

Philippines Monthly Economic Developments

May 2023

Amid a sluggish external environment, robust domestic demand supported economic activity in Q1 2023 despite high inflation and rising interest rates. The healthy labor market, adequate liquidity, and increased bank lending were the key supporting factors. Manufacturing activity continued to slow, as goods exports remained weak in March 2023. Headline inflation cooled for the third consecutive month in April, though core inflation remained sticky amid underlying demand-side pressures.

Robust domestic activity supported the 6.4 percent year-on-year growth rate in Q1 2023.

Services contributed 5.0 percentage points (ppts) to the growth rate, thanks to strong demand on services and tourism revival. Industry contributed 1.2 ppts as weak external demand weighed on manufacturing and mining. Agriculture contributed 0.2 ppts, due to favorable weather and higher livestock production. A tight labor market, bank lending, and steady remittance inflows supported household consumption. However, high inflation eroded real wages and weighed on household consumption, lowering its growth contribution to 4.8 ppts (7.4 ppts in Q1 2022). Investments remained resilient amid an uptick in public investments and buoyant private investments. Meanwhile, soft global demand for goods exports, especially electronics, weighed on net exports.

Headline inflation continued to slow in April, while core inflation remained high.

Headline inflation cooled to 6.6 percent in April (7.6 percent in March) as food price pressures eased and energy prices declined. Yet, it still registered above the central bank target of 2-4 percent and most ASEAN peers. Food price increases eased as domestic supply improved. Utilities prices declined as liquid fuel and gas prices dropped and electricity inflation slowed. Likewise, transport prices went down partly due to high base effects. Core inflation, which discounts the volatile food and energy items, slowed

marginally to 7.9 percent in April (8.0 percent in March) amid sustained underlying price pressures from robust domestic demand.

Manufacturing activity decelerated in March in line with the slowing growth in global industrial production.

Growth of the volume of production index fell to 2.2 percent in March from 5.2 percent in February. Ten out of 22 industry divisions posted output contractions including computer, electronic, and optical products (-10.6 percent) amid weak global demand for electronics. The Philippine S&P Global Purchasing Managers' Index (PMI) also declined further to 51.4 in April (52.5 in March) due to muted global demand and input shortages. In the ASEAN region, Malaysia and Thailand posted contractions in manufacturing for the same reasons while other peers posted expansions. In contrast, the services sector continued to strengthen, as evidenced by the rising trend in the Philippine Institute for Supply Management Services PMI (55.6 in March, up from 54.9 in January).

Goods imports and exports continued to contract in March 2023 amid weak global demand for semiconductors.

Exports fell by 9.1 percent (6.0 percent in March 2022) as firms abroad relied on existing inventories to fulfill orders. The decline in goods exports is in line with similar contractions among peers in the region, as the weak external demand combined with

Figure 1. Services mainly drove growth in Q1 2023.

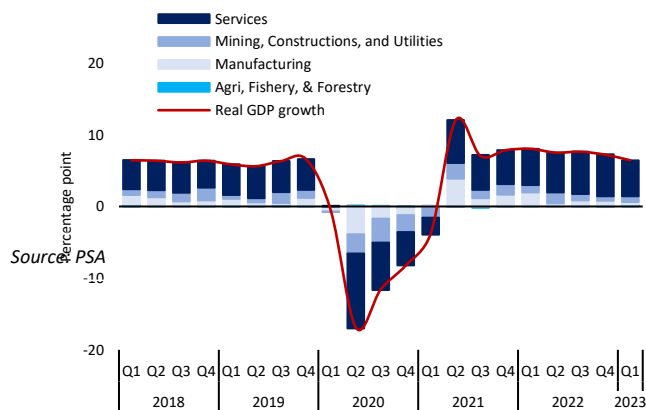
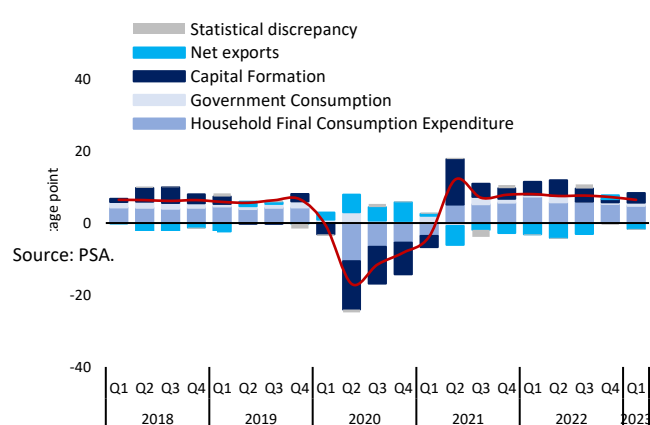


Figure 2. Robust domestic demand drove growth in Q1 2023.



tighter financial conditions weigh on capital-intensive industries, such as the manufacturing sector. Meanwhile, imports fell by 2.7 percent (23.4 percent in March 2022), as weakness in the manufacturing sector continued to temper the demand for raw material imports, and declining petroleum prices reduced mineral fuel imports. The trade deficit widened to US\$ 4.9 billion in March 2023 (US\$ 4.6 billion in March 2022).

The fiscal deficit narrowed to 4.8 percent of GDP in Q1 2023 (6.4 percent in Q1 2022) due to temporary effects. Public expenditures declined by nearly 3 percentage points of GDP in Q1 2023 owing to a decline in current spending as transfers to local governments fell substantially due to a lower revenue base in 2020. This effect is expected to be temporary, given the subsequent revenue increase observed in 2021 and 2022. Meanwhile, public revenues declined to 14.6 percent of GDP in Q1 2023 (15.9 percent in Q1 2022) amid slower GDP growth and as authorities changed the timing of VAT payments. This effect is expected to be temporary and would not affect 2023 outturn. Through Q1 2023, the government has executed around a fifth of its expenditure program for 2023. Ample domestic liquidity continued to support the government’s financing needs, as treasury bond and T-bill offerings through May were fully awarded.

The financial system remains resilient. Asset quality improved as the GNPL ratio declined further to 3.3 percent in March 2023. The NPL coverage ratio is adequate (105.17 percent) and bank profitability continues to show considerable improvement as Return on Assets, Return on Equity, and Net Interest Margin surpassed pre-pandemic levels. Banking sector liquidity remains broadly adequate as domestic liquidity (M3) increased by 6 percent, while the liquid assets to deposits ratio reached 53.7 percent. Claims on the private sector grew by 9.6

percent, driven by growth in loans to households (24.7 percent) and loans for production activities (9.0 percent).

The Philippine Stock Exchange Index (PSEi) rose in early May, while the Philippine peso slightly weakened. The PSEi rose by 2.3 percent between April 12 and May 12, bucking regional market trends amid optimism of local investors. The index rose on the back of corporate earnings, robust Q1 GDP, and moderating inflation. However, renewed concerns on the health of the US banking system, negotiations over the US debt ceiling, and the news of MSCI rebalancing slowed the recent rally. Meanwhile, the peso slightly weakened to PHP55.672/USD as of May 12 (PHP55.316/USD in April) amid net foreign selling of local shares. Other regional currencies such as the Indonesian rupiah, Thai baht, Malaysian ringgit, and Vietnamese dong have remained broadly steady in early May.

The labor market remained strong in March as the underemployment rate fell to an 18-year low. The unemployment rate declined anew to 4.7 percent in March, below the pre-pandemic average of 5.4 percent in 2016-2019. Strong household demand benefited the services sector, driving the decline in unemployment despite a robust labor force participation rate at 66 percent. In addition, underemployment rate reduced to 11.2 percent in March, its lowest level since April 2005, as fewer wage and salaried workers sought additional working hours despite elevated inflation. However, elementary occupations associated with lower pay continue to have the highest share at 29.9 percent.

COVID-19 cases increased more than sevenfold in May, following the same trend as its ASEAN neighbors. Daily COVID-19 cases averaged 1,367 from May 1 to 8, substantially higher than the 183 cases in the same period last month. Still, bed occupancy remains low at 20.0 percent as of May 13, with most of the COVID-19 patients considered low risk.

Figure 3. Manufacturing activity continued to decelerate in March.

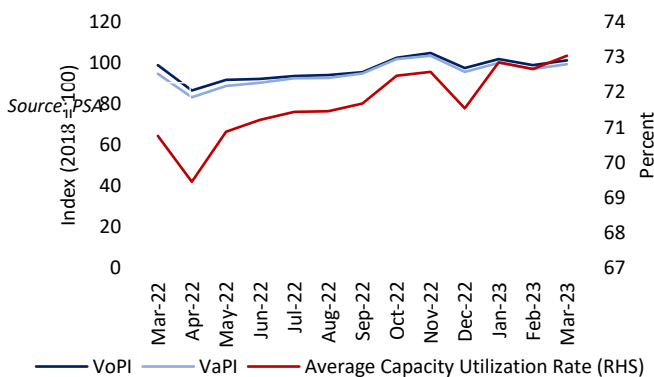
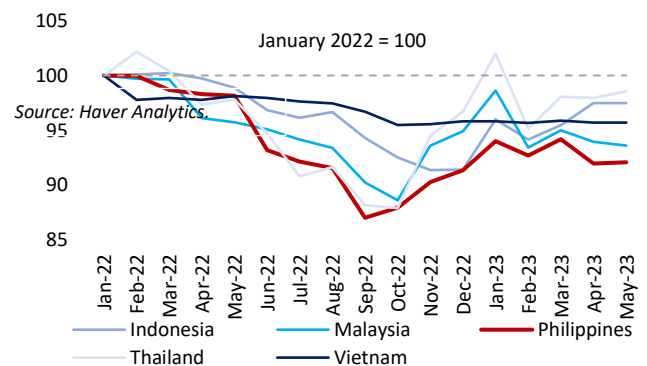


Figure 4. Most regional currencies remained steady in May.



Developments to Watch

- Monetary Policy: Will the BSP pause its policy rate hike in its next monetary board meeting amid declining inflation?
- Trade: Will weakness in external demand continue into the second quarter of 2023?

	2020	2021	Q4 2022	Q1 2023	Feb-23	Mar-23	Apr-23
	<i>In percent, unless otherwise indicated</i>						
Real GDP growth, at constant market prices	-9.5	5.7	7.2	6.4			
Private consumption	-8.0	4.2	7.0	6.3			
Government consumption	10.5	7.1	3.3	6.2			
Capital formation	-34.2	20.3	5.9	12.2			
Exports, goods and services	-16.1	8.0	14.6	0.4			
Imports, goods and services	-21.6	13.0	5.9	4.2			
Industry Performance							
Value of Production Index (growth rate)	-13.9	49.2	12.6	9.6	9.0	4.9	
Volume of Production Index (growth rate)	-10.3	52.6	5.9	5.8	5.2	2.2	
Average Capacity Utilization	56.8	65.8	72.2	72.9	72.7	73.0	
S&P Philippines Purchasing Managers' Index	42.5	51.3	52.8	52.9	52.7	52.5	51.4
Monetary and Banking sector							
Headline Consumer Price Index (growth rate)	2.4	3.9	7.9	8.3	8.6	7.6	6.6
Core Consumer Price Index (growth rate)	3.1	3.0	6.4	7.7	7.8	8.0	7.9
Domestic liquidity (M3) (growth rate)	12.8	7.3	5.7	5.8	6.0	6.0	
Credit growth (universal and commercial banks loans to residents)	7.0	0.6	13.7	10.2	10	10.1	
Business loans	6.0	0.9	12.3	8.9	8.7	8.9	
Consumer loans	20.9	-8.2	23.8	20.6	20.3	21.3	
Fiscal sector							
Fiscal balance (% of GDP)	-7.6	-8.6	-9.2	-4.8			
Total Revenue (% of GDP)	15.9	15.5	13.8	14.6			
Tax Revenue (% of GDP)	13.9	14.1	12.9	12.8			
Total Expenditure (% of GDP)	23.5	24.1	23.0	19.5			
National government debt (% of GDP, eop)	54.5	60.4	60.9	61			
Stock market							
PSEi (month-end value)	7139.7	7122.6	6566.4	6499.7	6556.2	6499.7	6625.1
External accounts							
Current account balance (% of GDP)	3.6	-1.5	0.5				
Exports of goods (growth rate) 1/	-7.8	17.2	8.5	-13.2	-18.1	-9.1	
Imports of goods (growth rate) 1/	-19.2	34.0	-1.1	-3.4	-11.8	-2.7	
Net foreign direct investment (in million US\$)	6822	11983	2378				
Balance of payment (% of GDP)	2.2	0.3	0.5				
International reserves (in million US\$)	110117	106952	95053	100143	98216	101548	101510
Import cover (months)	11.8	10.1	7.2	7.5	7.4	7.6	7.6
Nominal exchange rate (average, Php/US\$1)	49.6	49.3	57.4		54.9	54.8	55.4
Labor Market							
Unemployment rate	10.4	7.8	4.3	4.8	4.8	4.7	
Underemployment rate	16.4	15.9	13.7	12.7	12.9	11.2	
Sentiments							
Consumer confidence index (end of period)	-47.9	-24.0	-14.6				
Business confidence index (end of period)	10.6	39.7	23.9				

Source: Philippine Statistics Authority, Bangko Sentral ng Pilipinas, and Bureau of the Treasury.

1/ Using the IMTS data released by the Philippine Statistics Authority.

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For previous editions, please refer to the World Bank Philippines publication [website](#). For a more detailed look at the recent developments and outlook for the Philippines, please refer to the [Philippine Economic Update](#).

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