

Philippines Monthly Economic Developments

September 2018

- The Philippine Stock Exchange index (PSEi) declined significantly in the first week of September.
- Headline inflation surged to 6.4 percent in August, driven by higher food and energy prices.
- The Balance of payment deficit widened in the first half of 2018, reaching 2.1 percent of GDP.
- Consumer confidence turned negative for the first time in two years and business confidence reached its lowest level since 2009.

The Philippine Stock Exchange index (PSEi) declined significantly in the first week of September. The PSEi fell 3.3 percent in the first week of September 2018, wiping out a 2.4 percent month-on-month gain posted in August, to close at 7,598.6. The drop was driven by both domestic and external factors. Domestic factors included a 9-year-high inflation in August which raised investors risk aversion to local equities. This was compounded by external factors, including increasing US-China trade tensions, and a build-up of financial risks in a number of emerging economies. As a result of these trends, net-foreign selling amounted to PHP4.4 billion in the week of September 7, 2018.

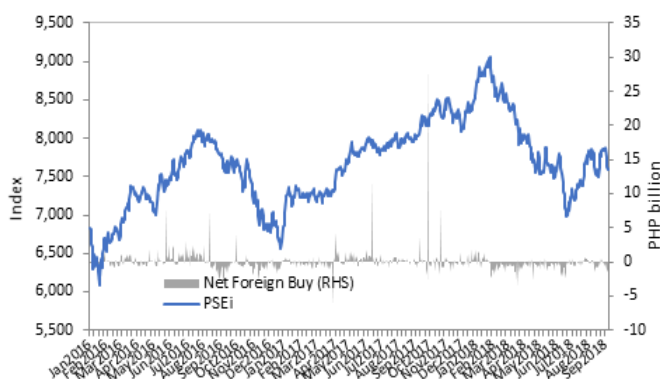
The Philippine peso depreciated in August after strengthening in July. The Philippine peso closed at PHP/US\$53.43 in August, a 0.3 percent month-on-month depreciation since July and a 4.2 percent year-on-year depreciation compared to August 2017. The August depreciation marked a reversal from a 0.5 percent month-on-month appreciation in July. The peso weakening was partly driven by increased demand for dollars as import grew rapidly while export growth moderated. In addition, emerging economies' currencies softened, influenced by the Turkish currency crisis. International reserves increased to US\$77.8

billion in August from US\$76.7 billion in July but remained lower than the US\$81.7 billion in August last year. They cover 7.5 months' worth of imports of goods and payment of services and primary income compared to 8.5 months' worth in August 2017.

Headline inflation surged in August with further increase in food and energy prices. The year-on-year consumer price index accelerated to 6.4 percent in August from 5.7 percent in July and 2.6 percent in August 2017. Year-to-date inflation reached to 4.8 percent, remaining beyond the Bangko Sentral ng Pilipinas's (BSP) target range of 2-4 percent. Primary causes were higher oil prices which raised transport and power prices, and higher food prices stemming from market supply constraints, particularly for rice and fish. Excluding the volatile food and energy items, core inflation rose to 4.8 percent in August from 4.5 percent in July and 2.2 percent in August 2017.

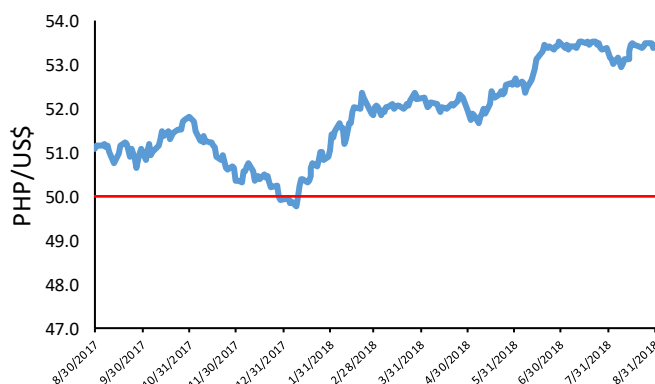
The balance of payment deficit increased in the first half of 2018, reaching 2.1 percent of GDP from 0.5 percent of GDP during the same period in 2017. This was driven by a larger current account deficit of 1.9 percent of GDP in the first half of 2018 which increased substantially from the 0.1 percent of GDP deficit in the first half of 2017. This was the result of the trade deficit expanding since early 2018, driven by a

Figure 1: The PSEi declined in the first week of September, wiping out the gains registered in August 2018.



Source: Philippine Stock Exchange

Figure 2: The Philippine peso weakened in August.



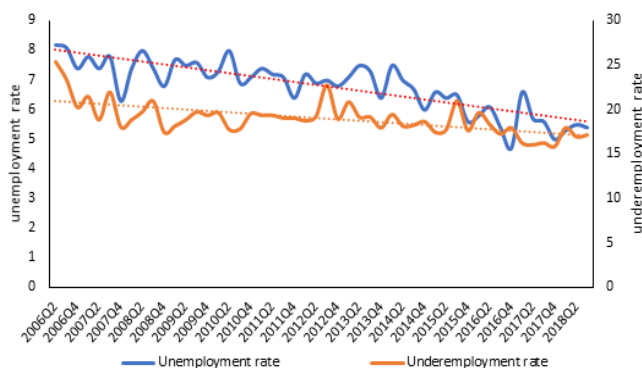
Source: Bangko Sentral ng Pilipinas (BSP)

moderation in export growth while import growth remained robust. Meanwhile, the surplus in the country's capital and financial accounts softened in the first half of 2018 to 0.2 percent of GDP from a surplus of 0.5 percent of GDP in the first half of 2017 and could not outbalance the increasing current account deficit. While net inflows of foreign direct investment rose to 3.6 percent of GDP in the first half of 2018 from 2.7 percent of GDP in the same period in 2017, net foreign portfolio and other investments registered outflows due to the ongoing policy normalization by the U.S. Federal Reserve, coupled with global trade uncertainties.

The government posted a fiscal deficit in July as public spending growth outpaced revenue growth. Expenditures expanded by 33.8 percent year-on-year in nominal terms in July, more than three times the 11.0 percent growth in July a year ago, and substantially higher than the 2.9 percent a month ago. The acceleration in public spending growth was primarily driven by a rapid expansion in wage bill (31.6 percent), infrastructure outlays (74.6 percent), and subsidies to government-owned and government-controlled corporations (92.5 percent). Revenues expanded by double-digits for the eleventh consecutive month in July by 24.2 percent year-on-year in nominal terms, at a similar level as in June but faster than the 14.3 percent a year ago. Tax revenue growth reached 24.8 percent year-on-year in July, more than doubling the 11.9 percent growth in June and accelerating from 16.4 percent a year ago. As a result, the national government's fiscal deficit expanded by 71.0 percent year-on-year to reach PHP86.4 billion in July compared to PHP50.5 billion in July 2017.

Unemployment declined further in July, but underemployment continued to worsen. Increased net-job

Figure 3: Unemployment improved marginally, while underemployment increased in July 2018.



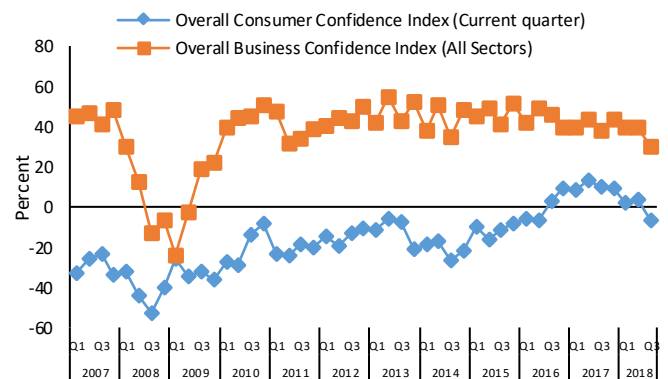
Source: PSA

creation of 0.5 million contributed to the unemployment rate sliding to 5.4 percent in July from 5.6 percent a year ago and 5.5 percent in April. Underemployment reached 17.2 percent in July, increasing from 16.3 percent a year ago and 17.0 percent since the last survey round in April.

Consumer confidence turned negative for the first time in two years while business confidence fell to its lowest since 2009. After eight consecutive quarters of positive sentiment, consumers turned more pessimistic in the third quarter of 2018 by falling to -7.1 percent from 3.8 percent in the second quarter, its lowest level since the second quarter of 2016, according to the BSP's Consumer Expectations Survey. The pessimism stemmed from expectation of continued price increases and the impact these would have on households' incomes. Likewise, in the third quarter, the BSP Business Expectations Survey showed that the business confidence index dropped to 30.1 percent in the third quarter from 39.3 percent in the second quarter, lowest level since 2009 (22.0 percent). Weaker sentiment was attributed to rising prices of commodities, supply constraints for raw materials and the weakening peso.

Manufacturing activities continued to expand rapidly in July. The volume of production index (VoPI) expanded by 11.8 percent year-on-year in July, the seventh consecutive month of double-digit growth since January, and a sharp reversal from the -5.1 percent contraction in July 2017. Meanwhile, the Nikkei Philippines Manufacturing Purchasing Managers' Index (PMI) increased to 51.9 in August from 50.9 percent in July, as new order and output growth increased. Average capacity utilization inched up to 84.2 percent in July from 83.7 percent in July last year, with 11 of the 20 sectors registering utilization rates of at least 80.0 percent.

Figure 4: Consumer and business sentiment weakened in the third quarter of 2018.



Source: BSP

Selected Economic and Financial Indicators									
	2016	2017	Q4 2017	Q1 2018	Q2 2018	Jun-18	Jul-18	Aug-18	
Real GDP growth, at constant market prices	6.9	6.7	6.5	6.6	6.0				
Private consumption	7.2	5.9	6.2	5.7	5.6				
Government consumption	8.8	7.1	12.2	13.6	11.9				
Gross fixed capital investment	26.6	9.5	9.4	8.8	21.2				
Exports, goods and services	11.7	19.6	20.6	6.5	13.0				
Imports, goods and services	20.5	18.2	18.1	9.6	19.7				
Industry Performance									
Value of Production Index	6.2	-0.7	-7.9	17.8	24.0	18.9	12.2		
Volume of Production Index	11.5	0.3	-7.6	18.7	23.0	18.0	11.8		
Capacity Utilization	83.5	83.8	84.0	84.2	84.3	84.3	84.2		
Nikkei ASEAN Purchasing Managers' Index		53.2	54.2	51.3	53.1	52.9	50.9	51.9	
Monetary and Banking sector									
Headline Consumer Price Index	1.3	2.9	3.0	3.8	4.8	5.2	5.7	6.4	
Core Consumer Price Index	1.5	2.5	2.4	3.0	3.8	4.3	4.5	4.8	
Domestic liquidity (M3)	12.5	13.3	13.7	13.7	13.4	11.8	11.0		
Credit growth	16.6	17.8	17.6	17.2	17.9	17.7	18.0		
Business loans	13.5	17.4	17.4	17.0	18.1	18.0	18.5		
Consumer loans	20.5	20.5	19.4	19.1	16.5	15.5	14.5		
Fiscal sector									
						(In billions Php)			
Fiscal balance (% of GDP)	-2.4	-2.2	-3.1	-3.9	-0.9	-54.3	-86.4		
Total Revenue (% of GDP)	15.2	15.7	15.0	15.8	18.3	224	242		
Tax Revenue (% of GDP)	13.7	14.2	13.7	14.3	16.1	188	218		
Total Expenditure (% of GDP)	17.6	17.9	18.1	19.7	19.2	279	328		
National government debt (% of GDP)	42.1	42.1	42.1	42.6	42.5	4,579	4,600		
Stock market									
PSEi (month-end value)	6,841	8,558	8,558	7,980	7,194	7,194	7,672	7,856	
External accounts									
Current account balance (% of GDP)	-0.4	-0.7	-3.6	-0.2	-3.6				
Exports of merchandise goods (growth rate)	-2.5	18.4	13.3	-5.4	-1.3	2.8	0.3		
Imports of merchandise goods (growth rate)	18.4	13.6	21.0	7.2	20.0	24.2	31.6		
Net foreign direct investment (in million US\$)	8,279	10,057	3,585	2,227	3,528	831			
Balance of payment (% of GDP)	-0.1	-0.3	0.6	-1.6	-2.5				
International reserves (in million US\$)	83,515	81,273	80,766	80,722	78,779	77,525	76,722	77,829	
Import cover	9.7	8.4	8.0	7.8	7.6	7.5	7.4	7.5	
Nominal exchange rate	47.49	50.40	50.93	51.45	52.45	53.05	53.43	53.27	
Labor Market									
Unemployment rate	5.5	5.7	5	5.3	5.5		5.4		
Underemployment rate	18.4	16.2	15.9	18	17		17.2		
Sentiments									
Consumer confidence index (end of period)	9.2	9.5	9.5	1.7	3.8		-7.1		
Business confidence index (end of period)	39.8	43.3	43.3	39.5	39.3		30.1		