Nikkei Philippines Manufacturing PMI™

Manufacturing PMI signals solid expansion in April

Key points:

- Slower growth in output, new orders and employment
- Export sales increase at lowest rate in 14 months
- Elevated cost inflation pushes firms to raise prices again

Data collected from April 11-24

The Philippines manufacturing sector recorded an expansion at the start of the second quarter, underpinned by growth in both output and new orders. Increased client demand and business optimism prompted firms to raise employment levels and purchasing activity, although greater production usage continued to lead to a more modest rise in inventories.

Supplier capacity remained sufficient to handle greater demand. On the price front, cost inflation remained elevated, which led to another marked rise in factory gate prices.

At 53.3 in April, down from 53.8 in March, the seasonally adjusted **Nikkei Philippines Manufacturing Purchasing Managers' Index (PMI™)** signalled another solid improvement in the health of the sector.

Total order book growth slowed from March, but the rate of expansion remained robust, reflective of strong client demand. Anecdotal evidence indicated that solid economic growth and increased construction activities contributed to higher new business volumes. Overseas demand for Filipino products grew at the slowest in 14 months, suggesting that the domestic market remained the main engine for manufacturing growth.

Strong inflows of new business continued to support output growth. Production increased at a rate close to March's three-month high. In some cases, new product launches were cited as the key reason for greater output.

Despite a strong new order pipeline and busier production schedules, the level of incomplete work continued to fall. Backlog depletion was recorded for a fourteenth straight month, in part supported by a further rise in employment levels.

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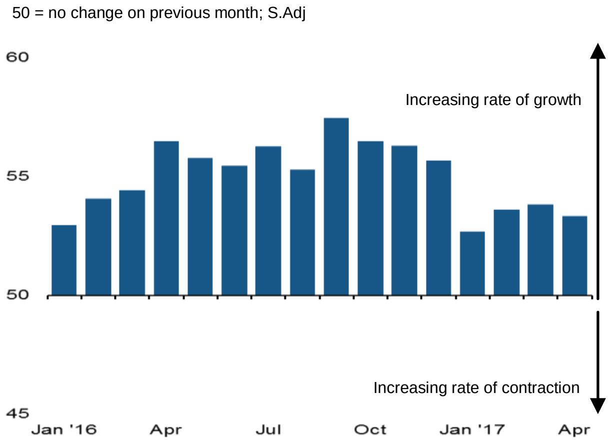

ources: Nikkei, IHS Markit

Improved production workflows and penalties for delayed deliveries were also highlighted by panel members as key factors. Greater operational requirements saw Filipino factories increase staff numbers in April, albeit at a slower rate.

Expectations of greater future demand and restocking needs led to higher purchasing activity, although the accumulation rate for inputs grew by a lesser extent compared to March.

Meanwhile, higher production usage and orders led to another modest build in inventories. Expansion in pre-production stock levels increased at a slightly faster pace since March but remained weak. Inventories of finished products barely increased in April, with the pace of growth the slowest in the current trend of expansions.

Increased demand did not strain supplier capacity. On the contrary, vendor performance improved for the fourth straight month. This was largely due to better management of suppliers and penalties for late deliveries.

On the price front, even though there was some easing of inflationary pressures, cost increases persisted at an elevated rate. PMI data suggested that a weak exchange rate and higher raw material prices remained key drivers of inflation. Prices for manufactured goods rose in tandem with greater costs as firms sought to protect margins.

Comment:

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

"Nikkei Philippines PMI data suggests the solid manufacturing upturn seen in the first quarter was sustained into the second quarter, underpinned by domestic demand. There were further signs that growth momentum will be sustained for the rest of the quarter, as forward-looking indicators such as new orders and expectations continued to show robust trends.

"The domestic market continued to be the key driver of manufacturing growth, with foreign demand for Filipino manufactures rising only modestly despite depreciation of the peso. However, the weaker local currency led to costlier imported inputs. Cost inflation remained elevated, which prompted firms to raise charges to protect their margins.

"Despite an ongoing increase in demand, there seems to be no risk of an overheating manufacturing sector. Filipino factories continued to hire more workers and supply chains remained clear. As such, PMI data signalled another drop in backlogs."

"Reports of increased construction activity alongside greater public infrastructure spending are expected to support the manufacturing industry in the 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.

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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