



Monitoring the Philippine Economy Second Quarter 2012 Report¹

Project of Angelo King Institute

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Optimism on Philippine economy continues to grow due to recovery in exports and more foreign direct investments as global economic prospects improve after the sovereign debt crisis in 2011.

1. Economic performance

- **Philippine economy improves in the first quarter.** After last year's lackluster performance, the economy grew 6.4 year-on-year (y-o-y) in the first quarter of 2012 compared to the 4.9 percent (y-o-y) of the same quarter of the previous year. Growth in the first quarter was spurred by robust household spending and improved government spending with 6.6 percent and 24 percent y-o-y growth respectively due to partly to lower prices and improved consumer confidence. Exports also grew 7.9 percent y-o-y in the first quarter. On the supply side, the services and the manufacturing sector grew 8.5 percent y-o-y and 4.9 percent y-o-y after recovering from the previous year's sluggish performance. The manufacturing and electricity, gas and water supply exhibited the strongest growth under the industry sector, with 5.7 percent y-o-y and 8.0 percent y-o-y respectively. On the other hand, the transportation, storage and communication subsector posted the highest growth rate (9.0 percent y-o-y) under the services sector.
- **June inflation eases further.** The 2006-based headline inflation rate in June managed to stay at low levels with 2.8 percent from 2.9 percent y-o-y in May. According to the National Statistics Office, the slowdown was caused by lower prices of alcoholic beverages and tobacco (4.8 percent y-o-y); housing, water, electricity, gas and other fuels (4.2 percent y-o-y); transport (1.3 percent y-o-y); and recreation and culture (2.4 percent y-o-y). Inflation rate last year June was recorded at 5.2 percent y-o-y.
- **Trade balance picks up in April, showing lower deficit.** Philippine exports grew 7.6 percent y-o-y while imports contracted 13.7 percent y-o-y in April bringing the figure to a trade deficit of USD135 million. Electronic products, particularly semiconductors, still emerged as the top export accounting for 35.3 percent of total export revenue. This was

¹ Report is based on latest available data, as of July 10, 2012.

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followed by exports of apparel and clothing accessories with 3.3 percent and exports of woodcrafts and furniture consisting of 3.0 percent of total export revenue. Total export value in April was USD4,635 million, higher than May's USD4,323 million. On the other hand, the decline in imports was caused by lower imports of electronic products, particularly semiconductors, followed by mineral fuels. Total value of imports in April was USD4,770 million.

- **Industrial production maintains growth in April.** The factory output or industrial production, as measured by the volume of production index, posted a 95.2 percent y-o-y growth in April after an average of 94.3 percent y-o-y growth in the first three months of the year 2012. The National Statistical Coordinating Board identified six major sectors that contributed to the growth namely furniture and fixtures, publishing and printing, footwear and apparel, wood and wood products, leather products, and chemical products. The growth in April, however, is slightly lower than March figures and this could be attributed to lower electronics exports. Government agencies, on the contrary, are optimistic that the manufacturing sector will pick-up in the second half of the year.
- **April unemployment rate drops despite a new of graduates joining the labor force.** The April 2012 Labor Force Survey results showed that unemployment rate in April was 6.9 percent, but not significantly different from last year's 7.2 percent. Similar to the previous period, the National Capital Region posted the highest unemployment rate at 10.4 percent. Most of the unemployed were male (62.3%) and belonged to the age group 15-24 years old (51.7%).
- **Balance of payments remains a surplus in the first quarter.** The Bangko Sentral ng Pilipinas (BSP) reported an improvement in the surplus in the first quarter of 2012 with USD1.2 billion, higher than the 2011 fourth quarter's USD.458 billion. However, the first quarter figure is significantly lower in the same quarter a year ago with USD3.5 billion. The current account surplus in the first quarter was attributed to higher inflows from overseas Filipino remittances and business process outsourcing services transaction. First quarter current account stood at USD0.88 billion, amounting to 1.6 percent of gross domestic product. On the other hand, inflows from foreign direct investment boosted the surplus in the capital and financial account bringing the figure to USD.96 billion.
- **International reserves remain stable in May.** The international reserves (less gold) continued to accumulate by end of May as it reported USD66.4 billion, 13% y-o-y higher than May 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 maintains key policy rate in March.** In its meeting last June 14, the Monetary Board decided to keep its key policy interest rate at 4 percent. The decision was based on the improved economic activity and exports as well as the downward trend in inflation rate. The next monetary board meeting is set on July.

3. Other economic news

- **Philippine stock market ends on a high note in first half of 2012.** The Philippine stock index ended the first half with a record high as the index surged to 5,263.74 (as of July 9 closing), setting a 19 all-time high records in the first six months of a year. This was brought about by strong net foreign buying stimulated by strong investor's confidence. Prospects for the future are positive due to the sustained momentum and the latest sovereign credit rating upgrade.

4. Future challenges

- **Capital inflow exposes economy to potential ill-effects of excessive liquidity.** While capital inflow contributes to a surplus of payments, too much could lead to speculative capital flows. The stronger growth position of the economy and its recovering credit position have perked up investors' confidence leading to the inflow of capital. The improvement in the economies of the US and Europe could drive funds to search for higher yields in emerging economies such as the Philippines. The Bangko Sentral ng Pilipinas is planning on implementing stricter polices on capital flows to manage excess liquidity.
- **Sovereign debt crisis in the eurozone remains as economic reforms are yet to take place.** The sluggish recovery of crisis-stricken economies in the eurozone may continue to affect emerging economies such as the Philippines as demand for exports from them increase in small increments only. Though the Philippines' growth is improving, our dependence on trade with the eurozone could expose the country to certain risks.



Philippines Economic Data

Monthly Leading Indicators	Sep-11	Oct-11	Nov-11	Dec-11	Jan-12	Feb-12	Mar-12	Apr-12	May-12	Jun-12
Industrial Production (y-o-y, %)	0.4	-12.6	-6.5	-7.7	88.7	93.5	102.6	95.2 ...	...	...
Consumer Price Index (y-o-y, %)	4.8	5.2	4.8	4.2	3.9	2.7	2.6	2.9	2.9	2.8
Retail Sales (y-o-y, %)	4.0	-0.5	-0.8	-0.5	-0.8 ...	...	...	...	...	...
Broad Money (y-o-y, %)	7.6	6.9	7.2	6.5	7.2 ...	7.2 ...	...	...	...	...
Exports (y-o-y, %)	-26.8	-14.4	1.3	-18.9	3.0	14.6	-0.8	7.6 ...	...	...
Imports (y-o-y, %)	12.3	2.7	0.1	-6.0	-3.2	6.5	-3.3	-13.7 ...	...	...
Trade Balance, US\$ million	-1237.5	-931.6	-748.0	-1,226.2	-1,012.5	-562.6	-1,048.0	-135.0 ...	...	...
Total Reserves (less gold), US\$ billion	67.7	67.92	68.1	67.3	68.5	68.1	65.7	66.2	66.4 ...	...
Policy Rate	4.5	4.5	4.5	4.5	4.25	4.25	4.0	4.0	4.0 ...	...
Fiscal Balance (million pesos)	-18,501	-21,257	-22,003	-101,500	-15,943	10,655	-28,621	31,024 ...	...	...
Quarterly/Annual Economic Indicators	1Q2010	2Q2010	3Q2010	4Q2010	1Q2011	2Q2011	3Q2011	4Q2011	1Q2012	2Q2012
Real GDP (y-o-y, %)	8.4	8.9	7.3	6.1	4.9	3.6	3.2	4.0	6.4 ...	...
- Private Consumption	4.0	1.9	2.4	4.9	5.9	5.6	7.4	6.4	6.6 ...	...
- Government Consumption	21.4	7.4	-6.5	-6.6	-15.8	6.0	8.9	7.6	24.0 ...	...
- Gross Capital Fixed Formation	31.9	38.0	34.5	25.7	36.1	-10.1	21.8	-3.8	-23.5 ...	...
Current Account (% of GDP)	3.6	3.6	7.1	3.7	1.9	3.4	4.4	2.9	1.6 ...	...
Financial Account (US\$ million)	518.0	-260.0	1,685.0	5,334.0	3,624.0	35.0	2,430.0	-1,032.0	921.0 ...	...
- Net Direct Investments, US\$ million	314.0	18.0	281.0	403.0	406.0	464.0	-78.0	461.0	696.0 ...	...
- Net Portfolio Investments, US\$ million	-72.0	-590.0	1,085.0	3,501.0	2,674.0	2,199.0	722.0	-71.0	1,302.0 ...	...
Overall BOP position (US\$, million)	1,267.0	1,870.0	3,306.0	7,865.0	3,493.0	1,523.0	4,705.0	458.0	1,243.0 ...	...
Unemployment rate	7.3	8	7	7.1	7.4	7.2	7.1	6.4	7.2	6.9
Others	Jul-11	Aug-11	Sep-11	Oct-11	Nov-11	Dec-11	Jan-12	Feb-12	Mar-12	Apr-12
Overseas Filipinos' Remittances (US\$, million)	1,715.34	1,670.07	1,735.6	1,777.2	1,783.3	1,799.7	1,557.1	1,587	1,698	1,701

... = not available

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

