News Release

EMBARGOED UNTIL: 08:30 (Manila) / 00:30 (UTC) May 2nd 2018

Nikkei Philippines Manufacturing PMI™

Solid start to second quarter for Philippines manufacturing sector

Key points:

- Faster rises in both output and new orders
- Employment returns to growth
- Inflationary pressures remain elevated

Data collected from April 12–23

The recent upturn of the Philippines manufacturing sector was lifted by strengthening demand conditions at the start of the second quarter. Order book growth accelerated noticeably to a four-month high, which was accompanied by faster output expansion. As a result, Filipino goods producers raised employment levels and scaled up purchasing activity. Inventories also increased, though supply chains came under pressure. Optimism remained high, as did inflationary pressures.

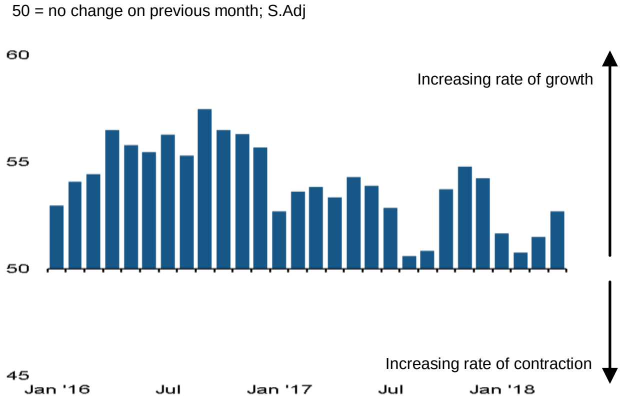
The seasonally adjusted **Nikkei Philippines Manufacturing Purchasing Managers' Index (PMI™)** rose from 51.5 in March to 52.7 in April. The latest reading was the highest for the year so far, signalling a robust improvement in the health of the sector. The headline PMI is a composite index designed to provide a snapshot of the health of the manufacturing sector each month.

Underlying client demand reportedly improved noticeably in April, with new business intakes rising at the fastest pace since December last year and solid overall. Increased sales were not limited to domestic sources, but from abroad as well. New export orders rose for a second straight month, and at the strongest rate in 16 months since the end of 2016.

Greater demand was matched by a further rise in production. Output expansion picked up from March to the fastest for four months.

These positive developments prompted Filipino manufacturers to boost hiring. Job creation was reported after two months of lower employment. The rise in production and job gains helped firms to work through their backlogs. The level of unfinished business continued to fall. While the rate of decline was slower than the previous month, it remained marked.

Nikkei Philippines Manufacturing PMI



Sources: Nikkei, IHS Markit

Firms purchased greater quantities of inputs in April, which contributed to a further rise in inventories. While easing from March, the rate of buying remained solid. At the same time, greater appetite for manufacturing inputs placed pressure on suppliers' capacity. Delivery delays were reported for the first time in three months. Survey evidence suggested that shortages in certain raw materials such as paper and plastics were responsible.

Due largely to higher prices paid for fuel, industrial metal, sugar and paper, average cost burdens rose. A weaker exchange rate and the lingering impact of new excise taxes also pushed input prices higher. As a consequence, the rate of inflation remained sharp and well above its historical average, though slower than the survey-record pace in March. In response, firms passed on higher costs to their clients by again raising selling prices. The pace of charge inflation was the second-fastest in the survey history.

Meanwhile, the gauge for future expectations slipped to a historic low in April, but the majority of firms remained confident that new product designs, a solid economic climate, planned business expansions and a wider product range will drive output growth 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 Philippines manufacturing sector started the second quarter on a robust note with growth in both output and new orders strengthening. First quarter manufacturing expansion was affected by the January rollout of the new excise taxes, but April data suggests that demand has since adjusted to these higher levies.

"However, higher excise taxes continued to be felt through the pricing mechanism. While easing from the survey-record rate in March, input cost inflation remained elevated, not least because of a weak exchange rate, supply shortages and suppliers' price hikes. In most cases, firms were able to pass on some of the higher costs to their customers, but the pressure on profit margins remains marked.

"Overall, it's clear that underlying demand has improved, partly supported by stronger export sales. With companies' optimism remaining high, despite the dip in April, it looks likely that growth may well accelerate further in coming months."

-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@ihsmarkit.com.

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