PMI commentary

02/01/2018

Philippines

Philippines manufacturing ends 2017 on a strong note

- **Manufacturing PMI at 54.2 in December, points to 6.7% annual GDP growth in Q4**
- **Manufacturers suffer longest delivery delays in survey history**
- **Input price inflation eases but remains strong**

The Philippines manufacturing economy finished the year on a solid footing, ending its best quarter of 2017, according to the Nikkei PMI data. Furthermore, other survey indicators suggest the sector will see a strong start to 2018.

While inflationary pressures remained elevated, there are some signs of cooling in the PMI price indices, which could herald slower growth in consumer price inflation next year.

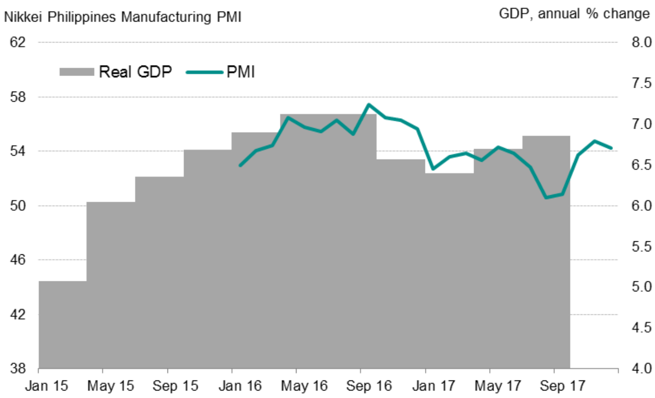
Strongest quarter in 2017

The **Nikkei Philippines Manufacturing PMI™** came in at 54.2 in December, down from 54.8 in November, but still indicating a solid improvement in the health of the sector. The latest reading took the average for the fourth quarter to 54.2, substantially higher than the previous quarter (51.4).

Official data from the Philippines Statistical Authority showed that third quarter GDP rose by an annual rate of 6.9%, taking many analysts by surprise as consensus expectations were for growth of 6.5%, which is more in line with the signals from the PMI data. It is therefore possible that the authorities will revise the third quarter GDP estimate lower as more complete data become available.

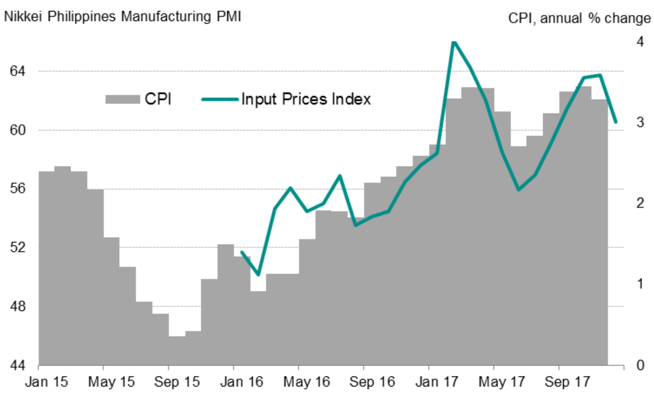
Overall, the current picture is of an economy showing strong growth momentum, supported by robust domestic demand. The PMI survey average is running at a level broadly consistent with economic growth of 6.7% for the fourth quarter.

Philippines PMI and economic growth



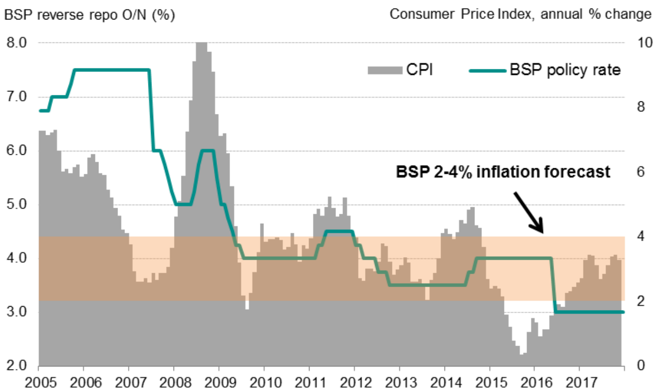
Sources: IHS Markit, Nikkei, PSA

Philippines PMI and consumer inflation



Sources: IHS Markit, Nikkei, PSA

Philippines inflation and monetary policy



Sources: IHS Markit, Nikkei, PSA, BSP

Continued…

Supply chain delays and higher prices

The strong upturn continued to strain supply chains, with vendor performance deteriorating at the steepest rate in the two-year survey history amid rising appetite for manufacturing inputs. Delivery delays were often associated with supply shortages of certain raw materials such as industrial metals, chemicals and paper, linked in turn to strong demand.

As demand outstripped supply, a sellers' market developed, allowing increasing numbers of suppliers to raise prices. A weaker peso also lifted prices of imported raw materials, which added to overall input cost inflation.

The PMI's gauge of input prices, which exhibits a correlation of 85% with official consumer price inflation data, showed another sharp rise in December, but the rate of increase has slowed noticeably suggesting that headline inflation may turn lower in coming months. The PMI suggests that December may see consumer inflation fall below 3% for the first time since July.

It was therefore not surprising that the Bangko Sentral ng Pilipinas, the country's central bank, kept its monetary policy settings unchanged at the recent meeting, highlighting that consumer price inflation is projected to remain within the target range of 2.0–4.0% over the next two years.

Strong outlook

The strong end to the year and upbeat forward-looking indicators suggest the manufacturing economy will start 2018 on a solid footing. Inflows of new orders were robust in December and above the 2017 average, even as export sales remained underwhelming. Business expectations about future output in the year ahead rose to a four-month high. Anticipating higher sales in coming months, firms continued to expand labour capacity and raise purchasing activity at the end of 2017.

Growth could also benefit next year from a substantial increase in infrastructure spending, especially if the Duterte administration is able to push through its tax reform package, which is key to funding the new infrastructure programme.

Bernard Aw

Principal Economist

IHS Markit

Tel: +65 6922 4226
Email: bernard.aw@ihsmarkit.com

Click here for more PMI and economic commentary.
For further information, please visit www.ihsmarkit.com