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Monitoring the Philippine Economy Third Quarter Report for 2013

Project of Angelo King Institute

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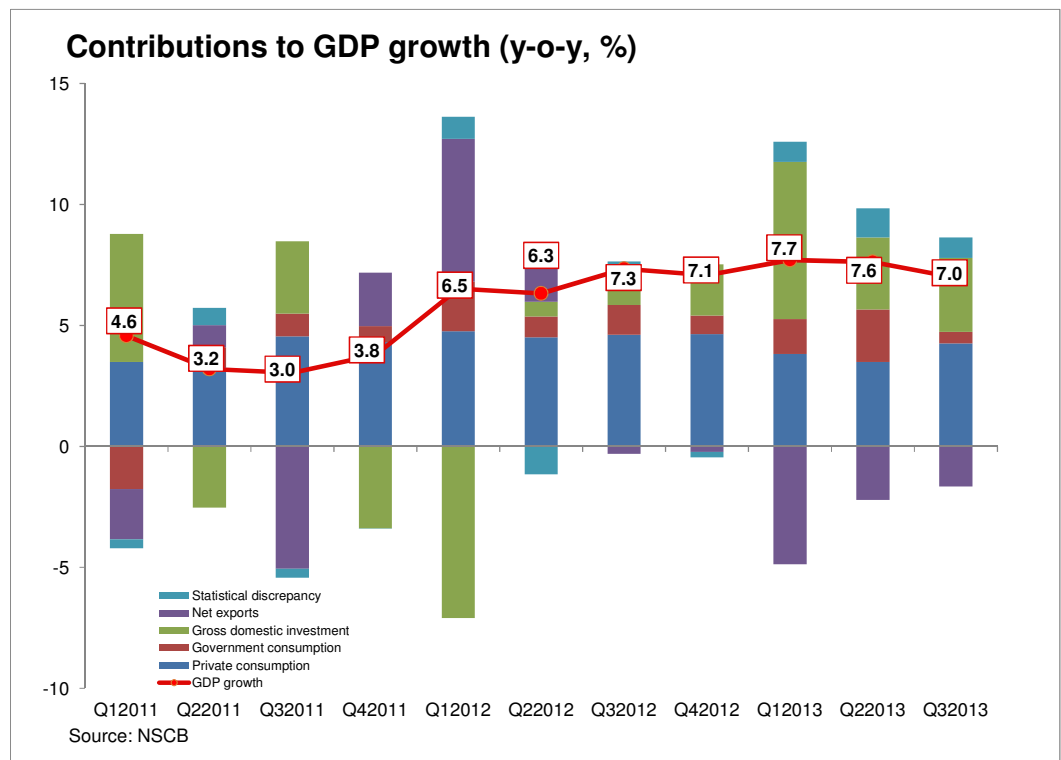
Third quarter growth drops to 7.0 percent on a more sluggish consumer and government spending. Year-end forecasts are not too promising as the country faces internal shocks brought about by the natural calamities.

Economic performance: consumer and investment still remain as main drivers of economy

- **Philippines' economic growth slows down in the third quarter.** The growth of the domestic economy decelerated to 7.0 percent from 7.3 percent the previous year. This is the lowest recorded since third quarter of last year. The third quarter growth was mainly driven by consumer spending and the robust performance of the services sector. Analysts fear lower outlook though for the whole year due to the damage brought by super typhoon Haiyan last November.
- **Major components of aggregate demand**
 - **Household spending slightly loses steam.** Third quarter figures for household consumption show that the sector only grew 6.2 percent year-on-year (y-o-y), lower than last year's 6.7 percent. The National Statistical Coordination Board reported that expenditures on food and non-alcoholic beverages, which grew 6.3 percent, had the highest contribution to growth in the third quarter. This was followed by miscellaneous goods and services, education services, and utilities with 6.7, 5.7, and 10.8 percent respectively. The other subsectors that experienced a slowdown in growth were health; furnishings and household equipment; and restaurant and hotels, among others.
 - **Domestic investment continues to expand in third quarter.** Investment had the second highest contribution to growth and grew 15.5 percent y-o-y compared to last year's 6.2 percent. This was mainly driven by the construction subsector which grew 22.3 percent from 5.8 percent the previous year. Investments in transport equipment had the highest growth followed by general industrial machinery and equipment with 38.2 percent and 12.4 percent respectively. Investments mainly coming from the private sector fueled growth in the third quarter.

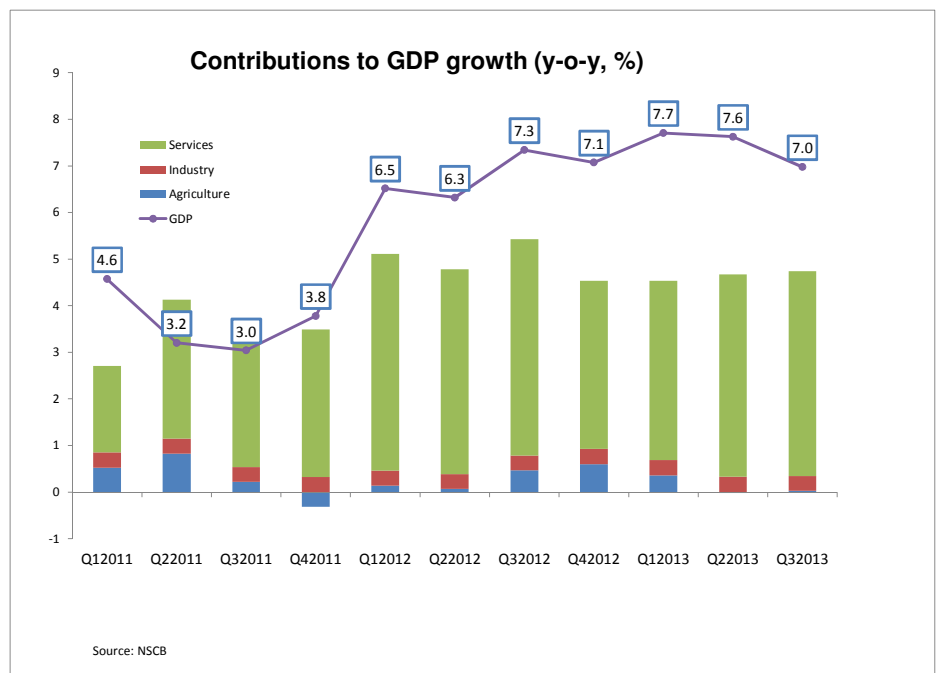
¹ Report is based on latest available data as of December 11, 2013. For comments and questions, please email mitzie.conchada@dlsu.edu.ph

- Government expenditure slackens.** Third quarter figures for government spending was recorded at 4.6 percent, lower than last year's 12.3 percent. The slight increase in the third quarter was due to more spending on programs implemented by government agencies. This is however, expected to pick up in the fourth quarter on rehabilitation efforts in typhoon-affected areas.



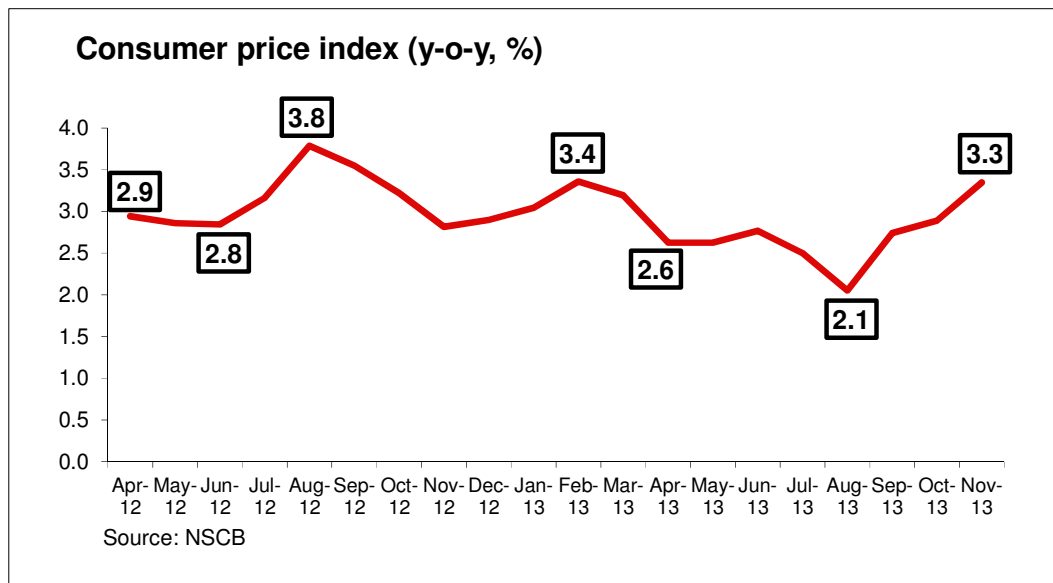
- Philippine exports increase in September; trade deficit persists.** Total value of merchandise exports in September amounted to USD5,056 million, increasing by 5.4 percent in September. The increase in exports was driven by improvements in most of the major commodities such as other mineral products, cathodes & section of cathodes, and refined copper among others. The National Statistics Office reported that the electronic products remained the top export of the country, increasing by 12.8 percent. Total exports for the third quarter amounted to USD14,473 million. On the other hand, total value of imports in September rose by 7.2 percent, amounting to USD5,711 million. This was due to increase in imports of transport equipment, electronic products, and other food and live animals. Despite the increase in exports, trade balance stood at a deficit of USD655 million.

- 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 4.4 percent. The sector's performance in the third quarter, however, slowed down from 8 percent last year to 7.5 percent. The subsectors real estate, financial intermediation and transportation had the highest growth rates with 12.2 percent, 12.1 percent and 6.6 percent respectively. Renting and other business activities as well as real estate boosted the performance of the service sector.
 - Industry sector expands on robust manufacturing sector.** Third quarter growth for the industry sector was registered at 8.2 percent, higher last year's 7.1 percent. The positive performance of the sector was mainly driven by the manufacturing sector which grew 9.7 percent. The subsectors chemical and chemical products, basic metals, and furniture and fixtures were the top gainers in the manufacturing sector with growth rates of 135 percent, 48 percent, and 31 percent respectively.
 - Agriculture sector slightly recovers despite monsoon rains.** Despite the monsoon rains experienced by Luzon during August and September, the agriculture sector grew 0.3 percent in the third quarter. The favorable harvest of corn, which grew 7 percent, was attributed to improvements in production, area harvested and yield in the areas of Northern Mindanao, SOCCSKARGEN, and Western Visayas. Palay, on the other hand, declined 6.5 percent due to moisture stress in Cagayan Valley, Western Visayas, Bicol, Ilocos, and Davao regions. Fishing industry grew 1.1 percent in the third quarter.



Challenges facing the economy

- **Fears on economic effects of super typhoon Haiyan loom ahead.** After the devastation caused by super typhoon Haiyan that whipped Central Visayas last November 8, the country is faced with the daunting task of rehabilitation and rebuilding the affected areas. Estimated amount of loss is somewhere between PHP10-15 billion in agricultural sector alone. Prices of gasoline, rice and other basic commodities have risen in the affected areas. Tourism, which is one of the main sources of livelihood for the locals, seems to be affected as well with the destruction of its major ports (sea and air). Transportation has also been affected making the cost of transporting goods to and from the area higher. All of these factors are feared to affect overall inflation for the month of December.
- **Unemployment rises – not a reflection of a sustainable and inclusive growth.** Third quarter unemployment rate remained above the 7 percent mark (7.3 percent) despite high economic growth rate in the past quarters. Based on the Labor Force Survey, there have not been enough jobs created to address the country's rising unemployment rate. The National Capital Region had the highest figure, most of who were males, high school graduates, and between 15 to 24 years old. Rising unemployment coupled with the growing informal sector may not be good for the government's revenue base.
- **Bangko Sentral ng Pilipinas still sees hot money as a concern.** Portfolio investment flows or "hot money" is feared to surge out of the country once the US Federal Reserve tapers its expansionary monetary policy of Quantitative Easing (QE) which refers to the buying of bonds and other assets. Second quarter portfolio investment increased 7.2 percent, amounting to USD105 million (net acquisition of financial assets). With inflation relatively manageable, the BSP focuses on strengthening its macroprudential measures in the event that "hot money" flows out of the country.
- **November inflation picks up on higher basic commodity prices.** Average headline inflation for November was recorded at 3.3 percent, higher than last year's 2.8 percent. The increase was caused by super typhoon Haiyan and higher electricity charges. Higher prices were reflected in food and non-alcoholic beverages as well as in utility rates, and were especially higher in areas outside NCR. Inflation rate in areas outside NCR was recorded at 3.8 percent. The gravity of the effects of super typhoon Haiyan could take its toll on prices in the months to come. This may put pressure on the BSP to reconsider its policy rates in the near future.



Policy response

- **BSP Monetary Board retains policy rate.** The Monetary Board decided in its meeting on October 24 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. The slight increase in November inflation may put pressure on the BSP Board to revisit its policy on December 12.

Other economic news

- **Philippine remittance continues to build up as the year comes to an end.** The Bangko Sentral ng Pilipinas announced that cash remittances amounted to USD1.9 billion in September alone bringing total remittances higher by 5.3 percent despite the tenuous economic conditions in advance economies. Total amount of remittances as of September amounted to USD16.5 billion. 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 growth slows down in November.** The gross international reserves (less gold) by end of November stood at USD 76.3 billion. However, growth was only recorded at 4.1 percent compared to last year's 7.6 percent. The Bangko Sentral ng Pilipinas attributed the growth to its foreign exchange operations, income from various investments, and foreign currency deposits by non-government. A favorable level of reserves should be maintained in order to stabilize the exchange rate and this serves as an indicator that the country has the capacity to repay its foreign debts.

- **Philippine stocks drop amid apprehension Fed will taper.** As of December 10, the Philippines PSEi closed with 5,886.40, displaying a 2.04 percent decrease from the previous closing day on fears that the US' Federal Reserve may cut on its stimulus program soon. This was the lowest since August but the stock market was able to bounce back to its 6,000 mark two weeks ago. However, this was short-lived. On a regional level, most Asian stocks slowed down as well on same fears. Once the US Federal Reserve tapers its QE policy, the problem of capital outflow in the region could emerge.



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Philippines Economic Data										
Monthly Leading Indicators	Feb-13	Mar-13	Apr-13	May-13	Jun-13	Jul-13	Aug-13	Sep-13	Oct-13	Nov-13
Industrial Production (y-o-y, %)	5.4	-0.7	9.5	20.6	8.3	14.9	18.3 ...	...	...	...
Consumer Price Index (y-o-y, %)	3.4	3.2	2.6	2.6	2.8	2.5	2.1	2.7	2.9	3.3
Retail Sales (y-o-y, %)	10.1	7.1	23.7	18.9	19.8	27.9	30.3 ...	...	...	...
Broad Money (y-o-y, %)	11.1	11.7	11.9	15.2	21.9	32.3	31.6 ...	...	...	...
Exports (y-o-y, %)	-15.6	0.1	-11.1	-0.8	4.1	2.3	20.2	5.1 ...	...	...
Imports (y-o-y, %)	-5.8	-8.4	7.4	-2.4	-4.8	8.7	7.0	7.2 ...	...	...
Trade Balance, US\$ million	-966	-593	-1,020	-365	-370	-650	-965	-655 ...	...	...
Total Reserves (less gold), US\$ billion	73.84	74.05	74.19	73.32	73.59	74.95	74.30	75.27	75.45	76.28
Policy Rate	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5	...
Fiscal Balance (million pesos)	-11,749	-35,198	36,803	-13,164	-8,451	-53,222	21,901	-18,616 ...	...	...
Quarterly/Annual Economic Indicators	2009	2010	2011	1Q2012	2Q2012	3Q2012	4Q2012	1Q2013	2Q2013	3Q2013
Real GDP (y-o-y, %)	1.1	7.6	3.6	6.5	6.3	7.3	7.1	7.7	7.6	7.0
- Private Consumption	2.3	3.4	5.7	6.9	6.6	6.7	6.2	6.6	6.5	6.5
- Government Consumption	10.9	4.0	2.1	21.3	7.2	12.3	9.5	12.6	10.4	11.2
- Gross Capital Fixed Formation	-8.7	31.6	2.0	-31.3	3.6	6.2	9.5	-3.0	4.1	4.2
Current Account (% of GDP)	5.6	4.5	2.3	0.7	3.7	3.7	3.1	4.8	3.6	...
Financial Account (US\$ million)	-1731	7290	-5610	-4821	722	510	-2542	-677	-127	...
- Net Direct Investments, US\$ million	1604	682	-1277	-898	80	-42	-92	-1556	139	...
- Net Portfolio Investments, US\$ million	-625	4365	-4390	-1248	-363	-61	-1851	-1754	-337	...
Overall BOP position (US\$, million)	6421	14308	11400	1243	73	4515	3405	1536	1041	...
Unemployment rate	7.7	7.3	7.4	7.2	6.9	7.0	6.8	7.1	7.5	7.3
Others	Dec-12	Jan-13	Feb-13	Mar-13	Apr-13	May-13	Jun-13	Jul-13	Aug-13	Sep-13
Overseas Filipinos' Remittances (US\$, million)	1,975	1,681	1,682	1,749	1,804	1,867	1,916	1,927	1,927	1,918
... = not available										

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