Nikkei Philippines Manufacturing PMI™

Philippines manufacturing improves further in December

Key points:

- Solid rises in both output and new orders boost headline PMI
- Suppliers' delivery times worsen at survey record rate
- Strong inflationary pressures persist

Data collected from December 5–14

The Philippines manufacturing economy rounded off the year on a strong note, with the headline PMI showing a further improvement in operating conditions in December, buoyed by marked growth in both output and new orders. Employment and input inventories were also up as firms felt more confident about the business outlook.

The upturn was accompanied by further signs of strain on supply chains, in part due to greater demand for manufacturing inputs. Meanwhile, inflationary pressures remained elevated.

The seasonally adjusted **Nikkei Philippines Manufacturing Purchasing Managers' Index (PMI™)** came in at 54.2 in December, down from 54.8 in November, but still signalled a solid improvement in the health of the sector. The latest reading took the average for the fourth quarter to the strongest in 2017.

The headline PMI is a composite index based on five key indicators: new orders, output, employment, suppliers' delivery times and inventories of inputs. As such, it provides a broad indication of the health of the manufacturing sector each month.

While output and new orders both grew at slower rates in December compared to November, growth remained marked and above 2017 averages. Greater client demand was often cited for solid new order book growth, though there were some mentions of pre-emptive purchases in anticipation of further price hikes. In contrast, foreign sales barely increased in December, with survey data showing the weakest expansion in new export orders for four months.

Firms added more workers for a third straight month in December, which helped to keep on top of additional workloads.

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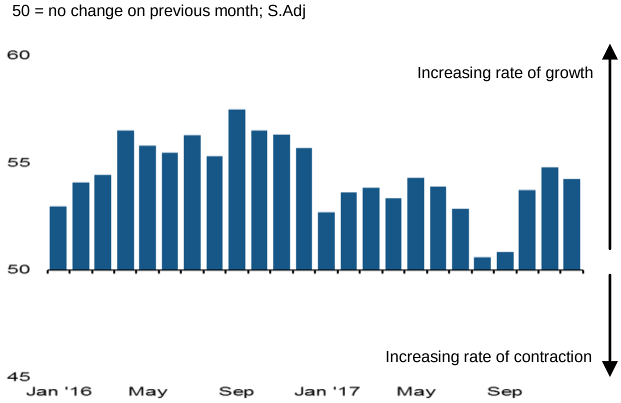

Sources: Nikkei, IHS Markit

Backlogs of work fell again, stretching the current trend of lower work outstanding to 22 months, though the rate of decline was the slowest since October 2016.

High output and increased sales led manufacturers to continue raising input purchases which, in turn, placed more pressure on supply chains. Suppliers struggled to meet delivery deadlines, with December data indicating the steepest deterioration in vendor performance since the survey inception in January 2016.

Greater acquisitions of inputs helped boost inventories. Stocks of purchases rose further at the end of the year, while higher production saw inventories of finished products increase for a third straight month.

On the price front, Filipino manufacturers continued to face strong inflationary pressures. Despite a slower rate of increase in both input costs and output prices, the latest inflation rates remained above their historical averages. A host of factors were blamed for higher costs, including increased raw material prices, a weaker exchange rate, custom tax hikes and supply shortages.

Finally, businesses were more optimistic about the 12-month outlook in December, with the Future Output Index improving to a four-month high.

Comment:

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

"The Philippines manufacturing economy finished the year with its best quarter for 2017, setting the scene for stronger growth as the country moves into next year. Output and new orders maintained marked growth rates in December. Domestic demand stood out as a key driver for manufacturing activity as export growth remained subdued.

"Other survey indicators point towards a strong start to 2018 for the sector. Business expectations about output in the year ahead strengthened to a four-month high while firms increased labour capacity and purchasing activity further during December.

"Meanwhile, the PMI's gauge of input prices, which exhibits a strong relationship with official consumer inflation data, slowed in December, suggesting headline inflation may have peaked and is likely to turn down from its current three-year high. Notably, inflation has been pushed higher by increased oil and food prices as well as a weak exchange rate. As these pressures subside, the likelihood is inflation will remain within the central bank's target of 2-4% in 2018."

-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.

IHS 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 IHS Markit. Please contact economics@markit.com.

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