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Monitoring the Philippine Economy Year-End Report for 2014

Project of Angelo King Institute

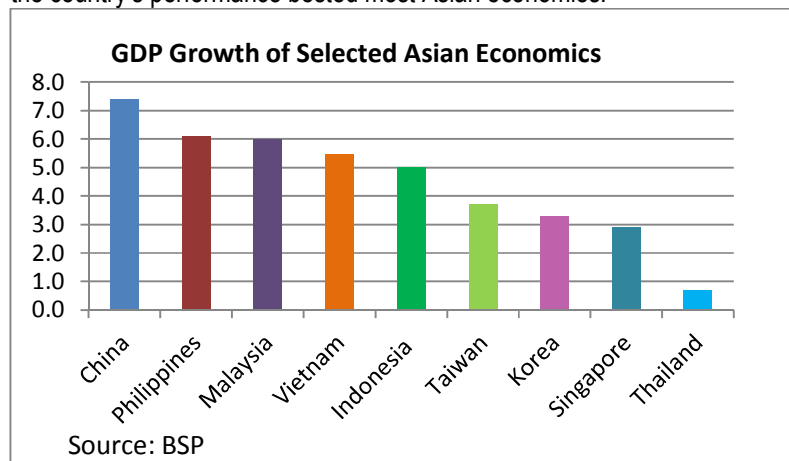
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Despite doubts over growth prospects and challenges in the external market, the Philippine economy ended with a solid 6.1 percent growth for 2014.

Economic performance: Upward trend in the demand side was driven by consumer spending and exports; on the other hand, the main growth factor for the supply side was the services sector.

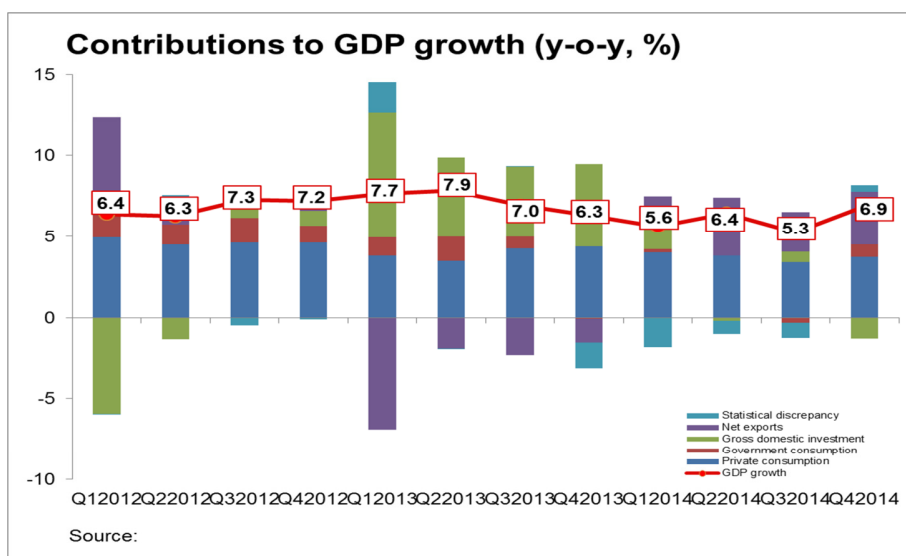
- **Philippines maintains its growth momentum in 2014, besting other Asian economies.** Favorable demand and supply side factors combined with improvements in the global market led to the country's 6.1 percent growth. A robust household consumption and strong construction subsector fueled the demand side. Moreover, external trade recovered on developments in intra-regional trade and in the global economy. Supply side factors include a robust service sector and a more stable manufacturing sector. Though domestic growth was lower than last year's 7.2 percent, the country's performance bested most Asian economies.



¹ Report is based on latest available data as of March 25, 2015. For comments and questions, please email mitzie.conchada@dlsu.edu.ph

- **Major components of aggregate demand**

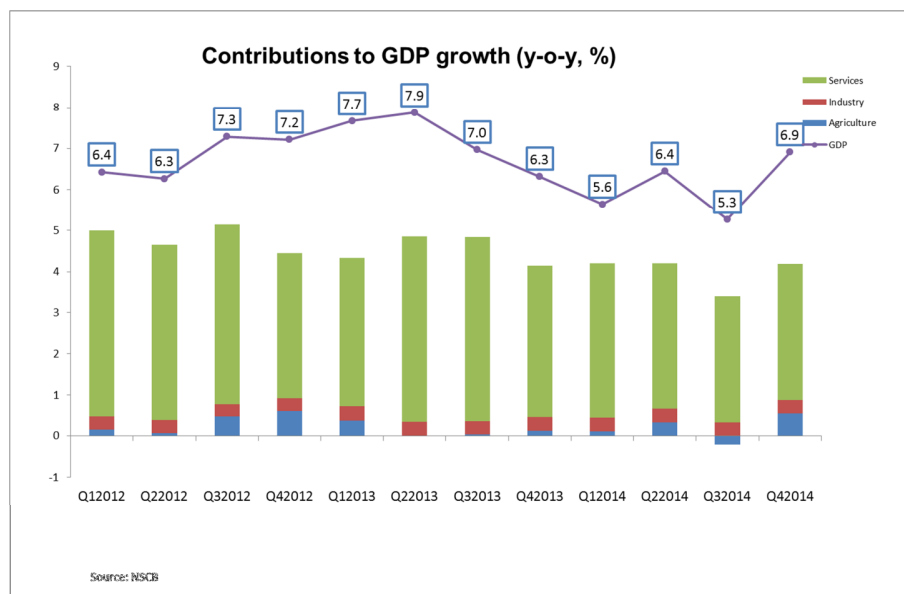
- **Household spending slightly loses steam.** Though household consumption still remains the largest contributor to growth, it displayed a slower growth in the year 2014. Household consumption stood at 5.4 percent, lower than the previous year's 5.7 percent. Top contributors to growth of household consumption were food and non-alcoholic beverages (4.5 percent), utility expenses (5.4 percent), health expenses (10.5 percent), and transport related expenses (10 percent).
- **Domestic investment slows down on weaker demand.** Despite the strong performance of the subsectors construction and intellectual property (10 percent and 10.1 percent respectively), domestic investment dropped to 1.1 percent from last year's 18.2 percent growth. This was caused by the dismal performance of investments in durable equipment, with only an 8.7 percent growth compared to last year's 14.4 growth. Moreover, investments in miscellaneous equipment, particularly office machine and data processing declined 14.2 percent in the fourth quarter. However, construction rebounded on a stronger private construction with a significant 21.9 percent y-o-y growth in the fourth quarter.
- **Strong fourth quarter performance yields lower deficit.** The national government's deficit was lower by 72.5 percent by the end of 2014. Government expenditure increased to PhP1,981.7 billion while revenues increased to PhP1,908.5 billion. This brought the budget deficit to PhP73.2 billion, lower than the previous year's deficit of PhP111.5 billion. The Bangko Sentral ng Pilipinas reported that the deficit was financed mainly from domestic sources.



- **Philippine exports remain strong; imports slow down.** Export of goods grew 15.9 percent in the fourth quarter from 6.2 percent the previous year. Drivers for the growth of exports were electric components (22.6 percent) and principal agricultural products (40.3 percent). Export of medical/industrial instrumentation (119 percent), control instrumentation (72 percent) and office equipment (35

percent) were at the top for electronic components. Export of semiconductors grew 26.8 percent as well. On the other hand, export of coconut oil, mango and pineapple grew 230, 138, and 24 percent respectively. However, the export of fishery products such as shrimps and prawn and tuna declined 63.5 percent. Total export of goods for the fourth quarter amounted to PhP590 billion. On the other hand, total import of goods grew only by 3.6 percent from 4.4 percent last year. This was due to a negative growth of imports of electronics (-36.2 percent), ores and metal (-98.5 percent), and transport equipment (-36.9 percent). Net exports for the month of December was recorded at a deficit of USD68.4 million.

- **Major components of aggregate supply**
 - **Services sector remains as a strong driver of supply-side growth.** The services sector's contribution to economic growth for the year was 3.4 percent, the highest among the three sectors. However, the sector's growth was recorded at 6.0 percent, lower than last year's 7.2 percent growth. The top three sub-sectors that posted the highest growth were public administration and defense (10.9 percent), real estate, renting and business activity (8.3 percent), and financial intermediation (6.6 percent).
 - **Industry sector expands on robust manufacturing and construction.** The Industry sector remained strong with a 7.5 percent y-o-y growth, but was lower than last year's performance at 9.3 percent. The laudable performance of the sector was attributed to the construction subsector, particularly private construction which grew 20.5 percent in the fourth quarter. The improvement was caused by higher demand both locally and in the international market. On the other hand, manufacturing posted a 7.3 percent growth lower than last year's 12 percent growth on lower manufacture of tobacco and wearing apparel.
 - **Agriculture sector displays positive growth.** The agriculture, hunting, forestry, and fishing industry experienced a relatively strong performance by the end of the year, posting a 1.1 percent growth. The sector's overall contribution to the 6.1 growth was 0.2 percent. Despite weather conditions throughout the year, the agriculture subsector managed to display a 2.3 percent growth by the end of 2014 on increase production of mango, cassava and corn. On the other hand, forestry had dropped for with a growth of -0.1 percent since the previous year's sudden growth of 37.3 percent.



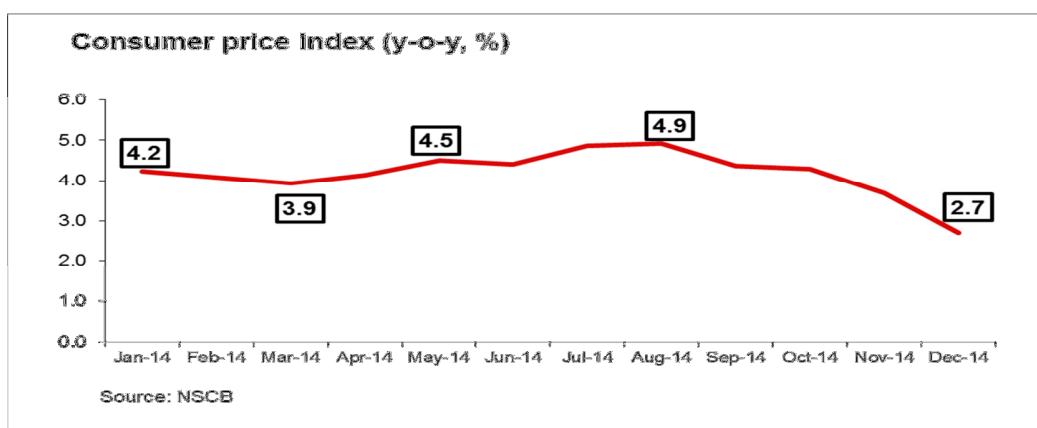
Policy response

- BSP Monetary Board makes adjustment on policy rates.** After keeping key policy rates at 3.5 percent, the BSP Monetary Board decided in its July 31, 2014 meeting to increase it by 25 basis points to 3.75 percent for overnight RRP (borrowing) facility. After a few months, the Monetary Board decided to again increase policy rates by 25 basis points to 4.00 percent. No further adjustments were made in the year, noting that inflation rate remained manageable. By December, the MB assessed that the inflation environment has become more manageable with lower inflation forecast for 2015 at 3.7 percent.

Other economic news

- Philippine remittance ends strong in December.** The Bangko Sentral ng Pilipinas (BSP) announced that cash remittances amounted to USD24 billion by end of December, 5.4 percent higher than the same period last year. The boost in remittance was brought about by a growth of remittance from land-based workers mainly from the United States, Saudi Arabia, and the United Arab Emirates. The increase in the number of remittance centers and correspondent banks have also contributed to the inflow of remittance.
- Gross international reserves slacken by end of December.** The gross international reserves (less gold) by end of December declined by -4.8 percent with USD 72.06 billion, compared to 3 percent growth for the previous year. This was due to a contraction in BSP's net foreign assets position.
- Unemployment rate drops; improvements seen in the labor market.** The latest unemployment figures for the year 2014 reveal that the number of people who were unemployed this year was low compared to the previous year. The Annual Labor and Employment status report of the PSA as of December announced that unemployment is at 6.8 percent, lower than last year's 7.2 percent.. Based on the Labor Force Survey, most of the unemployed were males (63.6 %), were high school graduates (33.2%) and belonged to the age group of 15 to 24 years old (49.1%). Among the regions, the National Capital Region had the lowest employment rate of 89.6 percent..

- Inflation continues to stabilize on lower petroleum prices.** Average headline inflation for December was recorded at 2.7 percent, lower than last year's 4.1 percent. The deceleration in inflation rate was the effect of a drop in fuel prices. As of December 14, the prevailing gasoline and diesel prices slowed down to PhP43.75 and PhP32.95 respectively from an average of PhP49.25 and PhP37.45. This was due to the oversupply of oil which led to lower world oil prices. As a result, prices of basic commodities slowed down especially in December. Inflation rate was recorded at 2.7 percent, the lowest since September 2013.



- Outlook on “hot money” inflow remains to be positive given strong stock market performance.** The bullish performance of the Philippine Stock market has reached new time highs as the Philippine Stock Exchange index (PSEi) finished strong at 7,230.57 by year-end December 29, 2014. Overall the Philippine Stock market has experienced a relatively strong performance for the year.
- Domestic money supply maintains its positive growth.** The Bangko Sentral ng Pilipinas (BSP) declared that the growth of M3 was recorded at 9.6 percent in December, higher than last November's 9.2 percent growth. The single digit growth was lower compared to the first half of the year and could be attributed to measures that were taken by the BSP to prevent excess liquidity in the financial system.

Special report: Inflation reaches highest point at 4.9 percent

On July 2014, change in Consumer Price Index reached a staggering 4.9 percent increase, the highest in three years since October 2011 when inflation was at 5.2. Although the increase in inflation for the year was gradual (starting January at 4.2), it caused the Bangko Sentral ng Pilipinas (BSP) to increase overnight RRP (borrowing) rates up to 4.00 at September 11, 2014 in order to control the rapid increases in prices. The sustained uptrend in headline inflation, according to the BSP, was primarily driven by the higher prices of food, owing on unfavorable domestic supply conditions from weather-related production disruptions and supply-side bottlenecks.

The rapid increase in prices was indeed controlled by the end of the year as inflation became more controllable, ending at 2.7 by December. This increase was mostly caused by the sudden drop in petroleum prices, as well as the tightening of policy rates of BSP.



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Philippines Economic Data												
Monthly Leading Indicators	Jan-14	Feb-14	Mar-14	Apr-14	May-14	Jun-14	Jul-14	Aug-14	Sep-14	Oct-14	Nov-14	Dec-14
Industrial Production (y-o-y, %)	4.40	5.93	0.00	10.77	12.70	12.65	7.53	5.95	4.86	8.10	9.26	7.44
Consumer Price Index (y-o-y, %)	4.24	4.08	3.92	4.14	4.51	4.41	4.85	4.92	4.37	4.29	3.68	2.70
Exports (y-o-y, %)	9.18	24.49	21.95	1.32	6.85	21.31	12.92	19.49	15.68	2.47	19.73	-3.21
Imports (y-o-y, %)	24.66	1.70	10.62	3.82	-4.02	-1.41	0.16	0.84	-1.24	7.49	-10.79	-10.58
Trade Balance, US\$ million	-1,575.80	-131.00	-199.00	-784.00	423.00	626.00	-42.00	-137.00	201.00	-56.00	188.96	-68.39
Total Reserves (less gold), US\$ billion	71.63	72.21	71.64	71.83	72.45	72.45	72.63	72.82	71.99	72.10	71.45	72.06
Policy Rate	3.5	3.5	3.5	3.5	3.5	3.5	3.75	3.75	4	4	4	4
Fiscal Balance (million pesos)	-34,218	-9,718	-40,186	80,852	11,782	-62,486	-1,762	29,865	-5,198	-2,530	6,824	...
Quarterly/Annual Economic Indicators	2009	2010	2011	2012	1Q2013	2Q2013	3Q2013	4Q2013	1Q2014	2Q2014	3Q2014	4Q2014
Real GDP (y-o-y, %)	1.1	7.6	3.6	6.56	7.67	7.87	6.96	6.32	5.64	6.44	5.27	6.90
- Private Consumption	2.3	3.4	5.7	12.19	6.65	6.53	6.52	6.48	6.54	6.52	6.51	6.51
- Government Consumption	10.9	4.0	2.1	-3.18	15.88	13.64	14.46	14.17	14.54	14.20	14.34	14.34
- Gross Capital Fixed Formation	-8.7	31.6	2.0	-197.79	-5.55	-0.34	1.51	-0.08	-1.12	-0.01	0.08	0.08
Current Account (% of GDP)	5.6	4.5	2.3	2.8	5	3.8	5	5	2.3	4.4	4.8	5.9
Financial Account (US\$ million)	-1731	7290	-5610	-6748	-655	835	1183	1585	4098	696	810	4,480
- Net Direct Investments, US\$ million	1604	682	-1277	958	-1336	502	-589	168	-487	-543	842	977
- Net Portfolio Investments, US\$ million	-625	4365	-4390	-3205	-1697	-255	217	948	2811	-649	-903	1,202
Overall BOP position (US\$, million)	6421	14308	11400	9236	1536	1041	1247	1260	-4475	330	712	574
Unemployment rate	7.7	7.3	7.4	7.0	7.1	7.5	7.3	6.5	7.5	7	6.7	6.0
Others	Jan-14	Feb-14	Mar-14	Apr-14	May-14	Jun-14	Jul-14	Aug-14	Sep-14	Oct-14	Nov-14	Dec-14
Overseas Filipinos' Remittances (US\$, million)	1,804	1,800	1,888	1,918	1,984	2,054	2,068	2,057	2,110	2,228	2,122	2,317
... = not available												

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