

Philippines Monthly Economic Developments

June 2018

- The Philippine Stock Exchange index (PSEi) declined in May for the fourth consecutive month, closing at its lowest level in over a year.
- The Philippine peso slipped to a 12-year low and international reserves declined in May.
- Exports declined for the third consecutive month while import growth accelerated strongly.
- Manufacturing activities significantly expanded in May, in line with strong consumer demand.
- High inflationary pressure persisted in May with inflation remaining above 4 percent.
- The government registered a fiscal surplus in April while both revenue and expenditure growth significantly accelerated.
- Unemployment eased but underemployment increased again in April.
- Consumer confidence increased in the second quarter of 2018 and business optimism remained steady.

The Philippine Stock Exchange index (PSEi) declined in May for the fourth consecutive month, closing at its lowest level in over a year.

The PSEi contracted by 4.1 percent month-on-month in May, more than the 2.0 percent contraction registered in April, to close the month at 7,497. This was its lowest level since April 2017. The continued retreat of the PSEi was driven by a mix of domestic and external factors. Domestically, rising inflation and a weakening peso have caused higher risk aversion among investors. Externally, increasing global uncertainty due to ongoing trade disputes and geopolitical tensions lowered investors appetite in emerging market assets. As a result, foreign investors have continued to liquidate shares, with net-foreign selling amounting to Php9.1 billion in May, slightly more than the Php8.9 billion in net-foreign selling in April. Since end-2017, the PSEi has declined by 12.4 percent and contracted by 4.3 percent year-on-year compared to end-May 2017.

The Philippine peso slipped to a 12-year low and international reserves declined in May.

The Philippine peso closed at Php/US\$52.69 in end-May, representing a 5.7 percent year-on-year depreciation from the closing at Php/US\$49.87 in May 2017. This was the weakest closing of the peso since July 2006. The weakness of the peso has been traced to the widening trade deficit, marked by a slowdown in exports and strong imports, and the interest rate hikes in the United States. The peso depreciation in May coincided with a decline in the gross international reserves (GIR). The GIR decreased to US\$79.0 billion in May 2018 from US\$82.1 billion in May last year. At its current level, the GIR covers 7.7 months' worth of import of goods and payments of services, compared with 8.6 months in May 2017. Meanwhile, net foreign direct investment increased to US\$2.2 billion in the first quarter of 2018 from US\$1.5 billion in the first quarter of 2017.

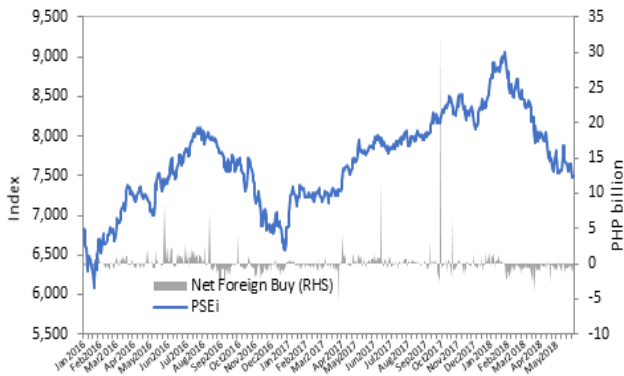
Exports declined for the third consecutive month while import growth accelerated strongly.

Merchandise exports contracted for the third consecutive month in April, declining by 8.5 percent year-on-year, a significant reversal from the 30.4 percent growth recorded in April 2017. Similar to the previous month, the contraction in exports was driven by a 6.3 percent year-on-year contraction in manufacturing exports, which accounted for 84.2 percent of the total export bill, and by a sharp decline in agriculture exports, which contracted by 35.9 percent year-on-year in April. At the same time, import growth rebounded strongly in April after having registered flat growth in the previous month, expanding by 22.2 percent year-on-year compared to 4.0 percent in April a year ago. Import growth was equally driven by strong imports of consumer goods (29.9 percent, year-on-year) and capital goods (29.3 percent), but less so by raw materials and intermediate goods, (11.8 percent).

Manufacturing activities significantly expanded in May, in line with strong consumer demand.

The volume of production index (VoPI) grew by 31.1 percent year-on-year in April, significantly faster than the 0.1 percent growth in April 2017. Factory outputs have been growing at double-digits since this January. Output expanded strongly in printing and petroleum production, while contracting in the production of furniture and fixtures, and footwear and wearing apparel. Average capacity utilization rates inched up further to 84.3 in April from 84.2 percent in March, and compared to 83.7 percent in April last year. Twelve of the 20 major industries are now operating at 80 percent and above capacity. Factory activities are likely remain strong in the coming months as the Nikkei Philippines Purchasing Managers' Index (PMI) rose to 53.7 in May from 52.7 in April. This was attributed to steady consumer demand despite rising headline inflation.

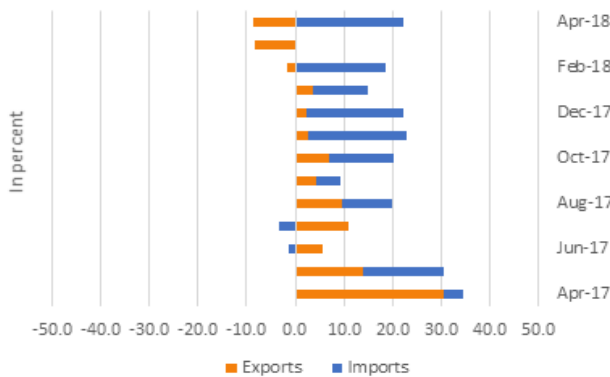
Figure 1: The PSEi fell to its lowest level in over a year...



Source: Philippine Stock Exchange

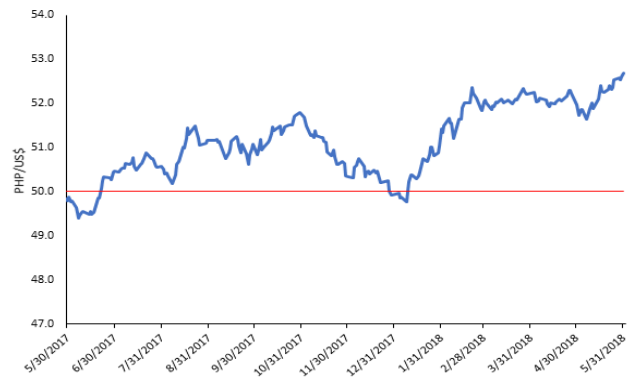
High inflationary pressure persisted in May with inflation remaining above 4 percent. The 12-month consumer price index (CPI) rose further to 4.6 percent in May from 4.5 percent in April, and compared to 2.9 percent in May 2017. The rise in inflation was attributed to higher energy and transport prices, and the continued increase in the prices of alcoholic beverages and tobacco. Food inflation also accelerated in May given higher prices for fish, corn, sugar and vegetables. Inflation pressure has been exacerbated by the weakness of the peso and the rising prices of global crude oil. Excluding the volatile food and energy items, core inflation rose to 3.6 percent year-on-year in May from 3.5 percent in April, and compared to 2.7 percent in May 2017. Year-to-date core inflation averaged 3.2 percent. Year-to-date headline inflation hit 4.1 percent, exceeding the Central Bank's 2-4 percent target range. As part of its financial market reform agenda, the monetary board announced on May 24th another percentage point reduction in

Figure 3: Exports contracted for the second consecutive month, while import growth accelerated sharply.



Source: Philippine Statistics Authority (PSA)

Figure 2: ... and the Philippine peso slipped to a 12-year low.

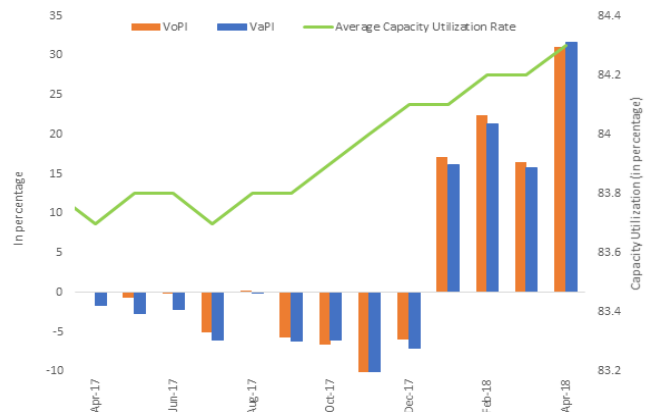


Source: Bangko Sentral ng Pilipinas

the reserve requirement ratio to 18.0 percent, which followed the 1 percentage point reduction in March 2018.

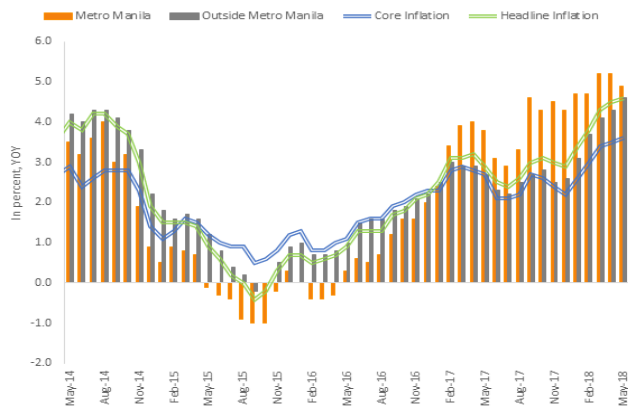
Domestic liquidity continued to grow in April as credit growth expanded at double-digits. Domestic liquidity (M3) reached Php10.9 trillion in April, growing by 14.2 percent year-on-year, faster than the 11.5 percent growth in April last year. The liquidity growth was driven by commercial lending which expanded by 19.9 percent in April, higher than the 18.5 percent growth in April 2017. Lending to firms, which constituted 88.5 percent of the banks' total loan portfolio, grew by 19.6 percent in April compared to 18.4 percent in the same month last year, and went largely to the wholesale and retail trade, and financial and insurance activities. Lending to households grew at a slower rate of 19.0 percent year-on-year in April compared to the 24.3 percent recorded in April 2017, due to the slower growth in motor vehicle, salary and other types of household loans.

Figure 4: Manufacturing activities expanded again by double-digit in April.



Source: PSA

Figure 5: Inflationary pressure persisted in May.



Source: PSA

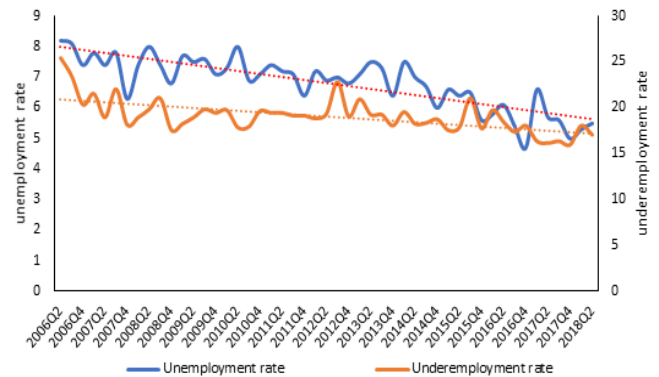
The government registered a fiscal surplus in April while both revenue and expenditure growth accelerated significantly.

Government expenditures expanded by 42.7 percent year-on-year in nominal terms in April, reaching Php261.2 billion, a reversal from the 4.5 percent contraction recorded in April 2017. Strong expenditure growth was driven by the significant acceleration in both capital outlays, which grew in nominal terms by 79.7 percent year-on-year in April, and current expenditures, which expanded by 28.6 percent. In particular, the national government’s infrastructure program achieved rapid growth, growing in nominal terms by 95.9 percent year-on-year in April. Meanwhile, national government revenues continued to experience robust growth, expanding in nominal terms by 30.4 percent year-on-year in April to reach Php307.6 billion, a sharp contrast from the 4.4 percent contraction recorded over the same period a year ago. Tax revenues expanded by 27.9 percent year-on-year in April, a significant acceleration from the 3.8 percent growth recorded in April 2017. As a result, the national government registered a narrower fiscal surplus, declining by 12.3 percent year-on-year in nominal terms to reach Php46.3 billion in April compared to Php52.8 billion in April 2017.

Unemployment eased slightly but underemployment increased again in April.

The unemployment rate declined slightly to 5.5 percent in April compared to 5.7 percent in April 2017, and was significantly lower than its long-term average (2006-2017) of 6.8 percent. This was a result of higher annual net-job creation in April which stood at 0.6 million jobs. Strong

Figure 6: Unemployment eased in April 2018, although underemployment increased compared to April last year.



Source: PSA

net-job creation was recorded for both the services (0.8 million) and industry sectors (0.6 million), yet in the agriculture sector job losses were amounting to 0.7 million. Meanwhile, the underemployment rate increased again to 17.0 percent in April compared to 16.1 percent in April 2017. While lower than the 19.0 percent long-term average, it is suggesting that the quality of jobs remains of concern.

Consumer confidence increased in the second quarter of 2018 and business optimism remained steady.

Consumers turned more optimistic in the second quarter of 2018 compared to the previous quarter, according to the *Bangko Sentral ng Pilipinas’* (BSP) Consumer Expectations Survey. The overall consumer confidence index increased to 3.8 percent in the second quarter of 2018, from 1.7 percent in the first quarter of 2018. The positive uptick in consumer confidence was due to expectations of consumers on improvements in peace and order, additional income, and the availability of more jobs. Meanwhile in the BSP’s Business Expectations Survey, firms’ overall confidence index declined slightly to 39.3 percent in the second quarter of 2018 compared to 39.5 percent in the first quarter of 2018. Concerns due to higher inflation, as oil and fuel prices increase, and the depreciating peso dampened business optimism slightly during the second quarter of 2018. However, overall optimism in the Philippine economy continued and was attributed to higher demand during the summer season, the pursued implementation of government infrastructure projects, and the perceived positive impact of the recently enacted tax law.

Please contact Birgit Hansl: bhansl@worldbank.org

Prepared by a World Bank team under the guidance of Birgit Hansl, consisting of Kevin Chua, Kevin Thomas Cruz and Isaku Endo.