Nikkei Philippines Manufacturing PMI™

PMI signals a further growth slowdown in August

Key points:

- Marked easing in growth of both output and orders
- Employment and exports fall
- Inflationary pressures intensify

Data collected from August 10-23

After a subdued start to the third quarter, the Philippines manufacturing economy lost further momentum in August. Growth rates in both output and new orders slowed noticeably from July and weighed on the PMI. That led to a fall in employment levels. On the price front, peso depreciation stoked further inflationary pressures. Encouragingly, business optimism remained elevated.

The seasonally adjusted **Nikkei Philippines Manufacturing Purchasing Managers' Index (PMI™)** came in at 50.6 in August — the weakest reading in the survey history — down from 52.8 in July. The latest reading signalled only a marginal improvement in the health of the sector, contrasting with the solid growth seen in the first half of the year.

Signs of a softening in demand through the third quarter continued to emerge. There was a considerable slowdown in order book growth to a level well below the historical survey average.

The weakening was not limited to domestic markets: a fall in export sales was also responsible for the slower sales trend. The decline in new export orders was only the second in the 20-month survey history — and ended an 18-month expansion run. Firms noted that shortages of raw materials led them to turn away some overseas orders.

Manufacturing production increased further during August but at a noticeably slower rate (the weakest on record). Anecdotal evidence indicated that a lack of raw materials disrupted production schedules.

August's data indicated an ongoing lack of pressure on capacity despite lower employment; backlogs of work declined for an eighteenth month, although the rate of contraction was slower than July.

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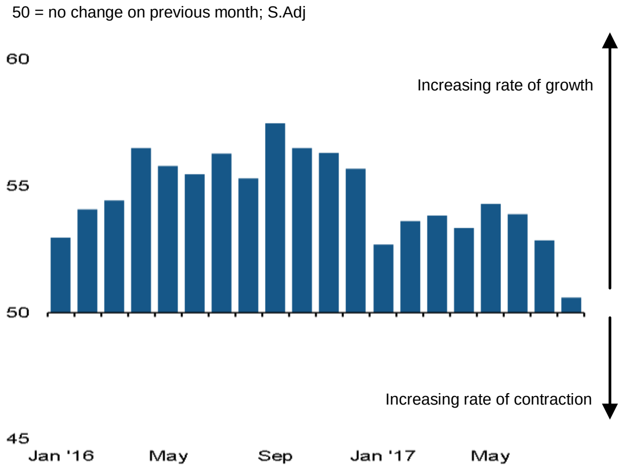

Sources: Nikkei, IHS Markit

A weakening sales trend was reported to have enabled firms to work through their unfinished work, and also highlighted as a reason for why purchasing activity growth continued to ease. Softer near-term prospects led to a smaller build in inventories for inputs and a dip in post-production stocks.

However, longer-term expectations remained more positive. The majority of survey members continued to anticipate a rise in output in the year ahead, with the optimism linked to higher sales forecasts, increased production capacity, and planned expansions.

Meanwhile, cost pressures remained marked, with a weak exchange rate leading to greater prices for imported raw materials. Input cost inflation picked up to the highest recorded by the survey for four months. However, a relatively weaker appetite for manufacturing inputs amid slower sales was reflected by another shortening of delivery times over the month. Matching higher costs, firms raised selling prices again in August, passing on some of the increased costs to clients. The survey showed that average charges rose to the greatest extent since April.

Comment:

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

"The Philippines manufacturing economy lost further momentum in the face of softening demand from both domestic and external sources, during August. Growth in output and new orders were both recorded at noticeably slower rates. The softer growth in demand led to a fall in employment —— the first time in the survey history.

"While short-term prospects appeared increasingly weak, longer-term expectations remained optimistic. The majority of surveyed companies continued to anticipate output growth over the next year, suggesting that the recent slowdown could be temporary.

"However, there is a need to monitor the situation of raw material shortages, which had affected production schedules, resulting in slower output growth. As for jobs prospects, an ongoing lack of capacity pressure, as signalled by a persistent fall in backlogs, meant that Filipino manufacturers may not be in a hurry to boost hiring."

-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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