

News Release

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S&P Global Philippines Manufacturing PMI[®]

Operating conditions improve at a faster rate amid strong gains in employment

Key findings

Output stabilised during August after contracting in July

Factory orders fell for the second consecutive month

Employment rises at sharpest pace since June 2017

Filipino manufacturing firms signalled growth across the sector for the seventh month running during August. The rate of expansion improved from the six-month low seen in July as output stabilised and a softer contraction in new orders was registered.

Furthermore, employment figures remained strong, with workforce expansion now in its fourth month.

The S&P Global Philippines Manufacturing PMI[®] posted above the 50.0 no-change mark that separates growth from contraction for the seventh month running, with the latest reading improving marginally from 50.8 in July to 51.2 in August. While this signalled a stronger improvement in the health of the sector, the uptick was weaker than the series average.

August data suggested some relief as the seasonally adjusted Output Index stabilised after contracting for the first time in six months during July. Moreover, the rate of contraction in new orders softened in the latest survey period, with firms reporting only a marginal decrease in client demand overall. Total sales were weighed down by a sharper decrease in new export orders, however, as foreign customer demand fell at the steepest rate since January.

On the employment front, strong gains in workforce numbers helped boost the latest headline PMI figure during August. Firms hired additional staff for the fourth consecutive month as firms hoped for expansion in production in the coming months. Additionally, the rate of job creation was the fastest since June 2017.

That said, lower new order inflows led to firms cutting back on purchasing activity during August. While the rate of contraction was only mild, it marked the first reduction in input buying since January.

Despite increasing for a year, stocks of raw materials and semi-finished items rose at the softest pace since October

Philippines Manufacturing PMI

sa, >50 = growth since previous month



Source: S&P Global.

Data were collected 12-23 August 2022.

Comment

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

"August PMI data signalled an improvement in operating conditions across the Philippines manufacturing sector. Encouragingly, employment increased strongly and at the sharpest pace since mid-2017.

"However, growing downside risks to growth challenge the sector. Already we have seen output failing to expand during the latest survey period, and factory orders falling for the second consecutive month. Furthermore, prices pressures remained persistently high.

"Headwinds heighten concerns that inflationary pressures, supply chain disruptions, the weakening of the peso and a high interest rate environment, with further hikes expected, will squeeze demand as clients' disposable income will take a hit.

"While the Filipino economy showed strong growth post-COVID, the following months will challenge momentum, with the PMI data already recording softer output expectations for the year ahead."

PMI[®]

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2021, with the rate of increase easing for the fourth month running. Growth in post-production inventories showed a similar story, as stocks rose at the weakest pace in the current run of accumulation that began in February. The softer increases in inventories reflected weak client demand.

Meanwhile, supply-chain disruptions intensified during August, with lead times lengthening to the greatest extent in five months. Shipment delays and port congestion were predominately cited by respondents as the main causes of delivery delays.

Supply-side disturbances along with rising energy and material prices, exerted upward pressure on operating expenses in August. As a result, purchasing costs have now risen in each month since May 2020. Firms reported a rapid increase in input prices that was among the sharpest on record, albeit softer than that seen in July.

In line with rising average cost burdens, firms increased their factory gate charges further in August, thereby extending the current sequence of selling price inflation that began in May 2020. Moreover, the rate of charge inflation was the quickest in five months.

Lastly, sentiment across manufacturing firms in the Philippines remained strongly positive during August with around half of survey respondents hopeful of an expansion in output in the coming 12-months. However, the degree of confidence posted second-lowest in seven months and was subdued in the context of the series history.



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.

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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. ihsmarkit.com/products/pmi.html.