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Monitoring the Philippine Economy Third Quarter Report for 2014

Project of Angelo King Institute

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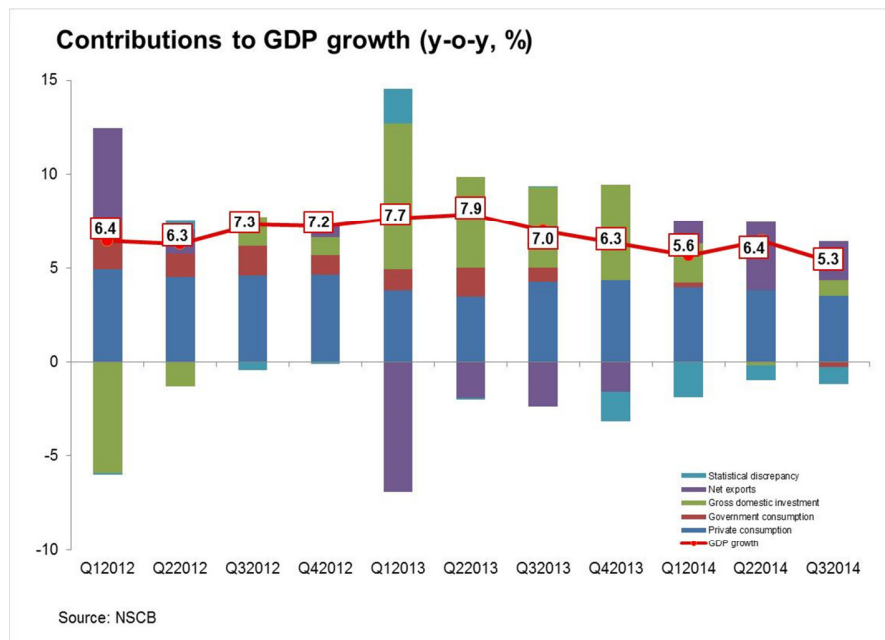
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Growth of Philippine economy slows down to 5.3 percent on sluggish private consumption and government spending.

Economic performance: improvements on net exports hampered by consumption and capital formation slowdown.

- **Domestic economy loses steam in the third quarter.** Growth of the domestic economy slowed down to 5.3 percent from 7.0 percent the previous year. All indicators showed negative movements, except exports, which improved. Alarmingly, the year-on-year growth of government consumption was recorded at negative 2.5 percent; which clearly indicates that the austerity measures of the government are felt on the economy.
- **Major components of aggregate demand**
 - **Household spending decelerates, especially food expenditure.** Private consumption in the third quarter dropped to 5.2 percent y-o-y from last year's 6.2 percent growth. This was attributed to slower growth of food, housing, utilities, furnishings, communication, and education spending. On the other hand, the National Statistical Coordination Board (NSCB) reported that consumption of alcoholic beverages and tobacco, which grew 10.5 percent y-o-y, had the highest contribution to growth. Other drivers of growth were: transport, which grew 10.1 percent; health, with 10.2 percent growth; and restaurant and hotels, with 9.2 percent growth.
 - **Domestic investment still remains at low levels in third quarter.** Capital formation slumped to 3.6 percent y-o-y from last year's 21.61 percent growth due to lower investments in public construction and breeding stocks and orchard development. Public construction dropped 3.8 percent y-o-y while breeding stocks declined by 1.2 percent. However, private construction increased by 12.3 percent while inventories posted a PhP 7.1 billion addition.

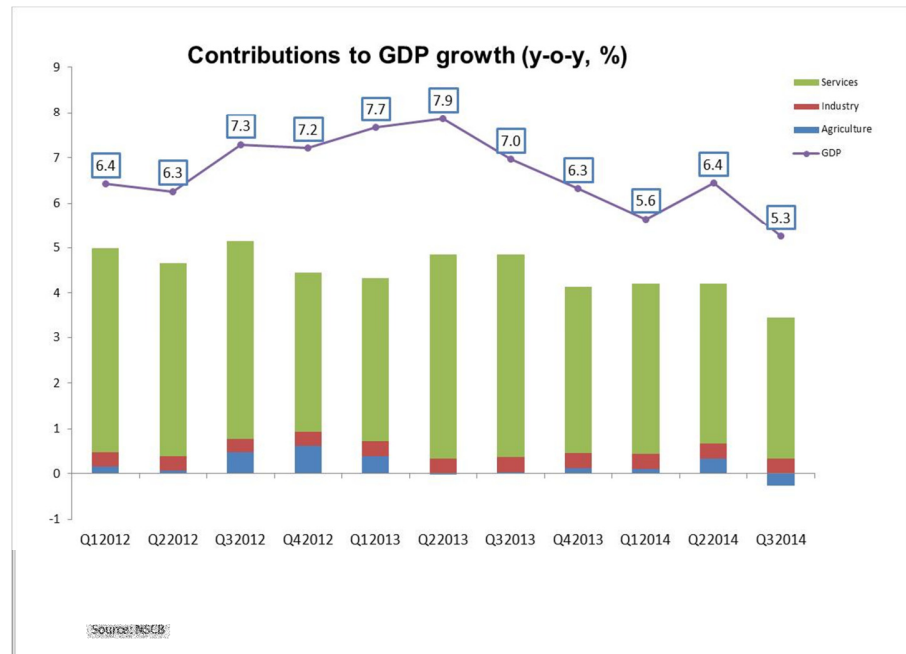
¹ Report is based on latest available data as of December 31, 2014. For comments and questions, please email mitzie.conchada@dlsu.edu.ph



- **Government expenditure reaches the negative mark.** Public spending on major government expenditures for personnel services and maintenance and other operating expenses continued to decelerate in the third quarter. Government expenditure dropped by 2.5 percent from last year's 7 percent growth. This was also attributed to less public construction in the quarter.
- **Philippine exports experience a boost.** Net exports reach the positive mark, with a 125 percent y-o-y growth. Total value of net exports amounted to USD 161 million, lower than that of last quarter's. Given the negative imports of the country in August, with respect to export's y-o-y growth at 19 percent, exports on the third quarter has had a staggering performance this quarter.
- **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 3.13 percent in the third quarter. The sector grew by 5.4 percent y-o-y, lower than last year's 7.7 percent growth on the improved performance of the subsector financial intermediation, real estate, and trade and repair of motor vehicles which grew 7.7, 6.2 and 6.1 respectively.
 - **Construction leads the industry sector, displays solid performance in contrast to last year.** The industry sector contributed 2.4 percent to growth and grew 7.6 percent y-o-y in the third quarter. The laudable performance of the sector was attributed to the construction subsector, particularly private construction which grew 19.1 percent. The improvement in the growth was caused by higher demand

both locally and in the international market. On the other hand, manufacturing decelerated to 7.2 percent due to overall lower demand.

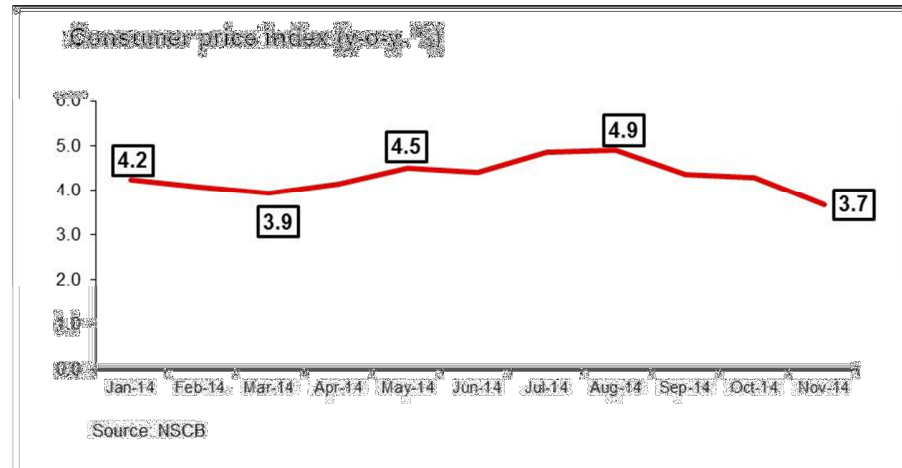


- Agriculture sector dips to the negative mark.** Typhoons Glenda and Luis negatively affected the growth of the sector in the third quarter. The agriculture, hunting, forestry, and fishing industry dropped 2.7 percent from a positive 0.3 percent last year. Overall, sugarcane production had a significant improvement with a 32.2 percent growth rate y-o-y. Alarmingly, the forestry sub-sector had a significant drop with a negative 56.9 percent growth rate due to the recovery from typhoon Yolanda and scale insect infestation the previous year.

Challenges facing the economy

- Third quarter unemployment rate drops, but remains the highest in the region.** The recent Labor Force Survey (LFS) conducted in July revealed a lower unemployment rate compared to the previous year. Unemployment rate was recorded at 6.7 percent, lower than last year's 7.3 percent. Most of the unemployed were males and belonged to the age group 15 to 24 years old. In addition, employment for males is more frictional, wherein for all number of weeks of looking for work, males have a bigger distribution. Despite the impressive growth rate and stable prices, the country has the highest unemployment rate among the ASEAN countries.
- Inflation drops to 3.7 percent in November.** Given the total decrease in demand for goods and services, consumer prices decreased significantly to 3.7 percent at the end of November, yet higher than that of 2013 (at 3.3 percent). On the other hand, OFW remittances remain to increase domestic consumption, driving demand for goods and services and forcing prices to eventually increase in especially for

utilities and basic commodities. At the end of September, OFW remittances has had a y-o-y increase of 7.9 percent, higher than that of last year's at 6.3 percent. This may facilitate higher consumer spending and boost the economy for the next quarter.



- Negative government spending remains a concern.** Third quarter revealed a negative percent growth in government spending despite budget allocations for major infrastructures such as airports and roads, as well as the continuing reconstruction for typhoon Yolanda-stricken provinces. The President has had major savings in government expenditure from effectively revamping the system funding government projects by implementing strict auditing regulations. Factors that led to the flat government spending were the slowdown in disbursements in personal services and maintenance and other operating expenses as well as a decrease in construction of public works. Public spending in the third quarter was expected to pick-up with the start of various public-private partnership agreement programs and the preparations for the APEC Summit in 2015, yet no signs of such have been found.

Other economic news

- Tax revenues as a share of GDP increases; a signal that fiscal reforms are working.** Recent data reveal that tax revenues increased in the first quarter of this year to 12.4 percent from 12 percent last year. This is attributed to the government's interest to improve tax collection through fiscal reforms. More reforms are expected in the near future to further improve the fiscal standing of the country.
- 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) has leaped beyond the 7,000 mark on mid-August. Despite the turnout on the country's Goods and Services performance, the demand for Philippine stocks has turned out to be strong and stable.

- **OFW remittances steadily increase in the third quarter.** Cash inflow in the economy, mostly from remittances abroad, continued to bolster the increase in domestic demand. As of September, total cumulative cash remittances reached USD 17.6 million.



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Philippines Economic Data										
Monthly Leading Indicators	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, %)	0.00	10.77	12.79	12.65	7.62	6.21	4.94	7.55 ...	...	...
Consumer Price Index (y-o-y, %)	3.92	4.14	4.51	4.41	4.85	4.92	4.37	4.29	3.68	...
Exports (y-o-y, %)	21.95	1.32	6.85	21.31	12.92	19.49	15.68	2.47	...	...
Imports (y-o-y, %)	10.62	3.82	-4.02	-1.41	0.16	0.84	-1.24	7.49	...	...
Trade Balance, US\$ million	-199.00	-784.00	423.00	626.00	-42.00	-137.00	201.00	-56.00	...	...
Total Reserves (less gold), US\$ billion	71.64	71.83	72.45	72.45	72.63	72.82	71.99	72.10	71.45	...
Policy Rate	3.5	3.5	3.5	3.5	3.75	3.75	4	4	4	4
Fiscal Balance (million pesos)	-40,186	80,852	11,782	-62,486	-1,762	29,865	-5,198	-2,530	...	...
Quarterly/Annual Economic Indicators	2010	2011	2012	1Q2013	2Q2013	3Q2013	4Q2013	1Q2014	2Q2014	3Q2014
Real GDP (y-o-y, %)	7.6	3.6	6.6	7.7	7.9	7.0	6.3	5.6	6.4	5.3
- Private Consumption	3.4	5.7	6.6	6.7	6.5	6.5	6.5	6.5	6.5	6.5
- Government Consumption	4.0	2.1	12.2	15.9	13.6	14.5	14.2	14.5	14.2	14.3
- Gross Capital Fixed Formation	31.6	2.0	-3.2	-5.6	-0.3	1.5	-0.1	-1.1	0.0	0.1
Current Account (% of GDP)	4.5	2.3	2.8	5	3.8	5	5	1.2	4.2	4.4
Financial Account (US\$ million)	7290	-5610	-6748	-655	835	1183	1585	3977	527	1088
- Net Direct Investments, US\$ million	682	-1277	958	-1336	502	-589	168	-469	-656	190
- Net Portfolio Investments, US\$ million	4365	-4390	-3205	-1697	-255	217	948	2680	-848	-1464
Overall BOP position (US\$, million)	14308	11400	9236	1536	1041	1247	1260	-4475	330	712
Unemployment rate	7.3	7.4	7.0	7.1	7.5	7.3	6.5	7.5	7.0	6.7
Others	Feb-14	Mar-14	Apr-14	May-14	Jun-14	Jul-14	Aug-14	Sep-14	Oct-14	Nov-14
Overseas Filipinos' Remittances (US\$, million)	1,796	1,883	1,914	1,980	2,050	2,063	2,053	2,107	2,224	...
... = not available										

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