News Release

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Nikkei Philippines Manufacturing PMI™

PMI signals another strong expansion in June

Key points:

- Growth in output and orders slow but remain solid
- Export growth strengthens
- Inflationary pressures ease further

Data collected from June 12-23

The Philippines manufacturing sector signalled another strong expansion in June, ending the second quarter on a positive note. Growth in output and new orders remained key drivers, which in turn boosted hiring and stock-building. Export growth strengthened and business optimism remained elevated. However, backlogs fell further and delivery times improved despite robust client demand. There were signs of a further easing of inflationary pressures.

The seasonally adjusted Nikkei Philippines **Manufacturing *Purchasing Managers' Index (PMI™)*** came in at 53.9 in June, down from 54.3 in May but still signalled another strong improvement in the sector. The latest reading was the second highest so far this year.

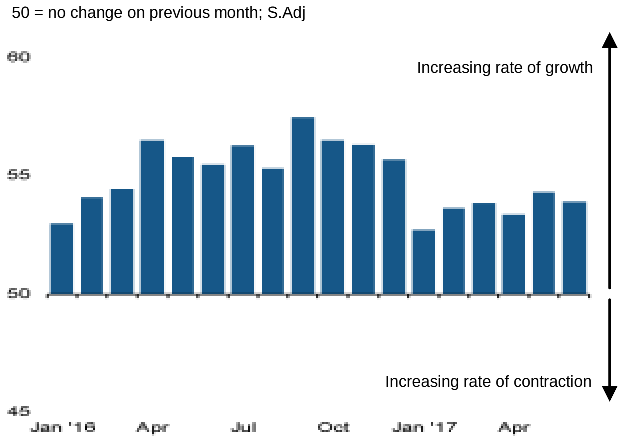
Buoyant client demand was seen again at the end of the second quarter. Growth in new business inflows was again strong, although slower than May's three-month high. Companies revealed that promotional activity and outlet expansions were primary factors for higher sales. Foreign demand picked up, with growth in export order volumes accelerating to a three-month high.

Production kept pace with the solid upturn in order book growth, with June data showing another robust rise in output.

Greater operational demands and higher sales encouraged manufacturers to continue hiring, according to anecdotal evidence. Employment was increased further in June and at the second-fastest rate so far this year.

Additional headcounts helped firms to cope with increased sales and production. More over-time work and improved workflows also contributed. Backlogs fell at the steepest rate in the current trend of decline, which stretches to 16 months.

Nikkei Philippines Manufacturing PMI



Sources: Nikkei, IHS Markit

Higher production levels led Filipino factories to step up their purchasing activity. Buying levels rose at a similar pace to May's five-month high. In some cases, shrinking supplies for raw materials prompted firms to stock up to avoid potential shortages. Yet a strong appetite for inputs did not lead to strained supply chains. Instead the survey indicated an improvement in vendor performance for the sixth month running. Regular communications with vendors were key to timely delivery, according to panellists, alongside being close to multiple suppliers' locations.

In line with higher purchasing activity, inventories were built further in June. However, the rate of accumulation for stocks of inputs and finished goods continued to run below that of purchases, reflecting greater use from production and meeting new sales.

On the price front, cost inflation eased further since February's record high, reaching the weakest in eight months. That took some pressure off companies to raise selling prices; average charges for Filipino goods rose at the second-slowest rate in the survey history.

Nevertheless, input cost inflation remained strong. Anecdotal evidence suggested that higher prices for raw materials, peso depreciation and increased import costs were primary factors.

Comment:

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

"The Philippines manufacturing sector rounded off the second quarter on a strong note, with a solid performance in June. That put the domestic economy on track for another quarter of robust GDP growth. Driving the upturn was again expansions in output and new business.

"While the domestic market remained the key pillar of manufacturing growth, there were signs that external demand is contributing more to the expansion. Export order growth strengthened to a three-month high.

"The strong manufacturing upturn was matched with rising cost pressures but there were signs of further easing of the inflation rate. Slower cost increases took some pressure off the need for companies to raise selling prices. That led to the weakest increase in average charges for Filipino products since last January. Nonetheless, firms highlighted that recent peso depreciation and higher costs for raw materials such as copper and iron remained an issue.

"Overall, the outlook for the manufacturing sector remains optimistic into the third quarter, underpinned by buoyant business confidence and strong sales volumes. That will augur well for the Philippines economy and its labour market."

-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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