

Embargoed until 0830 PHT (0030 UTC) 4 November 2019

IHS Markit Philippines Manufacturing PMI®

Factory gate charges rise at weakest pace in nearly four years

Key findings

Selling charges increase only marginally in October...

... despite solid upturn in new orders

Production expands modestly as employment growth slows

Operating conditions in the Philippines manufacturing sector improved modestly in October, as output and new orders rose at slightly faster rates than in September. Despite this, firms marked up output charges at the slowest pace since January 2016. Employment growth was marginal, while business expectations reached a new survey low.

The IHS Markit Philippines Manufacturing PMI® posted at 52.1 in October, up from 51.8 in September to reach the joint-highest reading observed for nine months (level with July), and signalling a moderate improvement in the health of the goods-producing sector.

Manufacturers maintained a modest rate of production growth, and one that was broadly in line with those seen in August and September. According to surveyed firms, increased new orders were behind the upturn. However, the rate of output expansion was weaker than the trend for the series (which began in January 2016).

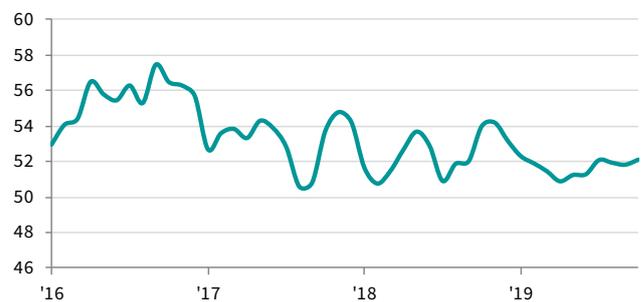
The rate of new order growth improved slightly, with firms reporting a solid increase in demand due to greater client numbers and an improvement in export conditions. In fact, sales to overseas clients rose for the first time in five months, albeit only modestly.

Prices paid for input goods continued to tick up in October, as has been the case throughout the survey history. The latest rise was solid, albeit notably weaker than the series trend. Firms that saw costs increase linked this to higher prices for raw materials, including metals and foodstuff. Reduced input availability was also mentioned as driving overall costs up.

Meanwhile, selling charge inflation ticked down to the softest rate since the first month of data collection in January 2016. While a number of firms raised prices due to greater cost

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:

"Posting at 52.1 in October, the IHS Markit Philippines Manufacturing PMI signalled little change in the rate of improvement in operating conditions from September. Production expanded at a slightly quicker rate, alongside a marginal uptick in the pace of new order growth. On the other hand, employment rose at a slower rate, while stock of purchases grew to the least extent for three months.

"A stand-out from October data was a further fall in the pace of output charge inflation, which reached the weakest since January 2016. Despite a solid rise in cost burdens, many firms looked to keep prices unchanged in order to maintain a strong market environment.

"Business expectations dropped to the lowest in the series history. However, with a good proportion of firms still expecting activity to rise in the year ahead, the overall outlook remained positive."

pressures, most kept them unchanged in order to maintain a solid inflow of new business.

Despite stronger demand growth, there remained a lack of capacity pressure at factories, with firms noting another steep reduction in outstanding business. Moreover, the rate of depletion accelerated to the fastest since last September.

As a result, Filipino firms saw little need to raise workforce numbers during October. Latest data indicated a slight increase in employment from September, albeit at the softest pace for three months.

On the other hand, input buying continued to rise solidly, with higher order book volumes leading manufacturers to purchase greater amounts of raw materials. That said, the rate of expansion dipped slightly to the slowest in six months. Stock levels also increased, though only marginally.

As with recent months, traffic issues hampered suppliers during October. Lead times increased for the third month in a row, and at the fastest rate so far this year.

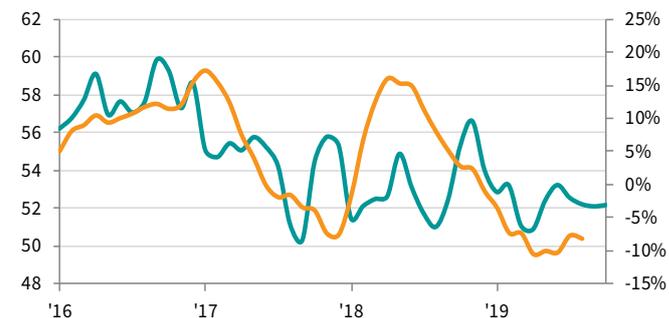
Lastly, the outlook among manufacturing companies in the Philippines weakened further, setting a new record low for the survey. That said, while some firms were downbeat, many panellists remained optimistic toward future output levels due to sales growth, new products and store openings.

PMI Output Index

sa, >50 = growth since previous month

Manufacturing production

%yr/yr, 3mma



Sources: IHS Markit, CSO.

Contact

David Owen
Economist
IHS Markit
T: +44 2070 646 237
david.owen@ihsmarkit.com

Bernard Aw
Principal Economist
IHS Markit
T: +65 6922 4226
bernard.aw@ihsmarkit.com

Joanna Vickers
Corporate Communications
IHS Markit
T: +44-207-260-2234
joanna.vickers@ihsmarkit.com

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.

October 2019 data were collected 11-24 October 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.