Philippines Monthly Economic Developments

March 2019

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- Inflation slowed down for the fourth consecutive month in February.
- Merchandise exports contracted for the third consecutive month in January, while merchandise import growth remained subdued.
- The Philippine Stock Exchange index (PSEi) retreated to below 8,000 in February.

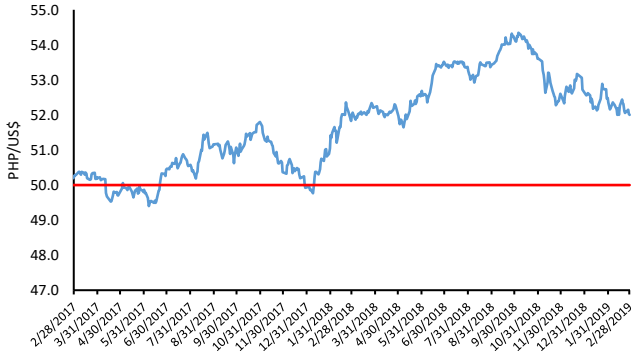
Inflation slowed down for the fourth consecutive month in February 2019. The 12-month Consumer Price Index slowed down to 3.8 percent year-on-year in February 2019 from 4.4 percent in January and 3.8 percent in February 2018. This is the fourth consecutive month of easing inflationary pressure, bringing the year-to-date headline inflation to 4.1 percent, marginally above the upper bound of the Central Bank's 2-4 percent inflation target range. The decelerating inflation was mainly driven by slower price increases of key food items such as rice, meat, and vegetables, as did non-food items such as transport services, and rent and utilities. Core inflation also decelerated to 3.9 percent in February from 4.4 percent in January, suggesting a weaker underlying price pressure.

The peso marginally appreciated and gross international reserves increased moderately. The peso stood at Php/US$52.01 in February 2019, appreciating by 0.7 percent month-on-month and 0.1 percent year-on-year. Expectations of further inflation easing, record high remittance in December, and the central bank's steady policy stance contributed to gains in the value of the peso, despite the lingering current-account deficit. The gross international reserves (GIR) increased moderately by 0.5 percent to US$82.9 billion as of end-February 2019. This represents 7.3 months' worth of imports of goods and payments of services and primary income, still lower than 7.5 months' worth a year ago.

Merchandise exports contracted for the third consecutive month in January 2019, while merchandise import growth recovered. Merchandise exports fell by 1.7 percent year-on-year in January, much less than the 12.3 percent decline posted in December 2018. The fall in export revenue was driven by a contraction of 2.5 percent year-on-year of manufactured goods exports, which make up over 80 percent of total export revenue. Meanwhile, merchandise import growth expanded by 5.8 percent year-on-year in January 2019, a sharp reversal from the 9.4 percent contraction in December 2018. The rebound of imports was driven by the sharp growth recovery in consumer imports (19.1 percent year-on-year in Jan 2019 vs -12.1 percent in Dec 2018) and capital goods imports (8.9 percent year-on-year in Jan 2019 vs -10.6 percent in Jan 2018). As a result, the Philippines posted a USD3.8 billion merchandise trade deficit in January, which is wider than the USD3.2 billion deficit posted in January 2018.

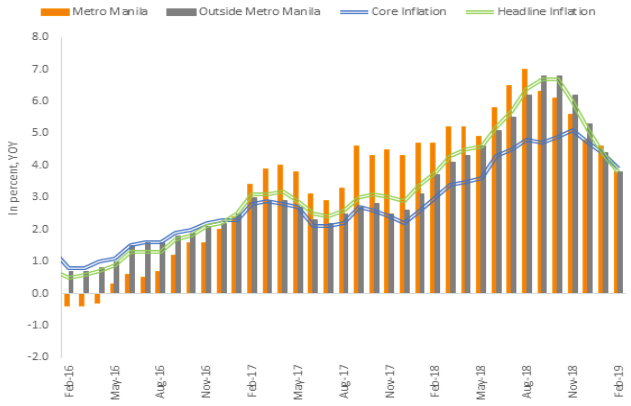
Manufacturing activities extended its decline in January 2019. The volume of production index (VoPI) contracted at a more moderate pace at 4.1 percent in January 2019 from a 10.1 percent contraction in December 2018. This was, however, a reversal from the 10.8 percent expansion in January last year. Twelve of the 20 major industry groups registered output declines including basic metals, furniture and fixtures, and fabricated metal products. Average capacity

Figure 1: The Philippine peso marginally appreciated in February.



Source: Bangko Sentral ng Pilipinas

Figure 2: Headline and core inflation further declined in February.



Source: Philippine Statistics Authority (PSA)

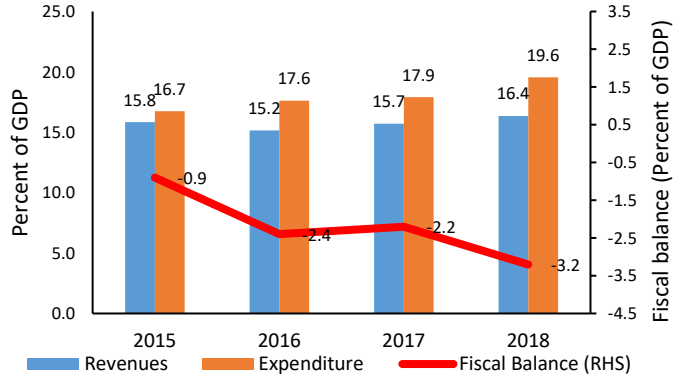
utilization remains at 84.3 with more than half of the major industries operating at least 80 percent capacity. The Nikkei Philippines Purchasing Managers' Index (PMI) grew at its weakest in six months. It fell to 51.9 in February from 52.3 in January, but still higher than the 50.8 in February last year. This decline has been driven by slower growth in new orders, and with some firms reporting higher overall costs.

The Philippine Stock Exchange index (PSEi) retreated to below 8,000. After reaching the 8,000 level in mid-January 2019, the PSEi dropped 3.8 percent month-on-month to close at 7,705 in end-February 2019. The local stock index responded to recent developments on the external front such as the slow progress on trade negotiations between the U.S. and China, and the resurfacing of the poor global growth prospects. The index slid further towards the end of February due to the rebalancing of the MSCI Philippines index. The MSCI Philippines Index, which is designed to measure the performance of the large and mid-capitalization segments of the Philippines' equity market, underwent its quarterly rebalancing. The rebalancing cut the weighting of several key stocks, resulting in portfolio adjustments by investors which contributed to a 2.3 percent decline in the PSEi on the last trading day of February. Despite the decline in the PSEi, net-foreign buying remained strong for the second consecutive month, totaling Php9.3 billion in February 2019, although half the Php18.7 billion in January 2019.

Although fiscal deficit exceeded its programmed target in 2018, fiscal position remains healthy. National government expenditure breached the programmed target in 2018, reaching 19.6 percent of GDP, the highest level in more than three decades. Robust expenditure growth was fueled by the continued surge in infrastructure spending (4.6 percent of GDP) and personnel services spending (5.7 percent of GDP). Meanwhile, revenue growth remained robust despite softer GDP growth, as the tax ratio reached its highest level in more than two decades (14.7 percent of GDP), partly driven by tax policy and administration reforms introduced in the TRAIN law, and as non-tax revenues exceeded the programmed target for 2018. As a result, the fiscal deficit widened from 2.2 percent of GDP in 2017 to 3.2 percent of GDP in 2018—above the government's deficit target of 3.0 percent of GDP for 2018. Despite the wider fiscal deficit, the Philippine government's overall fiscal position remains healthy as the national government's debt-to-GDP ratio fell from 42.1 percent of GDP in 2017 to 41.9 percent of GDP in 2018.

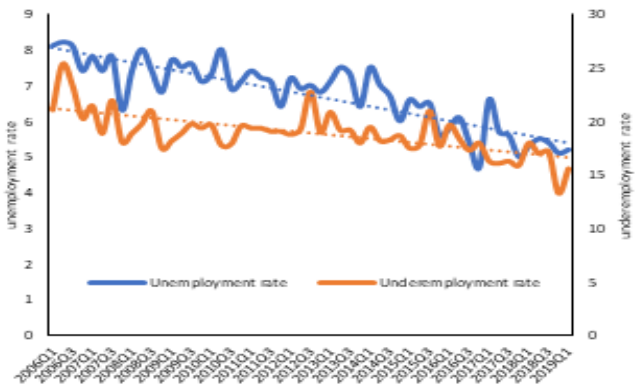
Unemployment rate slightly rose and underemployment worsened. Unemployment rate marginally rose to 5.2 percent in January 2019 from 5.1 percent in October 2018, still a slight improvement from the 5.3 percent recorded in January 2018. On an annual basis, the labor market suffered net job losses totaling 387,000 in January 2019, largely due to significant agriculture sector job losses (1.7 million), unabated by the jobs created in the industry (0.6 million) and services (0.7 million). In addition, the quality of jobs remains a concern as it persists at relatively high levels. Underemployment rate increased from 13.3 percent in October 2018 to 15.6 percent in January 2019, but it is significantly lower than 18.0 percent registered in January 2018.

Figure 3: The fiscal deficit breached its programmed target in 2018.



Source: Bureau of the Treasury

Figure 4: Both unemployment and underemployment rates increased in January 2019.



Source: PSA

Selected Economic and Financial Indicators								
	2017	2018	Q2 2018	Q3 2018	Q4 2018	Dec-18	Jan-19	Feb-19
Real GDP growth, at constant market prices	6.7	6.2	6.2	6.0	6.1			
Private consumption	5.9	5.6	5.9	5.2	5.4			
Government consumption	7.0	12.8	11.9	14.3	11.9			
Gross fixed capital investment	9.5	14.0	21.2	17.4	9.8			
Exports, goods and services	19.5	11.5	12.6	13.3	13.2			
Imports, goods and services	18.1	14.5	18.5	17.9	11.8			
Industry Performance								
Value of Production Index	-1.4	8.0	16.0	6.4	-1.4	-9.3	-0.7	
Volume of Production Index	-0.5	7.2	14.8	5.2	-2.3	-10.1	-4.1	
Capacity Utilization	83.8	84.2	84.3	84.2	84.3	84.3	84.3	
Nikkei ASEAN Purchasing Managers' Index	53.2	52.5	53.1	51.6	53.8	53.2	52.3	51.9
Monetary and Banking sector								
Headline Consumer Price Index	2.9	5.2	4.8	6.3	5.9	5.1	4.4	3.8
Core Consumer Price Index	2.5	4.1	3.8	4.7	4.9	4.7	4.4	3.9
Domestic liquidity (M3)	13.3	11.6	13.4	10.3	8.7	9.2	7.6	
Credit growth	17.8	16.4	17.9	17.2	15.1	13.6	12.4	
Business loans	17.4	17.2	18.1	17.6	16.2	15.0	14.7	
Consumer loans	20.5	15.1	16.5	14.2	11.3	10.1	9.5	
Fiscal sector						**(In billions Php)**		
Fiscal balance (% of GDP)	-2.2	-3.2	-0.9	-4.4	-3.6	81.0		
Total Revenue (% of GDP)	15.7	16.4	18.2	16.6	14.9	232.2		
Tax Revenue (% of GDP)	14.2	14.7	16.1	15.2	13.6	206.0		
Total Expenditure (% of GDP)	17.9	19.6	19.2	21.0	18.6	313.3		
National government debt (% of GDP)	42.1	41.9	42.5	42.3	41.9	7,293		
Stock market								
PSEi (month-end value)	8,558	7,466	7,194	7,277	7,466	7,466	8,007	7,705
External accounts								
Current account balance (% of GDP)	-0.7		-3.6	-3.7				
Exports of merchandise goods (growth rate)	18.4	-1.8	-1.3	2.5	-2.4	-12.3	-1.7	
Imports of merchandise goods (growth rate)	13.6	13.4	20.0	19.5	6.3	-9.4	5.8	
Net foreign direct investment (in million US$)	10,256	9,802	3,550	2,251	1,712	677		
Balance of payment (% of GDP)	-0.3		-2.5	-2.4				
International reserves (in million US$)	81,273	78,140	78,779	76,531	76,529	79,193	82,487	82,896
Import cover	8.4	7.1	7.2	6.8	6.7	7.0	7.3	7.3
Nominal exchange rate	50.40	52.68	52.45	53.54	53.27	52.77	52.47	52.19
Labor Market								
Unemployment rate	5.7	5.3	5.5	5.4	5.1		5.2	
Underemployment rate	16.2	16.4	17	17.2	13.3		15.6	
Sentiments								
Consumer confidence index (end of period)	9.5	-22.5	3.8	-7.1	-22.5	-22.5		
Business confidence index (end of period)	43.3	27.2	39.3	30.1	27.2	27.2		

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