Philippines Monthly Economic Developments

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- The World Bank revised its economic growth forecast to 6.5 percent for 2018.
- The Philippine Stock Exchange index (PSEi) dropped to its lowest level in nearly two years while peso weakened to a 13-year low in September.
- Headline inflation increased further, prompting additional policy rate hike in September.

The World Bank revises its economic growth forecast to 6.5 percent for 2018 from 6.7 percent. Growth outlook for 2019 and 2020 remains strong projected at 6.7 and 6.6 percent, supported by an expected rise in public investment spending and a robust private demand.

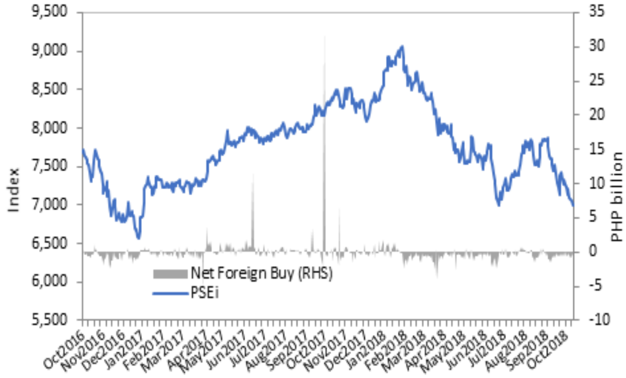
The Philippine Stock Exchange index (PSEi) dropped to its lowest level in nearly two years. In the first two weeks of October, the PSEi fell by 5.4 percent, to close at 6,884 as of October 11, its lowest since January 2017. The contraction was driven by domestic factors which include rising inflation, further weakening of the peso, and a softer outlook on the local economy, which raised investors' risk aversion on local equities. In addition, externally factors such as rising US bond yields, the September increase in the US Fed policy rate, increasing US-China trade tensions, and a build-up of financial risks in some emerging economies, contributed to investors' risk aversion. As result, the PSE registered net-foreign selling amounting to Php3.9 billion month-to-date. Since January, the PSEi has declined by 19.6 percent and is among the worst performing major stock indexes in the Asia-Pacific region.

The Philippine peso dropped to a 13-year low in September, depreciating 5.9 percent year-on-year to close at Php/US$54.25, which represents 1.5 percent month-on-month depreciation. The peso weakening was driven by the strong import growth that increased the demand for dollars and as well as capital outflows from the stock exchange market. Net foreign direct investment, however, rose significantly in July to US$0.9 billion from US$0.3 billion a year ago. The higher net FDI was driven by intercompany borrowings, channeled to the manufacturing, financial, and real estate sectors. International reserves decreased to US$75.2 billion in September from US$81.0 billion in September last year. At its current level, the reserves can cover 6.8 months' worth of imports, while still at comfortable level, it represents a considerable decline from the 8.1 months' worth of imports in September last year.

Headline inflation increased further, prompting an additional rate hike by the central bank in September. The 12-month consumer price index reached 6.7 percent in September, compared to 3.0 percent in September last year and 6.4 percent in August. This was driven by higher food prices caused by tight domestic supply partly exacerbated by the impact of typhoon Ompong. Energy prices increase slowed down as electricity rates declined. Core inflation moderated slightly to 4.7 percent in September from 4.8 percent in August (compared to 2.7 percent in September last year). To address rising inflation pressure, the central bank raised its key policy rate by 50 basis points to 4.5 percent in September.

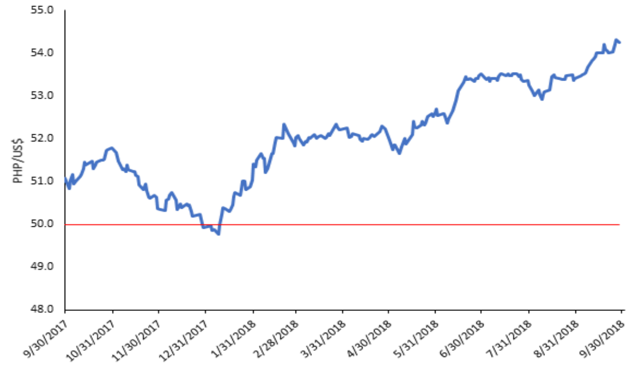
Merchandise export recovered slightly and import growth moderated in August. Goods exports expanded by 3.1 percent

Figure 1: The PSEi continued its retreat as a result of persistent net foreign selling …



Source: Philippine Stock Exchange

Figure 2: … while the Philippine peso weakened to a 13-year low in September.



Source: Bangko Sentral ng Pilipinas (BSP)

Making Growth Work for the Poor

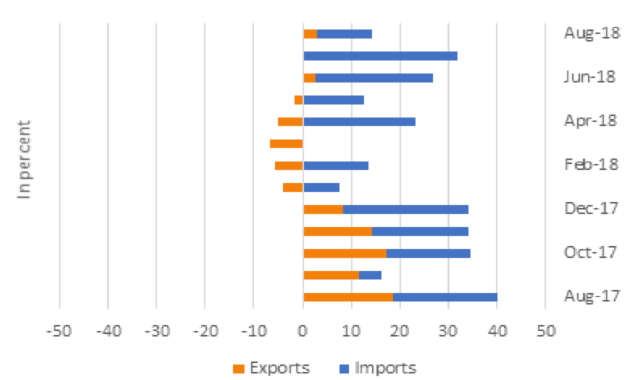
year-on-year in August, higher than the 0.3 percent growth in July but still significantly lower than the 17.1 percent growth a year ago. The export growth recovery in August was a result of the modest growth of manufacturing goods exports (3.5 percent year-on-year) while agriculture exports contracted (-19.2 percent year-on-year). Electronics products, which account for over half of the country's merchandise export, expanded by 7.0 percent year-on-year in August, higher than the 5.2 percent in July, but lower than the 13.2 percent growth registered a year ago. Meanwhile, merchandise import growth moderated to 11.0 percent year-on-year in August, compared to the 21.6 percent growth a year ago and the 31.6 percent expansion in July. Slower import growth was driven by a significant deceleration in growth of capital goods (12.9 percent in August compared to 24.1 percent in August a year ago), raw materials and intermediate goods (4.3 percent in August compared to 19.8 percent in August a year ago), and consumer goods (5.9 percent in August compared to 16.3 percent in August a year ago).

Manufacturing activities continued to expand in August. The volume of production index (VoPI) grew 8.8 percent in August, slower than the 11.8 percent in July but still much faster than the 0.3 percent growth in August last year. Factory activities were strong with indices growing in the double digits in textile, petroleum, and miscellaneous manufactures industries, but with indices contracting in the tobacco and fabricated metal products industries. The Nikkei Philippines Manufacturing Purchasing Managers' Index (PMI), meanwhile, remained at 52.0 in September similar to the 51.9 in August, but higher than the 50.8 in September 2017. The modest rise in the PMI was attributed to the rise of new orders fueled largely by local demand.

The government registered a fiscal deficit in August as expenditure growth outpaced revenue growth. Revenue growth remained robust, expanding by 11.5 percent year-on-year in August, similar to the 9.9 percent growth a year ago, but substantially lower than the 24.2 percent growth in July. Revenue growth was fueled by the continued expansion of tax revenues by 13.0 percent year-on-year in August, higher than the 10.6 percent growth in August a year ago, but significantly lower than the 24.8 percent growth in July. Meanwhile National government expenditures increased by 28.7 percent year-on-year in nominal terms in August, more than double the 13.9 percent growth a year ago, albeit slightly lower than the 33.8 percent growth in July. As a result of faster expenditure growth, the national government posted a fiscal deficit of Php2.6 billion in August, a sharp reversal from the Php28.8 billion surplus posted in August a year ago, but substantially lower than Php86.4 billion in July.

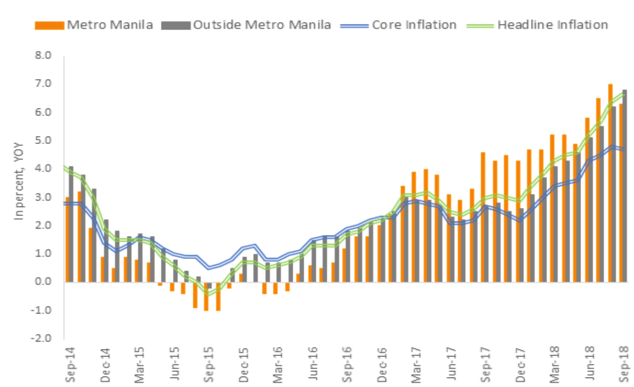
Domestic liquidity grew at a slower pace in August. Overall domestic liquidity (M3) still shows double digit growth. However, since June 2018, the growth rates of domestic liquidity have slowed from 14.3 percent in May to 10.4 percent in August. Among M3, the growth of securities other than shares included in broad money significantly slowed down during the same period. These represented all types of money market borrowings by banks like promissory notes, repurchase agreements, commercial papers/securities, and certificates of assignment/participation with recourse. This slower growth in domestic liquidity is partly driven by the anticipation of policy rate increase.

Figure 3: Both merchandise exports and imports growth moderated in August.



Source: Philippine Statistics Authority (PSA)

Figure 4: Headline inflation rose further in September due to higher food prices.



Source: PSA

Selected Economic and Financial Indicators								
	2016	2017	Q4 2017	Q1 2018	Q2 2018	Jul-18	Aug-18	Sep-18
Real GDP growth, at constant market prices	6.9	6.7	6.5	6.6	6.0			
Private consumption	7.2	5.9	6.2	5.7	5.6			
Government consumption	8.8	7.1	12.2	13.6	11.9			
Gross fixed capital investment	26.6	9.5	9.4	8.8	21.2			
Exports, goods and services	11.7	19.6	20.6	6.5	13.0			
Imports, goods and services	20.5	18.2	18.1	9.6	19.7			
Industry Performance								
Value of Production Index	6.2	-0.7	-7.9	17.8	24.0	12.2	8.8	
Volume of Production Index	11.5	0.3	-7.6	18.7	23.0	11.8	8.8	
Capacity Utilization	83.5	83.8	84.0	84.2	84.3	84.2	84.3	
Nikkei ASEAN Purchasing Managers' Index		53.2	54.2	51.3	53.1	50.9	51.9	52.0
Monetary and Banking sector								
Headline Consumer Price Index	1.3	2.9	3.0	3.8	4.8	5.7	6.4	6.7
Core Consumer Price Index	1.5	2.5	2.4	3.0	3.8	4.5	4.8	4.7
Domestic liquidity (M3)	12.5	13.3	13.7	13.7	13.4	11.0	10.4	
Credit growth	16.6	17.8	17.6	17.2	17.9	18.0	17.4	
Business loans	13.5	17.4	17.4	17.0	18.1	18.5	17.9	
Consumer loans	20.5	20.5	19.4	19.1	16.5	14.5	13.6	
Fiscal sector						**(In billions Php)**		
Fiscal balance (% of GDP)	-2.4	-2.2	-3.1	-3.9	-0.9	-86.4	-2.6	
Total Revenue (% of GDP)	15.2	15.7	15.0	15.8	18.3	242	257	
Tax Revenue (% of GDP)	13.7	14.2	13.7	14.3	16.1	218	240	
Total Expenditure (% of GDP)	17.6	17.9	18.1	19.7	19.2	328	260	
National government debt (% of GDP)	42.1	42.1	42.1	42.6	42.5	7,043	7,103	
Stock market								
PSEi (month-end value)	6,841	8,558	8,558	7,980	7,194	7,672	7,856	7,277
External accounts								
Current account balance (% of GDP)	-0.4	-0.7	-3.6	-0.2	-3.6			
Exports of merchandise goods (growth rate)	-2.5	18.4	13.3	-5.4	-1.3	0.3	3.1	
Imports of merchandise goods (growth rate)	18.4	13.6	21.0	7.2	20.0	31.6	11.0	
Net foreign direct investment (in million US$)	8,279	10,057	3,585	2,227	3,528	914		
Balance of payment (% of GDP)	-0.1	-0.3	0.6	-1.6	-2.5			
International reserves (in million US$)	83,515	81,273	80,766	80,722	78,779	76,722	77,934	75,161
Import cover	9.7	8.4	8.0	7.8	7.6	7.0	7.1	6.8
Nominal exchange rate	47.49	50.40	50.93	51.45	52.45	53.43	53.27	53.94
Labor Market								
Unemployment rate	5.5	5.7	5	5.3	5.5	5.4		
Underemployment rate	18.4	16.2	15.9	18	17	17.2		
Sentiments								
Consumer confidence index (end of period)	9.2	9.5	9.5	1.7	3.8	-7.1		
Business confidence index (end of period)	39.8	43.3	43.3	39.5	39.3	30.1		

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