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

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-

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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 panelists 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.