

# Philippines Monthly Economic Developments

June 2019

- Manufacturing output continued its contraction for the fifth month in April.
- Budget balance was positive in April as expenditures contracted by double digits.
- Inflation picked up in May after consecutive declines since October 2018, driven by higher prices for vegetables, meat and fish.
- Unemployment and underemployment recorded improvements in April 2019.

## Manufacturing output continued its contraction for the fifth month in April.

The volume of production index (VoPI) contracted by 14.0 percent in April 2019, a significant reversal from the 21.0 percent expansion in April 2018. This contraction is deeper than the 9.5 percent weakening in March and the largest since the start of the year partly attributable to slowing external demand as the country's exports experienced weaker growth. The contraction was led by manufacturing output decline in food, tobacco and petroleum products. Meanwhile, the average capacity utilization rate marginally declined to 84.3 in April from 84.4 in March, with 11 of the 20 major industries reporting at least 80 percent capacity utilization rates. Nonetheless, the Nikkei Philippines Purchasing Managers' Index (PMI) showed positive sign, rebounding to 51.2 in May from 50.9 in April, reversing its sixth month of straight decline. A combination of increasing local demand and improved export orders drove the rebound in the index.

## The Philippine Stock Exchange index (PSEi) marginally edged up in May 2019.

The PSEi rose by 0.2 percent month-on-month in end-May 2019, slower than the 0.4 percent increase registered in April. After breaching the 8,000 mark early in the month, the PSEi dipped to 7,475 in mid-May before recovering to close at 7,970 by month-end. The temporary decline was due to the report of weak first quarter growth of 5.6 percent,

lower than the 6.5 percent recorded in the same period last year. This decline was reversed following the market's positive response to the BSP's announcement of the 200 basis points phased reduction in the reserve requirement ratio (RRR). Since then, the PSEi continued to rally until month-end. In May 2019, net-foreign selling amounted to Php14.2 billion, reversing four consecutive months of net-foreign buying.

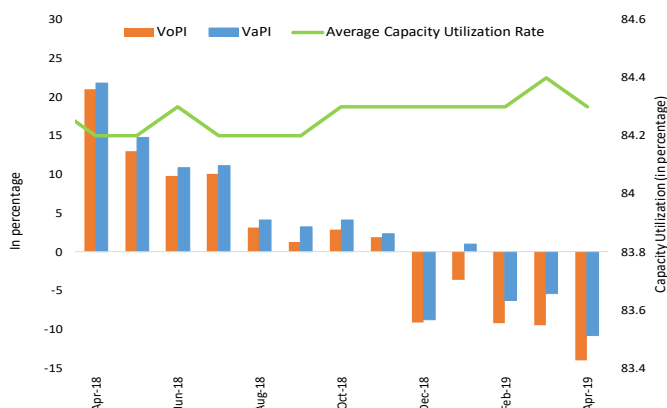
## The Philippine peso strengthened year-on-year in May.

The Philippine peso appreciated 1.1 percent year-on-year in May, closing at Php/US\$52.10 from Php/US\$52.69 in May 2018. Easing inflation, together with positive sentiment on the central bank's policy on RRR, were factors contributing to the strengthening of the peso. In May, the international reserves rose further to US\$85.0 billion from US\$83.9 billion in April. This represented the seventh month of consecutive increase of the reserves. At its current level, the reserves can cover 7.5 months' worth of import and payment of services and primary income, higher than the preceding month's 7.4 import coverage.

## Inflation picked up in May after consecutive declines since October 2018 but remained below BSP target.

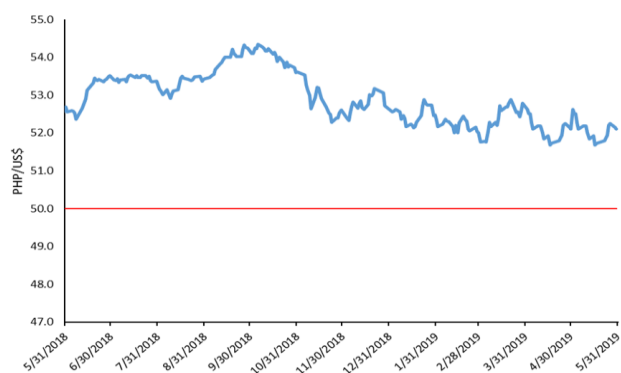
The 12-month Consumer Price Index rose to 3.2 percent year-on-year in May from 3.0 percent in April, reversing the steady decline in inflation since the peak of 6.7 percent in October last year. On

Figure 1: Manufacturing output further contracted in April.



Source: Philippine Statistics Authority (PSA)

Figure 2: The Philippine peso strengthened year-on-year in May.

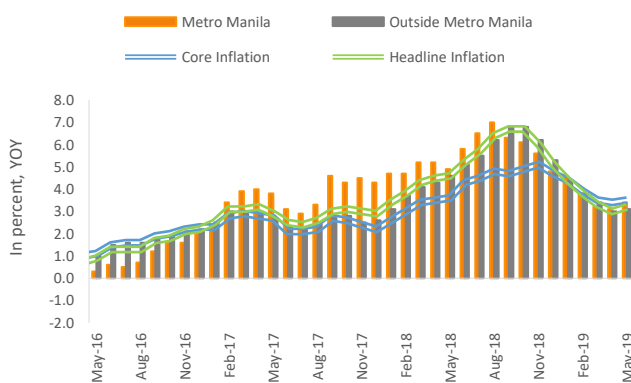


Source: Bangko Sentral ng Pilipinas (BSP)

an annual basis, the headline inflation is still lower than the 4.6 percent recorded in May last year. Food inflation, driven by higher prices for vegetables, meat and fish, was the main contributor. This may have been caused by dry weather condition which limited supplies. Excluding the volatile food and energy items, core inflation also marginally rose to 3.5 percent year-on-year in May from 3.4 percent in April but lower than the 3.6 percent in May last year. Year-to-date 2019 headline inflation averages 3.5 percent while the year-to-date core inflation is 3.7 percent, both within the Central Bank's 2-4 percent target range. The monetary board in its meeting on May 16<sup>th</sup> decided to reduce the required reserve requirements for universal and commercial banks by a total of 200 basis points, with a 100 basis points reduction implemented on May 31, 50 basis points on June 28, and 50 basis points on July 26.

**Domestic liquidity and bank lending continued to grow in April.** Domestic liquidity (M3) grew by 7.0 percent year-on-year to about Php11.7 trillion in April, faster than the 6.1 percent (revised) expansion in March. Universal and commercial bank loans, net of reverse repurchase (RRP) placements with the BSP, grew at a slightly slower rate of 12.7 percent in April from 12.9 percent (revised) in March. Loans for production activities—which comprised 88.2 percent of banks' aggregate loan portfolio, net of RRP—increased at a slightly slower pace of 12.4 percent in April from 12.8 percent in the previous month. The growth in production loans was driven primarily by lending to the following sectors: construction (48.9 percent), financial and insurance activities (28.8 percent); real estate activities (13.9 percent); wholesale and retail trade, repair of motor vehicles and motorcycles (11.9 percent); electricity, gas, steam and air-conditioning supply (11.2 percent), and; manufacturing (10.7 percent). Meanwhile, loans for household consumption grew by 15.0 percent in April,

Figure 3: Inflation picked up in May driven by food inflation.



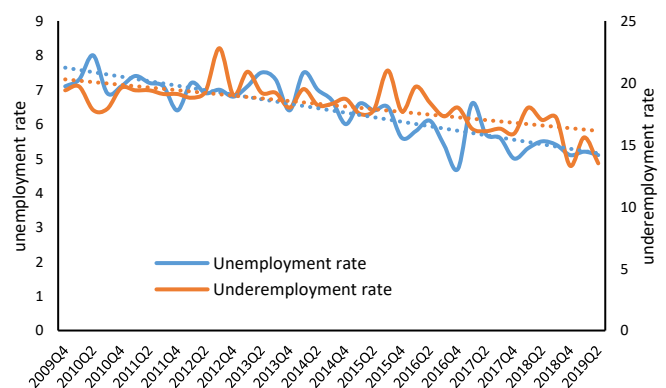
Source: PSA

similar to the 15.1 percent in March, as faster growth in credit card loans and motor vehicle loans was slightly offset by the slower expansion in salary-based general purpose consumption loans and other types of household loans during the month.

**The national government gained a budget surplus in April as expenditures contracted by double digits.** Expenditures contracted by 15.1 percent year-on-year in nominal terms in April, decelerating further from the 8.2 percent contraction in March, due to the lingering impact of the reenacted budget. Meanwhile, revenue collection grew by 0.4 percent year-on-year in nominal terms in April, lower than the 13.1 percent growth in March. The slower revenue growth was due to the growth contraction in non-tax revenues (25.7 percent) which offset the moderate growth in tax revenues (2.8 percent). Consequently, the government gained a surplus of Php86.9 billion in the month of April, almost enough to compensate the Php90.2 billion deficit registered in the first quarter of 2019, thereby cutting the overall deficit to Php3.4 billion or only 0.3 percent of total revenues for the first four months of 2019.

**Unemployment and underemployment rates both declined in April 2019.** Unemployment rate in April slightly improved to 5.1 percent from 5.2 percent in January 2019, but increased notably from the 5.5 percent rate in April 2018. A total of 1.35 million net jobs were created in the labor market in April, on an annual basis, mainly attributed to the net job creation in the service (1.65 million) and industry (0.07 million) sectors, with the agriculture sector losing 0.38 million. The quality of jobs has also improved as underemployment rate narrowed to 13.5 percent in April from 15.6 percent in January 2019 and 17 percent in April 2018.

Figure 4: Labor market indicators showed improvements in April.



Source: PSA

Selected Economic and Financial Indicators								
	2017	2018	Q3 2018	Q4 2018	Q1 2019	Mar-19	Apr-19	May-19
<b>Real GDP growth, at constant market prices</b>	6.7	6.2	6.0	6.3	5.6			
Private consumption	5.9	5.6	5.2	5.3	6.3			
Government consumption	7.0	12.8	14.3	12.6	7.4			
Gross fixed capital investment	9.5	14.0	17.4	8.5	5.7			
Exports, goods and services	19.5	11.5	13.3	14.4	5.8			
Imports, goods and services	18.1	14.5	17.9	12.4	8.3			
<b>Industry Performance</b>								
Value of Production Index	-1.4	8.0	6.4	-1.4	-3.7	-5.4	-10.8	
Volume of Production Index	-0.5	7.2	5.2	-2.3	-7.3	-9.2	-14.0	
Capacity Utilization	83.8	84.2	84.2	84.3	84.3	84.4	84.3	
Nikkei Philippines Purchasing Managers' Index	53.2	52.5	51.6	53.8	51.9	51.5	50.9	51.2
<b>Monetary and Banking sector</b>								
Headline Consumer Price Index	2.9	5.2	6.3	5.9	3.8	3.3	3.0	3.2
Core Consumer Price Index	2.5	4.1	4.7	4.9	3.6	3.5	3.4	3.5
Domestic liquidity (M3)	13.3	11.6	10.3	8.7	7.1	6.1	7.0	
Credit growth	17.8	16.4	17.2	15.1	11.9	11.0	12.2	
Business loans	17.4	17.2	17.6	16.2	13.3	12.3	11.8	
Consumer loans	20.5	15.1	14.2	11.3	10.0	10.6	10.9	
<b>Fiscal sector</b>						<b>(In billions Php)</b>		
Fiscal balance (% of GDP)	-2.2	-3.2	-4.4	-3.6	-2.1	-58.4	86.9	
Total Revenue (% of GDP)	15.7	16.4	16.6	14.9	16.3	228.9	308.7	
Tax Revenue (% of GDP)	14.2	14.7	15.2	13.6	14.6	198.3	288.9	
Total Expenditure (% of GDP)	17.9	19.6	21.0	18.6	18.5	287.3	221.9	
National government debt (% of GDP)	42.1	41.9	42.3	41.9	44.0	7,802	7,786	
<b>Stock market</b>								
PSEi (month-end value)	8,558	7,466	7,277	7,466	7,921	7,921	7,953	7,970
<b>External accounts</b>								
Current account balance (% of GDP)	-0.7	-2.4	-3.7	-2.6				
Exports of merchandise goods (growth rate)	18.4	-0.3	-2.4	-0.7	-3.1	-2.5	0.4	
Imports of merchandise goods (growth rate)	13.6	9.4	6.3	3.1	4.7	7.8	-1.9	
Net foreign direct investment (in million US\$)	10,057	9,802	2,234	1,712	1,941	586		
Balance of payment (% of GDP)	-0.3	-0.7	-2.4	3.0				
International reserves (in million US\$)	81,273	78,140	76,531	76,529	83,613	83,613	83,878	85,022
Import cover	8.4	7.1	6.8	6.7	7.4	7.4	7.4	7.5
Nominal exchange rate	50.40	52.68	53.54	53.27	52.36	52.41	52.11	52.26
<b>Labor Market</b>								
Unemployment rate	5.7	5.3	5.4	5.1	5.1		5.1	
Underemployment rate	16.2	16.4	17.2	13.3	13.5		13.5	
<b>Sentiments</b>								
Consumer confidence index (end of period)	9.5	-22.5	-7.1	-22.5	-0.5	-0.5		
Business confidence index (end of period)	43.3	27.2	30.1	27.2	35.2	35.2		