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IHS Markit Philippines Manufacturing PMI®

Manufacturing sector stabilises in September

Key findings

New orders expand for the first time since February

Production declines only marginally

Business sentiment improves to seven-month high

Data were collected 11-23 September 2020.

September data indicated that operating conditions faced by Filipino manufacturing firms were broadly stable. New orders rose for the first time since February, led by improving customer demand as more parts of the economy reopened following the easing of coronavirus disease 2019 (COVID-19) restrictions. At the same time, output contracted at the weakest pace for three months, falling only marginally overall. Employment meanwhile continued to fall markedly, which manufacturers often linked to the non-replacement of voluntary leavers and sufficient capacity. Nonetheless, business sentiment improved to the highest since February, with upbeat forecasts often attributed to hopes of rising demand and the passing of the COVID-19 pandemic.

On the price front, cost burdens continued to increase as shortages led to higher market prices. Respondents only partially passed on higher costs to clients, however, with output charges rising only slightly due to competitive market pressures.

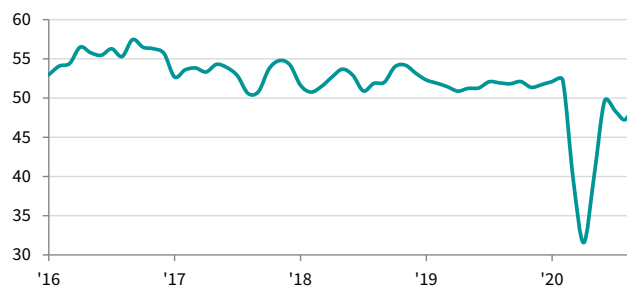
The IHS Markit Philippines Manufacturing PMI® rose from 47.3 in August to 50.1 in September, posting just above the neutral 50.0 mark that separates expansion from contraction. The latest reading was the highest since February and signalled that operating conditions were broadly stable across the goods producing sector.

Production volumes fell for the third month running in September, with firms often indicating that ongoing COVID-19 restrictions continued to hamper activity. That said, the rate of contraction eased to the slowest in the current period of decline and was only slight. Companies that reported growth indicated that this was due to the resumption of production schedules.

Total new orders increased for the first time since February, but the pace of expansion was only marginal. Survey respondents linked higher sales to the reopening of the economy and firmer client demand. Mirroring the trend seen for total new orders, export sales also expanded in September, thereby ending a six-month sequence

continued...

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:

"The latest Philippines manufacturing data showed that operating conditions stabilised at the end of the third quarter. New business expanded for the first time since February, albeit tentatively, while production levels dropped only slightly.

"According to firms, the ongoing restrictions related to the COVID-19 pandemic continued to limit the performance of the sector, with some businesses forced to pare back operations.

"On a more hopeful note, stronger business sentiment and efforts to rebuild stocks suggest panellists are preparing for an improvement in demand over the coming months, although optimism continues to rest on the development of the pandemic."

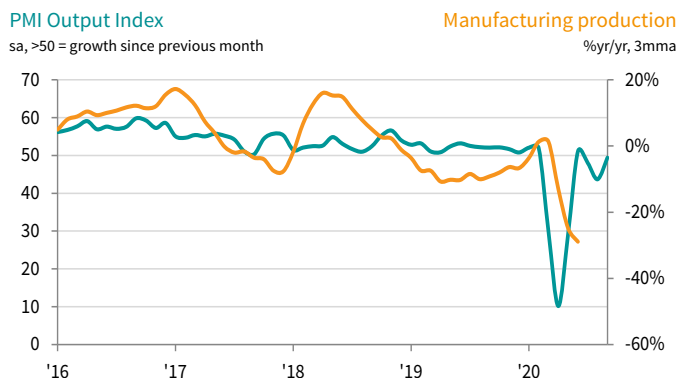
of contraction. Panellists mentioned that clients were often buying in advance to prepare for firmer market conditions in the months ahead.

Despite the upturn in new orders, workforce numbers decreased, thereby extending the current trend of falling employment to seven months. Panellists attributed the decline to voluntary resignations, sufficient capacity levels and cost saving measures. Another reduction in backlogs of work highlighted evidence that spare capacity persisted across the manufacturing sector.

Goods producers signalled tentative increases in their inventory levels in September. Stocks of inputs and finished goods both rose for the first time in seven months, albeit at marginal rates.

Higher transportation costs, material shortages and reports of supplier surcharges related to COVID-19 resulted in a solid increase in cost burdens during September. Manufacturers had some difficulty passing on higher costs to clients due to tough market competition, however, with factory gate charges rising only marginally.

Finally, good producers in the Philippines remained optimistic about output volumes over the next 12 months. Business expectations were the highest since February as firms hope demand will return to its pre-virus levels. That said, the level of positive sentiment was well below the long-run average. Those with subdued expectations often mentioned sustained revenue losses and uncertainty related to COVID-19.



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.

September 2020 data were collected 11-23 September 2020.

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.
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