

Nikkei Philippines Manufacturing PMI™

Manufacturing sector picks up growth in February

Key points:

- Growth in new orders and employment underpin PMI
- High business optimism sees manufacturers raise inventory levels
- Firms hike prices at record pace on the back of surging input costs

Data collected from February 10-21

After a marked slowdown at the start of 2017, the Philippines manufacturing sector gathered momentum in February. A further deceleration in output growth was offset by faster expansions in new orders, employment and stocks of purchases. Greater client demand and high business optimism saw Filipino factories continue to build stocks. However, surging input costs led firms to raise selling prices at a survey record pace.

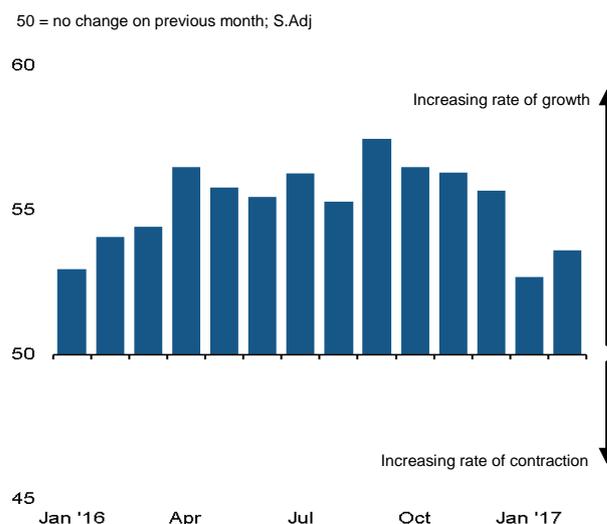
At 53.6, the seasonally adjusted **Nikkei Philippines Manufacturing Purchasing Managers' Index (PMI™)** was up from 52.7 in January, and signalled another solid improvement in the health of the sector. The latest reading also marked the end of a four-month slowdown in growth.

Driving the pickup in overall growth was total new orders, which increased at a faster pace from the previous month. Although export orders continued to grow, there was a loss of growth momentum for the third successive month. The lack of certain raw materials was reported to have dampened overseas sales, and also affected production schedules.

Output volumes expanded further in February but at a slower pace for the second month running. Nonetheless, the growth rate remained solid, underpinned by greater new orders, increased new customers and the need to restock.

Robust client demand helped maintain high business confidence for output in the next 12 months. Coupled with greater pressure for production capacity, Philippines manufacturing firms took on more workers again. Higher employment has now been reported in each month since the survey started in January 2016.

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Sources: Nikkei, IHS Markit

The combination of more manpower and improved production efficiency helped firms to work through their backlogs, where a depletion in outstanding business was recorded for the twelfth consecutive month during February.

At the same time, vendor performance improved for the second straight month despite higher demand. This was because of improved coordination and the appointment of more efficient suppliers.

In line with strong business optimism and larger inflows of new work, Filipino manufacturing companies maintained expansionary inventory policies. Purchasing activity increased at a faster pace from the previous month, albeit at one below the survey average.

Matching the rise in input buying, pre-production inventory levels rose again, with a slight pickup in the rate of growth, as firms sought to build buffer stocks and avoid delays in delivery. The stock level of finished goods also increased from January, at a time when new orders growth outpaced output expansion.

Meanwhile, average cost burdens surged as a further depreciation in the peso lifted prices of imported inputs. Cost inflation reached its highest since the survey inception. There was evidence of

higher prices for imported raw materials, such as metal and oil. This resulted in companies raising factory gate prices to the greatest extent in the series history.

Comment:

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

“The Philippines manufacturing industry gathered growth momentum in February, underpinned by domestic demand, after a marked slowdown at the start of the year. Stronger expansions in new orders and labour workforces were the key drivers for the upturn, along with a further increase in inventories. Moreover, the latest PMI reading marked the end of a four-month slowdown in manufacturing growth.

“However, there was a further loss of momentum in output, though production continued to expand. Some firms revealed that a lack of certain raw materials disrupted production schedules while others pointed towards higher costs for production cuts.

“Because of further depreciations of the peso and higher prices for globally-traded raw materials, imported inputs became more expensive, which influenced the behaviour of Filipino manufacturers. Input cost inflation surged to a record high during February, which led to firms increasing their selling prices and passing some of this inflation on to clients.

“Despite facing shortages for certain commodities and a weakening local currency, business confidence in the Philippines manufacturing economy remained elevated. Strong market demand, new product launches, and planned capital investments were key reasons cited by survey participants for the optimism. Continued strong expansions in investments, particularly in public infrastructure spending, should support the domestic manufacturing sector.

“That said, increasing cost pressures may affect corporate profit margins, and spill over to consumer prices. This will strengthen the case for Bangko Sentral ng Pilipinas (BSP) to tighten interest rates.”

-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.

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 Markit. Please contact economics@markit.com.

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