

# News Release

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## S&P Global Philippines Manufacturing PMI<sup>®</sup>

### Headline PMI dips below 50.0 mark for the first time in two years

#### Key findings

Drop in new orders accompanies a near stagnation in output

Job shedding enters third consecutive month

Charge inflation softest since November 2020

The Filipino manufacturing sector signalled a deterioration in business conditions in August as new orders fell for the first time in a year, while output growth cooled. Moreover, manufacturing employment was pared back for the third successive month and at the strongest pace in nearly two years.

In terms of business expenses, latest data signalled that the higher prices for fuel and raw materials resulted to an intensification of cost pressures. However, charge inflation softened on the month and was marginal overall as reports of greater market competition meant that some firms discounted their products.

For the first time in two years the headline S&P Global Philippines Manufacturing PMI<sup>®</sup> – a composite single-figure indicator of manufacturing performance – posted below the neutral 50.0 threshold, to signal a deterioration in the health of the Filipino manufacturing sector in August. However, with a reading of 49.7, down from 51.9 in July, the downturn was fractional overall.

Weighing on the headline index was the fresh contraction in factory orders which fell for the first time since August last year. Firms attributed falling order volumes to waning underlying demand conditions, with poor weather conditions also playing a part to hamper inflows of new businesses. Moreover, though new orders from overseas markets increased in August, the upturn was marginal overall, and the softest seen since the current phase of growth began at the start of the year.

Reflective of the fall in new orders, the rate at which output grew softened on the month to post the weakest expansion in a year, while the latest uptick in buying activity was at a three-month low.

In line with cooling business requirements, firms cutback on their staffing levels for the third straight month. Panellists reported that resignations and non-renewal of contracts

Philippines Manufacturing PMI

sa, >50 = growth since previous month



Source: S&P Global PMI.

Data were collected 9-23 August 2023.

#### Comment

*Maryam Baluch, Economist at S&P Global Market Intelligence, said:*

*"The latest data for the Filipino manufacturing sector pointed to a mixed picture. While the headline PMI figure signalled an end of the growth period seen over the past two years, at the same time many companies were also gearing up for greater sales in the coming months, with buying activity and stocks raised in August.*

*"However, weak underlying demand trends as pointed by the first drop in new orders in a year and the ongoing reductions in staffing levels shows visible cracks in the sector. Moreover, headwinds from the high interest rate environment and inflation, as well as China's less than expected post COVID growth, could potentially result to subdued growth in the coming months."*

PMI<sup>®</sup>

by S&P Global

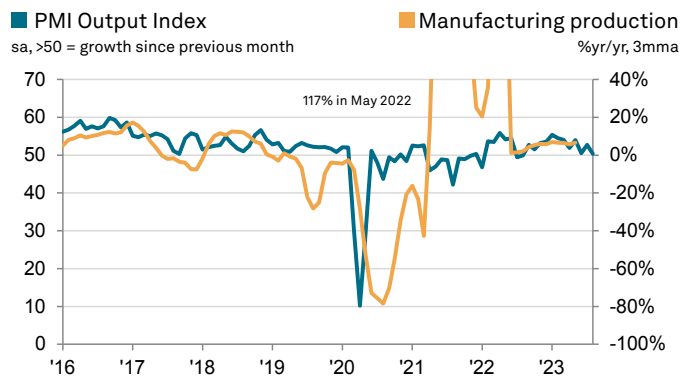
also contributed towards the latest downtick. While the rate of job shedding was moderate overall, it was the strongest in 23 months. With unfinished work recording back-to-back contractions, the latest survey also indicated that a lack of pressure on operating capacity acted as a brake on manufacturing employment.

On the supply-side, the average time taken to deliver inputs lengthened for the third successive month in August, as bad weather was widely attributed to delayed deliveries. That said, the rate at which lead times lengthened was weaker than that seen in the previous survey period.

On the flipside, manufacturers expect growth in output in the coming 12 months. Confidence levels rose to a seven-month high, as 60% of panellists predict an expansion. Firms were hopeful that improved market conditions and the launch of new products will spur growth in production.

Furthermore, firms were keen to build on their stocks and create buffers in anticipation of greater sales in the months ahead. Pre-production holdings registered a fresh expansion, albeit only a fractional one, while holdings of finished goods were raised for the second straight month and at a rate that was quicker than that seen in July.

Turning to prices, August data signalled further intensification of cost burdens with businesses blaming rising fuel and raw material costs. However, the uptick in input prices did not fully materialise through to charges, which were raised at the weakest pace in 33 months amid reports of a competitive market causing some manufacturers to reduce output prices instead.



Sources: S&P Global, Philippines Federal Reserve.

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## Survey methodology

The S&P Global Philippines Manufacturing PMI® is compiled by S&P Global from responses to questionnaires sent to purchasing managers in a panel of around 400 manufacturers. The panel is stratified by detailed sector and company workforce size, based on contributions to GDP. Data collection began in January 2016.

Survey responses are collected in the second half of each month and indicate the direction of change compared to the previous month. A diffusion index is calculated for each survey variable. The index is the sum of the percentage of 'higher' responses and half the percentage of 'unchanged' responses. The indices vary between 0 and 100, with a reading above 50 indicating an overall increase compared to the previous month, and below 50 an overall decrease. The indices are then seasonally adjusted.

The headline figure is the Purchasing Managers' Index™ (PMI). The PMI is a weighted average of the following five indices: New Orders (30%), Output (25%), Employment (20%), Suppliers' Delivery Times (15%) and Stocks of Purchases (10%). For the PMI calculation the Suppliers' Delivery Times Index is inverted so that it moves in a comparable direction to the other indices.

Underlying survey data are not revised after publication, but seasonal adjustment factors may be revised from time to time as appropriate which will affect the seasonally adjusted data series.

For further information on the PMI survey methodology, please contact [economics@ihsmarkit.com](mailto:economics@ihsmarkit.com).

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