



Monitoring the Philippine Economy Third Quarter 2012 Report¹

Project of Angelo King Institute

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Philippine economy grew 6.1 percent in the first half of the year due to sound macroeconomic fundamentals coupled with prudent government spending.

1. Economic performance

- **Philippine growth remains strong in the second quarter.** The domestic economy posted a higher growth of 5.9 percent year-on-year (y-o-y) in the second quarter compared to 3.6 percent y-o-y of the same period last year, bringing the first semester's growth to 6.1 percent. According to the National Statistical Coordination Board, the services sector posted the highest contribution to growth with 7.6 percent y-o-y, followed by the industry sector with 4.6 percent y-o-y. On the demand side, consumption grew 5.7 percent y-o-y compared to 5.6 percent y-o-y the previous year. Investments also improved drastically by 2.3 percent y-o-y compared to -10.1 percent y-o-y the previous year.
- **Consumer price inches up in August.** The 2006-based headline inflation rate in August rose slightly to 3.8 percent from 3.2 percent y-o-y the previous month due to higher prices of food and non-alcoholic beverages, clothing and footwear, housing, gas and other fuels as well as other utilities. The uptick in prices was driven mainly by the increase in Meralco's electricity rate after the Malampaya pipeline shutdown and the floods that affected food supply. This month's inflation is the highest in seven months but remains manageable.
- **Demand for Philippine exports in June remains sluggish.** Philippine exports grew only 4.5 percent y-o-y in June compared to the previous month's 20.1 percent which could be attributed to the low demand from the country's trading partners US and Europe coupled with the appreciating peso. The National Statistics Office reported that electronic products, particularly semiconductors, accounted for more of the country's exports with 44 percent. Total June exports amounted to USD 4,314 million. On the other hand, imports grew 13.3

¹ Report is based on latest available data, as of September 5, 2012.

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percent y-o-y bringing the trade deficit to USD 787 million, slightly higher from last May's trade deficit of USD 454 million. Similarly, electronic products, accounting for 29 percent, topped the list of Philippine imports. Total June imports amounted to USD 5,101 million.

- **Industrial production recovers slightly in June.** The factory output or industrial production, as measured by the volume of production index, picks up in June with 4.3 percent y-o-y growth after a 4.2 percent drop in May. The increase in output was led by footwear and wearing apparel, furniture and fixtures, and wood and wood products with 84.7 percent, 64.6 percent and 50.7 percent respectively. The slowdown in industrial production was due to weak global demand and floods that affected food production.
- **July international reserves improve despite low export turnout.** The international reserves (less gold) continued to accumulate by end of July as it reported USD69.7 billion, 8.5 percent y-o-y higher than 7.8 percent y-o-y in June. 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 June.** 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 in September.

3. Other economic news

- **Philippine stock market remains robust in September.** The Philippine stock index ended 5,150.11 in September 6 closing, 0.01 percent lower than the previous closing day as investors waited for the results of the European Central Bank meeting. The year-to-date closing registered a 17.1 percent increase, coupled with a strong peso, signaling a strong stock market. Investors' confidence continues to remain high as prospects for the future are positive due to the sustained momentum and the latest sovereign credit rating upgrade.
- **Overseas workers' remittance contributes to economic growth.** June remittance was recorded at USD 1.8 billion by the end of June, growing 4.2 percent y-o-y. Overall remittance in the first half of the year grew 5 percent y-o-y, bringing total remittance to USD 10 billion. The Bangko Sentral ng Pilipinas reported that the constant growth in the number of deployed overseas Filipino workers was the main factor to the upsurge in

remittances. Philippine remittances fuel household consumption which pushes economic growth.

4. Future challenges

- **Continuous appreciation of the peso puts pressure on exports and remittances.** The peso has appreciated against the dollar by 4.23 percent from January to August, according to the Bangko Sentral ng Pilipinas. Though the appreciation of the peso makes imports more affordable, our exports and remittances are negatively affected. The Philippine peso is one of the strongest in the region. If this will continue, this could hurt the competitiveness of Philippine exports in the international market. This should push exporters to improve quality of products, expand market base, and improve services.



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Philippines Economic Data											
Monthly Leading Indicators	Nov-11	Dec-11	Jan-12	Feb-12	Mar-12	Apr-12	May-12	Jun-12	Jul-12	Aug-12	
Industrial Production (y-o-y, %)	-6.4	-7.8	2.6	7.8	10.8	5.1	-4.2	4.3	...	...
Consumer Price Index (y-o-y, %)	4.8	4.2	3.9	2.7	2.6	2.9	2.9	2.8	3.2	3.8	
Retail Sales (y-o-y, %)	4.5	0.0	3.4	-1.8	1.9	4.7	-0.6	...	...	...
Broad Money (y-o-y, %)	7.2	6.5	7.2	7.2	5.8	9.0	7.8	...	...	...
Exports (y-o-y, %)	1.3	-18.9	3.0	14.6	-0.8	7.6	20.1	4.5	...	...
Imports (y-o-y, %)	0.1	-6.0	-3.2	6.5	-3.3	-13.7	10.2	13.3	...	...
Trade Balance, US\$ million	-748.0	-1226.2	-1012.5	-562.6	-1048.0	-135.0	-454.0	-787.0	...	...
Total Reserves (less gold), US\$ billion	68.1	67.3	68.5	68.1	65.7	66.2	66.4	66.1	69.7	...	
Policy Rate	4.5	4.5	4.25	4.25	4.0	4.0	4.0	4.0	...	...
Fiscal Balance (million pesos)	-22,003.0	-101,500.0	-15,943.0	10,655.0	-28,621.0	31,024.0	-19,901.0	-11,696.0	...	...
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	6.3	5.9	
- Private Consumption	4.0	1.9	2.4	4.9	5.9	5.6	7.4	6.4	5.1	5.7	
- Government Consumption	21.4	7.4	-6.5	-6.6	-15.8	6.0	8.9	7.6	20.9	5.9	
- Gross Capital Fixed Formation	31.9	38.0	34.5	25.7	36.1	-10.1	21.8	-3.8	-25.4	2.3	
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	Sep-11	Oct-11	Nov-11	Dec-11	Jan-12	Feb-12	Mar-12	Apr-12	May-12	Jun-12	
Overseas Filipinos' Remittances (US\$, million)	1,735.6	1,777.2	1,783.3	1,799.7	1,557.1	1,587.4	1,697.7	1,701.0	1,773.5	1,810.9	

... = not available

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

