

Nikkei Philippines Manufacturing PMI™

Philippines manufacturing growth picks up in October

Key points:

- Faster rises in new orders and output lift headline PMI
- Employment increases for first time in three months
- Peso weakness pushes input costs and subsequently charges higher

Data collected from October 11–24

The Philippines manufacturing economy showed greater signs of activity at the start of the fourth quarter, expanding at a solid pace in October. Growth in both output and new orders picked up noticeably, prompting firms to step up input purchases and hiring.

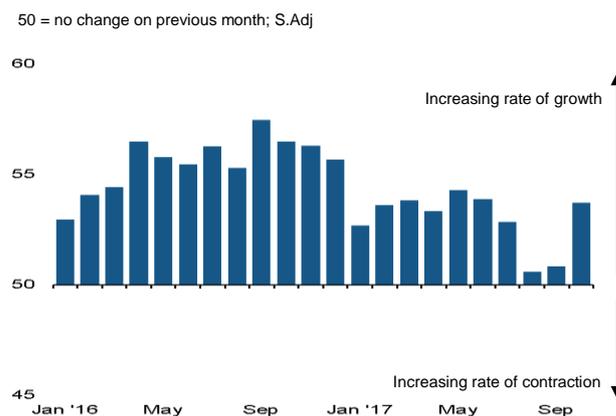
Anticipating greater demand, companies also built up stocks of inputs and finished goods, while increased staff numbers helped them keep on top of workloads. Strengthening client demand was accompanied by growing inflationary pressures while business confidence remained upbeat.

The seasonally adjusted Nikkei Philippines **Manufacturing Purchasing Managers' Index (PMI™)** rose to 53.7 in October from 50.8 in September, signalling a marked pick-up in the pace of improvement in operating conditions. The latest reading was also well above the third quarter average.

Signs of strengthening demand emerged in October. Order book growth accelerated to a five-month high, following a trend of slower expansions. Export sales growth remained moderate, leaving domestic demand as the key source of growth. Matching the pick-up in new business, firms raised production volumes at the fastest rate since June. Anecdotal evidence suggested that the availability of more capital equipment also boosted capacity.

Higher demand failed to pressure operating capacity. On the contrary, backlogs of work continued to fall, stretching the sequence of declines to 20 months. In addition to improved efficiency, additional manpower allowed firms to keep ahead of increased orders. Higher employment was reported for the first time in three months.

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Sources: Nikkei, IHS Markit

Anticipating increases in product demand, firms bolstered inventories by stepping up buying activity. Acquisitions of inputs rose at the quickest pace so far this year. While both pre-production and post-production stocks were up, the rates of accumulation were below that of purchasing activity. This reflected greater production usage and order fulfillments.

Despite greater demand for inputs, there was a lack of supply chain pressure. Delivery times remained unchanged from the previous month during October. However, some firms reported delivery delays due to port congestions, transport worker strikes and poor traffic conditions. On the price front, the depreciation of the peso was a primary driver of inflationary pressures. Cost increases were sharp, rising at the fastest rate since March as imported materials, such as paper, fuel and industrial metals, became more expensive. To protect their margins, firms hiked selling prices to the greatest extent in the survey history.

Business confidence remained elevated even as optimism slipped to the lowest since the survey started in January 2016. Some firms expressed concerns about a shortage in raw materials. Nonetheless, reasons for optimism included capital investments, higher sales forecasts, marketing activity, new models and planned business expansions.

Comment:

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

“After two months of marginal growth, there was a flurry of activity in the Philippines manufacturing sector at the start of the fourth quarter. Demand for Filipino manufactured goods strengthened noticeably, with order book growth picking up to a five-month high. Greater demand lifted production volumes, which in turn prompted firms to hire more workers.

“Further weakening of the peso poses a problem for manufacturers, especially those that rely on imported inputs for production. Input cost inflation picked up sharply, which led firms to raise prices in order to preserve profit margins. Charges for Filipino goods increased at the fastest rate on record. This signals that inflationary pressures are building in the Philippines, suggesting that consumer inflation may trend above BSP’s inflation expectations. That will compel the central bank to consider tightening monetary policy as early as this year.”

-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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