

# Philippines Monthly Economic Developments

August 2019

- In the Second Quarter of 2019, the Philippine economy expanded by its slowest pace in over four years, driven by a major contraction in investment largely driven by delayed budget approval and spending ban due to the elections.
- Weakness in manufacturing sector's persisted in June 2019.
- Inflation further eased in July to its slowest pace in two years.

## The Philippine economy expanded by its slowest pace in over four years in the second quarter of 2019, driven largely by contraction in investment.

Economic growth decelerated to 5.5 percent year-on-year in Q2 2019 from 6.2 percent in the previous year, driven by the decline in investments in the construction sector and durable equipment investments. The contraction in investment growth is related to the lingering effect of the delayed passage of the 2019 budget and the spending ban during the election period which lead to a contraction in public construction. Slowing global demand and uncertainty caused by corporate tax reform (TRABAHO) contributed to a contraction in durable equipment investment. Private consumption spending decelerated to 5.6 percent from 6.0 percent a year ago despite lower inflation, dampened by worsening consumer confidence. In addition, exports grew by its lowest rate in over four years, impacted by slowing global growth, and policy uncertainty due to the ongoing US-China trade war.

## The services sector fueled growth, while both agriculture and industry struggled.

Growth of the services sector accelerated to 7.1 percent year-on-year in Q2 2019 from 6.5 percent a year ago, fueled by the robust performance of the financial services and wholesale and retail trade sectors. In contrast, the industry sector grew by 3.7 percent year-on-year, its slowest pace in eight years (2.9 percent in Q4 2011), as construction

contracted, and manufacturing activity slowed. Meanwhile, the agriculture sector barely improved, accelerating slightly to 0.6 percent year-on-year in Q2 2019 from 0.3 percent a year ago. The agriculture sector continues to remain unproductive, highlighting its vulnerability to weather related phenomenon, such as the El Nino drought, which led to lower production in key crops such as *Palay*, Corn, and Banana.

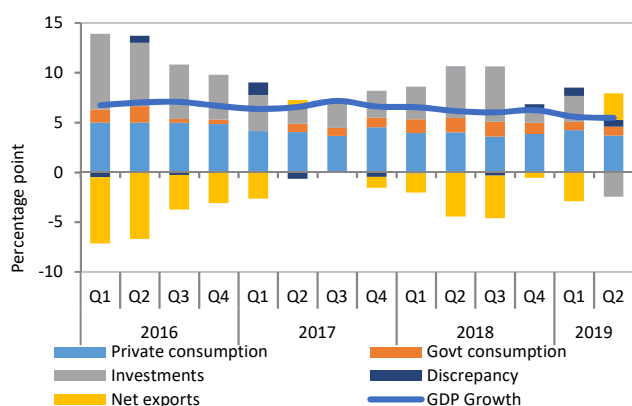
## Weakness in the manufacturing sector persisted in June.

The Volume of Production Index for the manufacturing sector declined by 10.5 percent in June, a deeper contraction than the 9.9 percent in May. The contraction was fueled by the decline in food, electrical equipment, and chemicals manufacturing. The sector's weakness comes amid the backdrop of slowing external demand and mirrors the weakness of global manufacturing and trading activities. Nevertheless, the outlook may improve as the Nikkei Philippines Purchasing Managers' Index registered an increase to 52.1 in July from 51.3 in June.

## The trade gap shrank for the third consecutive month in June.

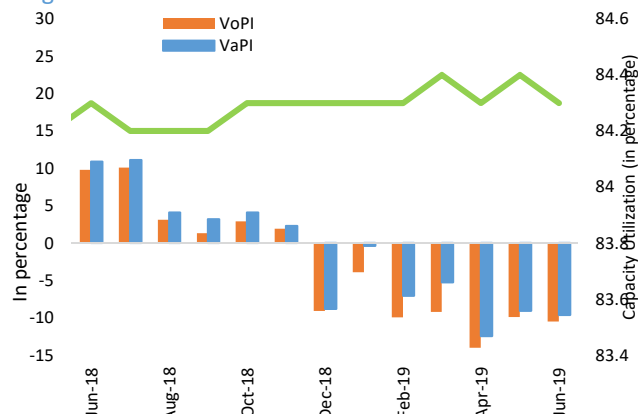
Merchandise exports grew by 1.5 percent, year-on-year, improving modestly from May (1.0 percent). Electronic products, which account for 59.0 percent of total export sales, continued to drive exports, growing by 4.3 percent, albeit significantly decelerating from its performance in the same month last year (14.9 percent) and in May (6.2 percent). On

Figure 1: The Philippine economy grew at its slowest pace in four years.



Source: Philippine Statistics Authority (PSA)

Figure 2: The manufacturing sector contracted for the seventh straight month in June.



Source: PSA

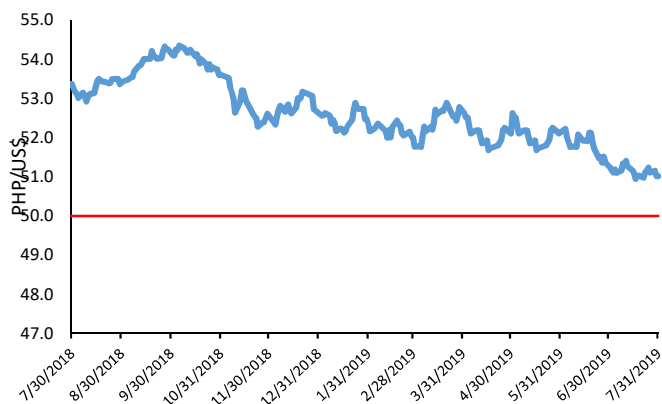
the other hand, imports contracted by 10.4 percent, along its downward trajectory for the third month. Nine of the country's top ten commodity imports registered negative growth. Raw materials and intermediate goods fell by 16.5 percent, while capital goods declined by 3.4 percent. Steady export growth and the double-digit decline in imports led to the balance of trade deficit narrowing from US\$3.3 billion in May to US\$2.5 billion in June.

**Higher net foreign buying boosted the Philippine Stock Exchange index (PSEi) in July.** The PSEi closed at 8,045 in July, rising by 0.6 percent month-on-month from the closing of 7,999 in June. It reached a high of 8,365 in mid-July, its highest level since March 2018. The stock market robustness was supported by net foreign buying, totaling Php4.1 billion in July, a substantial improvement from the net foreign selling of Php7.1 billion in June. Market sentiment was enhanced with news of dovish stance by the US Federal Reserve and the ECB, and supportive policies by the BSP.

**The Philippine peso appreciated in July.** Along with the strong stock market performance, the Philippine peso appreciated by 4.4 percent year-on-year to close at Php/US\$51.01 in July, a 0.7 percent appreciation on a month-on-month basis. The peso appreciation coincided with strong net foreign buying. As a result, the international reserves rose to US\$85.2 billion in July from a downward-revised US\$84.9 billion in June. The reserves can cover 7.4 months' worth of imports and payment of services and income, the same import coverage as in June.

**Inflation further eased in July to its slowest pace in two years.** Headline inflation slowed to 2.4 percent year-on-year in July from the previous month's 2.7 percent. The moderating inflation yielded a 3.3 percent year-to-date inflation in July, lower than the 4.5 percent last year, and within BSP target

Figure 3: The Philippine peso appreciated further in July.



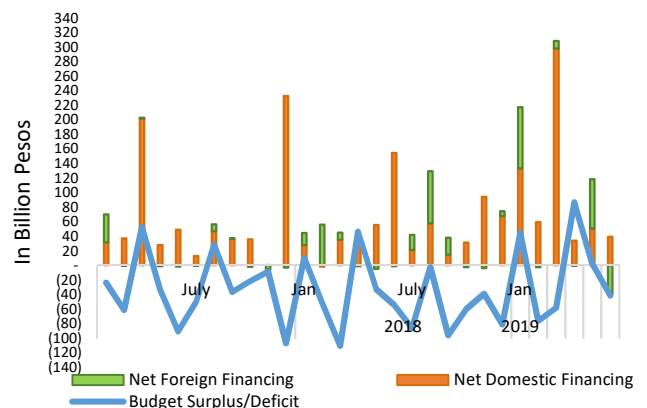
Source: Bangko Sentral ng Pilipinas (BSP)

range of 2-4 percent. The price of the major component of the headline inflation food and non-alcoholic beverages further moderated to 1.9 percent in July from 2.7 percent in June, largely contributed by the lower price of rice. Inflation in energy items also slowed due to a cutback in the price of liquified petroleum gas and downward adjustments in electricity rates. Core inflation lowered to 3.2 percent in July from previous month's 3.3 percent. The BSP trimmed its key policy rate by 25 basis points to 4.25 percent in early August, as the inflation continues to moderate and as growth slowed in the first two quarters of the year.

**The Philippine government posted a reduced budget deficit in June.** The Philippine government registered a Php41.8 billion deficit in June, a 22.9 percent decline compared to a year ago. Public spending contracted, fueled by a 39.5 percent decline in infrastructure spending. However, the growth of current operating expenditures accelerated in June, as the government rolled out the 4<sup>th</sup> and last tranche of the salary standardization adjustments and the increase in salaries and pensions of military and uniformed personnel. Tax revenue growth remained robust, expanding by double-digits for the fourth time in the past five months.

**Domestic liquidity expanded, while bank lending slowed down in June.** Domestic liquidity (M3) grew by 6.4 percent to about Php11.8 trillion in June, unchanged from May. Demand for credit eased but remained the main driver of money supply growth. Domestic claims grew due to the sustained growth in credit to the private sector. Outstanding loans of universal and commercial banks, net of reverse repurchase placements, grew at 10.5 percent in June from 11.9 percent in May. Loans for production activities and household consumption both increased at a slower pace.

Figure 4: The government posted a budget deficit in June, but spending remained weak.



Source: Bureau of the Treasury

## Developments to Watch

- Manufacturing output: will the contraction continue or will output start to stabilize?
- Budget execution: will public expenditure start to pick up to offset the slow start to the year?
- Inflation: will the declining trend continue?

Selected Economic and Financial Indicators						May-19	Jun-19	Jul-19
	2017	2018	Q4 2018	Q1 2019	Q2 2019			
<b>Real GDP growth, at constant market prices</b>	6.7	6.2	6.3	5.6	5.5			
Private consumption	5.9	5.6	5.3	6.3	5.6			
Government consumption	7.0	12.8	12.6	7.4	6.9			
Gross fixed capital investment	9.5	14.0	8.5	5.7	-4.8			
Exports, goods and services	19.5	11.5	14.4	5.8	4.4			
Imports, goods and services	18.1	14.5	12.4	8.3	0.0			
<b>Industry Performance</b>								
Value of Production Index	-1.4	8.0	-1.4	-3.7	-7.5	-2.1	-9.6	
Volume of Production Index	-0.5	7.2	-2.3	-7.3	-9.5	-4.0	-10.5	
Capacity Utilization	83.8	84.2	84.3	84.3	84.3	84.4	84.3	
Nikkei Philippines Purchasing Managers' Index	53.2	52.5	53.8	51.9	51.1	51.2	51.3	52.1
<b>Monetary and Banking sector</b>								
Headline Consumer Price Index	2.9	5.2	5.9	3.8	3.0	3.2	2.7	2.4
Core Consumer Price Index	2.5	4.1	4.9	3.6	3.4	3.5	3.3	3.2
Domestic liquidity (M3)	13.3	11.6	8.7	7.1	6.6	6.4	6.4	
Credit growth	17.8	16.4	15.1	11.9	10.7	10.0	10	
Business loans	17.4	17.2	16.2	13.3	10.7	11.0	9.4	
Consumer loans	20.5	15.1	11.3	10.0	11.3	11.0	11.9	
<b>Fiscal sector</b>						<b>(In billions Php)</b>		
Fiscal balance (% of GDP)	-2.2	-3.2	-3.6	-2.1	1.0	2.5	-41.8	
Total Revenue (% of GDP)	15.7	16.4	14.9	16.3	18.6	317.2	233.9	
Tax Revenue (% of GDP)	14.2	14.7	13.6	14.6	16.5	265.4	210.5	
Total Expenditure (% of GDP)	17.9	19.6	18.6	18.5	17.6	314.7	275.7	
National government debt (% of GDP)	42.1	41.9	41.9	44.0	43.7	7,916	7,869	
<b>Stock market</b>								
PSEi (month-end value)	8,558	7,466	7,466	7,921	7,974	7,970	7,999	8,046
<b>External accounts</b>								
Current account balance (% of GDP)	-0.7	-2.4	-2.6	-1.5				
Exports of merchandise goods (growth rate)	18.4	-0.3	-0.7	-3.1	1.2	1.0	1.5	
Imports of merchandise goods (growth rate)	13.6	9.4	3.1	4.7	-5.9	-5.4	-10.4	
Net foreign direct investment (in million US\$)	10,057	9,802	1,712	1,941				
Balance of payment (% of GDP)	-0.3	-0.7	3.0	4.7				
International reserves (in million US\$)	81,273	78,140	76,529	83,613	84,722	85,358	84,932	85,183
Import cover	8.4	7.1	6.7	7.4	7.4	7.4	7.4	7.4
Nominal exchange rate	50.40	52.68	53.27	52.36	52.06	52.26	51.80	51.14
<b>Labor Market</b>								
Unemployment rate	5.7	5.3	5.1	5.1				
Underemployment rate	16.2	16.4	13.3	13.5				
<b>Sentiments</b>								
Consumer confidence index (end of period)	9.5	-22.5	-22.5	-0.5	-1.3		-1.3	
Business confidence index (end of period)	43.3	27.2	27.2	35.2	40.5		40.5	