

Nikkei Philippines Manufacturing PMI™

Philippines manufacturing growth remains subdued in September

Key points:

- Order book growth remains modest while output expansion slows further
- Employment continues to shrink
- Cost pressures intensify

Data collected from September 11–22

Subdued growth of the Philippines manufacturing economy persisted at the end of the third quarter, as output expansion slowed further. Order book gains continued to underwhelm relative to the historical trend, even as exports returned to growth, which weighed on hiring.

However, elevated business optimism encouraged firms to step up purchasing activity in anticipation of higher sales, which led to a further rise in input stocks. Meanwhile, cost pressures rose noticeably, prompting further price hikes from firms seeking to protect their margins.

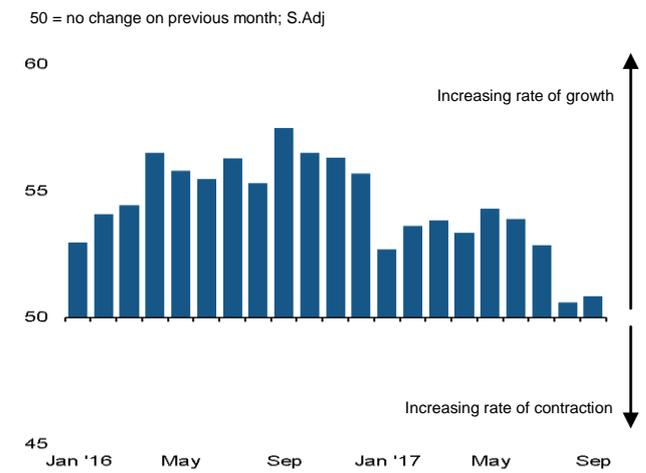
The seasonally adjusted **Nikkei Philippines Manufacturing Purchasing Managers' Index (PMI™)** stood at 50.8 in September, slightly up from 50.6 (a record low) in August, signalling only a marginal improvement in the health of the sector. The latest reading was the second weakest in the survey history

September data showed that output volumes rose at the weakest rate since the survey started in January 2016 amid a modest sales trend. However, firms revealed that reduced overtime work and input shortages also contributed to the subdued expansion. There were also reports that rising costs for raw materials affected production plans.

Although order book volumes grew at a rate close to August, the degree of increase remained well below the historical average despite renewed growth in overseas orders.

Slowing order book growth enabled firms to work through their backlogs, where the level of incomplete work fell for a nineteenth month running. Firms also attributed equipment upgrades and improved systems for the drop. The ongoing lack of capacity constraints encouraged firms to use existing labour resources for production.

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Sources: Nikkei, IHS Markit

Employment shrank for a second straight month although the rate of contraction softened from August.

While business confidence slipped in September, it remained elevated. Survey data indicated that a majority of surveyed companies still expect output to rise in the next 12 months on the back of new product launches, an improving economic climate, marketing activity and business expansions. That optimism, in turn, led firms to step up input buying at the end of the third quarter. Purchasing activity rose noticeably faster compared to the previous month, which contributed to a larger build in pre-production inventories. However, stocks of finished goods remained broadly stagnant.

Facing increased acquisitions of raw materials and semi-finished goods, vendor performance worsened for the first time so far this year. There was evidence that customs logjams, bad traffic conditions and inclement weather also contributed to longer delivery times.

Input cost inflation rose sharply in September, reaching a five-month high. There was a combination of reasons for the inflation: peso depreciation, and supply shortages for raw materials. The impact of bad weather on

manufacturing supply chains was also evident, leading to higher vendor prices.

In response to rising costs, firms upped their charges to pass on increased overheads to consumers.

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 ended the third quarter on a weak note, with the PMI signalling a second consecutive month of subdued growth. The survey data pointed to further slowing in output growth and a modest sales trend while employment shrank again as firms indicated sufficient manpower to meet production demands.

“Despite the decrease in payroll numbers, capacity continues to be in abundance, which would weigh on hiring in the near future.

“The weak peso continued to pose a problem for manufacturers. Not only did the cheaper currency fail to provide a boost to exports, it raised the costs of imports. Coupled with supply shortages due to bad weather, costs for manufacturing inputs, especially in industrial metal and paper, increased further. There were also reports of rising cost inflation affecting production levels.

“However, optimism regarding output remained high, encouraging firms to increase purchases of inputs.”

-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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