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Monitoring the Philippine Economy First Quarter Report for 2014

Project of Angelo King Institute

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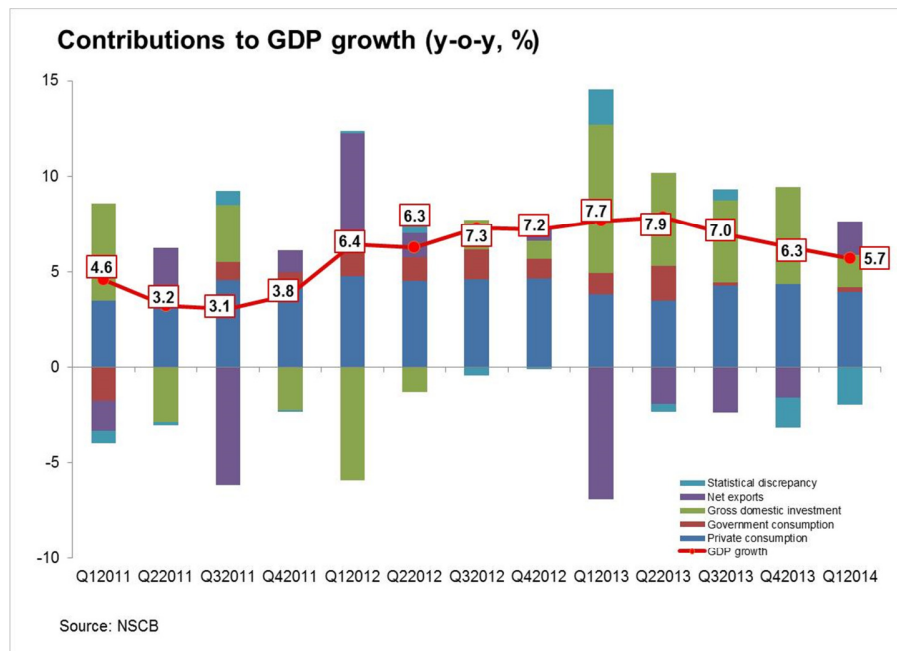
First quarter growth performance of 5.7 percent leads to weaker economic outlook due to lingering negative effects of last year's natural disasters and corruption setbacks.

Economic performance: consumer and investment still remain as main drivers of economy; agriculture and fishing industry display lower growth from typhoon Yolanda

- **Philippines' economic growth posts slower growth in first quarter.** Growth of the domestic economy expanded by 5.7 percent only from 7.7 percent the previous year. This is the lowest record since the fourth quarter of 2011. First quarter growth turned out to be lower than expected on slower performance of the industry and agricultural sector with 5.5 percent and 0.9 percent year-on-year (y-o-y) growth respectively. Fourth quarter GDP growth was revised from 6.5 percent to 6.3 percent.
- **Major components of aggregate demand**
 - **Greater household spending boosts aggregate consumption.** Private consumption grew 5.8 percent y-o-y in the first quarter, slightly higher than last year's 5.5 percent growth. The National Statistical Coordination Board (NSCB) reported that consumption of food and non-alcoholic beverages, which grew 4.4 percent y-o-y, had the highest contribution to growth with 39.8 percent of total aggregate consumption. Other drivers of growth were: miscellaneous goods and services, which grew 6.5 percent; transportation, with 8.6 percent growth; and communication, with 6.4 percent growth.
 - **Domestic investment slows down significantly in first quarter.** Capital formation growth slowed down to 7.7 percent y-o-y from last year's 49.8 percent growth due to lower investments in fixed capital particularly in construction in the private sector. Based on NSCB figures, construction grew by 0.9 percent only as evidenced by the negative growth of 6.0 percent in the private sector. Investments in breeding stocks and inventories also suffered a decline of 4.1 percent and 63.6 percent respectively.
 - **Growth of government expenditure decelerates.** Public spending on major government expenditures for personnel services and maintenance and other operating expenses continued to slow down in the first quarter. Government

¹ Report is based on latest available data as of June 7, 2014. For comments and questions, please email mitzie.conchada@dlsu.edu.ph

expenditure expanded by 2.0 percent only compared to last year's 10.0 percent growth. According to the Department of Budget and Management Secretary Abad, personnel services grew 2.3 percent while maintenance and other operating expenses increased by only 2.7 percent.

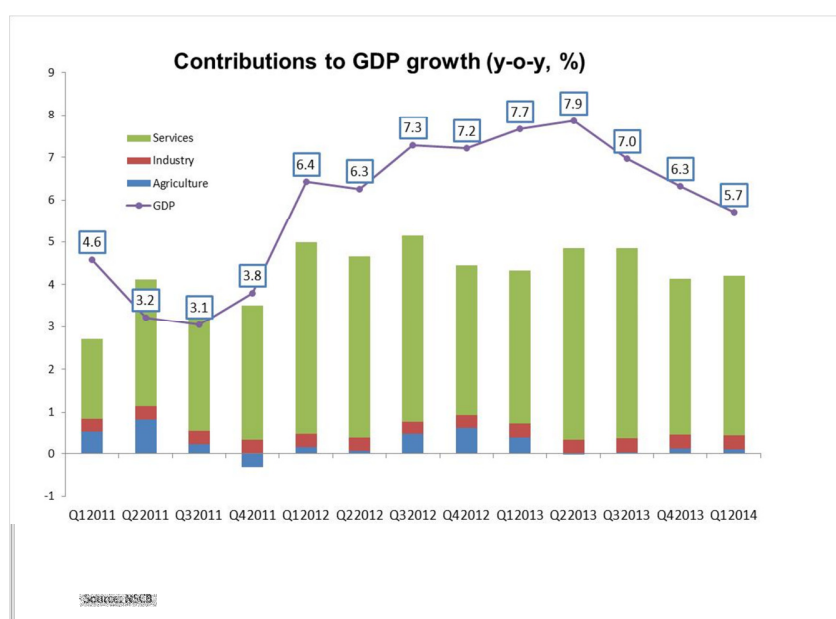


- **Philippine exports recover in the first quarter.** Exports in March increased 20.7 percent y-o-y, higher than last year's 0.1 growth. Total value of exports amounted to USD 5,227 million, bringing total value of exports for the first quarter to USD 14,260 million. Based on the report of the Philippine Statistical Authority – National Statistical Coordination Board (PSA-NSCB), growth in exports of goods in the first quarter was attributed to electronic data processing (164.5%), office equipment (189.3%), and control instrumentation (87.0%). On the other hand, growth of exports of automotive electronics and coconut oil declined. Furthermore, total imports recovered in March and grew by 9.6 percent compared to last year's 7.8 negative growth. Higher domestic demand for transport equipment brought imports of goods up.

- **Major components of aggregate supply**

 - **Services sector remains as the main driver of supply-side growth.** The services sector had the highest contribution to economic growth with 3.8 percent in the first quarter. The sector grew by 6.8 percent y-o-y, slightly higher than last year's 6.5 percent growth on the improved performance of the subsector renting and business activities, which increased by 18.2 percent on higher demand from the business process outsourcing sector.

- Industry sector displays lower growth on slightly weaker manufacturing and construction sector.** The industry sector contributed 1.8 percent to growth in the first quarter. Its performance slowed down to 5.5 percent y-o-y growth compared to the previous year's exceptional performance of 11.3 percent growth. The lackluster performance of the sector was attributed to negative growth of the manufacture of basic metal industries, non-metallic mineral products, and wearing apparel among others. On the other hand, the manufacture of furniture and fixtures, machinery and equipment, and radio, television and communication equipment and apparatus subsectors had the highest contribution to growth. The construction sector grew by 0.9 percent only compared to the previous year's 31.1 percent and this was mainly caused by slower private construction activity.



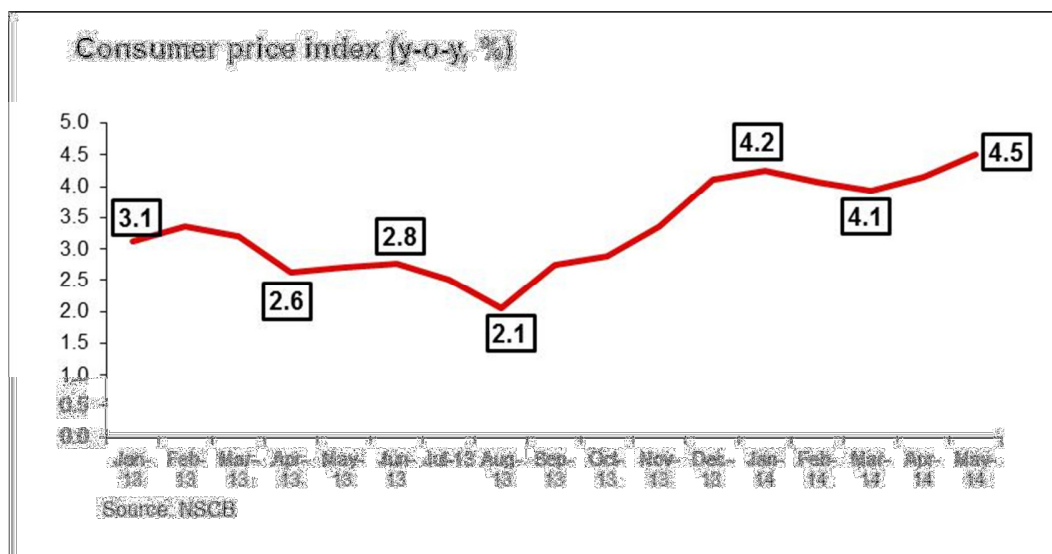
- Agriculture sector growth slips on lower production of certain crops.** The agriculture, hunting, forestry, and fishing industry displayed a lower growth in the first quarter with 0.9 percent from 3.2 percent of last year. This was due to the lingering effects of typhoon Yolanda and extreme heat that affected coconut production in the Visayas and Mindanao regions. Palay production growth, the leading driver for the sector, also slowed down from 4.5 percent last year to 3.3 percent. Production of mangoes and other crops also experienced a decline. The fishing subsector also experienced a slower growth of 3.0 percent from last year's 5.8 percent.

Challenges facing the economy

- Labor market outlook remains damp on high unemployment rate.** The latest unemployment figure for January 2014 stood at 7.5 percent, higher than last year's 7.1 percent figure. It should be noted that the entire Region VIII (Eastern Visayas) was excluded in the data. Based on the Labor Force survey, unemployment remained the highest in the National Capital Region with 11.2 percent. Most of the unemployed in the Philippines were male (63.9%), belonged to the age group of 15 to 24

years old (48.2%), and were high school graduates (34%). Despite the positive growth of the economy, not enough jobs are created. If no new infrastructures will be constructed to induce job-creating investments, unemployment could increase to 5 million Filipinos, according to Alan A. Tanjusay, spokesman of the Trade Union Congress.

- May inflation inches above the 4 percent level.** Average headline inflation for May was reported at 4.5 percent, higher than last year's 2.7 percent. This was the highest inflation since November 2011. The main drivers of higher prices were prices of food and non-alcoholic beverages, clothing and footwear, and utilities. Because of the devastating effects of typhoon Yolanda, Eastern Visayas had the highest inflation of 7.6 percent. The uptrend prices of petroleum products, electricity, and the upcoming fare hike in June are feared to keep inflation elevated.



Policy response

- BSP Monetary Board keeps policy rate at same level.** The Monetary Board decided in its meeting last May 8 to retain its key policy rate at 3.5 percent. This has been the policy rate since October 2012. One of the factors of maintaining the policy rate is the manageable inflation rate and stable domestic economic growth in the months. Policy rates have been at record lows since 2010, making the market favorable to local and foreign investors. However, the uptick in inflation in recent months may put pressure on the BSP Board to revisit its policy in the coming months.

Other economic news

- Philippine remittance maintains its upward trend in March.** The Bangko Sentral ng Pilipinas (BSP) announced that cash remittances amounted to USD 5.5 billion by end of March, 6.5 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 United Arab Emirates. The BSP reported that the sustained demand for skilled Filipino manpower overseas increase contributed to the inflow of remittance.

- **Gross international reserves drop in March.** The gross international reserves (less gold) by end of March declined by 3.3 percent with USD 71.6 billion, compared to 12.2 percent increase the previous year. This was a result of the revaluation adjustments on BSP's gold holdings and payments by the National Government for its foreign exchange obligations. According to the BSP, a large portion of the reserves were held in foreign investments while a portion went to gold reserves and combined holdings of Special Drawing Rights and foreign exchange.
- **Philippine stocks recover on renewed investor confidence.** As of June 6, the Philippines PSEi closed with a 6,762.62 index, displaying a 0.14 percent decrease from the previous closing day as most investors stood at bay. The BSP's decision to leave policy rates unchanged to motivate investors helped in keeping the stock market above the 6,400 mark. On a regional level, most Asian stocks displayed a positive growth. The upward trend is expected to continue on hopes that the US economy will continue its smooth recovery.



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Philippines Economic Data											
Monthly Leading Indicators	Jul-13	Aug-13	Sep-13	Oct-13	Nov-13	Dec-13	Jan-14	Feb-14	Mar-14	Apr-14	May-14
Industrial Production (y-o-y, %)	14.5	18.6	18.9	21.1	18.8	23.9	5.0	1.2	...	...	...
Consumer Price Index (y-o-y, %)	2.5	2.1	2.7	2.9	3.3	4.1	4.2	4.1	3.9	4.1	4.5
Retail Sales (y-o-y, %)	27.9	30.3	...	...	...	...	...	...	...	...	...
Broad Money (y-o-y, %)	30.1	31.0	31.3	32.5	36.5	...	...	...	...	...	...
Exports (y-o-y, %)	2.3	20.2	5.1	14.0	18.9	15.8	9.2	24.4	20.7	...	...
Imports (y-o-y, %)	8.7	7.0	7.2	-8.6	0.5	-0.1	26.0	0.3	9.6	...	...
Trade Balance, US\$ million	-650.00	-965.00	-654.79	201.57	-941.53	-694.90	-1,575.80	-66.40	-198.19	...	...
Total Reserves (less gold), US\$ billion	74.95	74.30	75.27	75.45	75.82	75.69	71.63	72.21	71.64	71.83	...
Policy Rate	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5
Fiscal Balance (million pesos)	-53,222	21,901	-18,616	-11,237	1,000	-52,598	-34,218	-9,718	-40,186	...	...
Quarterly/Annual Economic Indicators	2010	2011	1Q2012	2Q2012	3Q2012	4Q2012	1Q2013	2Q2013	3Q2013	4Q2013	1Q2014
Real GDP (y-o-y, %)	7.6	3.6	6.4	6.3	7.3	7.2	7.7	7.9	7.0	6.3	5.7
- Private Consumption	3.4	5.7	6.9	6.6	6.7	6.2	6.6	6.5	6.5	6.5	6.5
- Government Consumption	4.0	2.1	21.3	7.2	12.3	9.5	12.6	10.4	11.2	10.9	11.3
- Gross Capital Fixed Formation	31.6	2.0	-26.4	-7.7	7.8	4.1	-5.6	-0.3	1.5	-0.1	-1.1
Current Account (% of GDP)	4.5	2.3	0.7	3.7	3.7	3.1	5	3.8	5	5	...
Financial Account (US\$ million)	7290	-5610	-4821	722	510	-2542	-655	835	1183	1585	...
- Net Direct Investments, US\$ million	682	-1277	-898	80	-42	-92	-1336	502	-589	168	...
- Net Portfolio Investments, US\$ million	4365	-4390	-1248	-363	-61	-1851	-1697	-255	217	948	...
Overall BOP position (US\$, million)	14308	11400	1243	73	4515	3405	1536	1041	1247	1260	...
Unemployment rate	7.3	7.4	7.2	6.9	7.0	6.8	7.1	7.5	7.3	6.5	7.5
Others	May-13	Jun-13	Jul-13	Aug-13	Sep-13	Oct-13	Nov-13	Dec-13	Jan-14	Feb-14	Mar-14
Overseas Filipinos' Remittances (US\$, million)	1,879	1,935	1,946	1,938	1,953	2,079	2,080	2,173	1,799	1,796	1,883
... = not available											

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