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IHS Markit Philippines Manufacturing PMI®

Business conditions improve modestly as future sentiment weakens in September

Key findings

Output growth slows as new orders rise solidly

Export sales fall at quickest pace on record

Business expectations drop to lowest in series history

Filipino manufacturing firms observed another modest increase in output in September. Businesses were encouraged by a solid rise in total new orders, despite overseas demand falling at the quickest rate seen in the series history so far. However, difficult trading conditions led to a dampened one-year outlook, while employment and purchasing activity growth also slowed.

The IHS Markit Philippines Manufacturing PMI® fell fractionally from 51.9 in August to 51.8 in September, signalling a moderate and weaker-than-average improvement in operating conditions across the manufacturing sector. The reading was the lowest recorded since June.

Production growth slowed for the third month running, as latest data indicated a moderate uplift in output at Filipino manufacturers. The expansion was mainly attributed to higher sales, although some firms were helped by upcoming trade fairs.

In contrast to the trend for output, new orders increased at a sharper rate than in August. Companies noted a stronger performance in domestic markets over the month, as client orders grew in size. At the same time though, sales to overseas customers fell for the fourth month in a row. Moreover, the latest decline was the quickest in the series history (beginning in January 2016).

As such, whilst business expectations were positive, they were also the least-optimistic on record. Trade fears were often behind negative forecasts, while firms maintaining a hopeful outlook commented on new clients and expected sales growth.

Employment at manufacturing firms rose only marginally in September. The rate of hiring activity softened from August's recent high, as greater labour requirements were offset by resignations at a number of companies. Backlogs of work meanwhile fell at a sharp and accelerated pace.

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Philippines Manufacturing PMI
sa, >50 = improvement since previous month



Source: IHS Markit.

Comment

Commenting on the latest survey results, David Owen, Economist at IHS Markit, said:

"The one-year business outlook among Filipino manufacturing companies fell to a new survey low in September. Whilst still optimistic on average, firms were at their most downbeat since the series began in 2016.

"A key factor was falling export sales, which declined at the quickest rate recorded in the series history so far. It appears that firms are losing hope of there being an end in sight for the US-China trade war, which looks to be dampening export orders at an accelerated pace in the Philippines.

"On the other hand, domestic new orders are increasing and leading to a solid rise in total demand, allowing firms to continue on their path of expanding production. Employment numbers grew for the third month running, albeit marginally, while input buying increased at a solid rate. This should support businesses in the midst of a difficult export climate."

Purchasing activity growth slowed over the month, in part due to a slightly weaker expansion in output. This contributed to a subdued rise in pre-purchased goods inventories, while stocks of finished goods also expanded at a marginal rate.

At the same time, firms noted another lengthening of delivery times, as poor weather conditions persisted and led to worsening traffic issues. That said, improvements from other suppliers meant that the overall deterioration was only fractional.

On the price front, output charges set by Filipino goods producers increased at the slowest rate since June 2017. Firms related the uptick to greater cost pressures. However, some panellists highlighted that lower prices at competitors caused them to reduce their charges.

The rate of input price inflation meanwhile accelerated, indicating the quickest increase in cost burdens since February. Higher raw material prices were often reported to have been behind the latest rise. Notably, some respondents found that a shortage of materials led some suppliers to raise their fees.

PMI Output Index

sa, >50 = growth since previous month

Manufacturing production

%yr/yr, 3mma



Sources: IHS Markit, CSO.

Contact

David Owen
Economist
IHS Markit
T: +44 2070 646 237
david.owen@ihsmarkit.com

Bernard Aw
Principal Economist
IHS Markit
T: +65 6922 4226
bernard.aw@ihsmarkit.com

Joanna Vickers
Corporate Communications
IHS Markit
T: +44-207-260-2234
joanna.vickers@ihsmarkit.com

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.

September 2019 data were collected 12-23 September 2019.

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. To learn more go to ihsmarkit.com/products/pmi.html.