News Release

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Nikkei Philippines Manufacturing PMI™

Cost inflation at 28-month low

Key points:

- Output and new orders expand at a slower pace
- Employment growth at four-month high
- Input price inflation at slowest for over two years

Data collected from December 4-14

Business conditions at Filipino manufacturing firms improved further in December, but at a slower pace, supported by expansions in both output and new orders. Purchasing activity grew and employment increased at the quickest rate in four months. On the price front, input cost inflation eased noticeably to a 28-month low, prompting firms to raise selling charges modestly.

The seasonally adjusted **Nikkei Philippines Manufacturing Purchasing Managers' Index (PMI™)** fell from 54.2 in November to 53.2 in December, signalling a solid improvement in the health of the sector. Nonetheless, the quarterly PMI average in the three months to December was the strongest for the year.

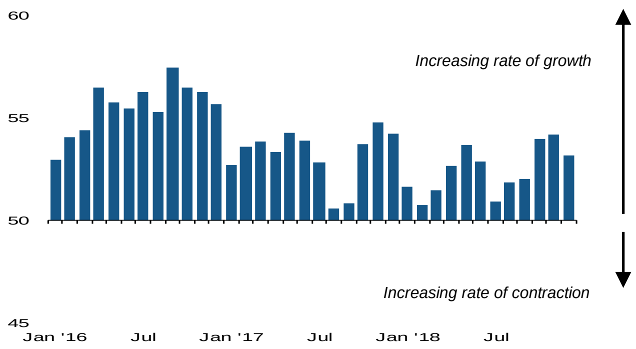
Filipino manufacturers expanded output further during December. Despite easing to a three-month low, production growth remained above the 2018 average.

Demand conditions remained solid. While inflows of new orders rose at a slower pace from November's 12-month high, it remained robust. Survey data suggested that domestic markets played a primary role in driving demand amid soft international sales. New export orders declined for the fourth month running in December, however the pace of contraction was marginal overall.

With higher sales, firms expanded their workforce numbers to keep on top of the increase in workloads. Employment rose to its strongest in four months during December, albeit still marginal. Anecdotal evidence suggested firms' efforts to increase operating capacities contribute to jobs growth.

Nikkei Philippines Manufacturing PMI

50 = no change on previous month; S.Adj



Sources: Nikkei, IHS Markit

Higher production requirements motivated firms to step up purchasing activity. However, the rate of input buying was notably weaker than in recent months. In line with slower purchasing growth, input stocks accumulated at the weakest for three months.

Supply chains remained stretched, with firms highlighting port congestions as a factor behind shipment delays. However, the rate at which average lead times lengthened was modest overall. Despite additional workloads, the survey continued to bring signs of spare capacity. Backlogs of work fell further, but at the softest rate for over two-and-a-half years during December.

On the price front, Filipino manufacturers raised output charges modestly in December, in part due to a slower rise in costs. Output price inflation was the weakest since July 2017. Though solid, cost inflation was the softest seen in well over two years. Higher prices for raw materials, a stronger dollar and TRAIN taxes remained key factors behind inflation.

Finally, business confidence about future output remained elevated in December, although the Future Output Index dipped to the lowest since July. Reasons for optimism included higher sales projections, new products, plans to expand operating capacity, and 2019 general elections.

Comment:

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

"The final survey of 2018 confirmed a strong end to the year for Filipino manufacturers. Despite dipping from November, output and new orders growth remained solid, while feeding a stronger increase to job numbers.

"Also encouraging was a notable waning in input cost inflation to the weakest seen in over two years. Likely helped by the fall in oil prices, firms also reported an easing of recent cost pressures such as the exchange rate and the TRAIN laws. This in turn saw firms raising factory gate prices modestly, offering a calmer and confident outlook for the sector in 2019."

-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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