Public Disclosure Authorized

Philippines Monthly Economic Developments

September 2019

THE WORLD BANK
IBRD • IDA | WORLD BANK GROUP

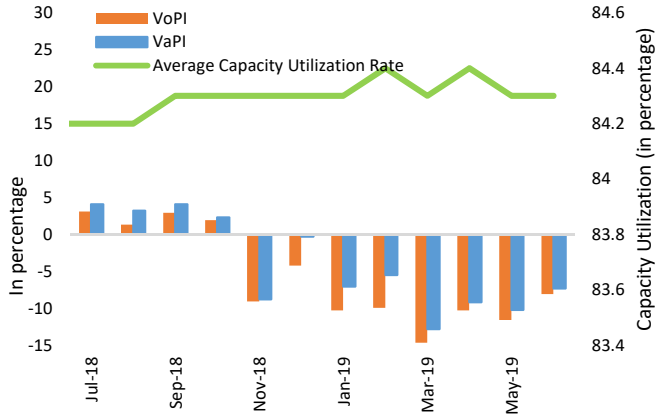
- Food manufacturing expanded for the first time in nearly a year in July, but overall manufacturing output contracted for the eighth consecutive month.
- The trade deficit expanded despite the contraction of imports in July 2019.
- Inflation fell below central bank's target in August 2019.

In July, food manufacturing expanded for the first time in nearly a year while overall manufacturing output declined for the eighth consecutive month. Food manufactures, which accounts for the largest share of manufacturing output, registered growth for the first time in a year, expanding by 8.3 percent year-on-year (yoy) in July from 5.5 percent a year ago. However, the rebound in food manufacturing was not enough to offset the declines in the output of manufactures of petroleum products, furniture and fixtures, and electrical machinery. As a whole, the country's manufacturing sector struggled in July, as the volume of production index (VOPI) contracted by 8.1 percent yoy, a slight improvement from the 11.6 percent contraction in June. The outlook for the sector may show modest growth in the succeeding month, as the Nikkei Philippines Purchasing Managers' index (PMI) registered an expansion at 51.9 percent in August 2019, slightly less than the 52.1 percent in July.

The trade deficit widened in July 2019. Merchandise imports contracted by 4.2 percent, yoy, an improvement from the 10.4 percent contraction in the previous month but a sharp reversal from the 39.8 percent growth in the same period last year. Imports of raw materials and intermediate goods accounting for 39.1 percent of imports, fell by 11.7 percent, continuing the double-digit downward trend that began in April. Capital goods, which represent 31.7 percent of import purchases and needed for infrastructure projects, grew for the first time in five months (3.4 percent). Meanwhile, export growth accelerated to 3.5 percent, yoy, from the 2.3 percent growth in July 2018. Eight out of the country's top ten export commodity groups registered growth, led by electronic products which grew by 2.9 percent while accounting for 55.9 percent of export sales. As a result, the trade deficit widened to US$3.4 billion in July from US$2.4 deficit in June, yet lower than the US$4.0 billion deficit incurred in the same period last year.

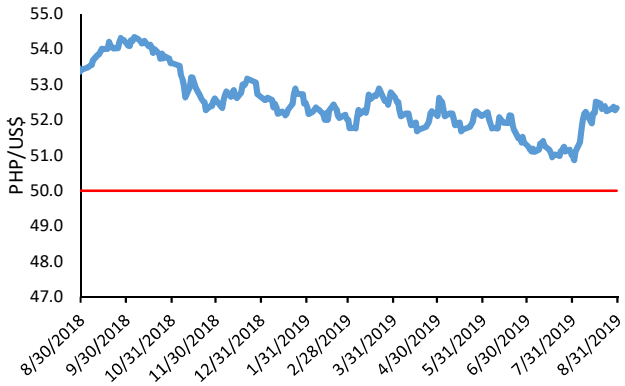
Escalation of the US-China trade dispute led to portfolio outflow in August, and the Philippine peso weakened. The PSEi closed at 7,979 in August, declining by 0.8 percent month-on-month from the closing of 8,045 in July. The local stock market mirrored developments in the regional markets, affected by the escalation in the U.S.-China trade disputes, and fears of recession. Weaker investor confidence was pronounced, evidenced by the high net foreign selling of Php11.8 billion in August from a Php4.1 billion net foreign buying in July. Alongside the weak stock market, the Philippine peso weakened to Php/US$52.34 in August, representing a 2.5 percent month-on-month depreciation. Foreign reserves rose to US$85.6 billion in August from US$85.2 billion in July, due to higher net foreign currency deposits and central bank's income from its investment abroad. The reserves can cover

Figure 1: Manufacturing output contracted for the eighth consecutive month in July 2019.



Source: Philippine Statistics Authority (PSA)

Figure 2: The Philippine peso weakened in July.



Source: Bangko Sentral ng Pilipinas (BSP)

Public Disclosure Authorized

7.5 months' worth of import, an improvement from the 7.4 months' worth in July.

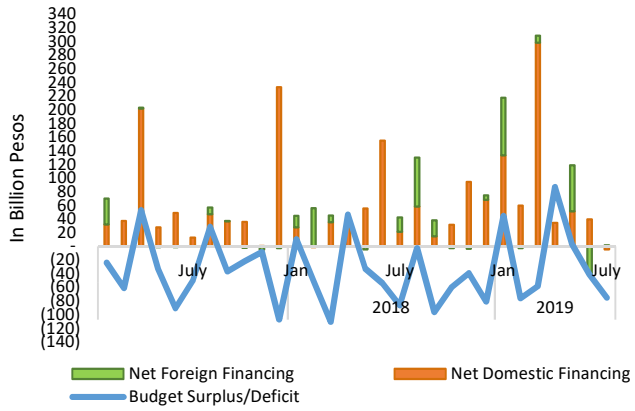
Inflation fell below the central bank's target range in August. The 12-month Consumer Price Index (CPI) inflation moderated to its near three-year low at 1.7 percent, yoy, in August, breaching the lower bound of the 2-4 percent inflation target of the BSP. This is lower than the 2.4 percent inflation in July and 6.4 percent in August 2018. Year-to-date inflation stood at 3.1 percent in August. The influx of rice imports led to a contraction in the price of rice and contributed to a slower rate of increase in food and non-alcoholic beverages prices. Housing, water, electricity, and gas inflation decelerated driven by downward adjustments in domestic electricity prices while transport prices contracted due to lower international energy prices. Core inflation softened in August to 2.9 percent from 3.2 percent in July and 4.8 percent in August 2018. The BSP's key policy rate was maintained at 4.25 percent in early September.

Domestic liquidity continues to expand. Domestic liquidity (M3) grew by 6.7 percent year-on-year to about Php11.9 trillion in July, faster than the 6.4 percent growth in June, likely influenced by more accommodative monetary policy. Demand for credit remained the principal driver of money supply growth. Outstanding loans of universal and commercial banks, net of reverse repurchase (RRP), grew at 11.1 percent in July from 10.5 percent in June. Loans for production activities were driven by lending to the real estate activities; financial and insurance activities; and utilities sectors. Meanwhile, loans for household consumption grew by 23.0 percent in July, due to faster growth in motor vehicle and salary-based general-purpose consumption loans.

In July, public spending growth continued to struggle, while revenue growth remained healthy. National government expenditure growth slowed to 3.4 percent yoy in nominal terms in July, a substantial slowdown from the 33.8 percent growth recorded during the same period last year, driven by another contraction in public infrastructure spending by 11.0 percent in nominal terms, a sharp reversal from the 74.6 percent growth in July 2018. This development suggest that the government faces challenges to accelerate the implementation of public works programs after the passage of the 2019 national government budget. Meanwhile, revenue growth remained robust, as tax collections expanded by 8.8 percent in July, although slower compared to the 24.8 percent growth a year ago. As a result, the fiscal deficit shrank by 12.9 percent yoy to Php75.3 billion. Yet, the government expects public infrastructure spending to pick up in the second half of the year, as the revised disbursement programs of the DPWH and DOTr are heavily weighted in the last two quarters of 2019.

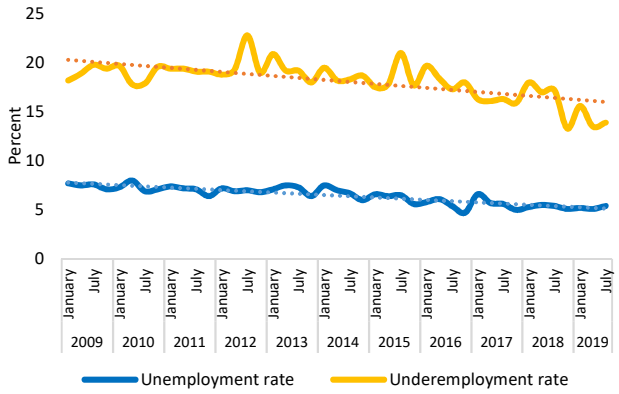
The unemployment rate steadied, and underemployment rate further declined in July 2019. On an annual basis, the net jobs created totaled 2.3 million in July 2019 driven primarily by the 1.4 million jobs generated in the service sector. Meanwhile, agriculture sector gained a total of 0.7 million jobs due to harvest season and weakening impact of El Niño while the industrial sector jobs increased by 0.2 million. Unemployment rate kept at 5.4 percent in July, same as July 2018 given more entrants to the market, reflected in the higher labor force participation rate in July (62.1 percent) relative to July 2018 (60.1 percent). Underemployment rate, share of employed persons who express the desire to work more, declined further to 13.9 percent in July from 17.2 percent in July 2018 mainly in the agriculture sector, but higher than 13.5 percent in April 2019.

Figure 3: The national government posted a smaller fiscal deficit in July 2019.



Source: Bureau of the Treasury (Btr)

Figure 4: Unemployment remained stable and underemployment declined in July 2019.



Source: PSA

Developments to Watch

- Manufacturing output: will the contraction continue or will output start to stabilize?
- Budget execution: will public infrastructure spending pick up in the second half of the year?
- Labor market: will conditions continue to improve to support private consumption growth?

Selected Economic and Financial Indicators								
	2017	2018	Q1 2019	Q2 2019	Q3 2019	Jun-19	Jul-19	Aug-19
Real GDP growth, at constant market prices	6.7	6.2	5.6	5.5				
Private consumption	5.9	5.6	6.3	5.6				
Government consumption	7.0	12.8	7.4	6.9				
Gross fixed capital investment	9.5	14.0	5.7	-4.8				
Exports, goods and services	19.5	11.5	5.8	4.4				
Imports, goods and services	18.1	14.5	8.3	0.0				
Industry Performance								
Value of Production Index	-1.4	8.0	-3.7	-7.5		-9.6	-7.3	
Volume of Production Index	-0.5	7.2	-7.3	-9.5		-10.5	-8.1	
Capacity Utilization	83.8	84.2	84.3	84.3		84.3	84.3	
Nikkei Philippines Purchasing Managers' Inde	53.2	52.5	51.9	51.1		51.3	52.1	51.9
Monetary and Banking sector								
Headline Consumer Price Index	2.9	5.2	3.8	3.0		2.7	2.4	1.7
Core Consumer Price Index	2.5	4.1	3.6	3.4		3.3	3.2	2.9
Domestic liquidity (M3)	13.3	11.6	7.1	6.6		6.4	6.7	
Credit growth	17.8	16.4	11.9	10.7		10.0	9.9	
Business loans	17.4	17.2	13.3	10.7		9.4	8.7	
Consumer loans	20.5	15.1	10.0	11.3		11.9	12.3	
Fiscal sector						**(In billions Php)**		
Fiscal balance (% of GDP)	-2.2	-3.2	-2.1	1.0		-41.8	-75.3	
Total Revenue (% of GDP)	15.7	16.4	16.3	18.6		233.9	264.1	
Tax Revenue (% of GDP)	14.2	14.7	14.6	16.5		210.5	236.9	
Total Expenditure (% of GDP)	17.9	19.6	18.5	17.6		275.7	339.4	
National government debt (% of GDP)	42.1	41.9	44.0	43.7		7,869	7,804	
Stock market								
PSEi (month-end value)	8,558	7,466	7,921	7,974		7,999	8,046	7,980
External accounts								
Current account balance (% of GDP)	-0.7	-2.4	-1.5					
Exports of merchandise goods (growth rate)	18.4	-0.3	-3.1	1.2		3.3	3.5	
Imports of merchandise goods (growth rate)	13.6	9.4	4.7	-5.9		-10.4	-4.2	
Net foreign direct investment (in million US$)	10,057	9,802	1,941					
Balance of payment (% of GDP)	-0.3	-0.7	4.7					
International reserves (in million US$)	81,273	78,140	83,613	84,722		84,932	85,176	85,612
Import cover	8.4	7.1	7.4	7.4		7.4	7.4	7.5
Nominal exchange rate	50.40	52.68	52.36	52.06		51.8	51.1	52.1
Labor Market								
Unemployment rate	5.7	5.3	5.2	5.1	5.4			
Underemployment rate	16.2	16.4	15.6	13.5	13.9			
Sentiments								
Consumer confidence index (end of period)	9.5	-22.5	-0.5	-1.3		-1.3		
Business confidence index (end of period)	43.3	27.2	35.2	40.5		40.5		

Prepared by a World Bank team consisting of Rong Qian, Kevin Chua, Kevin Thomas Cruz, Ray Gomez, Karen Lazaro, Jiyoung Song and Isaku Endo, under the guidance of Ndiame Diop.

Contact Rong Qian (rqian@worldbank.org) for questions.