

# Philippines Monthly Economic Developments

March 2018

- The Philippine Stock Exchange index (PSEi) fell in February, impacted by higher global financial market volatility.
- The central bank intervened in the market to manage excessive volatility as the Philippine peso value slid to above the US\$52.00 mark in February.
- Exports recovered in January from their December contraction, while import growth continued in the double-digits.
- Manufacturing activities also rebounded in January following a nearly continuous contraction in the second half of 2017.
- Despite the introduction of a new rebased index, February headline inflation surged to its highest level in more than three years.
- In 2017, expenditures grew slower than revenues, slightly narrowing the fiscal deficit level.
- Business confidence weakened in the first quarter of 2018.
- Underemployment increased in January and underemployment rose significantly.

## **The Philippine Stock Exchange index (PSEi) fell in February, impacted by higher global financial market volatility.**

The PSEi dropped by 3.3 percent month-on-month as of end-February, when rising inflation expectations in the US and the prospect of faster normalization in US monetary policy caused increased global financial market volatility. The decline in the PSEi was accompanied by large net-foreign selling, which totaled Php15.3 billion in February 2018 – the largest since November 2016 (when it registered Php18.8 billion). As a result, the PSEi contracted by 1.0 percent since end-2017, but kept its value still 17.5 percent higher compared to end-February a year ago.

## **The central bank intervened in the market to manage excessive volatility as the Philippine peso value slid to above the US\$52.00 mark in February.**

The peso closed in February at Php/US\$52.03 which represents a 3.5 percent year-on-year depreciation compared to end-February a year ago, and a 1.2 percent month-on-month depreciation from Php/US\$51.42 this January. The weaker peso has been linked to the widening current account deficit, higher net portfolio outflows, and concerns of accelerating domestic inflation. The central bank sold dollar reserves to manage excessive volatility in the market. The Gross International Reserves (GIR) dropped to US\$80.6 billion in February from US\$81.2 billion in the preceding month and US\$81.4 billion in February 2017. At its current level, the GIR can cover 8.2 months' worth of imports of goods and payments of services and primary income, down from 8.7 months in February a year ago.

## **Exports recovered in January from their December contraction, while import growth continued in the double-digits.**

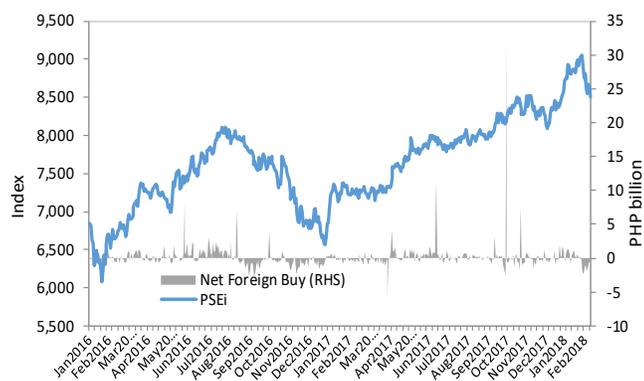
The country's total export revenue grew marginally by 0.5 percent year-on-year in January, reversing the 4.9 percent contraction of December, but remaining significantly below the 22.0 percent growth registered in January a year ago.

Exports of electronics products, which accounted for half of the total export bill, grew by 10.8 percent year-on-year in January, compared to a 15.0 percent in December 2017 and a 7.8 percent contraction recorded in January a year ago. However, the growth of the country's other main exports goods and commodities experienced sharp contractions in January. In particular, exports of agriculture products and non-electronics manufacturing, which cumulatively accounted for nearly two-fifths of the total export bill, contracted by 11.2 percent and 20.2 percent year-on-year, respectively. Meanwhile, import growth continued in the double-digits for the fourth consecutive month. Imports expanded by 11.4 percent year-on-year in January, although less than the 17.6 percent growth in December, and similar to the 12.2 percent growth recorded in January 2017. This was driven by robust growth in capital goods imports and raw materials and intermediate goods imports, which expanded by 16.9 percent and 14.9 percent year-on-year, respectively.

## **Manufacturing activities also rebounded in January following a nearly continuous contraction in the second half of 2017.**

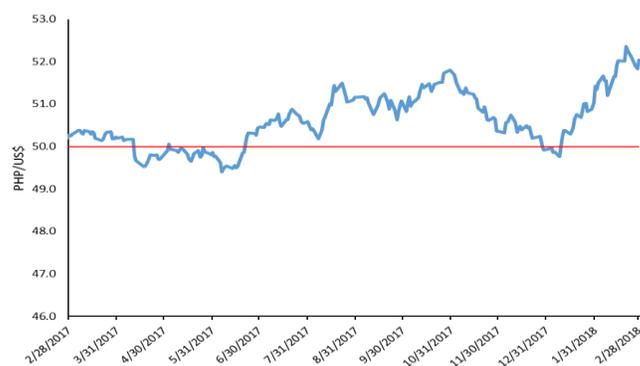
The volume of production index (VoPI) grew at 21.9 percent year-on-year in January 2018 – for the first time since August 2017 – which is stronger than the 14.9 percent expansion in January a year ago, and a turn-around from the 9.7 percent contraction in December. The expansion was driven by strong activities in the petroleum product production, machinery production, and the food manufacturing sectors. However, the Nikkei Philippines Purchasing Managers' Index (PMI) softened further in February to 50.8 from 51.7 in January, and compared to 53.6 in February a year ago. Despite the weakening, the index remained in expansion territory, supported by growth in output and new orders.

Figure 1: The PSEi fell in February, impacted by higher global market volatility ...



Source: Philippine Stock Exchange

Figure 2: ... while the peso value slid to above the Php/US\$52.00 mark in February.



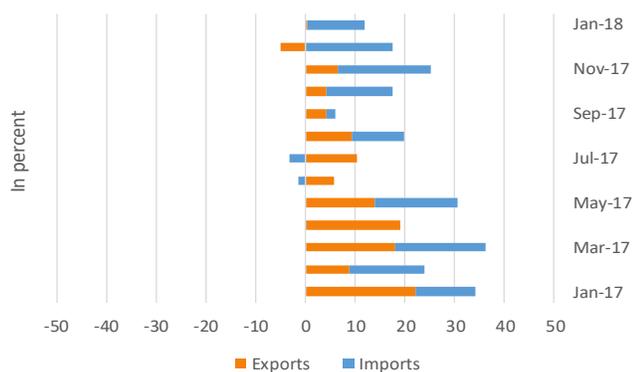
Source: Philippine Statistics Authority (PSA)

**Despite the introduction of a new rebased index, February headline inflation surged to its highest level in more than three years.** The Philippines Statistics Agency (PSA) rebased the Consumer Price index (CPI) series from the previous base year of 2006 to the new base year 2012, changed the weights of the inflation basket using expenditure data from the 2012 Family Income and Expenditure Survey, and adopted other methodological changes. The new series assigns less weight to food (except rice and other cereals) and energy items, and shifted more weight to non-food items such as health and communication. With the new base year, the January year-on-year inflation was revised from 4.0 to 3.4 percent. Using the old 2006-based series, headline inflation rose to 4.5 percent year-on-year in February. Based on the new 2012-based CPI series, the 12-month CPI climbed in February further to 3.9 percent year-on-year, compared to 3.1 percent in February last year. This is also the highest level since September 2014 when the country endured a domestic rice shortage. Higher

inflation was driven by faster price increases in food items such as fish, meat and corn. Transport prices rose particularly fast in February, by 14.5 percent year-on-year, partly due to the increase in excise taxes, and the increase in global crude oil prices. The core inflation remains tracked under the old 2006 base and rose to 4.4 percent year-on-year in February from 3.9 percent in January (and compared to 2.7 percent in February a year ago), partly due to pass through effect from a weaker peso. The newly based headline inflation rate falls within the central bank's 2-4 percent target range; however, its sustained rise is raising expectations of potential rate hikes in the near future.

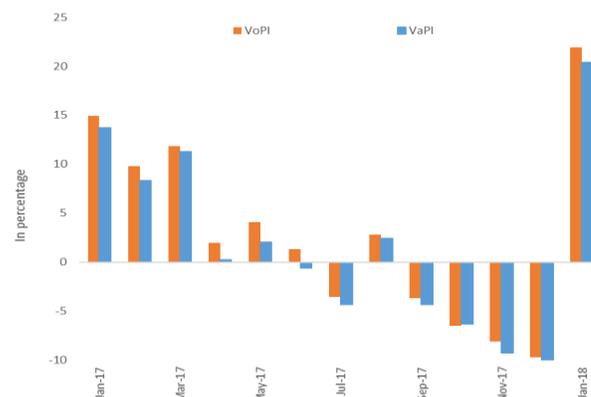
**In January, credit growth slowed.** Domestic liquidity (M3) grew by 12.8 percent year-on-year to about Php10.6 trillion in January, faster than the 11.9 percent year-on-year growth in December and compared to a similar growth of 12.5 percent in January last year. However, domestic sources growth was slightly slower (13.5 percent year-on-year) in January

Figure 3: Export growth recovered after a December contraction ...



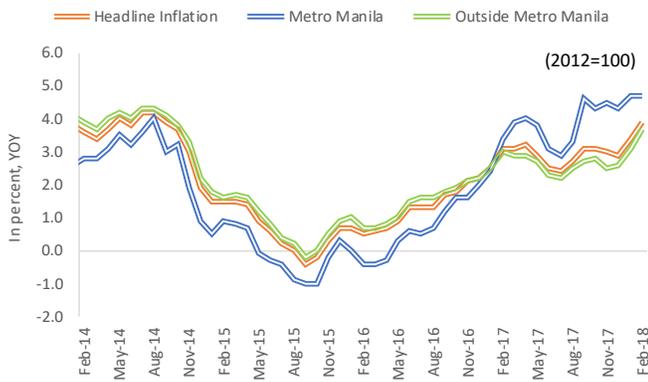
Source: PSA

Figure 4: ... and manufacturing activities also rebounded.



Source: PSA

Figure 5: A newly rebased CPI series showed headline inflation spiking at a three-year high.

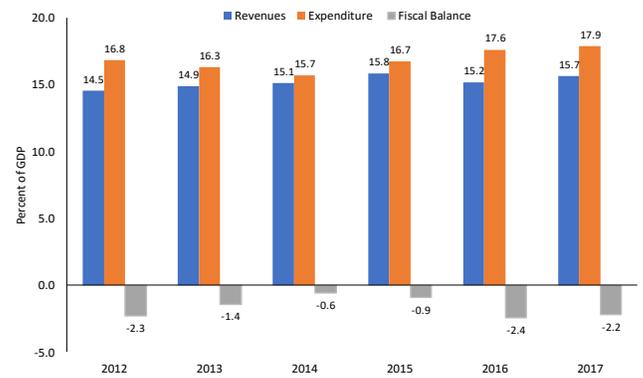


Source: PSA

compared to December (13.7 percent), as credit grew at a slower rate. On an annual basis, bank lending expanded at 19.1 percent in January from an upward-revised 19.4 percent growth in December. However, this is still higher compared to the 17.1 percent of January last year. Business loans which comprise 88.4 percent of banks' aggregate loan portfolio grew by 18.1 percent in January, slower than the revised 18.6 percent growth in the previous month, and largely went to real estate, utilities, and wholesale and retail trade. Meanwhile, the growth of household loans also slowed slightly to 20.3 percent in January from the revised 20.8 percent in December, with declines in the growth of motor vehicle and salary loans.

**In 2017, expenditures grew slower than revenues, slightly narrowing the fiscal deficit level.** Public expenditure reached 17.9 percent of GDP in 2017 slightly up from 17.6 percent in 2016. However, the government still fell short of its programmed spending for 2017 by three percent, as recurrent expenditures failed to reach its target. Expenditure growth was driven by infrastructure outlays, which exceeded its programmed target, reaching 3.6 percent of GDP. Despite the Bureau of Customs and Bureau of Internal Revenue missing narrowly their collection targets, revenues reached 15.7 percent of GDP in 2017 compared to 15.2 percent in 2016, driven by an increase in tax revenues. As a result, the fiscal deficit shrank slightly to 2.2 percent of GDP in 2017 from 2.4 percent in 2016. The deficit was largely financed through domestic resources, with net domestic borrowing accounting for 96.4 percent of total financing, more than doubling to Php731.4 billion in 2017 from Php355.0 billion in 2016. At the same time, the national government increased financing from external sources which reached Php27.6 billion in 2017.

Figure 6: In 2017, expenditures grew slower than revenues, slightly narrowing the fiscal deficit level.



Source: Bureau of the Treasury

**Business confidence weakened in the first quarter of 2018.** According to the *Bangko Sentral ng Pilipinas'* business expectations survey, firms' overall confidence index declined to 39.5 percent in the first quarter of 2018 compared to 43.3 percent in the fourth quarter of 2017. The dip in confidence is attributed to the seasonal slowdown in business activity, following the peak demand season during the December holidays and rising input costs driven by higher fuel prices which increases competition. Across sectors, the outlook of industry firms was most optimistic, due to expected improvements in the construction sector as a result of new projects under the government's infrastructure programs.

**Unemployment increased in January and underemployment rose significantly.** The unemployment rate increased to 5.3 percent in January 2018 from 5.0 percent in October 2017, but was comparably lower than the 6.6 percent of January 2017. Comparing unemployment levels to January 2017 rather than October due to strong seasonality of the series, net-job creation increased in January, amounting to 2.4 million new jobs. These new jobs spread evenly among the three major sectors: agriculture and services each accounting for 35.0 percent, and industry accounting for 30.0 percent of new jobs. Underemployment also increased in January compared to October 2017 and January 2017. The underemployment rate increased to 18.0 percent from 15.9 percent in October and 16.3 percent in January 2017, suggesting continued quality of jobs concerns.