Inflation rose in November, halting its five-month downtrend.

Labor market outcomes improved with lower unemployment and underemployment rates in October, mainly driven by job generation in the services sector.

Poverty rates declined and the income gap narrowed in 2018.

The tepid performance of the manufacturing sector continued in October. The Philippines’ manufacturing sector output remained weak, as the volume of production index contracted for the eleventh consecutive month. It fell by 3.7 percent year-on-year (yoy) in October, a reversal from the 2.9 percent growth a year ago, and similar to the 3.6 percent contraction in September. The contraction in manufacturing output was largely driven by the 17.3 percent contraction in electrical machinery, coinciding with the muted performance of the country’s electronics exports, and significant double-digit declines in petroleum manufactures, furniture and fixtures manufactures, and other miscellaneous manufactures. Leading indicator of sector production suggests a similar performance in November, as the Nikkei Purchasing Managers’ Index reached 51.4, its lowest level since June (51.3), and significantly weaker than the 52.1 figure posted in October.

The Philippine Stock Exchange index (PSEi) weakened in November. The PSEi declined by 3.0 percent month-on-month in November to close at 7,739, lower than the closing of 7,977 in October. The decline was driven by foreign selling of Php13.2 billion, which reversed the net foreign buying of Php3.7 billion in October. Bulk of the foreign selling happened in the last week of November, coinciding with news of the U.S. president’s signing of a bill backing protestors in Hong Kong, risking further tension in the US-China trade war. Nonetheless, the foreign exchange market improved yoy with the Philippine peso appreciating by 3.6 percent month-on-month to Php/US$50.80 in November from Php/US$52.61 in end-November 2018. On a monthly basis, the peso appreciated by 0.5 percent from the October 2019 closing of Php/US$51.03. Foreign reserves rose to US$86.4 billion in November from US$85.8 billion in October, due to higher net foreign currency deposits and higher central bank’s income from its investment abroad. The reserves can cover 7.5 months’ worth of import at its current level from the same level in October.

Inflation rose in November, halting its five-month downtrend. The Consumer Price Index headline inflation rose to 1.3 percent yoy in November, faster than the 0.8 percent in October although still slower than 6.0 percent in November 2018. Year-to-date inflation stood at 2.5 percent, well within the Bangko Sentral ng Pilipinas’ (BSP) 2-4 percent target. Inflation gathered speed mainly due to the annual increase in the price index of alcoholic beverage and tobacco products, housing utilities, health, and communication services. The heavily weighted food and non-alcoholic beverage inflation steadied overall, yet the price of rice continued to drop. Removing highly volatile food and energy items, the core inflation remained stable at 2.6 percent.

Figure 1: Manufacturing output contracted for the eleventh consecutive month in October 2019.

Figure 2: The government posted a narrower fiscal deficit in October.
Domestic liquidity expands at a faster pace with double digit growth in bank lending for household consumption.

Domestic liquidity (M3) grew by 8.5 percent yoy to about Php12.1 trillion in October, faster than the 7.7 percent growth in September. Demand for credit remained the principal driver of money supply growth. Domestic claims grew by 6.7 percent in October from 7.5 percent in the previous month due to the sustained growth in credit to the private sector. Growth in outstanding loans of universal and commercial banks, net of reverse repurchase (RRP) placements with the BSP, was slower at 9.3 percent in October, from 10.5 percent in the previous month. Loans for production activities—which comprised 87.2 percent of banks’ aggregate loan portfolio, net of RRPsexpanded at a rate of 7.5 percent in October, lower than the reported growth in September at 9.0 percent, consistent with manufacturing sector performance. Meanwhile, loans for household consumption grew by 26.7 percent in October from 26.2 percent in September, due to faster growth in motor vehicle, credit card, and salary-based general purpose consumption loans during the month.

The government posted a narrower budget deficit in October.

Public revenue grew at a more moderate pace of 6.0 percent yoy in nominal terms in October after two consecutive years of expanding by nearly 20 percent. Revenue generation continued to be driven by steady growth in tax collections. The Bureau of Internal Revenue (BIR), which accounted for three-fourths of total tax collections, drove tax revenue growth, as collections grew by 8.1 percent yoy, while the Bureau of Customs (BOC) posted a 3.0 percent expansion in its collections. Meanwhile, public spending momentum slowed in October, expanding by 1.4 percent yoy in nominal terms, as national government disbursements excluding interest payments, subsidies, allotment to LGUs, and equity spending contracted by 11.3 percent year-on-year in nominal terms. As a result, the government posted a narrower budget deficit of Php49.3 billion in October, or nearly one-fifth less than the Php59.9 billion deficit posted a year ago.

Labor market outcomes improved in October.

Unemployment and underemployment rates went down to 4.5 percent and 13.0 percent in October from 5.1 percent and 13.3 percent in October 2018, respectively. Jobs created in October reached 1.8 million, a sizable recovery from last year’s 0.2 million net job loss. The new 1.4 million service sector jobs contributed to the annual net jobs created. Likewise, the industry sector added 237,000 workers, mostly in construction. Despite job losses in land-based farming, the agriculture sector still gained a total of 165,000 net jobs thanks to more fishing and aquaculture jobs. On average, net jobs generated in 2019 reached 1.3 million, topping the government’s annual target of 0.9-1.1 million.

Poverty rates declined and the income gap narrowed in 2018.

Full year poverty incidence among Filipinos dropped to 16.6 percent in 2018 from 23.3 percent in 2015, adjusted in 2012 prices. This translates to 5.9 million fewer poor Filipinos between 2015-18, more than doubling the estimated 2.5 million reduction in 2012-15. Among families, poverty incidence fell from 17.9 percent in 2015 to 12.1 percent in 2018. Moreover, the estimated Gini score in 2018 was 0.4267, lower than 0.4438 in 2015, indicating a narrower rich-poor income gap. Poverty and income inequality reduction accelerated largely due to rising family incomes, with the poorest families’ income growing faster than the rich, owing to stabilizing inflation, and improving labor market conditions, supported by government transfers.

Source: PSA
Developments to Watch

- Manufacturing output: when will it return back to expansion?
- Public expenditure: will the spending pick up through the holiday season?

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Industry Performance

- Value of Production Index: -1.4, 8.0, -3.7, -7.5, -5.8, -2.3, -4.3
- Volume of Production Index: -0.5, 7.2, -7.4, -10.2, -6.6, -3.6, -3.7
- Capacity Utilization: 83.8, 84.2, 84.3, 84.3, 84.4, 84.5
- Nikkei Philippines Purchasing Managers' Index: 53.2, 52.5, 51.9, 51.1, 51.8, 52.1, 51.4

Monetary and Banking sector

- Headline Consumer Price Index: 2.9, 5.2, 3.8, 3.0, 1.7, 0.9, 0.8, 1.3
- Core Consumer Price Index: 2.5, 4.1, 3.6, 3.4, 2.9, 2.7, 2.6, 2.6
- Domestic liquidity (M3): 13.3, 11.6, 7.1, 6.6, 6.9, 7.7, 8.5
- Credit growth: 17.8, 16.4, 11.9, 10.7, 9.3, 8.8, 7.5
- Business loans: 17.4, 17.2, 13.3, 10.7, 8.2, 8.0, 6.5
- Consumer loans: 20.5, 15.1, 10.0, 11.3, 13.7, 14.6, 14.9

Fiscal sector

- Fiscal balance (% of GDP): -2.2, -3.2, -2.1, 1.0, -5.8, -178.6, -49.3
- Total Revenue (% of GDP): 15.7, 16.4, 16.3, 18.6, 17.3, 236.5, 261.6
- Tax Revenue (% of GDP): 14.2, 14.7, 14.6, 16.5, 15.8, 211.0, 237.5
- Total Expenditure (% of GDP): 17.9, 19.6, 18.5, 17.6, 23.1, 415.1, 310.8
- National government debt (% of GDP): 42.1, 41.9, 44.0, 43.7, 43.3, 7,908, 7,906

Stock market

- PSEi (month-end value): 8,558, 7,466, 7,921, 7,974, 7,779, 7,779, 7,977, 7,739

External accounts

- Current account balance (% of GDP): -0.7, -2.4, -2.0, -0.2
- Exports of merchandise goods (growth rate): 18.4, -0.3, -3.1, 1.2, 0.6, -2.6, 0.1
- Imports of merchandise goods (growth rate): 13.6, 9.4, 4.7, -5.9, -7.8, -10.5, -10.8
- Net foreign direct investment (in million US$): 10,057, 9,802, 1,933, 1,653, 1,533, 566
- Balance of payment (% of GDP): -0.3, -0.7, 4.7, 1.1
- Import cover: 8.4, 7.1, 7.4, 7.4, 7.4, 7.5, 7.5
- Nominal exchange rate: 50.40, 52.68, 52.36, 52.06, 51.8, 52.1, 51.5, 50.7

Labor Market

- Unemployment rate: 5.7, 5.3, 5.2, 5.1, 5.4, 4.5
- Underemployment rate: 16.2, 16.4, 15.6, 13.5, 13.9, 13.0

Sentiments

- Consumer confidence index (end of period): 9.5, -22.5, -0.5, -1.3, -4.6
- Business confidence index (end of period): 43.3, 27.2, 35.2, 40.5, 37.3

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