

Nikkei Philippines Manufacturing PMI™

PMI strengthens to ten-month high

Key points:

- Sharp rises in output and new orders
- Output price inflation at record high
- Port congestion lengthens delivery times

Data collected from October 12–24

Business conditions improved solidly at the start of the fourth quarter, with the latest PMI data signalling a sharp rise in demand for manufactured goods in the Philippines. Both output and new business rose at a faster pace in October, with many firms reporting an influx of orders. Purchasing activity also increased substantially, while employment rose for the third month running. However, delivery times lengthened, in part due to port congestion. Inflationary pressures persisted, leading to the sharpest rise in output prices seen in the survey history.

The seasonally adjusted **Nikkei Philippines Manufacturing Purchasing Managers' Index (PMI™)** rose from 52.0 in September to 54.0 in October, signalling a solid improvement in the health of the sector. The PMI reading was the highest in ten months, indicating stronger growth at the beginning of the fourth quarter.

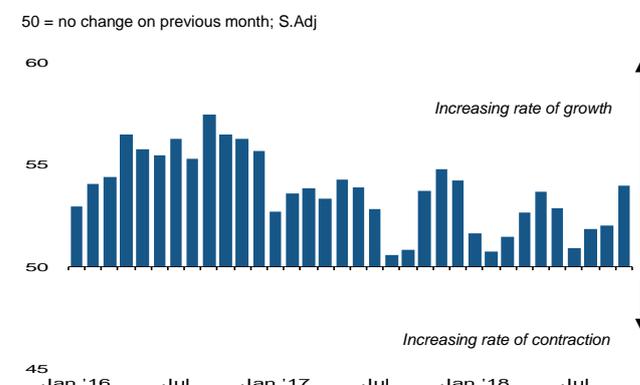
Survey data from manufacturing firms indicated a boost in client demand in October. Total new orders rose at the fastest rate in five months, although new export orders declined. As a result, firms raised their output sharply, seeing a marked upturn in the pace of expansion from September. Post-production stocks grew at a moderate pace, albeit slower than in September.

Firms also increased their purchasing activity substantially in October, after only modest expansions in recent months. Roughly one-third of businesses raised input purchases, in line with higher order book volumes. Consequently, stocks of purchases rose solidly.

Despite the notable upturn in sales, firms continued to report lower capacity pressures. Backlogs of work have fallen in successive survey periods since March 2016, although the latest decline was the weakest in ten months. A number of firms attributed the drop to rising employment, as highlighted by a

marginal increase in overall staffing levels in October. That said, the vast majority of businesses reported no change in workforce numbers.

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Sources: Nikkei, IHS Markit

Longer lead times were reported for the third month in a row in October, with the degree of lengthening greater than in September. Panellists linked this to the ongoing port congestion at Manila, leading to protracted delivery times for some manufacturers. Longer customs checks and recent weather conditions were also noted.

Filipino manufacturers continued to bear the burden of strong cost inflationary pressures in October. As a result, selling prices were raised at the sharpest rate seen in the series history. Around 22% of businesses increased output charges, with a number of factors highlighted. These included higher raw material costs, the TRAIN laws established this year and the falling value of the peso.

Looking ahead, goods producers in the Philippines remained strongly positive about future output. Many firms attributed this to the current upturn in business, while others hoped for a further increase in new clients and products. That said, the level of optimism was the second-weakest in the series history.

Comment:

Commenting on the Philippines Manufacturing PMI survey data, **David Owen, Economist** at IHS Markit, which compiles the survey, said:

“The latest Nikkei survey data suggested that growth in the Philippines manufacturing sector gathered strength in October. The headline PMI reading posted the highest level in ten months and indicated a marked improvement in the health of the sector at the start of the fourth quarter. Order book growth was also sharp, although export demand fell marginally. Overall, Filipino firms remained highly optimistic about the business outlook over the coming year.

“At the same time, inflationary pressures led to the sharpest uptick in selling prices seen since the survey began in 2016. Businesses continued to feel the burden of higher raw material costs, the TRAIN laws and a weakening Peso. The recent trend suggests that price pressures are unlikely to relent in the coming months.

“The survey also pointed to an impact from the recent port congestion at Manila, as delivery times worsened considerably in October. Nevertheless, manufacturers continued to stay on top of order volumes, with backlogs of work falling for the thirty-second consecutive month.”

-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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