News Release

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IHS Markit Philippines Manufacturing PMI®

Manufacturing conditions near stabilisation in May

Key findings

Solid decline in output, while new orders fall only marginally

Supplier delivery delays prompts input stock building

Selling prices rise at fastest pace for two-and-a-half years

Data were collected 12-21 May 2021.

May survey data revealed a softer downturn across the Philippines manufacturing sector, as operating conditions inched towards to stabilisation. Output levels declined at a softer pace, while only a marginal contraction in new orders was recorded. Staffing levels fell again, with panellists mentioning cost saving pressures. Nevertheless, some firms were able to meet new orders as Enhanced Community Quarantine (ECQ) measures, imposed to curb the spread of COVID-19, were downgraded in some regions, allowing factories to resume their operations and reduce backlogs of work further. Supply chain pressures remained evident however, with delivery times lengthening markedly. Firms looked to mitigate the effects of longer lead times by building safety stocks.

On the price front, input price inflation was robust, but the rate of increase eased slightly from that seen in April. Amid efforts to protect profit margins, firms partly passed on higher raw material costs to clients, with selling prices rising at the fastest rate since November 2018.

The IHS Markit Philippines Manufacturing PMI® rose from 49.0 in April, to 49.9 in May, posting just below the 50.0 neutral value that separates expansion from contraction.

Production volumes fell solidly in May, with firms attributing the reduction to business closures and material shortages. That said, the rate of decline eased from that seen in April, as factories in some cities were able to restart operations. Meanwhile, efforts to build safety stocks led to a softer decline in buying activity.

Despite a further reduction in new orders, there were signs that the overall demand picture was improving with the rate of decline easing to only a marginal rate. New orders from overseas markets rose sharply, helped by easing international restrictions.

Workforce numbers continued to fall, with the rate of contraction solid, but easing slightly from that seen in April. A combination of cost-saving efforts and voluntary resignations reportedly drove

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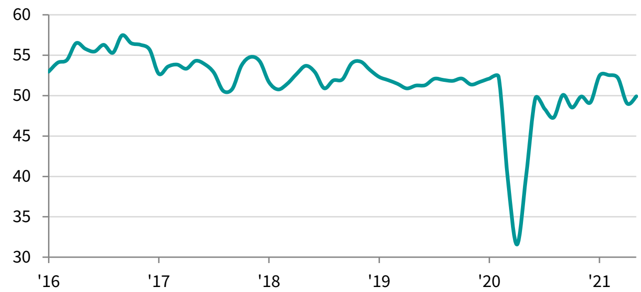
Philippines Manufacturing PMI

sa, >50 = improvement since previous month



Source: IHS Markit.

Comment

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

"A surge in COVID-19 cases and ECQ measures last month forced the Filipino economy back into contraction territory. May PMI data will therefore be welcomed as it revealed a swift movement towards stabilisation with some businesses already resuming their operations. Softer declines in output and new orders signalled a step in the right direction, whilst a renewed increase in overseas demand also supported the sector.

"There are also signs manufacturers are dealing well with supply issues as safety stocks continued to be built, helping keep backlogs at bay for now.

"That said, whilst firms continue to reduce outstanding business, they are facing strong inflationary pressures. Transportation bottlenecks and limited material availability weighed somewhat on profit margins. An increase in selling charges and cuts to workforces suggests firms are seeking to control soaring expenses.

"Nevertheless, policy-makers are working towards securing enough vaccines to inoculate a large proportion of the population. The rollout must gain momentum to prevent another tightening of measures and to encourage an economic recovery, however."

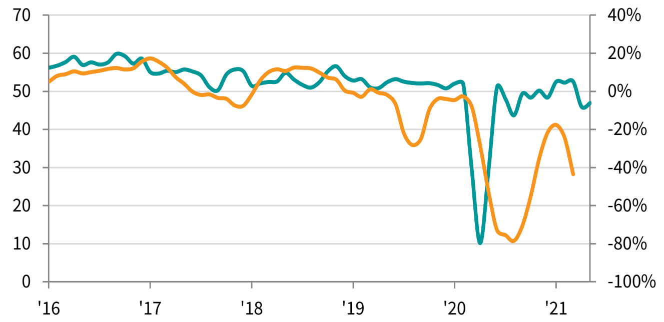
the decline. Despite this, outstanding business was reduced at a solid rate, with the latest contraction the sharpest in five months. Anecdotal evidence suggested the reopening of some businesses allowed firms to keep up with demand.

Supply-chains continued to be impacted by COVID-19 restrictions. Lead times lengthened further in May and to one of the most marked extents in the near five-and-a-half-year series history. Material shortages and transportation bottlenecks were often cited by respondents as delaying input deliveries.

Amid efforts to mitigate against delays and expectations of greater demand in the coming months, Filipino goods-producers added to their input inventory holdings in May. The rate of growth was sharp and extended the sequence of expansion to five months. Post-production stocks broadly stabilised, however.

Raw material scarcity, and supply-chain disruption continued to exert upward pressure on firms' cost burdens, with input price inflation remaining robust. The rate of increase softened slightly from that seen in April but remained much higher than the long-run series average. The sustained period of rising expenses encouraged firms to pass on part of the burden, with selling charges rising to the greatest extent since November 2018.

Firms remain optimistic regarding their expectations for output over the next 12 months. The vaccination programme underpinned hopes of a return to normality by next May. That said, the degree of confidence was below the long-run series average, with anecdotal evidence suggesting some firms remain wary of the longer-term implications of the pandemic.



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 12-21 May 2021.

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

About IHS Markit

IHS Markit (NYSE: INFO) is a world leader in critical information, analytics and solutions for the major industries and markets that drive economies worldwide. The company delivers next-generation information, analytics and solutions to customers in business, finance and government, improving their operational efficiency and providing deep insights that lead to well-informed, confident decisions. IHS Markit has more than 50,000 business and government customers, including 80 percent of the Fortune Global 500 and the world's leading financial institutions.

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.
ihsmarkit.com/products/pmi.html.