NIKKEI

PMI™ By IHS Markit

News Release

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Nikkei Philippines Manufacturing PMI™

Manufacturing growth gains pace in May

Key points:

- Faster rises in output, new orders and inventories boost headline PMI
- Purchasing activity increases at stronger pace
- Cost pressures intensify

Data collected from May 12–22

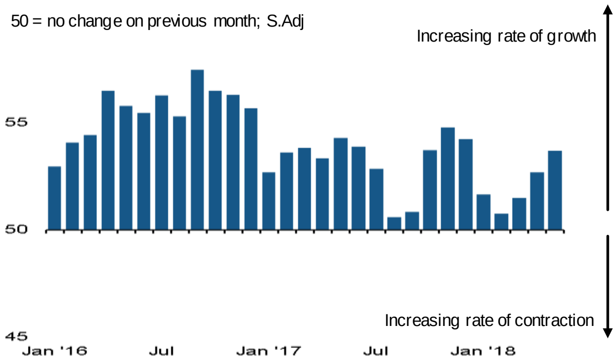
Growth in the Philippines manufacturing economy gained pace in the middle of the second quarter as demand conditions improved further. New business expansion picked up noticeably, encouraging factories to scale up production. Increased demand lifted purchasing activity which, in turn, boosted inventories. However, employment growth remained subdued, which was partially linked to a lack of capacity pressure. Optimism remained elevated. On the price front, cost pressures intensified.

Rising from 52.7 in April to 53.7 in May, the seasonally adjusted **Nikkei Philippines Manufacturing Purchasing Managers' Index (PMI™)** signalled a faster pace of growth for a third straight month. The latest reading was the highest so far this year, marking a solid improvement in the health of the sector.

Survey data showed further signs of improvement in client demand in the wake of the tax reform measures, which were put into effect at the start of the year. New business inflows grew at the fastest rate since November last year, even as export sales growth cooled. The firmer pace of order book expansion supported firms' decisions to ramp up production. Output growth accelerated noticeably from April to reach the highest in five months.

Greater production requirements led firms to step up purchasing activity to ensure a sufficient amount of input materials. The rate of buying reached a six-month high, resulting in stocks of purchases accumulating at a faster pace. Post-production inventories were also up for a third straight month. Suppliers faced difficulties coping with higher demand, as reflected in a further deterioration in vendor performance during May. Survey evidence suggested a lack of raw materials, port congestions and poor traffic conditions contributed to delayed shipments.

Nikkei Philippines Manufacturing PMI



Sources: Nikkei, IHS Markit

However, stronger demand conditions failed to stretch operating capacity. On the contrary, May data indicated a further drop in the level of unfinished work, stretching the trend of falling backlogs to well over two years. The persistent lack of capacity pressure imposed no urgency on firms to boost hiring even as sales increase. Employment growth remained marginal in May. Furthermore, there were some reports of layoffs due to cost-saving measures.

Input cost inflation intensified midway through the second quarter as a combination of factors, including supply shortages, a weaker peso, higher global commodity prices, and tax reforms, led to inflation. As a result, firms raised selling prices again, with the rate of increase remaining solid, reflecting efforts to pass on higher costs to their customers.

Finally, business confidence remained elevated and improved during May. The Future Output Index rose from the previous month to the joint-highest so far this year. The majority of firms remained confident that product launches, new outlets, higher sales forecasts, promotional activity and increased productivity will drive output growth in the year over the coming 12 months.

Comment:

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

"The upturn in the Filipino manufacturing sector gained further momentum in the middle of the second quarter, lifted by strengthening demand conditions. The adverse impact caused by the new tax reforms has clearly subsided.

"However, input cost inflation intensified in May, but some of the upward pressures are driven by a weaker exchange rate, global commodity shortages and higher oil prices, not just from new excise taxes. Brent crude prices gained nearly 7% in May while the peso has depreciated over 4% so far this year.

"Survey data suggest that consumer inflation could remain above 4% in May, which will raise expectations for another rate hike in June, following one in May. Bangko Sentral ng Philipinas (BSP) said recently that it's prepared to do more if inflation continues to be above its target range of 2–4%.

"Another area of concern is the increasing pressure on Filipino manufacturers' profit margins. PMI data showed firms raising selling prices at a slower rate in May amid rising costs, suggesting that companies may have a threshold of the extent to which their customers can bear higher prices without affecting demand. The good news is that improving demand conditions permitted firms to share some of the higher costs with their customers. Survey indicators point to increasing economic activity in the coming months."

-Ends-

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In 2013, we kicked off the Nikkei Asian Review, an English-language news service provided both online and as a weekly print magazine. The following year, we established an Editorial Headquarters for Asia in Bangkok to deepen our coverage of Asian economic news. In addition, we doubled the number of reporters stationed in Asia outside Japan. 2014 also saw the launch of Nikkei Group Asia Pte., a new company in Singapore tasked with spreading the Nikkei brand in the region. Our goal is to make Nikkei the leading media voice in Asia.

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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@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 https://ihsmarkit.com/products/pmi.html.