



# AKI

Angelo King Institute  
for Economic and Business Studies

## Monitoring the Philippine Economy First Quarter Report for 2016

### Project of Angelo King Institute

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*First quarter growth expanded 6.9 percent from 6.3 the previous quarter, the fastest among major Asian economies.*

**Economic performance: the highest since second quarter of 2013, first quarter growth this year was led primarily by services sector (supply side) and domestic consumption (demand side).**

- **Philippine economic growth improves in the first quarter.** First quarter growth reached 6.9 percent and is expected to strengthen in second quarter. In an election year, subsequent quarterly growth is expected to increase, keeping on track to a full-year target of 6.8 to 7.8 percent. The Philippines outpaced the growth of China (6.7 percent), Vietnam (5.5), Indonesia (4.9) and Malaysia (4.2) due to sound macroeconomic fundamentals. To sustain growth, the new administration must uphold the 8-point economic agenda to accelerate infrastructure spending and improve the lagging agricultural sector to maintain and bolster investor confidence.
- **Major components of aggregate demand**
  - **Private consumption rises mainly on election-related spending.** Compared to 5.0 percent in 2015, private consumption grew 6.9 percent. Despite external weakness, the domestic economy got a lift from election-related spending that boosted consumer spending. Low inflation and interest rates propelled household consumption that was complemented by a recovery in government spending. Money spent by candidates trickled into the broader economy through robust figures in retail trade, finance and other services. The business process outsourcing sector and remittances from overseas workers remained the strongest sources of growth. Moreover, renting and business activities and tourism have maintained high-growth status.
  - **Domestic investment surges on higher fixed capital.** First quarter private investment growth jumped 23.8 percent from last year's 12.5 percent. Fixed capital formation grew 25.6 percent, faster than 8.8 percent from 2015. Among subsector investments, growth rates were strongest in durable equipment (36.6 from 12.4 percent), intellectual property rights (15.9 from 24.3 percent), construction (12.0 from 4.5 percent) and breeding stock and orchard development (4.1 from 0.1 percent). Public construction grew by 39.9 percent, turning around

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<sup>1</sup> Report is based on latest available data as of July 14, 2016. For comments and questions, please email [mitzie.conchada@dlsu.edu.ph](mailto:mitzie.conchada@dlsu.edu.ph)

from a 23.1 percent contraction in 2015. In contrast, private construction slowed to 7.1 from 11.5 percent in 2015.

- **Fiscal spending continues to increase.** Government consumption surged 9.9 from 0.2 percent in 2015. The Philippine Statistics Authority (PSA) reported that this was due to the implementation of social programs on health and education as well as the approval of locally funded projects.
- **Net exports contract on weaker manufacturing sector.** The PSA<sup>2</sup> reported that the country's export sales by end of March reached USD4.6 billion, a 15.1 percent decline from the previous year. The decline was due to the contraction of the following export commodities: articles of apparel and clothing accessories (-52.2 percent), chemicals (-40.7 percent), and metal components (-29.8 percent). Total exports of manufactured goods declined 11.1 percent. Furthermore, total exports of agro-based products dropped 39.9 percent. On the other hand, imports of goods rose 11.7 percent due to the positive performance of several imported commodities led by iron and steel (66.3 percent).
- **Major components of aggregate supply**

*In this report, we present results from an alternative to the "traditional" (TRAD) method of decomposing growth of GDP in constant prices into sector contributions. This alternative method is a "generalized" (GEN) growth decomposition that applies to GDP in constant prices (e.g., in the Philippines) and to GDP in chained prices (e.g., in Canada and the US). While TRAD recognizes only "quantity" growth as the source of a sector's contribution to GDP growth, GEN posits that a sector's contribution comes from "quantity" growth and also from "real price" growth where this price is, by definition, the ratio of a sector's deflator to the overall GDP deflator. The GDP deflator as the common denominator of the above ratio makes real GDP the numeraire and, thus, this ratio is the relative price or exchange value of the GDP of a sector in "GDP units," i.e., the "real price" of a sector's GDP. Therefore, a sector's positive "quantity" growth contribution will be diminished if accompanied by a negative "real price" growth of the same sector that may even result in a negative net contribution by the sector to GDP growth. On the other hand, a sector's positive "quantity" growth contribution will be enhanced if accompanied by a positive "real price" growth (see Table 2).<sup>3</sup>*

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<sup>2</sup> <http://www.psa.gov.ph/content/merchandise-export-performance-march-2016>

<sup>3</sup> The results in Table 2 are AKI-DLSU *Philippine Economic Monitor* calculations by applying the data in Table 1 to a "generalized" (GEN) exactly additive decomposition of GDP growth into *pure growth effect* (PGE) and *price change effect* (PCE) as an alternative to the "traditional" (TRAD) GDP growth decomposition. Analytically, PGE is the result of real GDP or "quantity" growth holding real price constant and PCE is the result of relative price or "real price" growth holding quantity constant. The GEN formulas for PGE and PCE and the TRAD formula are given, respectively, by equations (12), (13), and (17) in Dumagan, Jesus C. (2016), "Effects of Relative Prices on Contributions to the Level and Growth of Real GDP," Working Paper Series No. 2016-036, Angelo King Institute for Economic and Business Studies, De La Salle University, Manila. This alternative framework follows from the decomposition of "aggregate labor productivity" (ALP) growth in Dumagan, Jesus C. (2013), "A Generalized Exactly Additive Decomposition of Aggregate Labor Productivity Growth," *Review of Income and Wealth*, 59 (Issue 1): 157-168, where ALP is the ratio of GDP to total labor employment. Thus, by removing the labor variable, the decomposition of ALP growth in the latter

- **Services sector steers supply-side growth upwards.** Services, remaining as the driver of the economy, accelerated to 7.9 percent in the first quarter of 2016 (Table 1) from 5.5 percent last year. To the total GDP growth of 6.9 percent, Services contributed 5.3 percentage points (Table 2) from 4.6 percentage points of quantity growth (PGE) and 0.7 percentage points of relative price change effects (PCE). The growth of Services during the period was the fastest since the 7.8 percent recorded in the second quarter of 2013. Major contributors include trade and repair of motor vehicles, motorcycles, personal and household goods, and financial intermediation. Faster growth in trade, finance, and real estate, renting and business activities helped push the expansion of the services sector.
- **Industry sector displays improvement.** Industry accelerated to 8.7 percent in the first quarter of 2016 (Table 1) and contributed 1.9 percentage points to total GDP growth (Table 2). Manufacturing, which grew by 8.1 percent, is still the top contributing sector under the Industry group, contributing 0.9 percentage points to total GDP growth. The next largest contributor in this group is Construction with 0.8 percentage points.
- **Agriculture sector suffers further decline.** The agriculture sector, comprising Agriculture & Forestry and Fishing, which together accounted for 9.2 percent of GDP, contracted by 4.4 percent in the first quarter of 2016 from the same quarter last year due mainly to El Nino. To the total GDP growth of 6.9 percent, agriculture contributed negative 0.3 percentage points (Table 2) from negative 0.5 percentage points of quantity growth (PGE) and 0.2 percentage points of relative price change effects (PCE). Despite the weak agriculture and fishery sector in the first quarter, the GDP growth projection for the whole year 2016 remains high.

### ***Challenges facing the economy***

- **Current policy settings appropriate, but projections differ.** Bangko Sentral ng Pilipinas (BSP) noted that the first-quarter figure was in line with market expectations and builds confidence that the new GDP target of 6.8-7.8% is achievable. Thus, the BSP's Monetary Board has kept its policy rate steady, even as it prepares to shift to an interest-rate corridor (IRC) system that monetary authorities described as "policy neutral." The IRC is a system for guiding short-term market rates towards the BSP policy interest rate which is the overnight reverse repurchase rate and consists of the following instruments: overnight lending facility, overnight deposit facility, overnight reverse repurchase rate facility, and term deposit action facility<sup>4</sup>. However, private-sector economists find the official growth target difficult to achieve, placing forecasts at a conservative 6.2 to 6.3 percent due to base effects, slower government spending and ill effects from the coming La Niña. If the surge in consumption and investment spending can be sustained and external trade figures improve in the succeeding months, these will be upside factors that might push growth closer to the lower end of the government target.

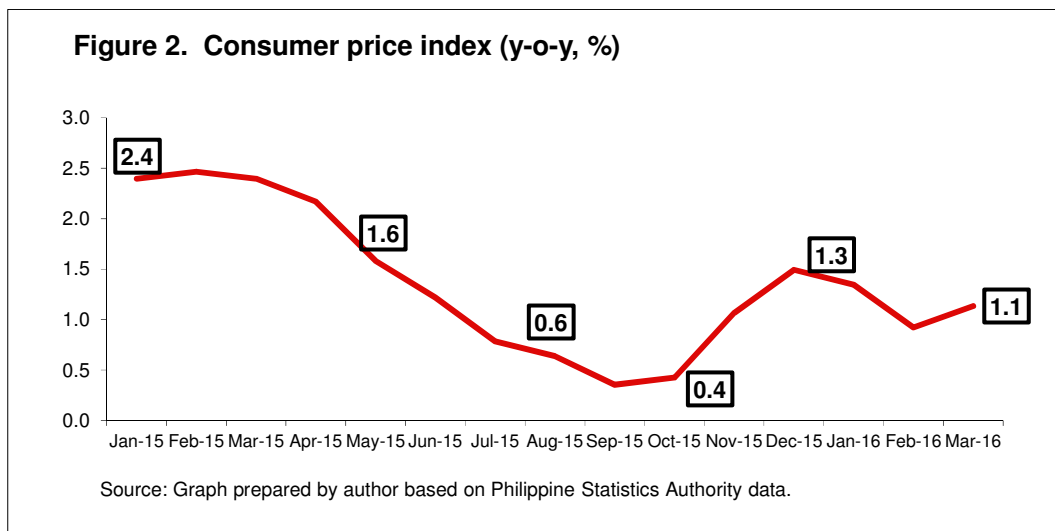
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paper yields the decomposition of GDP growth into PGE and PCE in the former paper which is implemented in Table 2.

<sup>4</sup> <http://www.bsp.gov.ph/publications/media.asp?id=4063>

### Other economic news

- **Inflation remains stable in March.** First quarter inflation ended at 1.1 percent on slightly higher food and oil prices. This was lower than last year's 2.4 inflation rate. Inflation rate for the year is expected to be manageable and well within the BSP's 2-4 percent target.



- **Growth of remittance remains steady.** Personal remittances by overseas Filipino workers (OFWs) reached USD2.4 billion in March 2016, 1.2% lower than in March 2015. The March result meant that despite worries about a slump at the onset of 2016, OFW remittances still hit USD7.1 billion in the first quarter of 2016, higher by 4.3% compared to the first quarter of last year. Remittances underpin the expansion forecast and complement contributors for robust growth.
- **8-point economic agenda<sup>5</sup> of new administration accords to anti-corruption agenda.** Mining, foreign ownership and reproductive health are just some of the other economic priorities of the next administration. Meanwhile, the shift to federalism could be proposed in 2017 onwards. The agenda includes the following:
  1. Continue and maintain the current macroeconomic policies. Reforms in tax revenue collection efforts will be complemented by reforms within the bureaucracy of tax collecting agencies;
  2. Accelerate spending on infrastructure by addressing major bottlenecks, and maintain the target of setting aside 5% of the country's gross domestic product (GDP) to infrastructure spending;

<sup>5</sup> <http://cnnphilippines.com/news/2016/05/12/rodrigo-duterte-eight-point-economic-agenda.html>

3. Ensure attractiveness of the Philippines to foreign investors, and enhancing competitiveness in doing business in the country. This also means reducing crime to attract investors, and increase security of businessmen and consumers;
4. Provide support services to small farmers to increase productivity and improve market access. Provide irrigation to more farms and better support services to farmers. Promote tourism in the rural areas;
5. Address bottlenecks in our land administration and management system;
6. Strengthen basic education system, and provide scholarships for tertiary education, which are relevant to private employers' needs;
7. Improve tax system by indexing tax collection to inflation rate to enable those who earn a little to have more in their pockets; and
8. Expand and improve implementation of the conditional cash transfer (CCT) program.



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<b>Philippines Economic Data</b>										
<b>Monthly Leading Indicators</b>	<b>Jun-15</b>	<b>Jul-15</b>	<b>Aug-15</b>	<b>Sep-15</b>	<b>Oct-15</b>	<b>Nov-15</b>	<b>Dec-15</b>	<b>Jan-16</b>	<b>Feb-16</b>	<b>Mar-16</b>
Industrial Production (y-o-y, %)	-1.9	-0.2	2.2	3.1	1.6	4.2	4.7	34.5	11.2	7.8
Consumer Price Index (y-o-y, %)	1.2	0.8	0.6	0.4	0.4	1.1	1.5	1.3	0.9	1.1
Exports (y-o-y, %)	-1.8	-1.8	-6.3	-15.5	-10.8	-1.1	-3.0	-3.9	-4.5	-14.2
Imports (y-o-y, %)	22.6	23.0	5.7	8.2	16.9	11.4	-16.7	30.8	1.2	23.9
Trade Balance, US\$ million	-554.00	-1,519.00	-1,048.00	-1,316.00	-1,944.00	-977.00	604.00	-2,638.00	-1,104.00	-1,747.00
Total Reserves (less gold), US\$ billion	73.27	73.47	73.10	73.54	73.92	73.47	73.96	73.65	74.06	75.21
Policy Rate	4	4	4	4	4	4	4	4	4	4
Fiscal Balance (million pesos)	-72,673.00	-32,198.00	15,040.00	-22,140.00	-27,022.00	6,029.00	30,400.00	-3,474.00	-34,626.00	...
<b>Quarterly/Annual Economic Indicators</b>	<b>2013</b>	<b>1Q2014</b>	<b>2Q2014</b>	<b>3Q2014</b>	<b>4Q2014</b>	<b>1Q2015</b>	<b>2Q2015</b>	<b>3Q2015</b>	<b>4Q2015</b>	<b>1Q2016</b>
Real GDP (y-o-y, %)	6.9	5.6	6.8	5.7	6.7	5.0	5.9	6.2	6.5	6.9
- Private Consumption	5.6	6.3	5.7	4.9	5.3	6.1	6.4	6.1	6.5	7.0
- Government Consumption	8.1	3.4	1.5	-1.1	11.0	0.2	2.4	15.7	15.8	9.9
- Gross Capital Fixed Formation	27.3	8.6	7.7	-0.2	5.7	12.5	21.4	14.5	13.3	23.8
Current Account (% of GDP)	4.2	2.3	4.4	4.8	5.9	3.2	3.1	0.1	4.8	0.6
Financial Account ( US\$ million)	2,230.00	4,098.00	696.00	810.00	4,480.00	152.00	1,258.00	-291.00	1,404.00	959.00
- Net Direct Investments, US\$ million	-90.00	-487.00	-543.00	842.00	977.00	358.00	-476.00	-11.00	7.00	-923.00
- Net Portfolio Investments, US\$ million	-1,001.00	2,811.00	-649.00	-903.00	1,202.00	-459.00	3,375.00	2,202.00	-361.00	522.00
Overall BOP position (US\$, million)	5,085.00	-4,475.00	330.00	712.00	574.00	877.00	807.00	124.00	809.00	-210.00
Unemployment rate	7.1	7.5	7.0	6.7	6.0	6.4	6.5	5.6	5.8	5.8
<b>Others</b>	<b>Jun-15</b>	<b>Jul-15</b>	<b>Aug-15</b>	<b>Sep-15</b>	<b>Oct-15</b>	<b>Nov-15</b>	<b>Dec-15</b>	<b>Jan-16</b>	<b>Feb-16</b>	<b>Mar-16</b>
Overseas Filipinos' Remittances (US\$, million)	2,227.00	2,253.00	1,994.00	2,234.00	2,164.00	1,871.00	2,470.00	1,997.00	2,098.00	2,362.00
... = not available										

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

<b>Table 1. Level of Philippine GDP, 2015Q1 - 2016Q1</b>				
	<b>Nominal GDP</b>		<b>Real GDP</b>	
	(million current pesos)		(million constant 2000 pesos)	
	<b>2015Q1</b>	<b>2016Q1</b>	<b>2015Q1</b>	<b>2016Q1</b>
Agriculture and Forestry	294,668	291,205	152,456	145,964
Fishing	45,444	43,020	28,958	27,529
Mining and Quarrying	28,906	29,080	21,135	23,531
Manufacturing	631,576	664,232	424,988	459,226
Construction	185,860	211,389	90,695	100,498
Electricity Gas and Water Supply	106,483	110,958	54,013	59,257
Transport Communication and Storage	204,831	217,110	140,956	148,612
Trade and Repair of Motor Vehicles Motorcycles Personal	500,618	546,683	270,314	291,890
Financial Intermediation	253,682	279,905	130,949	142,870
Real Estate Renting & Bus. Actvt	389,076	438,807	193,992	211,503
Public Administration & Defense: Compulsory Social Security	97,706	110,869	66,134	70,600
Other Services	298,281	324,652	191,768	207,060
<b>Sum = GDP</b>	<b>3,037,132</b>	<b>3,267,910</b>	<b>1,766,358</b>	<b>1,888,540</b>

**Source:** Philippine Statistical Authority.

**Table 2. Industry Contributions to Philippine GDP Growth, 2015Q1 - 2016Q1**

	<b>TRAD</b>	<b>PGE</b>	<b>PCE</b>	<b>GEN</b>
	<b>GDP Growth</b>			<b>GDP Growth</b>
	(percent)	(percent)	(percent)	(percent)
		(1)	(2)	(1)+(2)
<b>GDP Growth</b>	<b>6.92</b>	<b>6.90</b>	<b>0.02</b>	<b>6.92</b>
<b>Industry Growth Contribution</b>				
<b>Agriculture</b>	<b>-0.45</b>	<b>-0.49</b>	<b>0.22</b>	<b>-0.26</b>
Agriculture and Forestry	-0.37	-0.41	0.24	-0.17
Fishing	-0.08	-0.07	-0.01	-0.09
<b>Industry</b>	<b>2.93</b>	<b>2.79</b>	<b>-0.93</b>	<b>1.86</b>
Mining and Quarrying	0.14	0.11	-0.11	0.00
Manufacturing	1.94	1.68	-0.74	0.94
Construction	0.56	0.66	0.13	0.80
Electricity Gas and Water Supply	0.30	0.34	-0.22	0.12
<b>Services</b>	<b>4.44</b>	<b>4.60</b>	<b>0.72</b>	<b>5.32</b>
Transport Communication and Storage	0.43	0.37	-0.01	0.36
Trade and Repair of Motor Vehicles Motorcycles Personal	1.22	1.32	0.09	1.40
Financial Intermediation	0.67	0.76	0.04	0.81
Real Estate Renting & Bus. Actvt	0.99	1.16	0.39	1.55
Public Administration & Defense: Compulsory Social Security	0.25	0.22	0.19	0.41
Other Services	0.87	0.78	0.02	0.80

**Source:** Source: DLSU-AKI Philippine Economic Monitor calculations by applying the data in Table 1 to a "generalized" (GEN) exactly additive decomposition of GDP growth into pure growth effect (PGE) and price change effect (PCE) as an alternative to the "traditional" (TRAD) GDP growth decomposition. The GEN formulas for PGE and PCE and the TRAD formula are given, respectively, by equations (12), (13), and (17) in Dumagan, Jesus C. (2016), "Effects of Relative Prices on Contributions to the Level and Growth of Real GDP," Working Paper Series No. 2016-036, Angelo King Institute for Economic and Business Studies, De La Salle University, Manila. Analytically, PGE is the result of real GDP or "quantity" growth holding real price constant and PCE is the result of relative price or "real price" growth holding quantity constant. This alternative framework follows from the decomposition of "aggregate labor productivity" (ALP) growth in Dumagan, Jesus C. (2013), "A Generalized Exactly Additive Decomposition of Aggregate Labor Productivity Growth," Review of Income and Wealth, 59 (Issue 1): 157-168, where ALP is the ratio of GDP to total labor employment. Thus, by removing the labor variable, the decomposition of ALP growth in the latter paper yields the decomposition of GDP growth into PGE and PCE which is implemented in this Table 2.