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Philippines Monthly Economic Developments

December 2018

THE WORLD BANK
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- The Philippines registered its widest merchandise trade deficit in October as imports continued its strong expansion and export growth remains subdued.
- The headline inflation rate eased from 6.7 percent year-on-year in October to 6.0 percent in November.
- Labor market remains tight in October while underemployment improved.

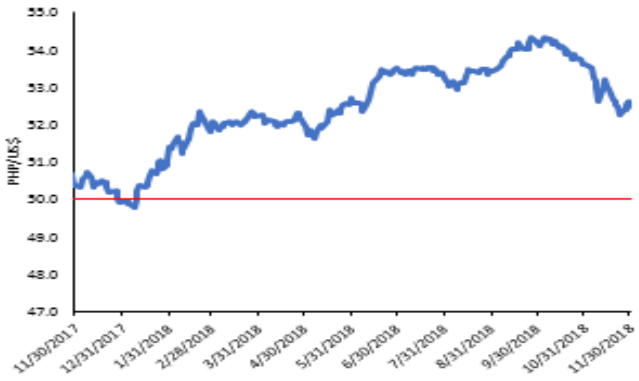
The Philippines registered its widest merchandise trade deficit in October as imports continued its strong expansion and export growth remains subdued. Import growth accelerated to 21.4 percent year-on-year in October from 17.4 percent a year ago, although slightly less than the 26.1 percent growth in September. Faster import growth was fueled by robust import growth in raw materials and intermediate goods (22.2 percent) and capital goods (21.2 percent). Meanwhile, merchandise export growth moderated to 3.3 percent year-on-year in October from 17.4 percent a year ago, slightly higher than the 0.8 percent growth in September. Softer export growth was primarily driven by the sharp growth slowdown in electronics products (0.6 percent in October 2018 vs 28.6 in October 2017), and the contraction of agriculture exports (-13.7 percent in October 2018 vs 16.1 percent in October 2017). As a result, the Philippines' merchandise trade deficit widened to its largest level so far in 2018 at US$4.2 billion, which is 62.9 percent higher than the merchandise trade deficit during the same period a year ago.

The Philippine peso sustained its month-on-month appreciation in November. In November, the Philippine peso closed at Php/US$52.61 and registered a higher month-on-month appreciation at 1.9 percent compared to 1.2 percent in October. The sustained strength of the peso was driven by both the inflow of remittances due to the holidays and capital inflows due to improved economic prospects as a result of moderating inflation, declining world oil prices, and the central bank's proactive policy response. Nevertheless, the peso still depreciated by 4.3 percent year-on-year in November. Gross international reserves decreased from US$80.3 billion (7.8 months' worth of imports) in November 2017 to US$75.5 billion (6.9 months' worth of imports) in November 2018.

The 12-month headline inflation rate eased from 6.7 percent year-on-year in October to 6.0 percent in November. Food inflation moderated for the second consecutive month, from 9.4 percent in October to 8.0 percent in November, as inflation in the price of key commodities such as rice, corn, meat, and fish eased. In addition, a rapid decline in international crude oil prices throughout November led to a slower rise in the price of electricity, gas, and other fuels in November (4.2 percent) compared to October (8.1 percent). Yet, core inflation increased from 4.9 percent in October to 5.1 percent in November, as inflation accelerated in other categories such as clothing and footwear, furnishing, health, recreation and culture, and restaurant and miscellaneous goods and services.

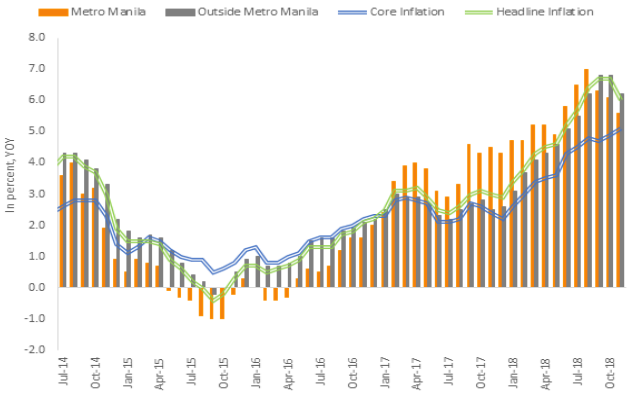
Manufacturing activities expanded at a slower pace in October. The growth of the volume of production index (VoPI) has steadily declined since April 2018, dropping to 3.9 percent

Figure 1: The Philippine peso sustained its strength in November.



Source: Bangko Sentral ng Pilipinas (BSP)

Figure 2: Headline inflation moderated in November but remains high.



Source: Philippine Statistics Authority (PSA)

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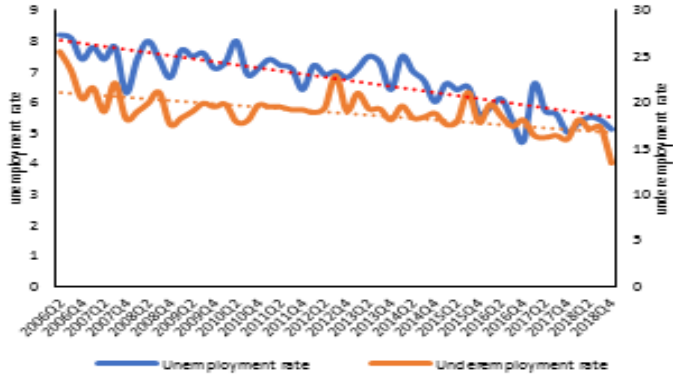
year-on-year in October 2018, similar to September's growth rate. Textiles, petroleum products, and miscellaneous manufactures were among the major industry groups that experienced the highest double-digit growth rates, whereas growth contracted in food manufacturing and fabricated metal production. Meanwhile, the Nikkei Philippines Manufacturing Purchasing Manager's Index (PMI) increased from 54.0 in October to 54.2 in November, driven by strong output and new orders despite a sharp fall in export orders. Average capacity utilization reached 84.3 in October, with more than half of the country's twenty largest industries operating with at least 80 percent capacity utilization rates.

The government registered a fiscal deficit in October, as rapid expenditure growth continued to outpace revenue growth. National government expenditure increased by 35.2 percent year-on-year in nominal terms in October 2018, higher than the 28.2 percent growth in October 2017 and 26.0 percent in September 2018. Meanwhile, public revenue growth accelerated by 20.3 percent year-on-year in nominal terms in October 2018—slightly higher than the 17.4 percent growth registered in October 2017 and significantly higher than the 1.1 percent growth recorded in September 2018. Robust revenue growth was driven by strong growth in tax revenue, which expanded by 19.2 percent year-on-year in nominal terms in October 2018, higher than the 18.5 percent in October 2017 and rebounding from the flat growth registered in September 2018. As a result, the national government posted a fiscal deficit of Php59.5 billion in October, which was more than twice the Php21.8 billion deficit registered in October 2017 but substantially lower than the Php96.2 billion deficit reached in September.

Labor market remains tight in October while underemployment improved. The unemployment rate marginally rose from 5.0 percent in October 2017 to 5.4 percent in July 2018, before falling to 5.1 percent in October 2018. A total of 0.2 million net job losses were registered in October, driven by a loss of 0.4 million and 0.2 million jobs in the agriculture and services sectors, respectively. These job losses were partially offset by an increase of 0.4 million net new jobs in industry, particularly in construction. Meanwhile, the underemployment rate increased from 15.9 percent in October 2017 to 17.2 percent in July 2018, before falling to 13.3 percent in October 2018—the lowest level since 2006. However, the lower unemployment rate may be partly driven by fewer people entering the job market, as the labor force participation rate declined from 62.1 percent in October 2017 to 60.6 percent in October 2018.

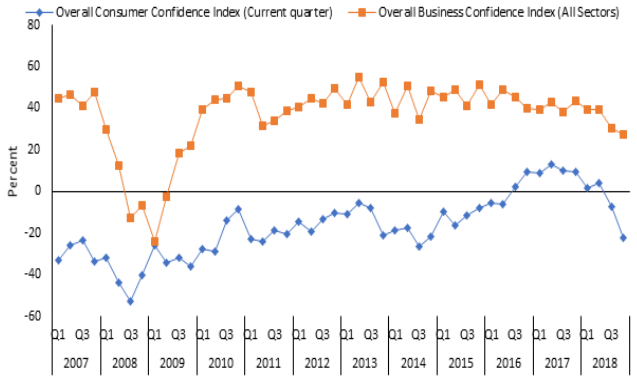
Consumers turned more pessimistic for the second consecutive quarter while business confidence reached its lowest level in nearly a decade. The consumer confidence index dropped from 9.5 percent in Q4 2017 to -7.1 percent in Q3 2018 and -22.5 percent in Q4 2018—its lowest level since Q3 2014. The pessimistic consumer outlook stems mainly from persistent high inflation combined with a lack of increases in household incomes. Similarly, the business confidence index fell from 43.3 percent in Q4 2017 to 30.1 percent in Q3 2018 and 27.2 percent in Q4 2018—its lowest level since Q4 2009. Weaker business sentiment was attributed to higher inflation, the weakening peso, higher borrowing costs, a decline in the volume of sales, and lack of supply of raw materials.

Figure 3: Unemployment slightly worsened while underemployment improved in October.



Source: PSA

Figure 4: Both consumer and business confidence fell for the second consecutive quarter.



Source: BSP

Selected Economic and Financial Indicators								
	2016	2017	Q1 2018	Q2 2018	Q3 2018	Sep-18	Oct-18	Nov-18
Real GDP growth, at constant market prices	6.9	6.7	6.6	6.2	6.1			
Private consumption	7.2	5.9	5.7	5.9	5.2			
Government consumption	8.8	7.1	13.6	11.9	14.3			
Gross fixed capital investment	26.6	9.5	8.8	21.2	16.5			
Exports, goods and services	11.7	19.6	6.5	12.6	14.3			
Imports, goods and services	20.5	18.2	9.6	18.5	18.9			
Industry Performance								
Value of Production Index	6.2	-0.7	17.8	24.0	8.2	3.7	3.1	
Volume of Production Index	11.5	0.3	18.7	23.0	8.2	4.0	3.9	
Capacity Utilization	83.5	83.8	84.2	84.3	84.2	84.2	84.3	
Nikkei ASEAN Purchasing Managers' Index		53.2	51.3	53.1	51.6	52.0	54.0	54.2
Monetary and Banking sector								
Headline Consumer Price Index	1.3	2.9	3.8	4.8	6.3	6.7	6.7	6.0
Core Consumer Price Index	1.5	2.5	3.0	3.8	4.7	4.7	4.9	5.1
Domestic liquidity (M3)	12.5	13.3	13.7	13.4	10.3	9.7	8.0	
Credit growth	16.6	17.8	17.2	17.9	16.7	16.1	16.8	
Business loans	13.5	17.4	17.0	18.1	17.2	16.3	17.4	
Consumer loans	20.5	20.5	19.1	16.5	13.3	14.4	12.0	
Fiscal sector						**(In billions Php)**		
Fiscal balance (% of GDP)	-2.4	-2.2	-3.9	-0.9	-4.4	-96.2	-59.9	
Total Revenue (% of GDP)	15.2	15.7	15.8	18.2	16.6	202	246.8	
Tax Revenue (% of GDP)	13.7	14.2	14.3	16.1	15.2	183	222.2	
Total Expenditure (% of GDP)	17.6	17.9	19.7	19.2	21.0	299	306.6	
National government debt (% of GDP)	42.1	42.1	42.6	42.5	42.3	7,160	7,167	
Stock market								
PSEi (month-end value)	6,841	8,558	7,980	7,194	7,277	7,277	7,140	7,368
External accounts								
Current account balance (% of GDP)	-0.4	-0.7	-0.2	-3.6				
Exports of merchandise goods (growth rate)	-2.5	18.4	-5.4	-1.3	2.5	0.8	3.3	
Imports of merchandise goods (growth rate)	18.4	13.6	7.2	20.0	19.5	26.1	21.4	
Net foreign direct investment (in million US$)	8,279	10,057	2,227	3,528				
Balance of payment (% of GDP)	-0.1	-0.3	-1.6	-2.5				
International reserves (in million US$)	83,515	81,273	80,722	78,779	76,531	74,939	74,772	
Import cover	9.7	8.4	7.6	7.2	7.0	6.8	6.8	
Nominal exchange rate	47.49	50.40	51.45	52.45	53.54	53.94	54.00	
Labor Market								
Unemployment rate	5.5	5.7	5.3	5.5	5.4		5.1	
Underemployment rate	18.4	16.2	18	17	17.2		13.3	
Sentiments								
Consumer confidence index (end of period)	9.2	9.5	1.7	3.8	-7.1		-22.5	
Business confidence index (end of period)	39.8	43.3	39.5	39.3	30.1		27.2	

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