News Release

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# Nikkei Philippines Manufacturing PMI™

## Philippines manufacturing growth slows in January

### Key points:

- Output and new orders slow markedly during January
- Optimism remains elevated
- Selling prices rise at survey record rate as cost inflation intensifies

**Data collected from January 12–25**

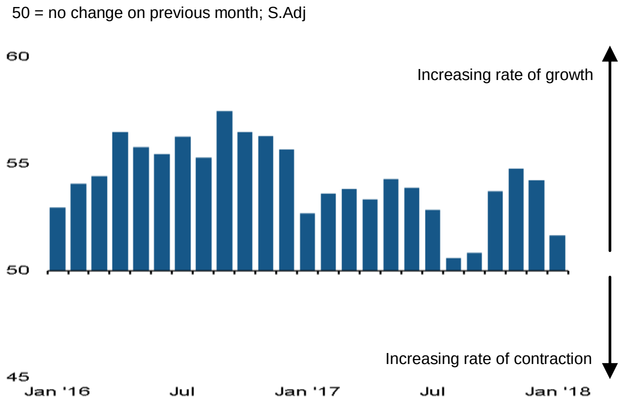
Survey data showed a further improvement in Philippines manufacturing operating conditions in January, but the headline PMI was down noticeably from December, reflecting slower growth in both output and new orders. Weaker client demand and a persistent lack of capacity pressure weighed on hiring. Furthermore, inflationary pressures intensified, with higher costs having an adverse impact on purchasing activity. Buying levels increased at a markedly slower pace, which partially led to a smaller build in input inventories while post-production stocks fell for the first time in four months. However, business confidence remained elevated.

The seasonally adjusted **Nikkei Philippines Manufacturing Purchasing Managers' Index (PMI™)** fell from 54.2 in December to 51.7 in January, signalling only a modest improvement in the health of the sector, contrasting with solid expansions in recent months. The latest reading was the third-lowest in the survey history. The headline PMI is a composite index designed to provide a broad indication of the health of the manufacturing sector each month.

January data suggested that demand was partially hit by higher excise taxes which were effective from January 2018. Growth in new business intakes slowed to the weakest since September, prompting a marked deceleration in output growth. Production volumes increased at one of the slowest rates since the survey started in January 2016.

There were signs of ongoing spare capacity in the manufacturing sector. Backlogs of work continued to fall, with the lack of capacity pressure, in turn, weighing on hiring. Jobs growth slowed to the weakest in the current four-month period of higher employment.

**Nikkei Philippines Manufacturing PMI**




*Sources: Nikkei, IHS Markit*

Buying levels also rose at a slower rate in January, which led to a mild accumulation of pre-production inventories. Growth in stocks of purchases was seen at one of the lowest in the survey history.

Meanwhile, increased demand for manufacturing inputs placed pressure on supply chains. Vendor performance deteriorated for a third month running at the start of the year, though the pace at which lead times lengthened slowed from December. Firms cited port congestions, poor traffic conditions and new tax laws as reasons for supply delays.

Inflationary pressures built further in January, with survey data suggesting that supply-side factors remained responsible for higher prices. Input cost inflation accelerated to one of the highest rates in the survey series, with firms blaming new excise taxes as the key driver. Other reasons included a weaker exchange rate and higher world commodity prices. Rising costs led companies to raise their selling prices sharply and at the quickest rate on record.

Encouragingly, the 12-month outlook for production remained buoyant. Optimism was linked to higher sales projections, greater operating capacity, new product models, planned business expansions and a robust economic outlook.

**Comment:**

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

*"While the Philippines manufacturing economy ended last year on a high, it started 2018 on a more modest note as demand was partially hurt by the new excise taxes, according to the Nikkei Philippines Manufacturing PMI.*

*"Growth in both output and new business saw a marked slowdown in January, alongside the weakest rise in employment growth since the declines recorded last summer.*

*"But other survey indicators suggest that firms are likely to look past the near-term slowdown towards stronger growth in the year ahead. The Future Output Index remained elevated, with a majority of panel respondents anticipating higher production over the next 12 months.*

*"However, one area of concern is the renewed pick-up in price pressures, which could pose as a downside risk to future growth. Survey data showed input costs increasing sharply and at one of the fastest rates in the survey history, pushing Filipino manufacturers to raise selling prices at a record pace.*

*"The key driver for inflation came from supply-side factors, rather than demand. Anecdotal evidence showed that new excise taxes, a weak exchange rate and higher global commodity prices, especially in oil, metal and plastics, all pushed inflation higher. Given the strong relationship between PMI's gauge of input prices and official consumer inflation data, we could see stronger consumer price pressures in early 2018."*

-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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