News Release

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IHS Markit Philippines Manufacturing PMI®

Manufacturers suffer further hit to output from COVID-19

Key findings

Rates of decline in output and new orders ease, but remain sharp

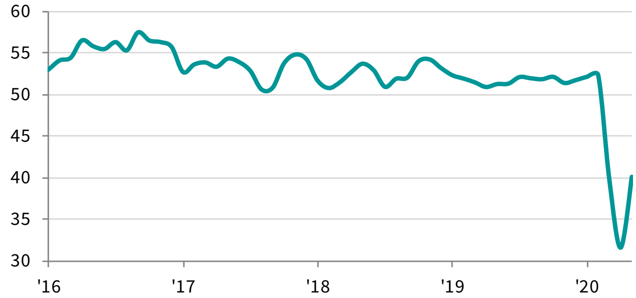
Employment levels fall steeply again

Output prices tick up as cost pressures rise

Data were collected 12-21 May 2020.

Philippines Manufacturing PMI

sa, >50 = improvement since previous month



Source: IHS Markit.

Manufacturing conditions across the Filipino goods-producing sector declined steeply again in May, according to the latest PMI® data. Output was further stifled by efforts to curb the coronavirus disease 2019 (COVID-19) pandemic, including temporary business closures and travel restrictions. However, the easing of measures in some regions helped the rate of contraction in production soften from April.

Nevertheless, employment levels fell sharply, while purchases were heavily reduced in May. Higher raw material prices meanwhile led to a slight uptick in input costs, the first in three months, which contributed to a marginal rise in output charges as firms partially passed higher input prices on to clients.

The IHS Markit Philippines Manufacturing PMI® rose to 40.1 in May, from a record low of 31.6 in April. Despite the improvement, the reading still pointed to a sharp deterioration in operating conditions across the manufacturing sector, the third in as many months.

Production levels were subdued due to lockdown measures remaining broadly in place across the Philippines. However, reports of the partial easing of restrictions in rural areas led to a less severe decline than that seen in April, with some businesses able to restart operations. That said, ongoing social distancing led to capacity being much lower than normal, while weak new order volumes often discouraged firms from raising output.

Demand for manufactured goods continued to fall during the month, with the latest decrease softer than that seen in April but still the second-sharpest since the series began in January 2016. Businesses faced weaker sales from both domestic and international markets, as the COVID-19 pandemic meant that many foreign clients remained under lockdown measures.

As a result, firms continued to pare back on purchasing activity and reduce inventory levels, with input buying and both pre-

continued...

Comment

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

"The Philippines PMI signalled a softer decline in operating conditions across the manufacturing sector in May. The headline index picked up and was much higher than in April when the lockdown had its greatest impact on production.

"Yet conditions have still not recovered, with restrictions in the capital and other cities broadly the same since April, in part leading to another sharp fall in new order volumes. Only the lifting of measures in rural areas helped to slow the decline. Employment continued to drop amid excess capacity, further hampering demand conditions.

"Price pressures began to inflate in May after marked decreases during March and April. Raw material prices rose slightly as reductions in global supply started to outweigh weaker demand and lead to difficulties in acquiring inputs. Output prices also increased, but firms tried to keep charge inflation low, hoping this would encourage an improvement in sales once demand conditions have returned to normal."

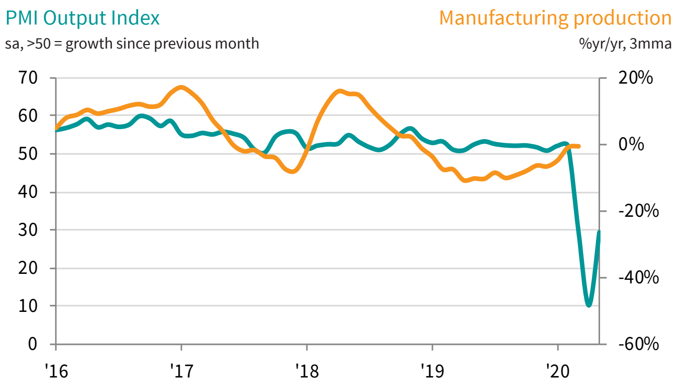
PMI® By IHS Markit

and post-production stocks falling markedly since the start of the second quarter. That said, the drop in inventories of raw materials and semi-finished items eased as some manufacturers raised holdings in anticipation of a nationwide lifting of lockdown measures. Deliveries of input materials were again delayed by travel restrictions and more frequent checkpoints, with lead times increasing substantially and for the tenth month running.

Meanwhile, employment was reduced for the fourth time in five months during May. Businesses largely related the fall to weaker sales and restrictions to output, with many panellists operating with minimal employee numbers. The fall in new orders meant that capacity to complete backlogs remained sufficient, although outstanding work dropped only marginally and at the softest pace in over four years.

On the price front, Filipino goods producers saw the first rise in input costs for three months in May. Inflationary pressures were linked to higher raw material prices, although the rate of increase was only marginal due to lower fuel costs. Firms passed higher costs onto consumers through the first rise in output prices since February. That said, the overall pace of inflation was subdued as firms hoped to attract customers with low prices as demand recovered.

Looking forward, the degree of sentiment regarding output in a year's time continued to improve from March's nadir, as companies were encouraged by a partial easing of lockdown measures and COVID-19 cases being kept under control. Firms hoped that the introduction of new products would also drive activity higher.



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.

May 2020 data were collected 12-21 May 2020.

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

About IHS Markit

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.
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