



Monitoring the Philippine Economy First Quarter 2012 Report¹

Project of Angelo King Institute

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Encouraging signs of global economic expansion drive growth prospects for the economy though the lingering sovereign debt crisis and tensions in the Persian Gulf region remain.

1. Economic performance

- **Philippine economy rebounds slightly in the fourth quarter.** Despite a slowdown in the second and third quarter of 2011, gross domestic product (GDP) expanded 3.7% year-on-year (y-o-y) in the fourth quarter. The expansion in the fourth quarter was attributed to higher private consumption with 6.7% y-o-y and government consumption 5.8% y-o-y. Growth in the fourth quarter, however, was not enough to pull figures for the year 2011. GDP in 2011 expanded by only 3.6% year-on-year (y-o-y), as opposed to the 7.6% y-o-y GDP growth in 2010; dire outlook of the country's key trading partners and sluggish domestic growth mainly caused the slowdown. International institutions such as the World Bank was forced to trim down its growth forecast from 4.5% to 3.7% because of the country's unimpressive performance this year.
- **Inflationary pressure eases further in March.** The 2006-based inflation rate decelerated from 2.7% in February to 2.6% y-o-y in March due to lower annual increases in alcoholic beverages and tobacco, clothing and footwear, fuel and utilities among others. However, annual inflation in NCR was higher in March with 2.7% compared with 2.3% y-o-y in February. Higher increase in the heavily-weighted food and non-alcoholic beverage index caused the increase in NCR inflation. On the other hand, month-on-month figures show that inflation for March inched up 0.2% from 0.0% in February due to price hikes in petroleum products.
- **Electronic products drive exports up in January.** Philippine exports grew 3.0% y-o-y in January, an improvement compared to December's decline of 18.9% y-o-y. Electronic products emerged as the country's top export accounting for 52.2% of total exports

¹ Report is based on latest available data, as of March 2012.

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revenue followed by woodcrafts and furniture, and apparel and clothing accessories. Total value of exports in January was USD4,121.1 million, higher than December's USD3,407.2 million. On the other hand, imports declined 3.2% y-o-y in January but increased 10.8% compared to the previous month. The annual decline was caused by lower imports of electronic products particularly semiconductors, mineral fuels, lubricants and related materials, and transport equipment. Total value of imports in January was USD5,133.5 million. The month of January posted a trade deficit of USD1,012.5 million, slightly lower than December.

- **Industrial production records positive growth in three months.** The industrial production, as measured by the volume of production index, posted an annual growth of 0.2% y-o-y in January after three months of negative growth. Industrial production recovered in January due to expansion in production output of furniture and fixtures, publishing and printing, and footwear and wearing apparel.
- **Unemployment rate increases in January despite a recovering economy.** The Labor Force Survey results showed that unemployment rate in January was 7.2%, slightly higher than the October 2011 figure. The National Capital Region posted the highest unemployment rate at 12.2 percent. Most of the unemployed were male (64%) and high school graduates (33.7%).
- **Balance of payments post weaker surplus in the fourth quarter.** The Bangko Sentral ng Pilipinas (BSP) reported a markedly lower surplus in the fourth quarter of 2011 with only USD458 million, lower than the third quarter's USD4,705 million. This reflected the reversal in the balance of the capital and financial account from a net inflow to a net outflow. Capital and financial account stood at negative USD981 million due to a deficit in portfolio investments and other investments. Current account was recorded at USD1,808 million, 24% lower than the third quarter due to weak export performance.
- **International reserves show sustained increase.** The international reserves (less gold) continued to accumulate by end of February as it reported USD68.12 billion, 20% y-o-y higher than February 2011. This was caused by inflows from foreign exchange operations and income from investments abroad of the BSP, among others.

2. Policy responses

- **Bangko Sentral ng Pilipinas eases key policy rate in March.** In its meeting last March 1, the Monetary Board agreed to loosen monetary policy by lowering key policy interest

rate by 25 basis points to 4.0 percent. The move of BSP to implement an expansionary monetary policy aims mainly to boost the economy in the year 2012. This was the first policy rate change since January.

3. Other economic news

- **Optimism over local economy and signs of recovery in key trading markets fuel Philippine stocks.** The Philippine stock index ended the first quarter with a record high as the index surged to 5,107.73, the highest quarterly gain since the third quarter of 2010. This was brought about by strong net foreign buying stimulated by positive prospects over the domestic economy and external market. Trading markets such as the United States and Europe helped drive optimism for the Philippine stock market.

4. Future challenges

- **Lingering sovereign debt crisis in the eurozone and prolonged global economic slowdown continue to expose the financial market to risks.** Emerging markets such as the Philippines are vulnerable to external shocks leaving risks in the financial market and volatility in prices of financial assets. The prolonged crisis could have long term effects on growth of the domestic economy. The BSP will sustain efforts to pursue financial reform measures to maintain a sound financial system, as reported in its fourth quarter 2011 report.
- **Global oil prices remain volatile amid geopolitical concerns in the Persian Gulf region.** The prices of petroleum products spiked in the first quarter of 2012, bringing the transportation base fare higher towards the end of March. If this will continue, energy costs could increase as well, further affecting transportation costs and prices of other commodities. The BSP though remains committed to safeguard price stability.



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Philippines Economic Data

Monthly Leading Indicators	Jun-11	Jul-11	Aug-11	Sep-11	Oct-11	Nov-11	Dec-11	Jan-12	Feb-12	Mar-12
Industrial Production (y-o-y, %)	-0.2	4.6	1.2	0.4	-12.6	-6.5	-7.7	88.8 ...	...	...
Consumer Price Index (y-o-y, %)	5.2	5.0	4.7	4.8	5.2	4.8	4.2	3.9	2.7	2.6
Retail Sales (y-o-y, %)	5.3	15.4	18.4	8.5	11.9	6.2 ...	...	...	...	...
Broad Money (y-o-y, %)	11.9	8.8	9.9	7.6	6.9	7.2	6.5	7.2 ...	...	...
Exports (y-o-y, %)	-9.4	-1.7	-13.4	-26.8	-14.4	1.3	-18.9	3.0 ...	...	...
Imports (y-o-y, %)	8.1	6.9	11.6	12.3	2.7	0.1	-6.0	-3.2 ...	...	...
Trade Balance, US\$ million	-375.9	-570.0	-803.5	-1237.5	-931.6	-748.0	-1,226.2	-1,012.5 ...	...	...
Total Reserves (less gold), US\$ billion	61.4	64.2	68.4	67.7	67.92	68.1	67.3	68.5	68.1 ...	...
Policy Rate	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.25	4.25	4.0
Fiscal Balance (million pesos)	-7,691	-26,482	9,220	-18,501	-21,257	-22,003	-101,500 ...	...	...	...
Quarterly/Annual Economic Indicators	2010	1Q2010	2Q2010	3Q2010	4Q2010	1Q2011	2Q2011	3Q2011	4Q2011	1Q2012
Real GDP (y-o-y, %)	7.6	8.4	8.9	7.3	6.1	4.6	3.1	3.2	3.7 ...	...
- Private Consumption	3.4	4.0	1.9	2.4	4.9	5.3	5.5	7.1	6.7 ...	...
- Government Consumption	4.0	21.4	7.4	-6.5	-6.6	-17.2	4.3	9.4	5.8 ...	...
- Gross Capital Fixed Formation	31.6	31.9	38.0	34.5	25.7	42.3	-7.7	24.5	-4.3 ...	...
Current Account (% of GDP)	4.5	3.6	3.6	7.1	3.7	1.9	3.4	4.4	2.9 ...	...
Financial Account (US\$ million)	7,290.0	518.0	-260.0	1,685.0	5,334.0	3,624.0	35.0	2,430.0	-1,032.0 ...	...
- Net Direct Investments, US\$ million	682.0	314.0	18.0	281.0	403.0	406.0	464.0	-78.0	461.0 ...	...
- Net Portfolio Investments, US\$ million	4,365.0	-72.0	-590.0	1,085.0	3,501.0	2,674.0	2,199.0	722.0	-71.0 ...	...
Overall BOP position (US\$, million)	14,308.0	1,267.0	1,870.0	3,306.0	7,865.0	3,493.0	1,523.0	4,705.0	458.0 ...	...
Unemployment rate	7.3	7.3	8	7	7.1	7.4	7.2	7.1	6.4	7.2
Others	Apr-11	May-11	Jun-11	Jul-11	Aug-11	Sep-11	Oct-11	Nov-11	Dec-11	Jan-12
Overseas Filipinos' Remittances (US\$, million)	1,615.9	1,688.2	1,737.3	1,715.3	1,670.1	1,735.6	1,777.2	1,783.3	1,799.7	1,557.1

... = not available

Source: Bangko Sentral ng Pilipinas, National Statistics Office, *International Financial Statistics*, IMF, Asian Development Bank.

