News Release

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Nikkei Philippines Manufacturing PMI™

PMI signals another robust expansion in May

Key points:

- Growth in output, new orders and employment accelerate
- Stock accumulation gathers momentum
- Cost inflation eases but remains elevated

Data collected from May 11-23

The Philippines manufacturing industry remained firmly in expansion territory during May. Robust growth in both output and new orders alongside higher employment and buying levels lifted sector performance. Buoyant client demand and business optimism prompted firms to build inventories at a faster rate.

The seasonally adjusted **Nikkei Philippines Manufacturing Purchasing Managers' Index (PMI™)** came in at 54.3 in May, up from 53.3 in April, signalling another strong upturn in the sector. The latest PMI reading was also the highest so far this year.

Client demand remained solid in the middle of the second quarter. Growth in order book volumes accelerated to the highest in three months. Anecdotal evidence pointed towards product launches and new client acquisitions as factors for higher new business volumes.

However, new export orders continued to rise at a much lower rate compared to total new orders, suggesting that overall growth remained mostly driven by domestic demand.

The solid upturn in new business inflows was matched with a robust rise in production during May, where the rate of growth picked up slightly from April to reach the steepest since December last year.

Strong growth in output and new sales did not strain operating capacity. On the contrary, backlogs continued to fall at a sharp pace, stretching the sequence of decline to 15 months, reflective of spare resources in the sector.

In some cases, additional manpower had ensured that capacity remains well ahead of production requirements. May data showed that Filipino

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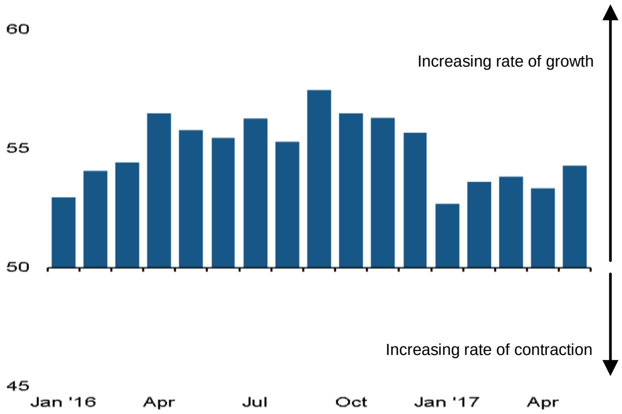

ources: Nikkei, IHS Markit

manufacturers increased staffing levels at a faster rate from April, and extended the current period of expansion to 17 months.

Meanwhile, firms raised their purchasing activity in response to higher production levels. The acquisition rate of raw materials and semi-manufactured goods picked up from the previous month, which was consistent with faster output growth. However, a strong appetite for inputs was within suppliers' capacity for timely deliveries. Vendor performance improved further in May, though only modestly.

Despite higher production usage and orders, the recent build-up in inventories gathered pace. Latest survey data indicated that growth in stocks of both pre-production inputs and finished goods picked up from April. In both cases, firms highlighted the need to prepare for higher production and new orders over the coming months.

On the price front, although there were signs of easing inflationary pressures, cost increases persisted at an elevated rate. Firms blamed higher costs on a combination of peso depreciation and increased raw material prices, which was attributed in some cases to supply shortages. The slower rise in input cost inflation led to a smaller hike in factory gate prices. Charge inflation was reported to mainly reflect higher imported costs.

Comment:

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

"The Philippines manufacturing sector remained firmly in expansion territory during May, underpinned by robust output growth and new orders. Buoyant domestic demand and business optimism augur well for the strong growth momentum to be sustained as we approach the end of the second quarter.

"Growth in export sales was recorded at a much slower rate compared to total new orders, suggesting that the domestic market continued to be the main engine of manufacturing growth.

"While a weaker exchange rate didn't noticeably boost foreign demand, it led to higher imported inflation. Input cost increases remained elevated, although there were signs of easing inflationary pressures. Greater costs prompted firms to raise charges further to protect their margins.

"That said, there is ongoing slack in the manufacturing economy as backlogs continued to fall despite solid increases in output and orders. In part, sustained employment growth ensured that operating capacity remained sufficient to meet demand. Business optimism and a healthy sales pipeline hint that the robust hiring pace is likely to continue. Furthermore, ongoing public infrastructure spending and domestic consumption should continue to support manufacturing activity 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.

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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