News Release

Embargoed until 0830 PHT (0030 UTC) 2 January 2024

S&P Global Philippines Manufacturing PMI®

Filipino manufacturing sector growth slows in December

Key findings

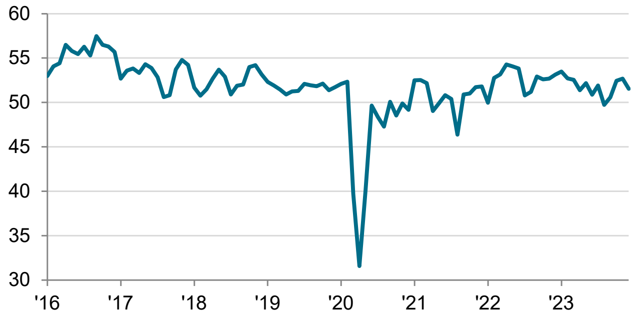
New order growth at four-month low

Renewed expansion in purchasing activity

Stronger drop in workforce numbers

Philippines Manufacturing PMI

sa, >50 = growth since previous month



Source: S&P Global PMI.

Data were collected 06-15 December 2023.

The Filipino manufacturing sector reported further gains as the year ended. Expansions in output and new orders supported the latest improvement in operating conditions. Growth in output remained solid, in part reflecting a sustained rise in new orders. Moreover, goods producers raised their purchasing activity again, following the first fall in input buying 15 months during November. That said, upturns across the two largest sub-components of the PMI lost some momentum in December, as output and new sales rose at slower rates. Inflows of new work rose only modestly and at the weakest pace in four months, as demand conditions softened.

Moreover, manufacturers were able to keep on top of their workloads and reduce their backlogs sharply in December. This, combined with the slowdown in growth in new orders, prompted Filipino goods producers to further pare back their workforce numbers. Meanwhile, inflationary pressures ticked up to a three-month high, with cost burdens growing sharply.

The headline S&P Global Philippines Manufacturing PMI® – a composite single-figure indicator of manufacturing performance – fell from November's nine-month high of 52.7 to 51.5 in December. The headline index indicated only a modest improvement in operating conditions, and one that was the weakest in three months.

Central to the slowdown across the sector was a notable softening in new order growth. The rate of increase was the weakest in the current four-month period of expansion and modest overall. Moreover, total sales growth was focused domestically as the demand picture across international export markets deteriorated, with manufacturers reporting a fresh and solid fall in new export sales in December.

Similarly, manufacturing output also expanded at a weaker rate. Despite easing to the slowest in three months, growth in output remained strong, in part supported by a sustained

Comment

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

"The year concluded with yet another expansion across the Filipino manufacturing sector. Output and new orders continued to rise, albeit at softer rates. Firms also remained hopeful that production will increase in the coming year. Indeed, confidence ticked up to its highest since August. Moreover, in anticipation of increased new orders, firms renewed their buying activity in December.

"However, the main concern in the sector remains the further curtailment of workforce numbers. Evidence of spare capacity and a cooldown in new order growth prompted redundancies. Moreover, export volumes fell for the first time in three months, and overall new orders growth was at a four-month low. Sluggish demand from overseas markets and tight borrowing conditions across the country will act as headwinds as we move into 2024. That said, inflationary pressures are expected to pose less of a threat than seen at the start of 2023, despite gaining pace during December."

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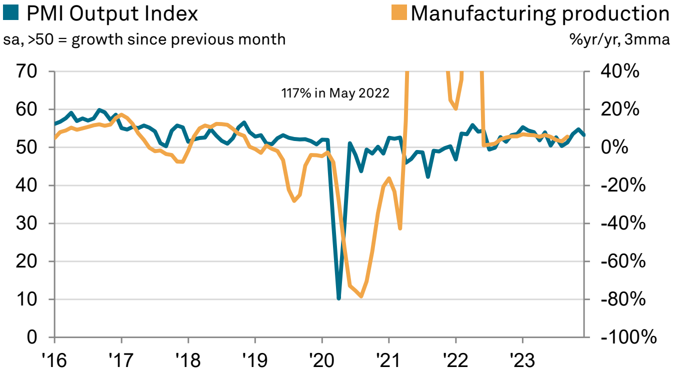
rise of new orders. A further rise in production requirements prompted a renewed rise in purchasing activity following the first fall recorded in 15 months during November.

Firms also noted growing supply-side challenges with average lead times lengthening again in December. Congestion and longer delivery times for imports were blamed for delays. Moreover, vendor performance deteriorated at the greatest extent in five months.

However, with growth in new orders slowing, firms were able to continue to clear their backlogs. Work-in-hand fell for the sixth month running in December. In light of evidence of spare capacity within the sector, manufacturers were prompted to reduce their staffing levels. Filipino manufacturing employment fell for the second successive month, and at a quicker pace.

On the prices front, while inflationary pressures remained historically muted, upticks were noted in the rates of both input price and output charge inflation. Rising cost burdens were largely attributed to increased fuel, material and shipping prices . In turn, firms raised their selling prices. The rates of inflation were the strongest seen since the fourth quarter began.

Looking ahead, business confidence across Filipino manufacturers remained strong. Though strengthening only fractionally since November, the degree of confidence lifted to a four-month high. Hopes of improving demand conditions and plans for increased marketing campaigns boosted optimism.



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@spglobal.com.

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About PMI

Purchasing Managers' Index™ (PMI®) surveys are now available for over 40 countries and also for key regions including the eurozone. They are the most closely watched business surveys in the world, favoured by central banks, financial markets and business decision makers for their ability to provide up-to-date, accurate and often unique monthly indicators of economic trends. www.spglobal.com/marketintelligence/en/mi/products/pmi

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