

# Nikkei Philippines Manufacturing PMI™

## Philippines manufacturing growth gains pace in March

### Key points:

- Faster rises in both output and new orders
- Exports return to growth
- Both input and selling prices rise at survey record rates

### Data collected from March 12–22

Growth in the Philippines manufacturing sector accelerated into the end of the first quarter. Faster rises in output and new business boosted the headline PMI, while a slower fall in employment was seen. The stronger upturn saw business expectations improve, with optimism at an eight-month high. This encouraged firms to scale up purchasing activity and build-up inventories.

Effects of the recent changes to excise taxes continued to be felt on the price front. Inflation of both input costs and output prices reached new survey-record rates.

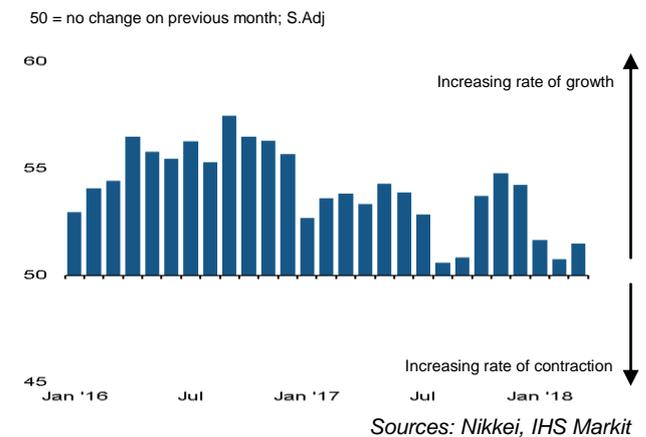
The seasonally adjusted **Nikkei Philippines Manufacturing Purchasing Managers' Index (PMI™)** rose from 50.8 in February to 51.5 in March, signalling a further improvement in the health of the sector.

Despite the rise in the index during March, the average PMI reading for the first three months of 2018 was the lowest since the survey's inception on January 2016. The headline PMI is a composite index designed to provide a quick snapshot of the health of the manufacturing sector each month.

Survey data showed signs of a further strengthening of client demand. Inflows of new business picked up to the greatest in three months, buoyed by rising exports. Overseas sales returned to growth in March following two months of decline. Firmer sales prompted Filipino factories to scale up production. Output growth reached a three-month high.

Increased demand failed to stretch firms' operating capacity. On the contrary, the level of unfinished work fell further as anecdotal evidence revealed that manufacturers increased over-time work and raised production efficiency.

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The ongoing presence of spare capacity weighed on hiring. Lower employment was reported again in March, though the pace of decrease was slower than February. While voluntary leavers were cited as the main reason, some firms mentioned cost-cutting measures and efforts to bolster productivity.

New excise taxes (effective from January) continued to push up inflationary pressures during March. The rate of increase in both input costs and selling prices climbed to the highest in the survey history. Increased global prices for raw materials, in particular steel, chemicals, paper and sugar, as well as a weaker exchange rate also contributed to inflation.

Meanwhile, business expectations remained elevated, with optimism improving to the best since July last year. Firms on balance anticipated higher output in the 12 months ahead, citing reasons such as new product launches, promotional activity, new marketing strategies, improved access to manufacturing inputs, planned business expansions and increased capital investments.

Higher confidence encouraged companies to scale up input buying and accumulate more stocks. Purchasing activity growth was the highest for four months, contributing to a faster rise in stocks of purchases. Finished goods inventories returned to growth, having seen depletions in the previous two months.

## Comment:

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

*“Philippines manufacturing growth is on course for its weakest quarterly gains in the survey history, according to the Nikkei PMI data. However, the rise in the headline index points to signs that the adverse impact on demand from the new excise taxes could be fading.”*

*“Other survey indicators also suggest a brightening outlook. Order book growth hit a three-month high, supported by revived export growth. Not only did export sales return to expansion, the rate of growth was the fastest since the end of 2016. The upturn triggered firms to step up purchasing activity and build-up stocks. Optimism also improved to an eight-month high.”*

*“One area of concern is the extent to which sharp cost increases will feed through to consumer prices which, in turn, would affect future monetary policy. Input cost inflation reached a new survey-record high during March, matched by a sharp rise in selling prices as companies scrambled to protect their margins.”*

*“The recent implementation of the new excise tax was cited as a key reason for higher prices, especially in gasoline. Retail pump prices for RON95 have risen nearly 9% since the start of the year, according to the Philippines’ department of energy. According to official statistics, consumer price inflation, at 3.9% in February, hit the highest in almost three-and-a-half years. Rising inflation will add to calls for the Bangko Sentral ng Pilipinas (BSP) to raise interest rates.”*

-Ends-

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**Notes to Editors:**

The Nikkei Philippines Manufacturing *PMI*<sup>™</sup> 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*<sup>™</sup> 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](mailto:economics@ihsmarkit.com).

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