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IHS Markit Philippines Manufacturing PMI®

Output growth slowest since September 2017

Key findings

Production rises only slightly amid supply issues

New order growth remains solid as foreign sales increase

Output expectations weaken to near-record low

Business conditions in the Philippines manufacturing sector continued to strengthen at a modest pace in December, with demand growing further and exports increasing from November. However, supply shortages and traffic issues restrained overall growth, as production rose at the softest rate in over two years. As such, output expectations were subdued, although employment saw a renewed expansion.

The IHS Markit Philippines Manufacturing PMI® ticked up from 51.4 in November to 51.7 in December, signalling another modest improvement in manufacturing conditions that was in line with the average seen for the year.

The improvement was partly driven by a solid rise in new orders received by Filipino manufacturers, with the rate of growth strengthening slightly from November. Alongside a broad-based increase in sales, firms noted a slight upturn in new work from foreign clients, marking only the second monthly expansion in seven months.

At the same time though, manufacturers increased production only marginally, with the pace of growth weakening to a 27-month low. While stronger sales helped businesses to expand output overall, some firms mentioned that delays in input deliveries and difficulties in sourcing raw materials curtailed production. Traffic issues were again a key factor influencing supplier delivery times, although panellists noted that typhoons and congestion at Manila port also contributed to the slowdown.

Weaker output growth meant that businesses were less optimistic toward the outlook for production over the coming year. The degree of positivity was one of the weakest in the series history. On the whole though, firms still expect output to expand over the coming 12 months, highlighting strong sales

continued...

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 Philippines manufacturing sector remained in a relatively solid position in December, with the headline PMI posting 51.7, in line with the average for 2019. The sector continued to post strong new order growth, albeit slower than that seen a year ago.

"Most notably for manufacturers though are clear supply-side issues that are restricting output. Growing road and port congestion, particularly in Manila, remain a key feature of businesses' concerns. The government has announced its "Build, Build, Build" program to address the problem which some firms are hopeful will reduce supply chain blockages. Nevertheless, for the moment, production is being limited, and may remain so until these issues have been addressed."

growth and government infrastructure projects as reasons to remain confident.

Employment in the goods sector saw a renewed, albeit marginal, increase at the end of the year. Panel members indicated this was due to higher new orders. Backlogs of work meanwhile decreased further, as whilst deliveries of inputs slowed, firms saw little impact on the delivery of finished goods.

Input buying also rose in December, although the rate of growth was the softest in ten months, and only modest. Nonetheless, this helped manufacturers to expand stocks of both pre- and post-production goods.

Softer demand for inputs contributed to a slowdown in overall input price inflation, with costs rising at the softest pace since July. Some raw materials increased in price, often linked by panellists to a lack of supply.

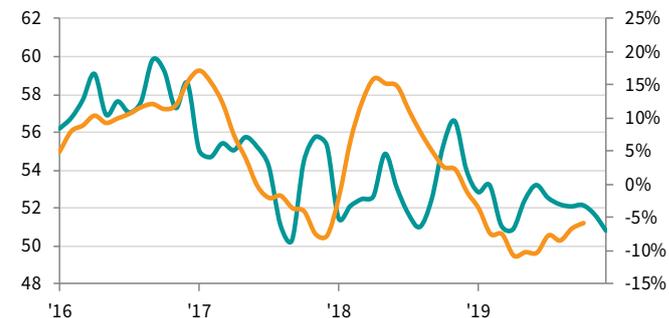
Subsequently, average charges set by Filipino manufacturers were raised, albeit only modestly. Anecdotal evidence attributed the mark-up to higher demand for goods and greater cost burdens.

PMI Output Index

sa, >50 = growth since previous month

Manufacturing production

%yr/yr, 3mma



Sources: IHS Markit, CSO.

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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.

December 2019 data were collected 5-16 December 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.