reflect the change, if any, in the current month compared to the previous month based on data collected mid-month. For each of the indicators the 'Report' shows the percentage reporting each response, the net difference between the number of higher/better responses and lower/worse responses, and the 'diffusion' index. This index is the sum of the positive responses plus a half of those responding 'the same'. Diffusion indexes have the properties of leading indicators and are convenient summary measures showing the prevailing direction of change. An index reading above 50 indicates an overall increase in that variable, below 50 an overall decrease.

The Nikkei Philippines Manufacturing *PMI*™ is a composite index based on five of the individual indexes with the following weights: New Orders - 0.3, Output - 0.25, Employment - 0.2, Suppliers' Delivery Times - 0.15, Stock of Items Purchased - 0.1, with the Delivery Times Index inverted so that it moves in a comparable direction.

IHS Markit do not revise underlying survey data after first publication, but seasonal adjustment factors may be revised from time to time as appropriate which will affect the seasonally adjusted data series. Historical data relating to the underlying (unadjusted) numbers, first published seasonally adjusted series and subsequently revised data are available to subscribers from IHS Markit. Please contact economics@ihsmarkit.com.

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