News Release

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IHS Markit Philippines Manufacturing PMI®

PMI hits 7-month high, but material shortages weigh on growth

Key findings

Output declines marginally in October

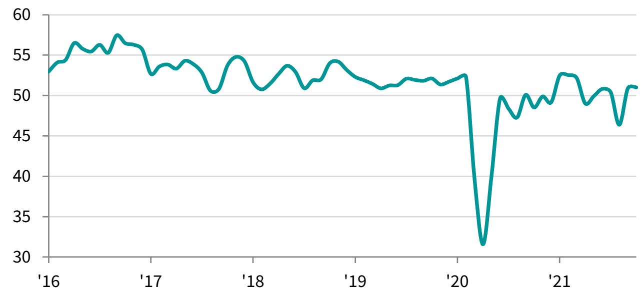
Material shortages prompt advance buying

Input price inflation accelerates to joint-fastest since March 2018

Data were collected 12- 22 October 2021.

Philippines Manufacturing PMI

sa, >50 = improvement since previous month



Source: IHS Markit.

October PMI® data signalled a marginal improvement in manufacturing conditions in the Philippines. The demand environment showed signs of improvement with new orders stabilising after six months of decline, but material shortages hindered production, with output falling for the seventh month in a row. Although business confidence ticked higher, sentiment was below its long-run average suggesting concerns surrounding supply persisted.

Significant supplier delays and material shortages led to the joint-fastest rise in input costs since March 2018. Firms only partially passed on higher input prices to clients, however, with charges rising at only a modest pace.

The IHS Markit Philippines Manufacturing PMI® rose fractionally from 50.9 in September, to 51.0 in October, registering above the 50.0 no-change threshold that separates expansion from contraction. Although only marginal, the latest uptick was the strongest since March, and above the average for 2021 so far.

October data indicated a seventh successive monthly fall in output, with the rate of decline quickening from that seen in September. Firms mentioned that material shortages and virus-related restrictions drove the decline, though historically weak demand conditions were also cited.

At the same time, new order inflows stabilised after six consecutive months of contraction. International demand meanwhile fell modestly in October after stabilising in the previous survey period.

Goods producers continued to register a substantial deterioration in vendor performance. Raw material shortages and poor transportation conditions reportedly led to extensive delays. Lead times have now lengthened in each month since August 2019, with the latest deterioration among the sharpest in the series.

In line with supply-chain disruption, firms increased their input

continued...

Comment

Commenting on the latest survey results, Shreeya Patel, Economist at IHS Markit, said:

"October PMI data signalled a slight pick-up in growth across the Philippines manufacturing sector. Some restrictions continued to ease, and the demand environment showed tentative signs of improvement with new orders stabilising after six months of decline.

"However, the goods producing sector was yet again hit by delivery delays, material shortages and rising costs, which consequently inhibited output growth. Such pressures are likely to persist over the next few months, but a key concern comes from firms only partly able to pass on higher costs given the relatively weak demand environment.

"Nevertheless, after contracting sharply in 2020, the manufacturing sector is expected to grow by 19.1% on the year in 2021. Firms hope that demand conditions in both domestic and international markets improve, with looser restrictions likely to support greater customer demand."

buying for the first time since July amid efforts to secure raw materials. The rate of expansion was only fractional, however. Stocks of purchases, meanwhile, rose during October signalling back-to-back expansions. The increase softened slightly from that seen in September, but was broadly in line with the long-run series average. Firms that raised their pre-production holdings mentioned that current pressures obtaining inputs, rising costs and expectations of greater demand encouraged stockpiling.

Firms continued to scale back on their workforce numbers in October, with staffing levels falling for the twentieth consecutive month. The rate of decline eased from that seen in September, however. Firms mentioned that whilst there were some cost-saving efforts, resignations were mostly voluntary.

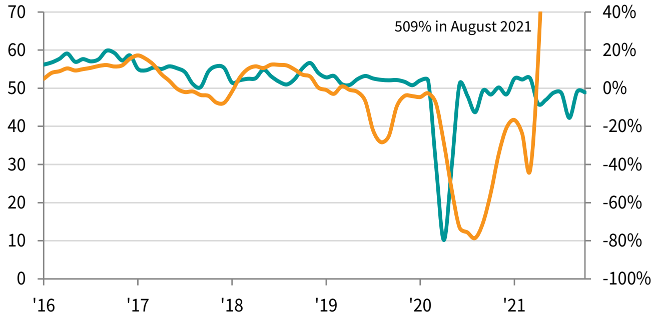
On the price front, input prices soared once again during October. Higher cost burdens were commonly linked to material shortages, especially for metals, packaging materials and oil. There were also reports of rising transportation and energy costs. The rate of cost inflation was the joint-steepest since March 2018, and the fourth most marked in the series history.

Subsequently, output charges increased at a quicker pace, though the rate of inflation was much softer than that seen for input prices. According to anecdotal evidence, some firms held back on raising their charges due to subdued demand conditions.

Finally, business confidence improved to a three-month high at the start of the final quarter of the year. Optimism was underpinned by hopes of greater international and domestic demand in the year ahead. That said, sentiment was below the long-run series average.

Philippines Manufacturing PMI Output Index — Manufacturing production

sa, >50 = growth since previous month — %yr/yr, 3mma



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.

Data were collected 12-22 October 2021.

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

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