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Monitoring the Philippine Economy Third Quarter Report for 2020

Project of Angelo King Institute

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The Philippine economy continues to endure a recession in Q3 2020 but shows signs of improvement from the previous quarter as the downturn slowed to 11.5 percent from 16.9 percent the previous quarter.

The economic slump eases in the third quarter. The country remains in recession as the economy contracted for a third consecutive quarter. Year-on-year economic growth was recorded at -11.5 percent in the third quarter, showing improvement from the record low -16.9 percent growth rate posted in the previous quarter. The unemployment rate continued to exceed its pre-pandemic levels but also continued to decline in Q3, dropping to 8.7 percent from 10.0 percent in the previous quarter. Inflation quickened to a 20-month high of 3.3 percent in November, owing to higher food inflation driven by supply disruptions. Businesses and consumers generally showed lower confidence in the third quarter, mostly due to expectations of the COVID-19 pandemic's continuing impact on the economy. While the economy remains in downturn, it is expected that the situation will continue to improve in the coming quarters as the government focuses on progressively reducing COVID-related risks.

- **Major components of aggregate demand**
 - **Private consumption posts smaller contraction.** Household Final Consumption Expenditure (HFCE) declined by 9.3 percent year-on-year (y-o-y), showing improvement from last quarter's contraction of 15.3 percent but also a significant deterioration from the 6.0 percent growth in third quarter 2019. Decreased spending was recorded for Alcoholic beverages and tobacco (-25.5 percent from -1.2 percent, y-o-y); Clothing and footwear (-13.9 percent from 2.7 percent, y-o-y); Furnishings, household equipment and routine household maintenance (-9.1 percent from 5.8 percent, y-o-y); Health (-2.3 percent from 6.6 percent, y-o-y); Transport (-33.4 percent from 6.6 percent, y-o-y); Recreation and culture (-59.3 percent from 7.0 percent, y-o-y); Education (-20.8 percent from 3.7 percent, y-o-y); Restaurants and hotels (-49.9 percent from 7.0 percent, y-o-y). The components that recorded positive growth rates were Food and non-alcoholic beverages (4.6 percent from 4.4 percent, y-o-y); Housing, water, electricity, gas and other fuels (6.7 percent from 7.8 percent, y-o-y); Communication (5.7 percent from 7.1 percent, y-o-y); and Miscellaneous goods and services (2.2 percent from 9.8 percent, y-o-y). The smaller contraction in household spending may be attributed to the easing of community quarantine measures in several areas of the country.

¹ Report is based on latest available data as of December 12, 2020. For comments and questions, please email mitzie.conchada@dlsu.edu.ph

- Gross capital formation plummets again.** Third quarter Gross Capital Formation (GCF) growth showed an uptick to -41.6 percent from the -53.7 percent rate from last quarter but worsened significantly from the previous year's rate of -0.1 percent for the third quarter. Relative to the rates in third quarter 2019, growth rates were much lower for all of the components in the fixed capital group, specifically, Construction (-43.5 percent from 14.3 percent), Durable equipment (-34.4 percent from -9.7 percent), and Intellectual property products (-16.9 percent from 33.5 percent), and Breeding stock and orchard development was low relative to these components, the rate of contraction more than tripled since third quarter 2019 (-0.5 percent from -1.6 percent). The two other GCF components also showed significant changes: third quarter Inventories growth showed a significant upturn from an unusually large percent decrease in 2019 to 38.4 percent in 2020 while third quarter investment in Valuables showed a significant downturn from 182.9 percent in 2019 to -53.15 percent in 2020. While the contraction of overall GCF was less severe than in the second quarter, third quarter growth was worse for the Construction component (-43.5 percent from -31.4 percent) and the Breeding stocks and orchard development component (-1.6 percent from 2.2 percent).
- Government spending continues to support domestic demand.** Government Final Consumption Expenditure (GFCE) increased year-on-year in the third quarter, posting a growth rate of 5.8 percent. This expansion was less than the 9.4 percent growth recorded in third quarter 2019 (9.4 percent) and much lower than 22.1 percent growth in the previous quarter's rate (22.1 percent). The slowdown in GFCE growth was due to the expiration of the Bayanihan 1 stimulus package in late June and the President's approval of Bayanihan 2 in September.^{2,3} Despite the slowdown, government spending continued to help moderate the impact of the significant declines in private consumption and investment spending on the overall growth rate, as it did in the previous quarter. The government operated on a deficit as its total expenditures amounted to P1.0T, declining 2.7 percent y-o-y, and its revenues amounted to P690.1B, declining 16.3 percent y-o-y⁴. Nevertheless, the government maintains sufficient fiscal space for spending on health, social protection, and economic stimulus programs⁵.
- Trade deficit slightly improves.** The trade deficit was narrowed by 43.45 percent y-o-y, showing a reduction similar to the one in the previous quarter (44.3 percent). Both exports and imports dropped, posting growth rates of -14.7 percent and -21.7 percent, respectively. Export growth was recorded for the following commodity groups: Electronic products (1.5 percent), Cathodes and sections of cathodes of refined copper, Chemicals (8.4 percent), Woodcrafts and furniture (6.6 percent), and other goods (0.9 percent). The export subgroups that declined were Agricultural products (-23.8 percent), Fishery products (-4.7 percent), Articles of apparel and clothing accessories (-18.9 percent), Ignition wiring sets (-21.6 percent), Metal components (-2.9 percent), Petroleum products (-97.9 percent), Machinery and transport equipment (-9.7 percent), and Processed food and beverages (-5.9 percent). The only commodity groups that posted import growth were Dairy products (0.9 percent), Feeding stuff (2.0 percent), and Fruits and vegetables (11.2 percent). The rest of the import commodity groups recorded declines: Electronic products (-

² <https://www.neda.gov.ph/29336-2/>

³ <https://www.officialgazette.gov.ph/downloads/2020/09sep/20200911-RA-11494-RRD.pdf>

⁴ https://www.bsp.gov.ph/Lists/Quarterly%20Report/Attachments/20/LTP_3qtr2020.pdf

⁵ https://www.bsp.gov.ph/Lists/Quarterly%20Report/Attachments/20/LTP_3qtr2020.pdf

4.3 percent); Mineral fuels, lubricants and related materials (-25.7 percent); Metalliferous ores and metal scrap (-26.9 percent), Metal products (-25.9 percent); Plastics in primary and non-primary forms (-23.2 percent); Professional scientific apparatus (-59.9 percent); Articles of apparel (-21.8 percent); and Other imports of goods (-20.4 percent). Among the service groups, both exports and imports declined for Transport (-44.1 percent and -36.2 percent, respectively); Insurance and pension services (-27.0 percent and -10.1 percent, respectively); Travel (-80.2 percent and -39.2 percent, respectively); Business services (-6.5 percent and -13.7 percent, respectively); Charges for the use of intellectual property (-8.0 percent and -44.7 percent, respectively); and Miscellaneous services (-17.9 percent and -53.1 percent, respectively). A decline in exports and an increase in imports were recorded for the service groups Government goods and services (-10.9 percent and 6.9 percent, respectively) and Telecommunications, computer and information services (-31.1 percent and 18.3 percent, respectively).

- **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 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 3).⁶

- **Services sector’s contraction decelerates.** The services sector’s third quarter output declined by 10.6 percent, year-on-year. While the contraction shows significant deterioration in performance compared to the 7.3 percent growth recorded in third quarter 2019, it also showed an improvement from the previous quarter’s contraction of 17.0 percent. Third quarter growth declined considerably for all service subsectors, namely, Wholesale and retail trade; repair of motor vehicles and motorcycles (-5.4 percent from 8.3 percent, y-o-y); Transportation and Storage (-28.1 percent from 7.9 percent, y-o-y); Accommodation and Food Services (-52.7 percent from 6 percent, y-o-y); Information and communication (0.8 percent from 5.5 percent, y-o-y); Financial and insurance activities (6.2 percent from 12.8 percent, y-o-y); Real estate and ownership of dwellings (-22.5 percent from 6.2 percent, y-o-y); Professional and business services (-9.4 percent from 2.7 percent, y-o-y); Public Administration and Defense, Compulsory Social Activities (4.5 percent from 8.7 percent, y-o-y); Education (-21.4 percent from 2.1 percent, y-o-y); Human Health and Social Work Activities (-4.0 percent from 5.8 percent, y-o-y); and Other services (-53.4 percent from 5.2 percent, y-o-y). Only Information and communication; Financial and insurance activities; and Public Administration and Defense, Compulsory Social Activities posted positive year-on-year growth in the third quarter.

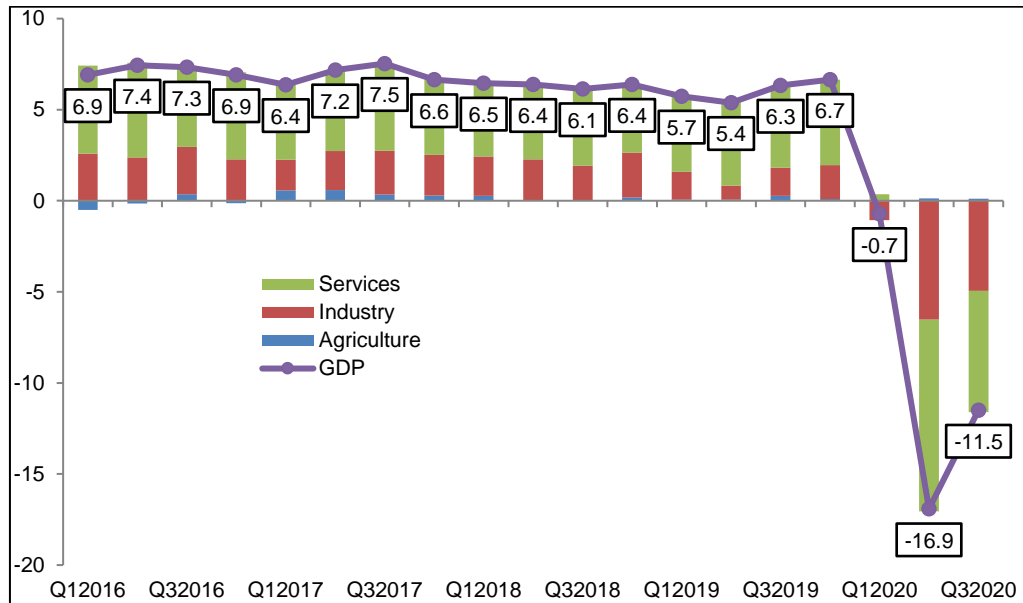
⁶ See the footnote to Table 3 for the source of the GDP growth contributions.

The services sector's contraction had the most significant impact on overall economic performance, contributing -6.66 percentage points to growth (see Table 3). The sector continues to account for the largest share of total GDP at 63.4 percent.

- **Industry sector performance remains weak.** The industry sector registered a growth rate of -17.2 percent, continuing to be the worst-performing sector but also showing improvement after last quarter's rate of -21.8 percent. Third quarter growth declined considerably from the previous year for the industry sector (from 5.4 percent) and for all its subsectors, namely, Mining and quarrying (-15.6 percent from -3.5 percent, y-o-y), Manufacturing (-9.7 percent from 0.9 percent, y-o-y), Electricity, steam, water and waste management (0.2 percent from 7.3 percent, y-o-y), and Construction (-39.8 percent from 15.3 percent, y-o-y). Compared to the previous quarter, improved performance was shown in the Mining and Quarrying (from -22.8 percent), Manufacturing (from -20.7 percent), and Electricity, steam, water and waste management (from -6.4 percent) subsectors. Construction was the only subsector whose performance had worsened since the previous quarter (from -30.4 percent). Despite being the worst-performing sector, the industry sector's contribution to overall growth was less negative at -4.95 percentage points (see Table 3) compared to that of the service sector. The industry sector remains the second largest with a 26.8 percent share of GDP.
- **Agriculture sector continues to post positive growth.** The agriculture, forestry, and fishing sector grew 1.2 percent in the third quarter, slowing down from 1.6 percent growth in the previous quarter and 3.0 percent in third quarter 2019. The slowed growth of the agriculture sector was primarily due to animal and plant diseases⁷. For a third consecutive quarter, the agriculture sector continues to be the best performing sector, as the only sector posting a positive growth rate. Agriculture had the highest contribution to third quarter growth, with a 0.1 percentage-point contribution (see Table 3) propping up overall growth. Among the agriculture subsectors, the subsectors that recorded gross value-added growth were Palay (15.4 percent); Corn (4.1 percent); Sugarcane (4.9 percent); Mango (2.4 percent); Coffee (0.1 percent); Cassava (0.2 percent); Cacao (12.1 percent); Forestry and logging (2.5 percent); Fishing and aquaculture (2.1 percent); and Support activities to agriculture, forestry and fishing (2.7 percent). The subsectors that registered declines in gross value-added were Coconut (-2.0 percent), Banana (-1.3 percent), Pineapple (-5.4 percent), Rubber (-3.9 percent), Abaca (-0.1 percent), Tobacco (-30.1 percent), Other agricultural crops (-0.2 percent), Livestock (-7.7 percent), Poultry and egg production (-3.6 percent), and Other animal production (-4.9 percent). Among the top five largest subsectors, Palay continues to hold the largest share of gross value-added by Agriculture, forestry, and fishing at 16.6 percent, followed by Fishing and Agriculture at 13.4 percent; Livestock at 12.6 percent; Support activities to agriculture, forestry and fishing at 11.8 percent; and Poultry and egg production at 9.8 percent.

⁷ <https://www.neda.gov.ph/29336-2/>

Figure 1. Contributions to GDP growth (y-o-y, %) from Aggregate Supply



Source: Author's calculations based on data in Table 3 below.

Economy gradually reopens in the third quarter as government eases community quarantine restrictions

- Most areas transitioned to MGCQ.** Community quarantine measures were generally lighter in the third quarter, as several areas previously under enhanced community quarantine (ECQ) and modified enhanced community quarantine (MECQ) transitioned to general community quarantine (GCQ) or modified general community quarantine (MGCQ). During the second quarter, several areas in the country were placed under ECQ, the most stringent quarantine classification. From mid-March to April, the entire Luzon was placed under ECQ⁸ but in mid-May, Metro Manila, Laguna, and most of Central Luzon transitioned to MECQ, a less strict classification of ECQ, while all other areas were placed under GCQ, except for Cebu City and Mandaue City, which were placed under ECQ⁹. Starting June 1, most quarantines eased to MGCQ, the least strict quarantine classification, while other areas in the country including Metro Manila, Central Luzon, and Mandaue City transitioned to GCQ and Cebu City's quarantine eased to MECQ.¹⁰ In the latter half of June, some areas previously under GCQ transitioned to MGCQ while Metro Manila remained under GCQ, Cebu City returned to ECQ, and Talisay City transitioned to MECQ.¹¹ At the start of the third quarter, only Metro Manila and some provinces and cities in Luzon and Visayas remained or returned to GCQ while almost all of the areas previously under GCQ transitioned to MGCQ.¹² Cebu City's ECQ

⁸ <https://doh.gov.ph/sites/default/files/health-update/IATF-Resolution-No.-37.pdf>

⁹ <https://doh.gov.ph/sites/default/files/health-update/IATF-Resolution-No.-37.pdf>

¹⁰ https://doh.gov.ph/sites/default/files/health-update/IATF_Resolution_No._41.pdf

¹¹ https://doh.gov.ph/sites/default/files/health-update/IATF_Resolution_No._46A.pdf

¹² <https://doh.gov.ph/sites/default/files/health-update/IATF-Resolution-50A.pdf>

continued, but eased to MECQ later in the month¹³ and eventually to GCQ in August¹⁴ and MGCQ in September¹⁵. While community quarantines in other areas eased in August¹⁶, quarantines in Metro Manila, Bulacan, Cavite, Laguna, and Rizal were tightened to MECQ for two weeks.¹⁷ In September, Iligan City, Lanao Del Sur and Bacolod City were temporarily placed under MECQ until the end of the month.^{18,19} While the rest of the country was placed under MGCQ, only Metro Manila, Batangas, Bacolod City, Tacloban City, Iligan City, Lanao Del Sur, Talisay City, and the Municipalities of Pateros, Minglanilla, and Consolacion were to be under GCQ after the end of the third quarter.²⁰ As several areas in the country transitioned to less stringent quarantine classifications, restrictions on business establishments and activities as well as operational capacity were eased in accordance to the guidelines of the Inter-Agency Task Force on Emerging Infectious Diseases (IATF) and the Department of Trade and Industry (DTI)²¹.

- **Restrictions on business activities and operational capacity were amended.** Amendments to business restrictions were made during and prior to the third quarter to further reopen the economy. DTI permitted limited operations of barbershops and salons and allowed the provision of all hair, nail, and skin care services except full body massage at 30 percent capacity.²² The DTI also changed the classification of various business establishments and activities. Certain Category IV industries including fitness establishments, internet cafes, dermatological clinics, pet grooming services, drive-in cinemas and testing, tutorial, and review centers were recategorized as Category III establishments and allowed 30 percent operational capacity.²³ Office Administrative and Office Support, Advertising and Market Research, and Travel Agencies, Tour Operators, Reservation Service and Related Activities were also recategorized to allow for higher operational capacity in these activities and establishments²⁴.
- **Government credits slowed contraction to reopening of economy.** The government partly credits the improved economic performance in the third quarter to the easing of quarantine measures that allowed gradual reopening of the economy. Department of Finance Secretary Carlos Dominguez III said in November that “re-stimulating people’s demand” continues to be difficult amid the pandemic but was confident that the economy will “see a better performance in the last quarter of this year”.²⁵ Dominguez also mentioned that if COVID-19 vaccines become available in the first half of 2021, the increased confidence will bolster further improvement in the economic situation in 2021. While vaccines have not yet been made available in the country, the National Economic Development Authority (NEDA) endorsed “further opening up of the economy” to provide support to the economy²⁶. NEDA has targeted 6.5 to 7.5 percent growth in 2021²⁷, with the expectation that the quarantine

¹³ <https://doh.gov.ph/sites/default/files/health-update/IATFResolution55A.pdf>

¹⁴ <https://doh.gov.ph/sites/default/files/health-update/IATFResolution60A.pdf>

¹⁵ <https://doh.gov.ph/sites/default/files/health-update/IATFResolution66.pdf>

¹⁶ <https://doh.gov.ph/sites/default/files/health-update/IATFResolution60A.pdf>

¹⁷ <https://doh.gov.ph/sites/default/files/health-update/IATFResolution64.pdf>

¹⁸ <https://doh.gov.ph/sites/default/files/health-update/IATFResolution67.pdf>

¹⁹ <https://doh.gov.ph/sites/default/files/health-update/IATFResolution69A.pdf>

²⁰ <https://doh.gov.ph/sites/default/files/health-update/IATFResolution75-A.pdf>

²¹ <https://doh.gov.ph/sites/default/files/health-update/20201008-omnibus-guidelines-on-the-implementation-of-community-quarantine-in-the-philippines.pdf>

²² <https://www.officialgazette.gov.ph/downloads/2020/07jul/20200731-MC-20-44-RRD.pdf>

²³ <https://www.officialgazette.gov.ph/downloads/2020/07jul/20200731-MC-20-44-RRD.pdf>

²⁴ <https://www.officialgazette.gov.ph/downloads/2020/10oct/20201014-MEMORANDUM-CIRCULAR-NO-20-53-S-2020.pdf>

²⁵ <https://www.pna.gov.ph/articles/1122071>

²⁶ <https://www.cnnphilippines.com/business/2020/9/10/economic-team-IATF-reopen-more-industries.html>

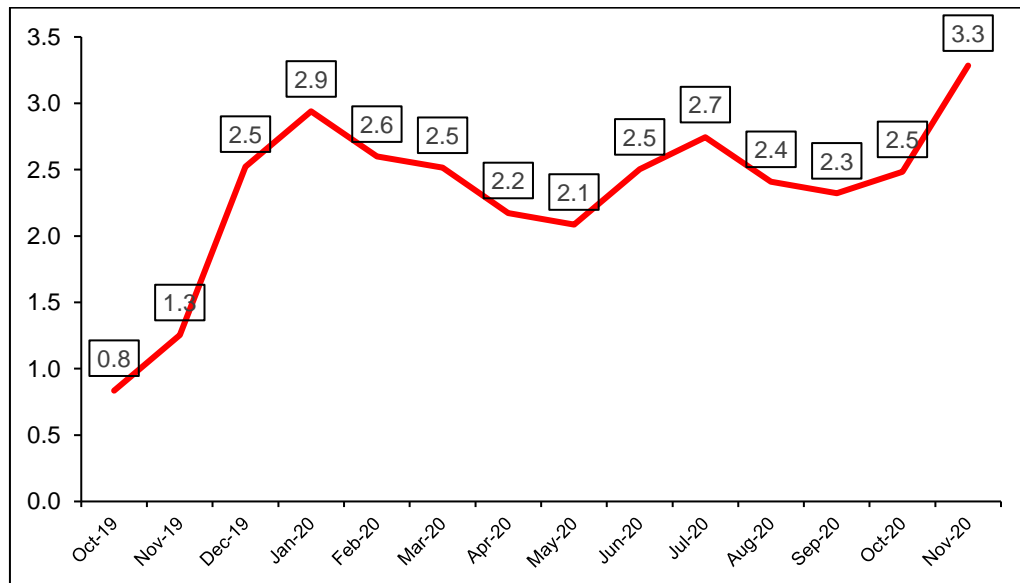
²⁷ <https://www.neda.gov.ph/wp-content/uploads/2020/11/PRESS-CONFERENCE-ON-THE-Q3-2020-PERFORMANCE-OF-THE-PH-ECONOMY.pdf>

measures will continue to ease and that a COVID-19 vaccine will become available by the middle of 2021²⁸.

Other economic news

- Inflation rate surged in November following supply disruptions.** Headline inflation accelerated to 3.30 percent in November from 2.5 percent in the previous month, surpassing the previous high of 3.29 percent inflation in March 2019. The mark-up on Food and Non-Alcoholic Beverages was the driver of the increase in the overall rate, given the commodity group's weight in the Consumer Price Index²⁹. The group posted an annual rate of 4.3 percent in November, outpacing the rate of 2.1 percent in October. The quickening of the markup was mainly due to increases in the annual rates for Fish (5.3 percent from 3.7 percent), Fruits (5.6 percent from 4.6 percent), and Vegetables (14.6 from -0.5 percent) and Meat (from 8.2 percent from 4.7 percent), which were caused by supply disruptions due to inclement weather and African Swine Fever³⁰. Clothing and Footwear was the only other commodity group with higher annual inflation in November, climbing to 12.3 percent from 11.3 percent in the previous month. The indices that showed easing from the previous month's rates were Clothing and Footwear (1.7 percent from 1.6 percent); Housing, Water, Electricity, Gas, and Other Fuels (0.9 from 0.8 percent); Furnishing, Household Equipment and Routine Maintenance of the House (3.7 from 3.5 percent); Health (2.4 percent from 2.4 percent); Transport (7.9 percent from 7.6 percent); Communication (0.4 percent from 0.3 percent); Education (1.1 percent from 1.2 percent); and Restaurant and Miscellaneous Goods and Services (2.2 percent from 2.4 percent). The annual markup for Recreation and Culture remained at -0.6 percent in November. While the November inflation rate exceeded the BSP's forecast of 2.4 percent to 3.2 percent³¹, the inflation rate remains within the government target of 2.0 to 4.0 percent.

Figure 2. Consumer price index (y-o-y, %)



Source: Graph prepared by author based on Philippine Statistics Authority data.

²⁸ <https://www.cnnphilippines.com/business/2020/9/10/economic-team-IATF-reopen-more-industries.html>

²⁹ https://www.bsp.gov.ph/Media_And_Research/Media%20Releases/2020_12/news-12042020a1.aspx

³⁰ https://www.bsp.gov.ph/Media_And_Research/Media%20Releases/2020_12/news-12042020a1.aspx

³¹ <https://www.bsp.gov.ph/SitePages/MediaAndResearch/MediaDisp.aspx?ItemId=5619>

- **Monthly peso-dollar exchange rate reached four year low in November.** The peso-dollar exchange rate averaged at P49.25/\$1 in November³². This marks the lowest monthly average exchange rate since November 2016 as well as the tenth consecutive appreciation of the peso on a monthly average basis. The country's maintenance of an overall balance of payments surplus³³ and continuance of international reserves growth³⁴ helped to continue the exchange rate's downtrend.
- **Unemployment situation improved again** The unemployment rate after the third quarter is currently estimated to be 8.7 percent, based on the October 2020 Labor Force Survey. This most recent figure shows a second consecutive reduction in the unemployment rate, after the July survey showed decrease in the rate to 10.0 percent from the record-high rate of 17.8 percent in April. Unlike in July, the easing of unemployment in October was due to a decrease in labor force participation rather than an increase in the total employed population, as the total number of employed individuals was reduced by 3.6 percent since July. Despite the reduction in the unemployment rate, the rate is yet to return to its pre-pandemic level as the current rate is almost twice the October 2019 rate of 4.6 percent. Returning to this level will likely occur through gradual reductions in the coming quarters as health and safety risks due to the pandemic continue to ease, allowing the economy to fully re-open eventually.
- **BSP cuts rates in November in response to the continued economic downturn.** The central bank lowered its facilities' interest rates by 25 basis points on November 19, the week after the PSA released the third quarter statistics on the country's economic performance. The interest rates on the BSP's, overnight reverse repurchase, overnight deposit, and overnight lending facilities are currently set at 2.0 percent, 1.5 percent, and 2.5 percent, respectively. The rate cut, which was the fifth of this year, was warranted by the BSP on grounds of ensuring ample credit and liquidity in the financial system in order to bolster the economy amid the continued uncertainty due to the ongoing pandemic given its potential to further disrupt the economy.³⁵
- **PSEi reached pre-COVID levels.** The Philippine Stock Exchange index (PSEi) has shown significant recovery since the index crashed from an average of 6,787.91 points in February to 5,321.23 points in March.³⁶ In July, the index posted an average slightly lower than the 6,207.72-point average in June but remained higher than the March average at 5,928.45 points.³⁷ The months of August and September recorded lower averages of 5,884.18 and 5,864.23 points, respectively, due to the continued spread of COVID-19 in the country.³⁸ Market pessimism on account of the continued spread of COVID-19 drove the index's decline in the third quarter, but the improvements in market sentiment due to signing of the Bayanihan 2 stimulus package provided support against the decline.³⁹ After the third quarter, the index showed resurgence to its pre-COVID levels by surpassing the February average, as the index rose to 6,324 points in October and rose again to 6,791.46 points in November. The rally during this period was due to market optimism amid the slowdown of local COVID-19 infections and a boost in net foreign

³² https://www.bsp.gov.ph/statistics/external/tab12_pus.aspx

³³ <https://www.bsp.gov.ph/SitePages/MediaAndResearch/MediaDisp.aspx?ItemId=5618>

³⁴ <https://www.bsp.gov.ph/SitePages/MediaAndResearch/MediaDisp.aspx?ItemId=5637>

³⁵ <https://www.bsp.gov.ph/SitePages/MediaAndResearch/MediaDisp.aspx?ItemId=5460>

³⁶ <https://www.bsp.gov.ph/statistics/OtherRealSectorAccounts/stockindex.xls>

³⁷ <https://www.bsp.gov.ph/statistics/OtherRealSectorAccounts/stockindex.xls>

³⁸ <https://www.bsp.gov.ph/statistics/OtherRealSectorAccounts/stockindex.xls>

³⁹ https://www.bsp.gov.ph/Lists/Inflation%20Report/Attachments/20/IR3qtr_2020.pdf

buying posted in October⁴⁰ and news of breakthroughs in COVID-19 vaccine development in November⁴¹.

- **Consumer expectations reach record low.** Consumers were pessimistic for the third quarter, as the overall confidence index (CI) plummeted to a record low of -54.5 percent from 1.3 percent in the first quarter. According to the BSP report on the third quarter Consumer Expectations Survey, consumers' pessimism for the quarter was attributed mainly to the COVID-19 pandemic, as well as *high unemployment rate and less working family members, (b) low and reduced income, and (c) faster increase in the prices of goods.*⁴² The previously mentioned concerns also account for consumers' overall pessimism about the next quarter as indicated by the overall index of -4.1 percent, which declined from 9.2 percent in the first quarter. The increase in the overall confidence index for the next 12 months from 19.9 percent in the first quarter to 25.5 percent in the third quarter is linked to the respondents' optimism over the return to normalcy after the pandemic and also the expectation of *availability of more jobs, higher income, and stable prices of goods.*⁴³
- **Business confidence plummets amidst the pandemic.** Businesses' current quarter outlook was pessimistic in the third quarter, as the overall confidence index (CI) plunged from 22.3 percent in the first quarter to -5.3 percent after 43 quarters of the index being positive. According to the BSP report on the third quarter Business Expectations Survey, businesses' pessimism was attributed to *(a) the impact on the business outlook of the coronavirus disease (COVID-19) pandemic and community quarantine restrictions, (b) decrease in orders, sales and income, (c) slowdown/temporary shutdown in business operations, and (d) concerns over government policies, primarily on the perceived insufficient mitigation measures to counter the impact of COVID-19.*⁴⁴ Businesses' expectations for the next quarter and next twelve months remained positive, though the overall confidence indices also plummeted from the first quarter indices. The index for for the next quarter plummeted from 42.3 percent to 16.8 and the index for the next twelve months plummeted from 55.8 percent to 37.5 percent in the first quarter, respectively. The worsened outlook for the next quarter and next twelve months were attributed mainly with *expectations of the continuing negative effects of the COVID-19 pandemic affecting the volume of orders, sales, and income, and overall economic activity.*⁴⁵
- **Philippines shows growing e-commerce engagement.** Given the implementation of stay-at-home policies and the practice of social distancing as a precaution against the spread of COVID-19, online sellers and marketplaces have become an attractive alternative to brick-and-mortar establishments for local consumers. In a publication titled *e-Economy SEA 2020*, Google reports that 37 percent of e-commerce users in the Philippines were new users and 95 percent of these new users responded that they would continue their usage of e-commerce platforms after the pandemic⁴⁶. Statistics reported by online shopping aggregator iPrice⁴⁷ reveal that the average e-commerce basket size grew 57 percent y-o-y in the first half of 2020. iPrice⁴⁸ also revealed that the combined average monthly visits of the top thirty most visited e-commerce stores and marketplaces

⁴⁰ <https://www.bworldonline.com/psei-ends-3-day-loss-closes-higher-in-october/>

⁴¹ <https://www.bworldonline.com/psei-ends-higher-in-november-on-vaccine-hopes/>

⁴² https://www.bsp.gov.ph/Lists/Consumer%20Expectation%20Report/Attachments/17/CES_3qtr2020.pdf

⁴³ https://www.bsp.gov.ph/Lists/Consumer%20Expectation%20Report/Attachments/17/CES_3qtr2020.pdf

⁴⁴ https://www.bsp.gov.ph/Lists/Business%20Expectations%20Report/Attachments/1/BES_3qtr2020.pdf

⁴⁵ https://www.bsp.gov.ph/Lists/Business%20Expectations%20Report/Attachments/1/BES_3qtr2020.pdf

⁴⁶ https://storage.googleapis.com/gweb-economy-sea.appspot.com/assets/pdf/Philippines-e-Economy_SEA_2020_Country_Insights.pdf

⁴⁷ <https://iprice.ph/insights/mapofecommerce/en/>

⁴⁸ <https://iprice.ph/insights/mapofecommerce/en/>

in the Philippines have consistently grown since the first quarter, registering 53.92M visits, 63.85M visits, and 73.65M visits from the first quarter to the third, respectively. The most recent total from the third quarter of 2020, shows a significant year-on-year increase from 58.55M visits in third quarter 2019. The third quarter figure even exceeds the 69.53M visits of fourth quarter 2019, despite the traffic boost expected during the holiday season. Among the top thirty, Singaporean e-commerce platforms Shopee and Lazada account for majority of the total at 35.55M visits and 34.78M visits, respectively, in third quarter 2020.



Table 1. Philippine Economic Indicators

Philippines Economic Data											
Monthly Leading Indicators	Dec-19	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20
Industrial Production (y-o-y, %)	-7.3	3.8	7.1	-8.3	-37.5	-27.0	-15.6	-13.4	-9.1	-8.4	...
Consumer Price Index (y-o-y, %)	2.5	2.9	2.6	2.5	2.2	2.1	2.5	2.7	2.4	2.3	2.5
Retail Sales (y-o-y, %)	-2.6	6.9	4.7	-14.4	-45.5	-31.0	-16.8	-12.2	-8.5
Exports (y-o-y, %)	21.6	9.4	2.8	-24.7	-49.9	-26.9	-12.5	-9.1	-12.8	2.2	...
Imports (y-o-y, %)	-2.1	-2.8	-11.6	-26.2	-65.3	-40.6	-23.1	-23.8	-21.3	-16.5	...
Trade Balance, US\$ million	-2,962	-3,504	-1,656	-2,368	-449	-1,321	-1,375	-1,860	-1,831	-1,708	...
Total Reserves (less gold), US\$ billion	80	79	80	81	83	85	85	86	87	89	92
Policy Rate	4	4	3.75	3.25	2.75	2.75	2.25	2.25	2.25	2.25	2.25
Fiscal Balance (million pesos)	-251,103	23,045	-37,595	-59,479	no info	-202,136	1,766	no info	-40,074	-138,525	...
Quarterly/Annual Economic Indicators	2015	2016	2017	2018	1Q2019	2Q2019	3Q2019	4Q2019	1Q2020	2Q2020	3Q2020
Real GDP (y-o-y, %)	6.1	6.9	6.7	6.2	5.7	5.4	6.3	6.7	-0.7	-16.9	-11.5
- Private Consumption	6.3	7.1	5.9	5.6	6.2	5.6	6.0	5.7	0.2	-15.3	-9.3
- Government Consumption	7.6	9.0	6.2	13.0	6.4	6.8	8.8	17.0	7.0	21.8	5.8
- Gross Capital Fixed Formation	18.4	24.6	9.4	13.2	9.8	-0.8	-0.1	2.5	-17.4	-53.7	-41.6
Current Account (% of GDP)	2.9	-0.4	-0.7	-2.7	-2.1	0.2	0.4	0.7	0.1	2.6	...
Financial Account (US\$ million)	2,523	175	-2,798	-9,332	-4,584	572	121	-2,374	3,796	3,938	...
- Net Direct Investments, US\$ million	-122	-5,883	-6,952	-5,833	-1,053	-692	-769	-1,824	-1,116	-2,168	...
- Net Portfolio Investments, US\$ million	4,757	1,480	2,454	1,448	1,257	481	2,074	36	555	1,481	...
Overall BOP position (US\$, million)	2,616	-1,038	-863	-2,306	3,797	991	778	2,277	-68	4,109	...
Unemployment rate	6.0	5.1	5.7	5.3	5.2	5.134435387	5.1	5.1	5.3	17.6	8.7
Others	Nov-19	Dec-19	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20
Overseas Filipinos' Remittances (US\$, million)	2,372	2,902	2,648	2,358	2,397	2,046	2,106	2,465	2,783	2,483	2,601
... = not available											

Source: Bangko Sentral ng Pilipinas, Philippine Statistics Authority, Asian Development Bank.

Source: Bangko Sentral ng Pilipinas, Philippine Statistics Authority, Asian Development Bank



Table 2. Level of Philippine GDP, 2019Q3 – 2020Q3

	Nominal GDP (million current pesos)		Real GDP (million constant pesos*)	
	2019Q3	2020Q3	2019Q3	2020Q3
Agriculture	391,684	409,571	400,102	404,981
Industry	1,336,001	1,072,827	1,342,440	1,110,995
Mining and quarrying	37,032	32,068	28,909	24,399
Manufacturing	769,222	656,134	762,006	687,801
Electricity, steam, water and waste management	132,171	134,201	167,020	167,355
Construction	397,575	250,424	384,505	231,440
Services	3,001,344	2,746,885	2,933,381	2,622,036
Wholesale and retail trade; repair of motor vehicles and motorcycles	943,030	904,972	934,753	884,558
Transportation and storage	182,219	143,159	168,745	121,294
Accommodation and food service activities	108,968	53,724	106,646	50,484
Information and communication	126,746	128,810	120,809	121,784
Financial and insurance activities	411,257	449,603	411,062	436,450
Real estate and ownership of dwellings	335,110	269,148	331,884	257,225
Professional and business services	325,091	301,126	306,888	278,037
Public administration and defense; compulsory social activities	205,521	219,441	203,439	212,539
Education	192,956	154,544	185,332	145,646
Human health and social work activities	80,210	79,315	76,327	73,265
Other services	90,237	43,042	87,496	40,753
Sum = GDP	4,729,028	4,229,283	4,675,923	4,138,012

*Base year 2018

Source: Philippine Statistics Authority



Table 3. Industry Contributions to Philippine GDP Growth, 2019Q3 – 2020Q3

	TRAD	GEAD		GEAD
	GDP Growth PGE* (percent)	PGE* (percent) (1)	PCE* (percent) (2)	GDP Growth PGE* + PCE* (percent) (1)+(2)
GDP Growth	-11.50	-11.50	0.00	-11.50
Industry Growth Contribution				
Agriculture	0.10	0.10	-0.09	0.01
Industry	-4.95	-4.95	-1.31	-6.26
Mining and quarrying	-0.10	-0.10	0.15	0.05
Manufacturing	-1.59	-1.59	-0.98	-2.57
Electricity, steam, water and waste management	0.01	0.01	-0.77	-0.76
Construction	-3.27	-3.27	0.29	-2.98
Services	-6.66	-6.66	1.40	-5.26
Wholesale and retail trade; repair of motor vehicles and motorcycles	-1.07	-1.07	0.02	-1.05
Transportation and storage	-1.01	-1.01	0.40	-0.61
Accommodation and food service activities	-1.20	-1.20	0.04	-1.16
Information and communication	0.02	0.02	0.09	0.11
Financial and insurance activities	0.54	0.54	0.07	0.62
Real estate and ownership of dwellings	-1.60	-1.60	0.13	-1.47
Professional and business services	-0.62	-0.62	0.35	-0.26
Public administration and defense; compulsory social activities	0.19	0.19	0.05	0.24
Education	-0.85	-0.85	0.12	-0.73
Human health and social work activities	-0.07	-0.07	0.09	0.03
Other services	-1.00	-1.00	0.03	-0.97

Source: DLSU-AKI Philippine Economic Monitor calculations by applying the data in Table 2 to a "generalized exactly additive decomposition" (GEAD) of GDP growth into pure growth effect (PGE*) and price change effect (PCE*) as an alternative to the "traditional" (TRAD) GDP growth decomposition that recognizes PGE* but not PCE*. PGE* is the result of real GDP or "quantity" growth holding relative price (real price) constant and PCE* is the result of "real price" growth holding quantity constant. PCE* measures the change in value of an industry's output when outputs of all industries are converted to the same unit of measure, in terms of the economy's "GDP basket." The GEAD formulas for PGE* and PCE* and the TRAD formula (which equals PGE*) are given, respectively, by equations (39), (40), and (46) in Dumagan, Jesus C. (2018), "Modifying the 'Generalized Exactly Additive Decomposition' of Growth of GDP and Aggregate Labor Productivity in Practice for Consistency with Theory," Working Paper Series No. 2018-07-053, Angelo King Institute for Economic and Business Studies, De La Salle University, Manila. The paper by Dumagan, Jesus C. (2013), "A Generalized Exactly Additive Decomposition of Aggregate Labor Productivity Growth," Review of Income and Wealth, 59 (Issue 1): 157-168 decomposed growth of aggregate labor productivity (ALP), which is the ratio of GDP to total labor employment. Thus, by removing the labor variable, the decomposition of ALP growth becomes a decomposition of GDP growth into the modified PGE* and PCE* formulas which were implemented in this Table 3.