

Nikkei Philippines Manufacturing PMI™

PMI signals a slowdown at start of third quarter

Key points:

- Growth in output orders, and employment slow...
- ... but optimism remains high
- Inflationary pressures pick up

Data collected from July 11-24

The Philippines manufacturing economy lost some momentum at the start of the third quarter. While still solid, growth rates in both output and new orders were slower than June. That led to hiring and input stocks growing at a more gradual pace. Export growth also weakened. However, business confidence remained buoyant, while inflationary pressures picked up.

The seasonally adjusted **Nikkei Philippines Manufacturing Purchasing Managers' Index (PMI™)** came in at 52.8 in July, down from 53.9 in June. While the latest reading was the lowest since January, it still indicated a robust improvement in the health of the sector.

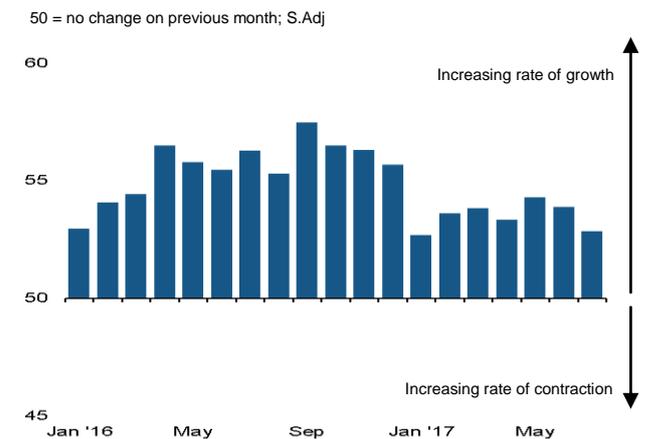
There were signs of softening demand in July. Although growth in new business inflows increased at a solid rate, the latest reading showed a noticeable slowing from June and was well below the historical survey average. Anecdotal evidence suggested that marketing activity and new models underpinned the upturn, alongside higher demand for products such as electronics. However, the martial law imposed on Mindanao (southern Philippines) had affected sales, according to surveyed firms.

There was a pullback in overseas demand from June, with new export orders rising at the weakest pace since last February.

The slower increase in new sales was matched by a similar trend in production — output growth eased to the weakest in the survey's history. Anecdotal data provided some reasons: loss of productivity, and late delivery of supplies.

Weaker gains in production requirements had an impact on hiring: employment growth was slower in July, following two months of solid increase.

Nikkei Philippines Manufacturing PMI



Sources: Nikkei, IHS Markit

Sustained growth in new business did not test manufacturers' capacity. On the contrary, backlogs fell further, reaching the fastest rate of contraction in the current sequence. Panel respondents pointed to a larger workforce, improved production process and over-time work, as reasons for the decrease.

Higher production levels led firms to increase their purchasing activity. However, the rate of buying decelerated from June, reaching the lowest since January. In some cases, efforts to maintain a lean inventory policy encouraged firms to reduce input purchases. The strong appetite for manufacturing inputs remained well within the capacity of suppliers. The survey showed another improvement in vendor performance, driven by more effective logistics and better traffic conditions.

Meanwhile, the build in input inventories was relatively mild compared to the increase seen in buying activity, reflecting greater production usage and the need to meet orders.

On the price front, input cost inflation picked up from June after several months of easing from February's record high. That added pressure on companies to raise prices to protect their margins. Firms mentioned that a depreciation in the peso led to higher prices for imported goods. This in turn saw suppliers and manufacturers alike raising their charges.

Comment:

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

“The Philippines manufacturing economy started the third quarter on a softer note but the slowdown is likely to be short-lived. PMI survey data showed that while growth in output and new orders remained solid, both slowed from June. However, business optimism remained elevated, suggesting that companies expect the pullback in business activity to be transient.

“Furthermore, Filipino manufacturers continued to boost hiring. Survey data revealed that companies arranged employees to work over-time to meet new orders and prevent an accumulation of backlogs. That suggested a sustained demand in the labour market, boding well for further employment growth.

“However, there were concerns as to the situation in southern Philippines, where martial law in Mindanao has been extended by the government until the end of the year. Surveyed firms mentioned that the Mindanao crisis had affected sales. Nonetheless, the outlook for the manufacturing sector remains optimistic, driven by buoyant business confidence and strong sales volumes.”

-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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