Philippines Monthly Economic Developments

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- The World Bank growth forecast for the Philippines was maintained at 6.9 percent for 2017.
- The Philippine stock exchange index (PSEi) edged slightly up in March while the peso stabilized above Php/US$50.00 amidst a less volatile foreign exchange market.
- Headline inflation has steadily risen for seven consecutive months, inching up to 3.4 percent year-on-year in March.
- Manufacturing activities gathered strength in February while capacity utilization rates eased for the second consecutive month.
- February imports accelerated at its fastest pace in nine months, while exports improved.
- Commercial bank lending continued to expand at around 18 percent year-on-year.
- Largely due to weather-related effects in the agriculture sector, the unemployment rate increased in January to 6.6 percent from 5.7 percent a year ago.

The World Bank growth forecast for the Philippines was maintained at 6.9 percent for 2017. Despite continued global headwinds, the Philippines' growth outlook remains optimistic, and the economy is projected to benefit from the anticipated recovery of emerging markets and developing economies worldwide. The country is projected to remain among East Asia's top growth performers over the short-to-medium term. The administration's continued commitment to implementing planned increases in public infrastructure spending is expected to boost the economy's growth momentum through 2017-2018. The World Bank projects a real GDP growth rate of 6.9 percent in 2017 and 2018, supported by high levels of consumer and business confidence. These projections reflect the World Bank's December 2016 growth forecast for the Philippines and the January 2017 World Bank Global Economic Prospects report.

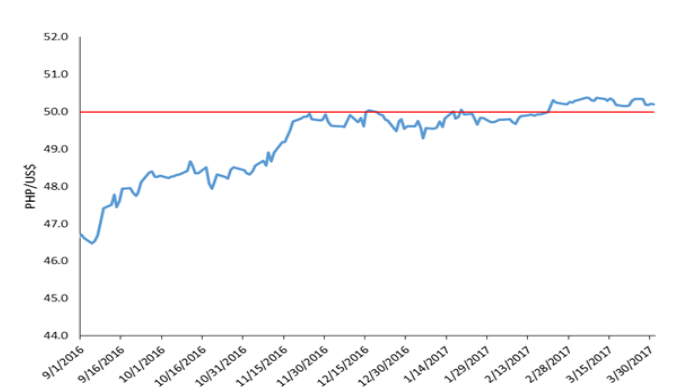
The Philippines Statistics Authority revised the real GDP series for 2014-2016. The annual growth rate for 2016 was slightly revised upward from 6.8 percent to 6.9 percent. For 2015, real GDP growth was also revised upwards from 5.9 percent to 6.1 percent. The 2014 annual growth was slightly lowered from 6.2 percent to 6.1 percent. Reportedly, these revisions reflect additional available data and are consistent with international standard practices of national accounts revisions.

The Philippine stock exchange index (PSEi) edged slightly up in March. In March 2017, the Philippine Stock Exchange index closed higher at 7,312, improving by 1.4 percent month-on-month compared to a decline of 0.2 percent in February 2017. The stock exchange index received a boost from the US Federal Reserve's decision to maintain a gradual tightening cycle. In addition, both Standard & Poor Global Ratings and Fitch Ratings affirmed the country's investment grade rating and positive outlook. They also raised their Philippines GDP growth forecasts for 2017, to 6.6 percent year-on-year by Standard & Poor Global Ratings, and to 6.8 percent by Fitch Ratings. However, despite an improved performance of the PSEi, net-foreign selling persisted in March reaching Php11.8 billion, more than doubling the Php5.1 billion recorded in February.

The peso stabilized above Php/US$50.00 amidst a less volatile foreign exchange market in March. The Philippine peso slightly appreciated 0.1 percent month-on-month from the February closing of Php/US$50.267, ending March at Php/US$50.194. The foreign exchange market was also less volatile, seeing the peso move within a shorter range: Php/US$0.24 in March vis-à-vis Php/US$0.64 in February. Central bank reserves decreased slightly to US$80.9 billion in March from US$81.4 billion in February, due to payments made by the government on maturing foreign exchange debt obligations and central bank's foreign exchange operations. International reserves cover 8.9 months' worth of imports of goods and payments of services, and are equivalent to 5.2 times the country's short-term external debt.

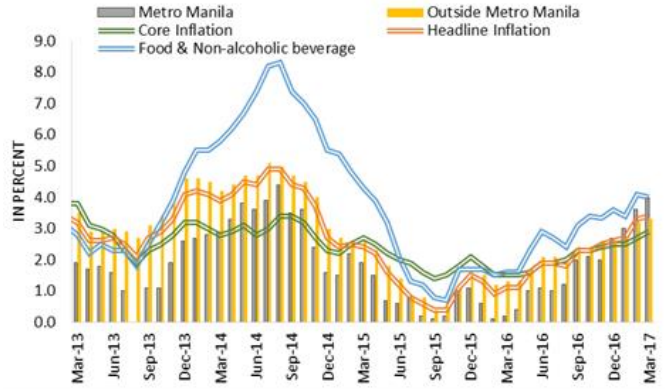
Headline inflation has steadily risen for seven consecutive months, inching up to 3.4 percent year-on-year in March. The 12-month Consumer Price Index accelerated from 1.1 percent a year ago and 3.3 percent in February 2017. Higher energy and fuel prices drove this March inflation trend while food inflation eased to 4.0 percent year-on-year in March from 4.1 in February. Core inflation continued to climb to 2.9 percent year-on-year from 2.7 percent in February, compared to 1.6 percent in March last year. The central bank's monetary board maintained its key policy rate at 3.0 percent during its March 23 meeting. To-date the headline inflation rate remained within the central bank's 2-4 percent target range.

Figure 1: The peso stabilized above Php/US$50.00 in March…



Source: Philippine Statistics Authority (PSA)

Figure 2: … while headline and core inflation rates continued to rise.

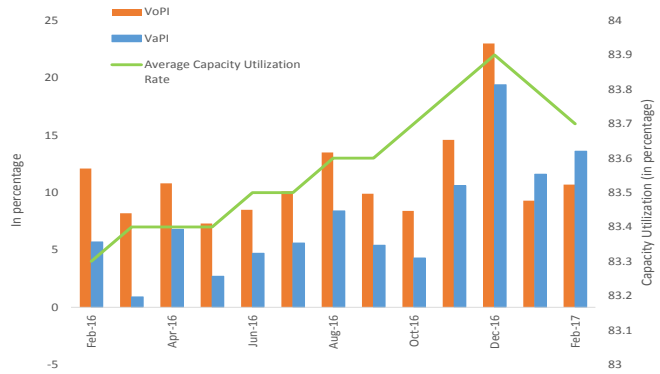


Source: PSA

Manufacturing activities gathered strength in February while capacity utilization rates eased for the second consecutive month. The volume of production index (VoPI) grew at 10.7 percent year-on-year in February from 9.3 percent in January. This double-digit growth was indicative of strong production activities in basic metals, petroleum products and transport equipment. The Nikkei ASEAN Manufacturing Purchasing Manager's Index (PMI) rose to 53.8 in March from 53.6 in February as managers cited optimism based on strong economic conditions, greater client demand and capacity upgrades. Average capacity utilization rates remained high but slowed down to 83.7 percent in February, reflecting its second consecutive month of decline from 83.8 percent in January and 83.9 percent in December last year. Eleven out of the 20 major industries are operating at 80 percent or above capacity utilization, necessitating capital investment to address capacity constraint.

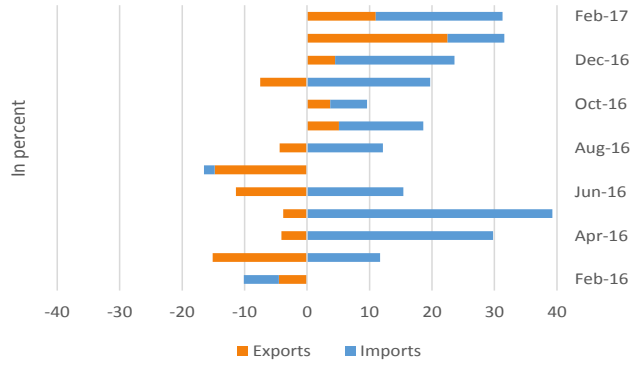
February imports accelerated at its fastest pace in nine months, while exports improved. Imports grew by 20.3 percent year-on-year in February 2017, more than double than the 9.1 percent growth reported in January. Import growth was driven by strong domestic demand for both consumer goods and capital goods imports. In February, consumer goods imports, which account for nearly a fifth of total imports, expanded by 21.5 percent year-on-year, fueled by growth in food and passenger vehicles imports. Capital goods, which account for nearly a third of the total import bill, recovered strongly in February, growing by 18.0 percent year-on-year after contracting by 11.0 percent in January. Meanwhile, exports grew by 11.0 percent year-on-year in February compared to 22.5 percent in January, expanding for the second consecutive month in double digits. This was led by a recovery in exports of electronics products, the country's main export commodity.

Figure 3: Manufacturing activities gathered strength …



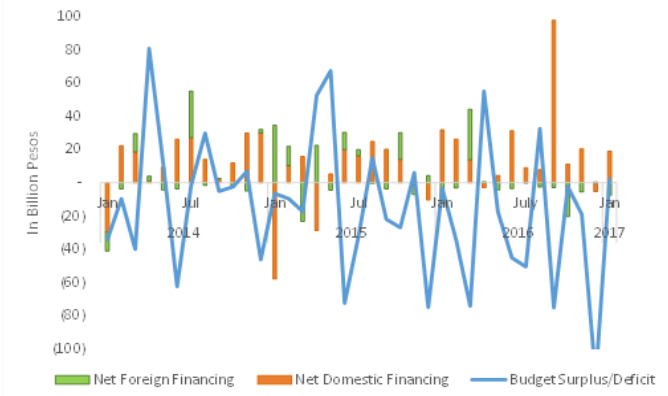
Source: PSA

Figure 4: … while exports continued to improve.



Source: PSA

Figure 5: The government recorded a fiscal surplus in January.



Source: Bureau of the Treasury

Figure 6: Unemployment increased in January as the agriculture sector was hit with significant job losses.

Source: PSA

The government's fiscal balance ended in January with a surplus. Revenues increased in January in nominal terms by 9.9 percent year-on-year, registering a similar strong growth as in January 2016 (9.3 percent). This was in large part due to the acceleration of tax revenue collections which expanded by 13.9 percent year-on-year in nominal terms, doubling from the 6.8 percent growth in January 2016. The Bureau of Internal Revenue (BIR) tax collection improved by 13.7 percent year-on-year in January 2017 (compared to 7.0 percent in January 2016), while the Bureau of Customs (BOC) collection grew by 15.6 percent year-on-year (compared to 5.8 percent in January 2016). Both agencies attribute collection improvements to reforms undertaken in improving tax compliance. Meanwhile, expenditure growth slowed slightly to 6.7 percent year-on-year in nominal terms, compared to 7.3 percent a year ago, largely due to a decline in interest payments. As a result, the government's fiscal balance in January swung into a Php2.2 billion surplus compared to a Php3.4 billion deficit in January 2016 while the primary balance increased further to Php44.6 billion.

Commercial bank lending continued to expand at around 18 percent year-on-year. During February, both household and firm credit growth also remained in double-digits. Household credit increased to 24.6 percent year-on-year in February from 23.7 percent in January, given upticks in salary-based general consumption loans and motor vehicles loans. Firm credit grew by 17.6 percent year-on-year in February which represents a minimal change from the 17.5 percent in January. Credit growth at the firm level was primarily driven by substantial growth in the information and communication sector; the professional activities and arts, and the entertainment and recreation sectors. Meanwhile, non-performing loans as a share of the total loan portfolio for the Philippine banking system stood at 2.0 percent in January. The latest available capital adequacy ratio of 15.6 percent indicates stability of the Philippines banking sector.

Largely due to weather-related effects in agriculture, the unemployment rate increased in January to 6.6 percent from 5.7 percent a year ago. Based on the January round of the Philippines' Labor Force Survey, a total of 1.3 million jobs were shed since January 2016, with two thirds of job losses in the agriculture sector, including due to the damages caused by the recent typhoons Nina and Auring which hit the Philippines in December 2016 and January 2017. Meanwhile, the services sector shed an estimated 466,000 jobs since January 2016 mostly as a result of the loss of temporary election-related jobs in the services sector. However, the underemployment rate showed a significant improvement in January, declining to 16.3 percent from 19.7 percent in the same period in 2016. This translates into 1.6 million less underemployed workers and is the lowest January underemployment rate reported since 2006.

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