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Angelo King Institute
for Economic and Business Studies

Monitoring the Philippine Economy Fourth Quarter Report for 2014

Project of Angelo King Institute

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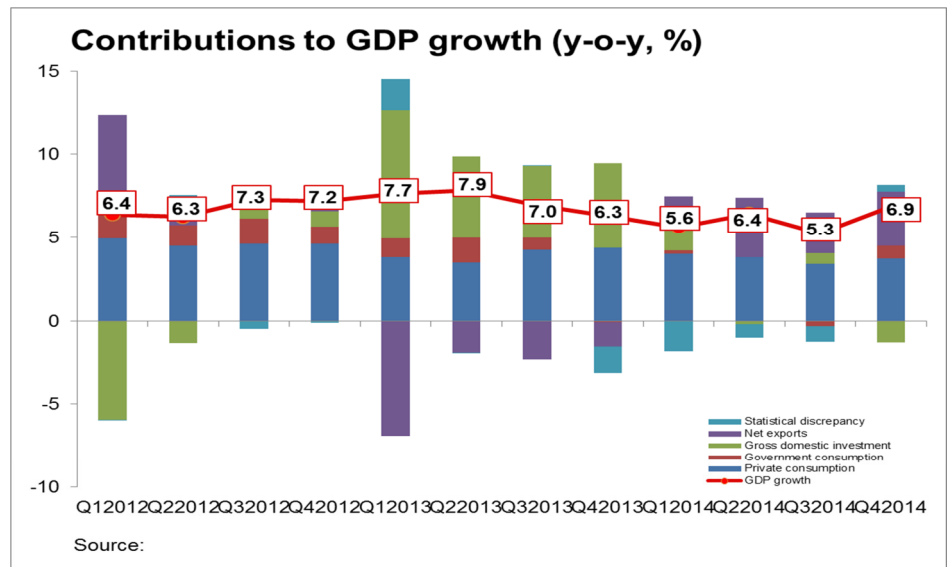
The Philippine economy rebounds to 6.9 percent in the fourth quarter, exceeding expectations and bringing annual growth to a solid 6.1 percent.

Economic performance: stronger farm output and a robust construction sector contributed to higher fourth quarter economic growth.

- **Domestic economic growth exceeds expectations in the fourth quarter.** Despite conservative forecasts for the fourth quarter, year-on-year (y-o-y) growth of the domestic economy reached 6.9 percent from 6.3 percent the previous year. This was the highest growth after a rather sluggish performance during the first three quarters. The higher-than-expected growth was attributed to the robust performance of the industry sector.
- **Major components of aggregate demand**
 - **Household spending growth decelerates.** Private consumption in the fourth quarter grew by only 5.1 percent, lower than the previous years' 5.9 percent growth. Despite this, private consumption still has the highest contribution to domestic growth. The top three items that posted the highest growth were health (9.1 percent), alcoholic beverages and tobacco (8.7 percent), and recreation and culture (7.7 percent). On the other hand, consumption of food and non-alcoholic beverages only grew 5.7 percent.
 - **Domestic investment further drops in fourth quarter.** Capital formation slumped to negative 4.9 percent y-o-y from last year's 22.4 percent growth. This was caused mainly by the dismal performance of investments in durable equipment, which registered a negative 0.6 growth, particularly the purchase of air transport equipment. Even investments in miscellaneous equipment, particularly office machine and data processing declined 14.2 percent. Construction, on the other hand, rebounded on a stronger private construction with a significant 21.9 percent y-o-y growth.

¹ Report is based on latest available data as of February 2, 2015. For comments and questions, please email mitzie.conchada@dlsu.edu.ph

- Public spending on projects boosts government expenditure.** The year ended with a higher growth for government expenditure, posting a 9.8 y-o-y growth which exceeded last year's negative 0.4 percent growth. The National Statistical Coordination Board (PSA-NSCB) reported that this was attributed to the increase in cash disbursement on personnel services as well as maintenance and other operating expenses.



- 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 November was recorded at USD189 million.

- Major components of aggregate supply**

- Services sector remains as a strong driver of supply-side growth.** The services sector had the highest contribution to economic growth with 3.3 percent in the fourth quarter. However, the sector's growth was recorded at 6.0 percent, lower than last year's 6.7 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).

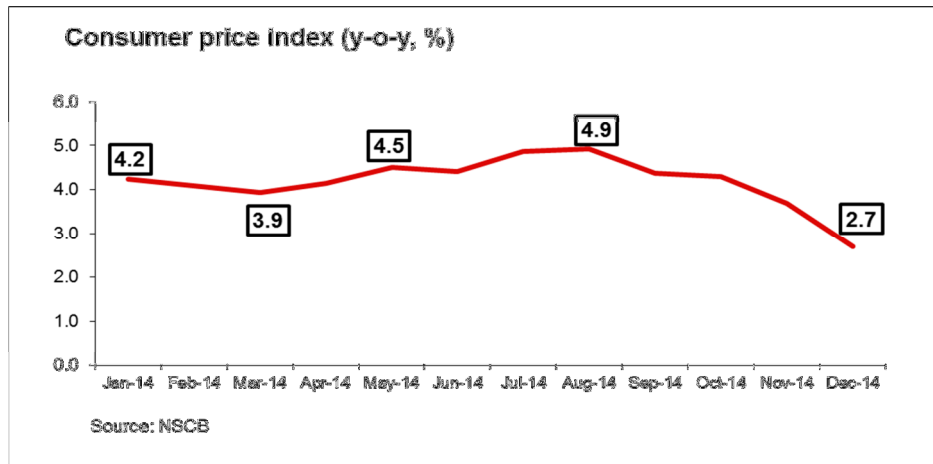
- **Construction leads the industry sector, displays solid performance in contrast to last year.** The industry sector contributed 3.1 percent to growth and grew 9.2 percent y-o-y in the fourth quarter. The laudable performance of the sector was attributed to the construction subsector, particularly private construction which grew 20.5 percent. 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 strengthens, reaches the positive mark.** The agriculture, hunting, forestry, and fishing industry experienced a relatively strong performance in the fourth quarter with 4.7 percent from a mere 0.94 percent growth last year. Overall, corn production displayed a significant improvement with a 26.8 percent growth y-o-y while palay grew 6.8 percent.

Challenges facing the economy

- **Highest unemployment rate lingers in NCR.** In the recent Labor Force Survey (LFS), unemployment rate in October was estimated at 6.0 percent. This was lower than last year's 6.5 percent but NCR continues to have the highest unemployment rate with 9.8 percent. Most of the unemployed were males (65.2 percent), belonged to the age group 15 to 24 years old (49.4 percent), and were high school graduates (33.3 percent). This seems to be a persistent problem particularly in the NCR region as there are many people who migrate in search for economic activities only to find limited opportunities.
- **OFW remittances slow down by end of November.** Despite the constant flow of remittances to the country, November figures slowed down to 2 percent. This was mainly due to the weakening of the Philippine peso against the US dollar. Total remittances in November was recorded at USD2.1 billion and mainly came from the US, Saudi Arabia, UAE, Singapore, Japan and Hong Kong. These cash transfer is one of the main factors of affecting domestic consumption.

Other economic news

- **Inflation continues to stabilize on lower petroleum 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 growth. The single digit growth was lower to 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.



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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	4.78	7.71	8.16	...
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	...
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	...
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	...
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
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	1.2	4.2	4.4	...
Financial Account (US\$ million)	-1731	7290	-5610	-6748	-655	835	1183	1585	3977	527	1088	...
- Net Direct Investments, US\$ million	1604	682	-1277	958	-1336	502	-589	168	-469	-656	190	...
- Net Portfolio Investments, US\$ million	-625	4365	-4390	-3205	-1697	-255	217	948	2680	-848	-1464	...
Overall BOP position (US\$, million)	6421	14308	11400	9236	1536	1041	1247	1260	-4475	330	712	...
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)	1,799	1,796	1,883	1,914	1,980	2,050	2,063	2,053	2,107	2,224	2,122	...
... = not available												

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