News Release
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Nikkei Philippines Manufacturing PMI™

Philippines manufacturing sector expands at noticeably slower rate in January

Key points:

- PMI at lowest on record due to further growth slowdowns in both output and new orders
- Marginal change in employment levels signalled
- Record high rate of cost inflation at start of 2017

Data collected from January 12-23

The Philippines manufacturing economy continued to expand in January but at a noticeably slower rate. Marked slowdowns in output growth and new work inflows were key factors. Slower expansion led to keener cost management amid ongoing inflation. Firms barely added to their staffing levels, partially due to spare capacity, and reduced growth of input buying and inventory accumulation.

Companies also faced higher input costs, prompting them to raise their own prices further. Encouragingly, business expectations for output over the next 12 months remained high.

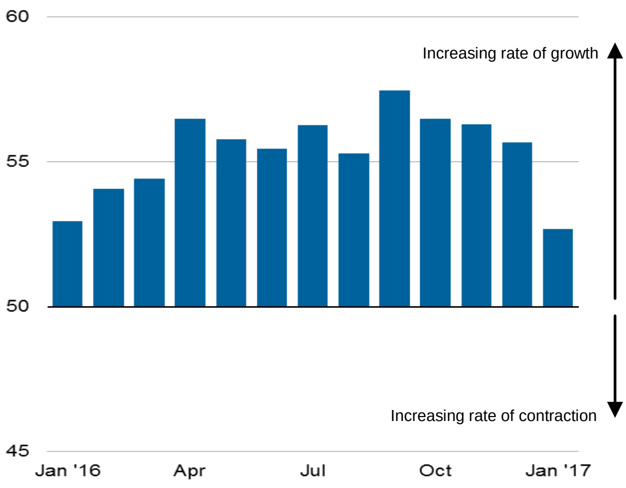
The seasonally adjusted headline Nikkei Philippines *Manufacturing Purchasing Managers' Index (PMI™)* signalled the fourth monthly slowdown in sector growth, registering at 52.7 in January from 55.7 in December.

Dampening the headline index was a further loss of growth momentum in new orders, output, and inventory levels. The latest slowdown in new orders and output was linked in part to price increases restraining demand. Slower growth in order book volumes was not limited to the domestic market as growth in new export orders also decelerated.

January data indicated a slightly more cautious approach to inventory accumulation, with companies recording slower increases in holdings of finished goods and pre-production stocks. This was accompanied by notably reduced growth in acquisitions of raw materials and semi-manufactured goods.

Firms reported slower growth in production requirements and sufficient buffer stocks as reasons for the weakest increase in input buying for 11 months.

Nikkei Philippines Manufacturing PMI



Sources: Nikkei, IHS Markit

In many cases, panellists also cited reduced growth in client orders and higher input costs. Less pressure on the delivery for inputs saw vendor performance improve in January.

Amid reports of a weak exchange rate and higher commodity prices, specifically metals, average cost inflation was the most pronounced on record during January. As was the case since the survey started, where possible, companies passed on higher costs to clients, easing the squeeze on their margins.

The slowdown in production growth also had an impact on staff numbers, as Filipino factories barely increased employment in January (the marginal rise was comfortably the weakest in the survey history).

Survey members also cited the non-replacement of leavers as a reason for limited growth, while spare capacity also weighed on employment numbers. Backlogged work declined again in January, maintaining the trend that has been apparent since March. Moreover, the fall in backlogs was a survey record. That said, manufacturers' confidence remained high in January, with nearly 88% of firms anticipating higher output in the year ahead. Higher demand estimates, alongside production and business expansion plans were among the reasons for optimism.

Comment:

Commenting on the Philippines Manufacturing PMI survey data, **Bernard Aw,** at IHS Markit, which compiles the survey, said**:**

"Filipino manufacturers continued to report a loss of growth momentum in the sector at the start of 2017. The Nikkei Philippines manufacturing PMI for January was the lowest on record, with markedly slower growth in key variables such as output, new business and purchasing activity signalled. Jobs across the sector were subsequently little changed as spare capacity also became increasingly prevalent.

"Furthermore, firms continued to experience sharp cost inflation, aggravated by a weak peso and broadly higher global commodity prices. Although some of the additional cost burdens were passed on to clients, as highlighted by a further increase in output prices, the gap between input cost inflation and charge inflation is widening. If this continues, manufacturers' profitability may be at risk. Already, some companies are delaying input purchases due to higher prices.

"Encouragingly, manufacturers' sentiments for the year ahead remained high, buoyed by expectations of greater demand, expansion plans and improved marketing strategies. This suggests that the current slowdown could be temporary."

-Ends-

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Notes to Editors:

The Nikkei Philippines Manufacturing *PMI*™ is based on data compiled from monthly replies to questionnaires sent to purchasing executives in over 400 industrial companies. The panel is stratified by GDP and company workforce size. The manufacturing sector is divided into the following 8 broad categories: Basic Metals, Chemicals & Plastics, Electrical & Optical, Food & Drink, Mechanical Engineering, Textiles & Clothing, Timber & Paper, Transport.

Survey responses reflect the change, if any, in the current month compared to the previous month based on data collected mid-month. For each of the indicators the 'Report' shows the percentage reporting each response, the net difference between the number of higher/better responses and lower/worse responses, and the 'diffusion' index. This index is the sum of the positive responses plus a half of those responding 'the same'. Diffusion indexes have the properties of leading indicators and are convenient summary measures showing the prevailing direction of change. An index reading above 50 indicates an overall increase in that variable, below 50 an overall decrease.

The Nikkei Philippines Manufacturing *PMI*™ is a composite index based on five of the individual indexes with the following weights: New Orders - 0.3, Output - 0.25, Employment - 0.2, Suppliers' Delivery Times - 0.15, Stock of Items Purchased - 0.1, with the Delivery Times Index inverted so that it moves in a comparable direction.

Markit do not revise underlying survey data after first publication, but seasonal adjustment factors may be revised from time to time as appropriate which will affect the seasonally adjusted data series. Historical data relating to the underlying (unadjusted) numbers, first published seasonally adjusted series and subsequently revised data are available to subscribers from Markit. Please contact economics@markit.com.

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