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IHS Markit Philippines Manufacturing PMI®

Manufacturing PMI hits 25-month high in January

Key findings

Output and new orders increase moderately

Purchasing activity rises for the first time in 11 months

Cost pressures accumulate amid material shortages

Data were collected 12-22 January 2021.

January data signalled a turnaround in operating conditions at the Philippines manufacturing sector, following three consecutive months of contraction. Improving customer demand led to an uptick in output and new orders while purchasing activity rose for the first time in eleven months. In anticipation of further gains in demand, stocks of purchases and post-production inventories rose marginally. Meanwhile, sentiment regarding output over the next 12 months remained positive with improving new order volumes fuelling optimism. That said, cost saving efforts contributed to further staffing cuts at the start of 2021.

On the price front, material shortages led to greater charges at suppliers with input prices rising at the sharpest rate in over two years. As a result, output charges rose with firms passing on part of the hike in cost burden to clients.

The IHS Markit Philippines Manufacturing PMI® rose from 49.2 in December to 52.5 in January, posting above the 50.0 neutral value that separates expansion from contraction. The latest reading signalled a solid uptick in business conditions, indicating a move towards a recovery from the downturn onset by the coronavirus pandemic 2019 (COVID-19).

Output volumes increased modestly at the start of the year despite ongoing virus-related restrictions. According to panel members, an improving demand environment supported the rise in production.

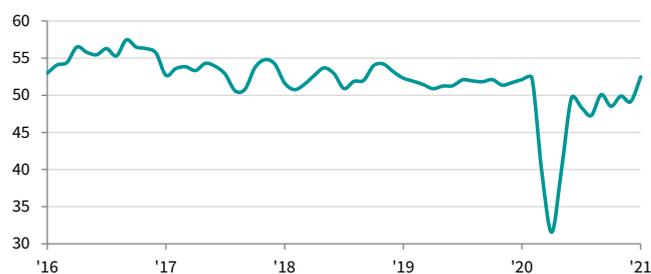
New orders rose solidly and at the joint-fastest rate since July 2019. Respondents mentioned that a recovery in domestic demand drove the latest uptick. Orders from overseas contracted however, with strict pandemic restrictions in key export destinations often attributed to the fall.

Despite higher levels of production, restructuring efforts and voluntary resignations led to further cuts in payroll numbers. That said, the rate of decline eased to the softest in the current eleven-month sequence of contraction. At the same time, a strong

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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:

"January data indicated a rebound in operating conditions across Filipino manufacturing sector after three successive months of decline. Productions volumes rose solidly, while renewed growth in new orders indicated an overall improvement in demand conditions. An increase in purchasing activity and stocked inventories was also a positive sign that manufacturing companies expect demand to grow over the coming months."

"That said, signs of fragility remained evident with staffing cuts and sharp cost pressures mounting. At the same time, virus-related restrictions contributed to substantially longer delivery times and subdued foreign demand."

"Business are hoping for a successful and swift vaccine roll-out plan, which is scheduled to begin during the first quarter. Until then, restrictions are likely to stay in place as policy makers seek to contain virus case numbers."

reduction in the level of outstanding work suggested that excess capacity persisted across the manufacturing sector in January.

In line with higher output volume, Filipino manufacturers expanded their purchasing activity at the start of the year. Furthermore, efforts to realign stocks with growing new orders led to an accumulation of both pre-production inventories and stocks of finished goods.

Supply chain disruption was evidenced by January survey data, which showed supplier delivery times lengthening to the greatest extent in four months. Port congestions, and COVID-19 restrictions were often linked to the deterioration in vendor performance.

Higher raw material costs resulted in rising input prices in January. Some respondents also mentioned adverse weather conditions contributed to cost pressures. The latest overall increase in cost burdens was the steepest since November 2018.

Sharp rises in input prices led manufacturers in the Philippines to partially pass on greater cost burdens to clients through higher factory-gate charges. The latest rise was the sharpest in the current nine-month period of output price inflation.

Looking ahead, business sentiment remained positive among manufacturers in the Philippines, as firms continue to foresee a rise in production over the coming year. Hopes of greater client demand, and the easing of COVID-19 restrictions underpinned optimism. That said, the degree of positive sentiment eased from that in December as the continuation of the pandemic weighed slightly on confidence.



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 12-22 January 2021.

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

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About PMI

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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