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Monitoring the Philippine Economy Second Quarter Report for 2013

Project of Angelo King Institute

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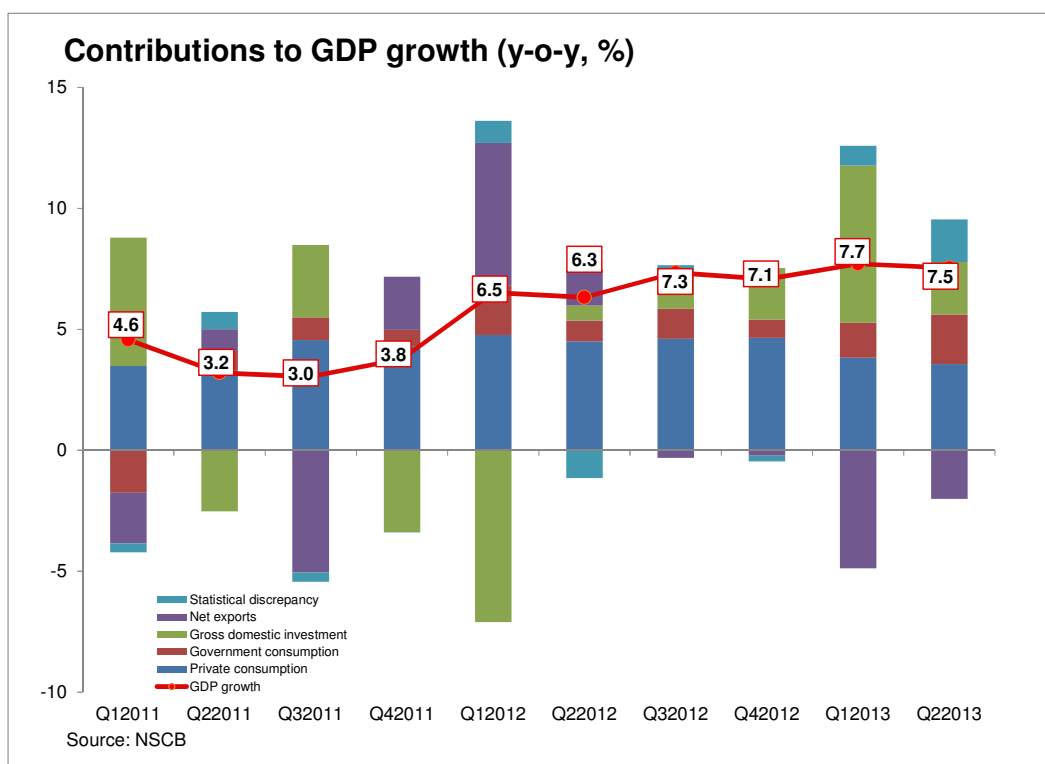
First semester economic growth surges to 7.6% on consumer spending, strong investments, and government spending but remains vulnerable to external shocks.

Economic performance: consumer and investment fuel domestic economy

- **Philippines' economy maintains robust growth of 7.5% in second quarter.** The economy was able to maintain its growth of more than 7.0 percent in the second quarter. Growth was mainly driven by the services sector and strong consumer spending. The National Statistical Coordinating Board (NSCB) revised the first quarter growth to 7.7 percent bringing the first semester growth to 7.6 percent. Analysts raised growth forecast for the year 2013 because of the second quarter performance amid the lackluster global demand.
- **Major components of aggregate demand**
 - **Household spending continues to expand.** Household consumption grew 5.2 percent year-on-year (y-o-y) in the second quarter but slowed down from last year's 6.6 percent growth. Expenditures on alcoholic beverages and tobacco, and furnishings declined 5.3 and 0.6 percent respectively on higher prices caused by the sin taxes. On the other hand, recreation and culture as well as miscellaneous goods and services had the highest growth with 9.4 percent and 8.9 percent respectively.
 - **Domestic investment posts second highest contribution to growth.** Investment displayed an impressive growth in the second quarter with a 13.2 percent increase than last year's 3.6 percent driven mainly by construction. This was fueled by the private and public sectors' favorable performance. It was during the second quarter where construction posted its fifth consecutive double-digit growth since last year, according to the National Statistical Coordination Board (NSCB). Construction grew 15.6 percent from last year's 10.2 percent while durable equipment grew 5.7 percent.

¹ Report is based on latest available data as of September 20, 2013. For comments and questions, please email mitzie.conchada@dlsu.edu.ph

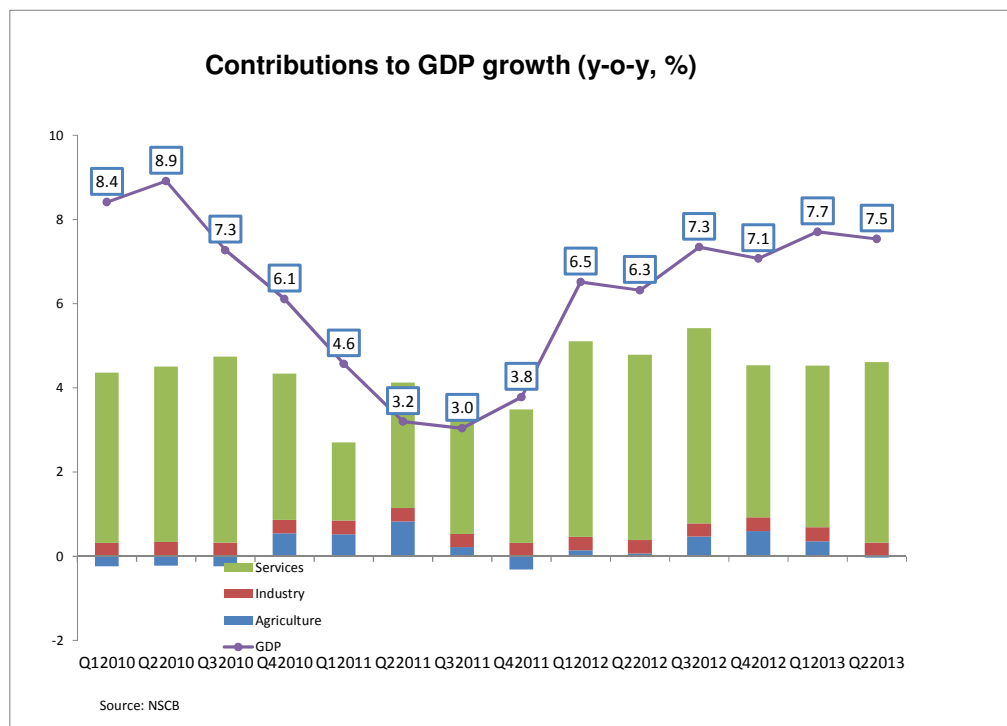
- Government expenditure continues to surge.** The second quarter government spending grew 17 percent due to the May elections and the approval of more programs. The strong election spending and sustained government capital expenditure pushed government spending to be higher than last year's 7.2 percent.



- Philippine exports drop in June; trade deficit persists.** Total value of merchandise exports in June amounted to USD4,490 million, 4.4 percent lower than last year's figure. On the other hand, second quarter total exports of goods declined 8.7 percent on lower global demand for electronic components. Electronic components declined 3.6 percent in the second quarter. Despite this, exports of agricultural products and tuna increased 37 and 154.9 percent respectively. Total exports for the second quarter amounted to PHP650,406 million.
- Major components of aggregate supply**
 - Services sector remains as the main driver of supply-side growth.** The second quarter proved to be promising for the supply side economy as the services sector grew 7.4 percent from 7.7 percent of the same period last year. The

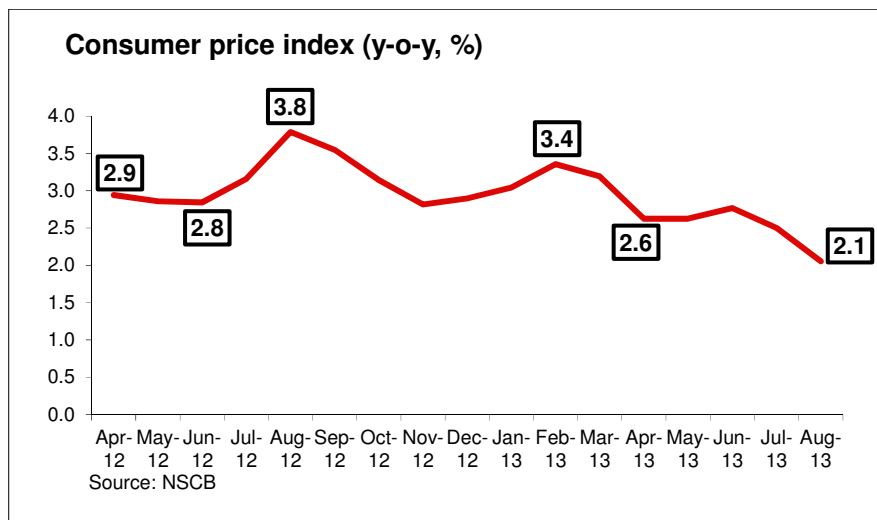
services sector contributed the highest to economic growth with 4.3 percent. Financial intermediation services had the highest growth among all subsectors with a 9.6 percent growth. This was due mainly to the positive performance of non-bank financial intermediation, banking institutions, and insurance. Real estate had the second highest growth with 9.5 percent as renting and business activities, which includes business process outsources, picked up in the second quarter.

- Industry sector continues to expand.** Driven by the expansion in the construction and manufacturing subsector, the industry sector sustained its growth in the second quarter with 10.3 percent. Construction accelerated 17.4 percent on high demand from public and private sectors. On the other hand, expansion in manufacturing (10.3 percent) was fueled by expansion in basic metal industries and chemical products.
- Agriculture sector slows down on unfavorable weather.** The second quarter proved to be a bleak period for the agricultural sector as it dropped 0.33 percent from last year's 0.6 percent growth. This is first time that the agricultural sector experienced a negative growth since fourth quarter of 2011. The NSCB reported that the yield of corn, banana, and sugarcane dropped because of erratic weather. Despite this, there were other crops that increased such as mangoes. Fisheries also improved with a 3.3 percent growth.



Challenges facing the economy

- **Fears of capital outflow looms on volatile external market.** BSP Governor Amado Tetangco expressed concern over a possible reversal of capital flows despite the economy's robust growth. The local stock and currency markets remain vulnerable mainly to the US Federal Reserve's pending move of ending its monetary policy of Quantitative Easing (QE). The Fed's QE policy was implemented to drive money supply in the economy, when the global financial crisis started, through buying bonds and other assets. Once the QE ends, there could be sudden capital outflow in Asian markets. In August, the stock market dipped to an all-time low because of speculations about the QE ending. The BSP are making sure to insulate the economy from the negative effects of massive capital outflow by initiating macro-prudential measures.
- **Inflation further decelerates on lower prices of basic commodities.** Average headline inflation for August was recorded at 2.1 percent, lower than last year's 3.8 percent. The downward trend started early last year due to slower increments in indices of food and other commodities. The National Statistics Office reported that August's low inflation rate was caused by lower prices in housing, water and utilities, and fuel. Consumer price index in the National Capital Region (NCR) declined 0.1 percent from a 1.0 growth the previous year, while areas outside NCR experience a 2.7 percent drop. The ongoing crisis in Syria and the recent typhoons and monsoon rains may affect prices of basic commodities in the next months.



Policy responses

- **BSP Monetary Board retains policy rate.** The Monetary Board decided in its meeting on September 12 to keep its key policy rate at 3.5 percent. This has been the policy rate since October last year. One of the factors of maintaining the policy rate is the manageable inflation rate and stable domestic economic growth in the first half of the year. Policy rates have been at record lows since 2010, making the market favorable to local and foreign investors.

Other economic news

- **Philippine remittance reaches USD12.6 billion by end of July.** The Bangko Sentral ng Pilipinas announced that cash remittances amounted to USD1.9 billion in July alone bringing total remittances higher by 6.6 percent despite the tenuous economic conditions in advance economies. This could be attributed to the steady deployment of skilled and professional Filipino workers, especially in the Middle East countries, coupled with commercial banks' continued efforts to strengthen its network with remittance business partners. Most of remittances came from the United States, Saudi Arabia, and the United Kingdom.
- **Gross international reserves continue to build up.** The gross international reserves (less gold) by end of August stood at USD 74.6 billion. Reserves increased 6.2 percent in August, higher than last year's 2.6 percent. The continuous increase in the total reserves is attributed to the inflows from foreign exchange operations, income from investments of BSP, and foreign currency deposits by non-government. Total reserves from January to August are enough to cover nearly a year of imports.
- **Philippine stocks seem vulnerable to external market volatility.** The short-lived high in the stock market was not sustained until the end of the first half of the year. As of September 20, the Philippines PSEi closed with 6,511.70, displaying an 11.10 percent increase from the first trading day of this year. Early in September, Philippine share prices dropped sharply below the 6,000 mark index as investor confidence dampened due to concerns on an impending US military strike against Syria. Recently, the PSEi recovered on the US Federal Reserve's move to retain its monetary policy of Quantitative Easing. On a regional level, most Asian stocks rose after Chinese manufacturing surged more than forecast.



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Philippines Economic Data										
Monthly Leading Indicators	Dec-12	Jan-13	Feb-13	Mar-13	Apr-13	May-13	Jun-13	Jul-13	Aug-13	Sep-13
Industrial Production (y-o-y, %)	10.5	10.0	5.1	-1.1	8.9	20.6	8.2	12.0	...	...
Consumer Price Index (y-o-y, %)	2.9	3.0	3.4	3.2	2.6	2.6	2.8	2.5	2.1	...
Retail Sales (y-o-y, %)	13.8	10.4	10.1	7.1	17.7	...	...	...	...	...
Broad Money (y-o-y, %)	10.9	11.0	11.3	13.4	13.6	16.7	...	...	...	...
Exports (y-o-y, %)	16.5	-2.7	-15.6	0.1	-6.1	-7.2	-4.4	...	...	...
Imports (y-o-y, %)	14.4	-8.0	-5.8	-8.4	-7.4	-7.2	-7.7	...	...	...
Trade Balance, US\$ million	-1,329	-716	-966	-593	-1,020	-365	-370	...	...	...
Total Reserves (less gold), US\$ billion	73.48	74.97	73.84	74.05	74.19	73.32	73.59	74.95	74.61	...
Policy Rate	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5
Fiscal Balance (million pesos)	-115,745	-19,531	-11,749	-35,198	36,803	-13,164	...	...	...	...
Quarterly/Annual Economic Indicators	2008	2009	2010	2011	1Q2012	2Q2012	3Q2012	4Q2012	1Q2013	2Q2013
Real GDP (y-o-y, %)	4.2	1.1	7.6	3.6	6.5	6.3	7.3	7.1	7.7	7.5
- Private Consumption	3.7	2.3	3.4	5.7	6.9	6.6	6.7	6.2	6.6	6.5
- Government Consumption	0.3	10.9	4.0	2.1	21.3	7.2	12.3	9.5	12.6	10.4
- Gross Capital Fixed Formation	23.4	-8.7	31.6	2.0	-31.3	3.6	6.2	9.5	-3.0	4.1
Current Account (% of GDP)	2.1	5.6	4.5	2.3	0.7	3.7	3.7	3.1	5.3	...
Financial Account (US\$ million)	-1702	-1731	7290	-5610	-4821	722	510	-2542	-1489	...
- Net Direct Investments, US\$ million	1285	1604	682	-1277	-898	80	-42	-92	-814	...
- Net Portfolio Investments, US\$ million	-3627	-625	4365	-4390	-1248	-363	-61	-1851	-3123	...
Overall BOP position (US\$, million)	89	6421	14308	11400	1243	73	4515	3405	1535	...
Unemployment rate	7.4	7.7	7.3	7.4	7.2	6.9	7.0	6.8	7.1	...
Others	Oct-12	Nov-12	Dec-12	Jan-13	Feb-13	Mar-13	Apr-13	May-13	Jun-13	Jul-13
Overseas Filipinos' Remittances (US\$, million)	1,928	1,918	1,975	1,681	1,682	1,749	1,804	1,867	1,916	1,927
... = not available										

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