Philippines Monthly Economic Developments

November 2018

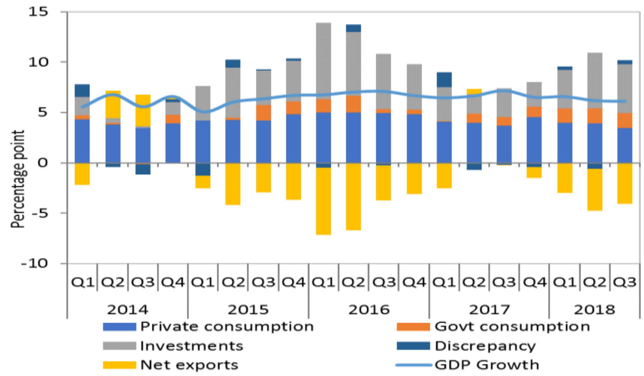
- Philippine economic growth moderated to 6.1 percent year-on-year in the third quarter.
- Headline inflation held steady in October while food inflation moderated for the first time since May.
- The Philippine peso appreciated 1.2 percent month-on-month in October.
- The fiscal deficit widened reaching 3 percent of GDP as rapid expenditure growth outpaced revenue growth.

Philippine economic growth moderated to 6.1 percent year-on-year in the third quarter. This was below the 7.2 percent year-on-year growth rate in the third quarter of 2017, and the upward-revised 6.2 percent growth rate in the second quarter of 2018. Capital formation drove third-quarter growth, fueled by the robust expansion in durable equipment and construction sectors, accelerating to 16.7 percent year-on-year from 10.3 percent in the third quarter of 2017. However, third quarter capital formation growth was lower than the 21.5 percent growth rate in the second quarter. Meanwhile, rising inflation took a toll on private consumption growth which moderated to 5.2 percent in the third quarter from 5.4 percent in the third quarter last year. This represents a significant moderation compared to the 5.9 percent recorded in the second quarter of 2018. In contrast to the decline in private consumption growth, public consumption grew 14.3 percent in the third quarter, accelerating from 8.3 percent in the third quarter of 2017. Net-export, however, remained a drag to economic growth, as import growth outpaced export growth. Import growth was fueled by strong imports of capital goods while exports moderated due to weaker external demand.

The services sector drove economic growth while the agriculture sector underperformed. The services sector expanded by 6.9 percent year-on-year in the third quarter, below the 7.3 percent in the third quarter of 2017, fueled by growth in public and financial intermediation services. The sector's growth performance was similar to the 6.8 percent growth in the second quarter of 2018. The industry sector experienced a similar moderation, driven by weaker growth in the manufacturing sector. Growth of the industry sector decelerated to 6.2 percent in the third quarter year-on-year from 8.1 percent in the same period in 2017. This represents a slight moderation compared to the 6.5 percent of the second quarter of 2018. Lower growth in industry was driven by slower growth in the manufacturing sector, which decelerated to 4.0 percent in the third quarter from 10.1 percent in the same period in 2017. This continues the downward growth trend for the manufacturing industry, which registered 5.5 percent growth in the second quarter of 2018. However, the agriculture sector continued to underperform, highlighting structural issues and vulnerabilities of the sector. The agriculture sector contracted by 0.4 percent in the third quarter year-on-year, a reversal from the 2.6 percent growth in the third quarter of 2017. This growth performance is close to the 0.3 percent contraction in the second quarter of 2018.

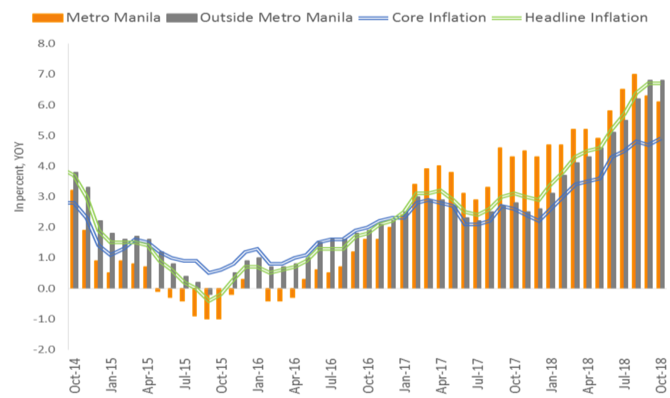
While manufacturing growth slowed in September, it is projected to accelerate in the next few months. The volume of production index (VoPI) expanded by 4.0 percent in year-on-year in September, an improvement from the 5.7 percent contraction in September last year but below the 8.8 percent in August. Although factory outputs such as textiles, machinery (except electrical), and petroleum products accelerated in

Figure 1: Economic growth moderated to 6.1 percent year-on-year in the third quarter of 2018.



Source: Philippine Statistics Authority (PSA)

Figure 2: Headline inflation held steady at 6.7 percent in October.



Source: PSA

September, tobacco and fabricated metal products exhibited weak growth. Nevertheless, the manufacturing sector growth's prospects are positive, reflected in the rise of Nikkei Philippines Manufacturing Purchasing Managers' Index (PMI) to 54.0 in October from 52.0 in September. Many surveyed firms reported an increased in outputs and an influx of new orders, signaling a rise in demand for manufactured goods in the coming months.

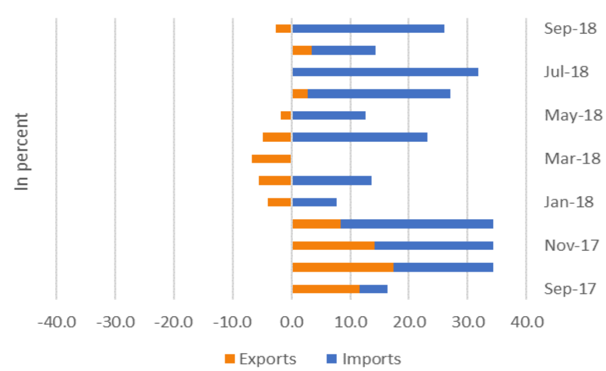
A surge in imports and a contraction in exports resulted in the widest merchandise trade gap so far in 2018. Import growth accelerated to 26.1 percent year-on-year in September from 4.8 percent in September 2017 and 11.0 percent in August. The acceleration was driven by strong growth in all the major import categories, led by the growth in raw materials and intermediate goods, capital goods, and consumer goods imports. Meanwhile, merchandise exports contracted by 2.6 percent year-on-year in September, a reversal from the 11.6 percent growth in September 2017 and 3.4 percent growth in August driven by the reduction in manufactured goods exports, which accounted for 86.3 percent of total export. As a result, the Philippines' trade deficit more than doubled reaching US$3.9 billion in September compared to US$1.8 billion in September 2017.

Headline inflation held steady in October while food inflation moderated for the first time since May. The 12-month headline inflation rate remained steady at 6.7 percent in October, same as of September but higher than the 3.1 percent in October 2017. Unlike in previous months, food inflation moderated in October despite a marginal increase in rice inflation. Energy and transport inflation increased due to an upward adjustment in the prices of domestic petroleum products, which was mainly influenced by higher international crude oil prices. The year-to-date headline inflation reached 5.1 percent in October, significantly higher than the 2.8 percent in the same period of last year. Excluding volatile food and energy items, the core inflation rate rose to 4.9 percent in October from 4.7 percent in September and 2.6 percent in October 2017.

The Philippine peso appreciated 1.2 percent month-on-month in October from Php/US$54.25 to Php/US$53.61. General positive sentiments toward emerging economies and early holiday season inflow of remittances may have contributed to the appreciation of the peso. On an annual basis, however, the peso depreciated 3.4 percent up to end of October 2018. Moreover, gross international reserves moderated to US$74.8 billion in October from US$80.4 billion in October last year. At its current level, international reserves cover 6.8 months' worth of imports, down from 7.9 months' worth in October last year.

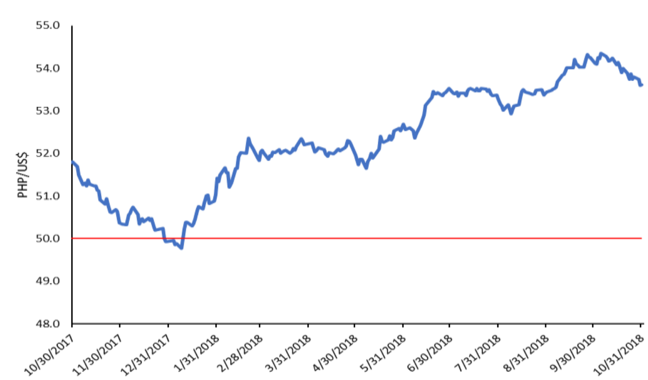
The fiscal deficit widened in the first three quarters of 2018, as rapid expenditure growth outpaced revenue growth. National government expenditure expanded by 23.6 percent year-on-year through the first three quarters of 2018 and reached 20.0 percent of GDP compared to 17.8 percent over the same period in 2017. Meanwhile, national government revenue grew by 17.2 percent year-on-year and reached 16.9 percent of GDP through the first three quarters. Robust revenue growth was fueled by strong growth in tax revenue, which expanded by 15.7 percent year-on-year in the first three quarters of 2018 compared to 11.3 percent a year ago. As a result, the fiscal deficit widened to 3.0 percent of GDP through the first three quarters of 2018 from 1.9 percent over the same period in 2017.

Figure 3: The Philippines registered its widest trade gap in 2018 amid surging import growth in September.



Source: PSA

Figure 4: The Philippine peso recovered in October.



Source: Bangko Sentral ng Pilipinas

Selected Economic and Financial Indicators								
	2016	2017	Q1 2018	Q2 2018	Q3 2018	Aug-18	Sep-18	Oct-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	8.8	3.7	
Volume of Production Index	11.5	0.3	18.7	23.0	8.2	8.8	4.0	
Capacity Utilization	83.5	83.8	84.2	84.3	84.2	84.3	84.2	
Nikkei ASEAN Purchasing Managers' Index		53.2	51.3	53.1	51.6	51.9	52.0	54.0
Monetary and Banking sector								
Headline Consumer Price Index	1.3	2.9	3.8	4.8	6.3	6.4	6.7	6.7
Core Consumer Price Index	1.5	2.5	3.0	3.8	4.7	4.8	4.7	4.9
Domestic liquidity (M3)	12.5	13.3	13.7	13.4	10.3	10.4	9.7	
Credit growth	14.3	17.8	17.2	17.9	14.4	17.4	16.1	
Business loans	13.5	17.4	17.0	18.1	14.7	17.9	16.3	
Consumer loans	20.5	20.5	19.1	16.5	12.7	13.6	14.4	
Fiscal sector						**(In billions Php)**		
Fiscal balance (% of GDP)	-2.4	-2.2	-3.9	-0.9	-4.4	-2.6	-96.2	
Total Revenue (% of GDP)	15.2	15.7	15.8	18.2	16.6	257	202	
Tax Revenue (% of GDP)	13.7	14.2	14.3	16.1	15.2	240	183	
Total Expenditure (% of GDP)	17.6	17.9	19.7	19.2	21.0	260	299	
National government debt (% of GDP)	42.1	42.1	42.6	42.5	42.3	7,103	7,160	
Stock market								
PSEi (month-end value)	6,841	8,558	7,980	7,194		7,856	7,277	7,140
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		3.4	-2.6	
Imports of merchandise goods (growth rate)	18.4	13.6	7.2	20.0		11.0	26.1	
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	77,934	74,939	74,772
Import cover	9.7	8.4	7.6	7.2	7.0	7.1	6.8	6.8
Nominal exchange rate	47.49	50.40	51.45	52.45	53.54	53.27	53.94	54.00
Labor Market								
Unemployment rate	5.5	5.7	5.3	5.5				
Underemployment rate	18.4	16.2	18	17				
Sentiments								
Consumer confidence index (end of period)	9.2	9.5	1.7	3.8				
Business confidence index (end of period)	39.8	43.3	39.5	39.3				

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