



Monitoring the Philippine Economy Fourth Quarter Report for 2020

Project of Angelo King Institute

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Economic contraction continued into fourth quarter 2020 as year-on-year growth was -8.3 percent on account of poor agricultural output and continued COVID-19 quarantine measures.

The downturn further decelerated. Year-on-year economic growth was recorded at -8.3 percent in the fourth quarter, marking a third consecutive quarterly contraction. But the downturn decelerated from the previous quarter's 11.4 percent contraction owing to increased accessibility of public transport and lightened business restrictions. However, the contraction still outpaced the 5.7 percent growth recorded in fourth quarter 2019 due to the continuing economic impact of COVID-19. In addition to community quarantines, African swine fever (ASF) and a series of typhoons weakened fourth quarter performance by prompting a significant contraction in the agriculture, forestry, and fishing sector. The supply disruptions caused by ASF and the typhoons also contributed to an uptick in food inflation, driving the headline inflation rate to a two-year high.

- **Major components of aggregate demand**

- **Private consumption contraction continued to decelerate.** Household final consumption expenditure (HCFE) declined by 7.2 percent in the fourth quarter, showing a sign of recovery from the previous quarter's contraction of 9.2 percent. Fourth quarter household spending growth was much weaker in 2020 than it was last year, as a 5.2 percent expansion was recorded in fourth quarter 2019. Compared to last year's HCFE, several components posted significantly lower growth rates, namely, Alcoholic beverages, tobacco (-19.4 percent from -1.2 percent); Clothing and footwear (-9.6 percent from 3.6 percent); Furnishings, household equipment and routine household maintenance (-5.9 percent from 5.0 percent); Health (-3.3 percent from 6.9 percent); Transport (-30.6 percent from 6.6 percent); Recreation and culture (-49.9 percent from 7.9 percent); Education (-14.4 percent from 3.7 percent); Restaurants and hotels (-42.4 percent from 7.0 percent); and Miscellaneous goods and services (-1.7 percent from 9.8 percent). Only a moderate growth slowdown from last year was recorded in Communication (5.5 percent from 7.1 percent) and Housing, water, electricity, gas and other fuels (6.3 percent from 7.8 percent). The National Economic Development Authority noted that restrictions on the mobility of families prevented a stronger recovery of household spending, given that a large share of non-essential retail sales are typically from family spending.²

¹ Report is based on latest available data as of February 5, 2021. For comments and questions, please email mitzie.conchada@dlsu.edu.ph

² <https://www.neda.gov.ph/joint-statement-of-the-duterte-administrations-economic-managers-on-the-philippine-economic-performance-for-the-fourth-quarter-and-full-year-of-2020/>

- **Gross capital formation continued double-digit decline.** Gross capital formation (GCF) contracted by 29.0 percent in the fourth quarter, showing a less severe double-digit contraction compared to the declines of 41.6 percent in the third quarter and 53.7 percent in the second quarter. Fourth quarter GCF growth was, however, much weaker in comparison to last year's figure, as GCF grew by 2.5 percent in the fourth quarter of 2019. Relative to last year's growth rates, all fixed capital components posted poorer growth, specifically, Construction (-42.2 percent from 19.7 percent), Durable equipment (-29.8 percent from -8.3 percent), Breeding stocks and orchard development (-5.6 percent from 0.5 percent), and Intellectual property products (2.8 percent from 20.0 percent). Higher spending growth was seen, however, in Valuables (-26.9 percent from -68.9 percent) and in Inventories (-16.5 percent from -4,030.1 percent).
- **Government consumption spending growth slows further.** Government final consumption expenditure (GFCE) continued to expand year-on-year in the fourth quarter with a growth rate of 4.4 percent. However, fourth quarter GFCE growth decelerated from the 5.8 percent and 17.0 percent growth in the previous quarter and previous year, respectively. GFCE growth was significantly higher in fourth quarter 2019 as the government ramped-up spending to make up for budget delays in the first half of that year³, leading to a high base for the fourth quarter 2020 growth rate. The continued growth of government spending in the fourth quarter can be attributed to the extension of the P140B Bayanihan II package, P109B of which had been released to various government agencies by the end of the year.⁴ As it did in the second and third quarters, government spending growth helped cushion the impact of the severe declines in household spending and capital investment.
- **Trade deficit improved from last year.** The balance of trade remained at a deficit in the fourth quarter, but the deficit was 34.8 percent narrower than it was last year. The improvement in the deficit was less than it was in the previous quarter (43.4 percent) but greater than it was in the fourth quarter of 2019 (20.0 percent). Exports of goods and services declined at a slower rate of 10.8 percent after declining 19.0 percent in the previous quarter. Exports of goods declined 2.1 percent, mostly due to declines in the commodity groups Bananas (50.2 percent); Other exports of goods (27.3 percent); Petroleum products (98.1 percent); Machinery and transport equipment (13.7 percent); and Office equipment (24.9 percent).⁵ Exports of services showed a decline of 22.7 percent due to declines in the service groups Travel (82.9 percent), Transport (50.9 percent), and Manufacturing services on physical inputs owned by others (19.3 percent). On the other hand, the decline of imports continued to be greater than that of exports as imports contracted 21.7 percent, showing a deceleration from the previous quarter's contraction of 26.6 percent. Imports of goods declined by 13.6 percent, primarily due to declines in the commodity groups Other imports of goods (20.4 percent); Transport equipment (35.7 percent); Mineral fuels, lubricants and related materials (11.6 percent); Industrial machinery and equipment (25.6 percent); and Cereals and cereal preparation (36.4 percent).⁶ Imports of services declined by 36.4 percent, which was due to declines in the

³ <http://www.neda.gov.ph/statement-of-socioeconomic-planning-secretary-ernesto-m-pernia-at-the-press-conference-on-the-philippine-economic-performance-for-the-fourth-quarter-and-full-year-of-2019/>

⁴ <https://www.neda.gov.ph/joint-statement-of-the-duterte-administrations-economic-managers-on-the-philippine-economic-performance-for-the-fourth-quarter-and-full-year-of-2020/>

⁵ https://psa.gov.ph/sites/default/files/Q4%202020%20NAP%20Publication_rlv069.pdf

⁶ https://psa.gov.ph/sites/default/files/Q4%202020%20NAP%20Publication_rlv069.pdf

service groups Travel (58.0 percent), Transport (14.2 percent), and Business (10.9 percent).⁷

- **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).⁸

- **Services sector output recorded a milder contraction.** Services sector output showed a moderate improvement in performance since third quarter 2020, as the decline slowed from 10.5 percent to 8.4 percent in the fourth quarter. The sector’s output growth is yet to recover to pre-pandemic levels, as shown by the 8.1 percent expansion recorded in fourth quarter 2019. Gross value-added (GVA) growth was poorer in fourth quarter 2020 than fourth quarter 2019 for all services subsectors: Wholesale and retail trade, Repair of motor vehicles and motorcycles (-4.1 percent from 8.5 percent); Transportation and storage (-21.3 percent from 4.7 percent); Accommodation and food service activities (-42.7 percent from 7.8 percent); Information and communication (3.6 percent from 5.3 percent); Financial and insurance activities (4.4 percent from 12.1 percent); Real estate and ownership of dwellings (-15.4 percent from 4.5 percent); Professional and business services (-8.8 percent from 2.2 percent); Public administration and defense, compulsory social activities (0.6 percent from 21.3 percent); Education (-15.0 percent from 4.5 percent); Human health and social work activities (-2.5 percent from 9.2 percent); and Other services (-45.2 percent from 7.3 percent). The services sector accounted for 58.7 percent of total GDP in the fourth quarter, maintaining the largest share among the sectors, and had the largest impact on GDP growth, contributing -4.92 percentage points to the overall fourth quarter GDP growth rate.
- **Industry sector output decline eased to single digits.** Fourth quarter industry sector output contracted 9.9 percent year-on-year, showing a much less severe GVA decline in comparison to the second and third quarters of 2020 when growth was at -21.8 percent and -17.3 percent, respectively. In the fourth quarter, industry sector output growth continued to be much lower than last year’s figure as the sector showed annual GVA growth of 6.0 percent in fourth quarter 2019. In comparison to the fourth quarter 2019 figures, all industry subsectors posted lower growth rates: Mining and quarrying (-18.8 percent from -4.0 percent); Manufacturing (-4.3 percent from 4.3 percent); Electricity, steam, water and waste management (-0.9 percent

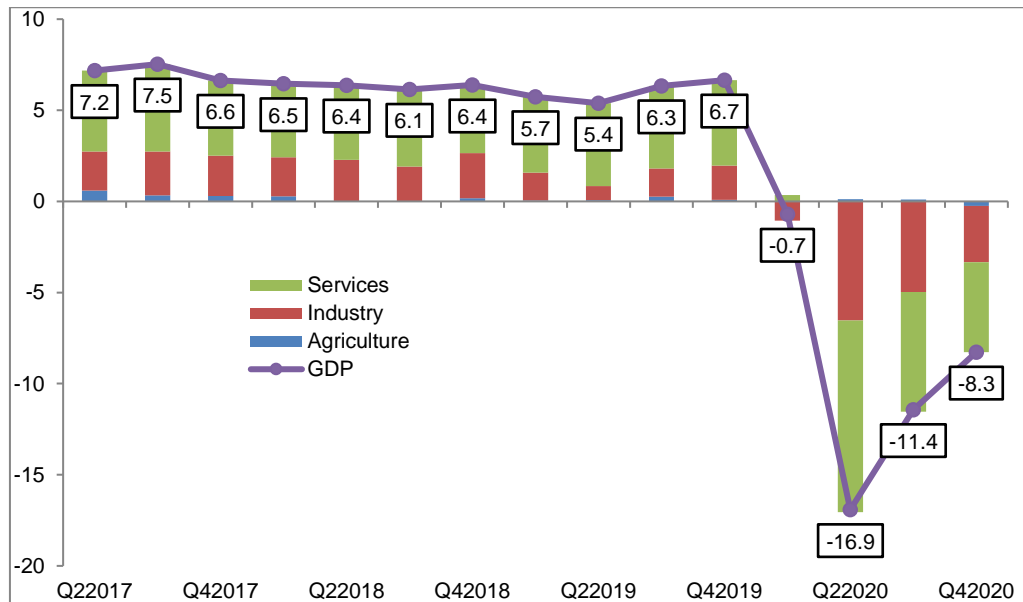
⁷ https://psa.gov.ph/sites/default/files/Q4%202020%20NAP%20Publication_rlv069.pdf

⁸ See the footnote to Table 3 for the source of the GDP growth contributions.

from 7.3 percent); and Construction (-25.3 percent from 10.7 percent). The industry sector accounted for 30.1 percent of total GDP in the fourth quarter, maintaining the second largest share among the sectors, and contributed -3.09 percentage points to the overall fourth quarter GDP growth rate.

- Agriculture sector output posted worst contraction since 2016.** In the fourth quarter, agriculture, forestry, and fishing posted a 2.5 percent contraction in output, which is the sector's worst decline since it recorded a -4.1 percent GVA growth rate in the first quarter of 2016. In the two previous quarters, the agriculture sector was the only sector showing annual expansion in value-added, posting growth rates of 1.6 percent and 1.2 percent in the second and third quarters of 2020, respectively. The sector's fourth quarter performance was much poorer in 2020 than in 2019, when the sector had posted 1.6 percent GVA growth. Among the ten largest industry groups, which account for over 90 percent of the sector's GVA, a deterioration in GVA growth was posted by eight groups: Palay (-1.1 percent from -0.6 percent), Fishing and aquaculture (-4.3 percent from 4.0 percent), Livestock (-13.0 percent from -8.7 percent), Poultry and egg production (-4.9 percent from 5.5 percent), Support activities (4.1 percent from 6.0 percent), other agricultural crops (-2.8 percent from 0.9 percent), Coconut including copra (-0.9 percent from 3.0 percent), and Other animal production (-3.9 percent from 23.5 percent). Improvements in GVA growth since last year were recorded in the two remaining industries: Banana (1.2 percent from -1.4 percent) and Corn (0.4 percent from -7.3 percent). The agriculture sector accounted for 10.8 percent of total GDP in the fourth quarter, maintaining the smallest share among the sectors, and contributed -0.26 percentage points to the overall fourth quarter GDP growth rate.

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



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

Challenges faced by the economy in Q4 2020

- Quarantine measures continued amid continuing COVID-19 cases.** Although quarantine measures had generally eased since they were first implemented, they continued to hamper the country's economic recovery in the fourth quarter. While most of the country was under modified general community quarantine (MGCQ) during this quarter, some areas including the National Capital Region (NCR), Batangas, Iloilo City, Tacloban, and Iligan were under general community quarantine (GCQ).⁹ Some areas, such as Iligan^{10,11}, Laoag¹², Lanao Del Sur¹³, and Enrile¹⁴, also spent time under enhanced community quarantine (ECQ) and modified enhanced community quarantine (MECQ). The National Economic Development Authority estimated a loss of P2.1B in wages for every week that NCR and its adjacent regions are under ECQ or MECQ and a loss of P700M in wages for every week under GCQ.¹⁵ Thus, much of the contraction is still attributable to the community quarantine measures that were necessary initiatives of the government as there were at least six thousand weekly cases throughout the fourth quarter.¹⁶ Moreover, the government's efforts to gradually reopen the economy by easing public transport restrictions and allowing the operation of more establishments were vital in moderating the contraction in the fourth quarter¹⁷.
- ASF outbreaks drove higher meat inflation and decline in value of hog production.** In late September, new African swine fever (ASF) outbreaks occurred in Albay, Quirino, Laguna, Quezon Province, Batangas, and Cavite¹⁸, further disrupting the country's pork supply and putting upward pressure on domestic pork prices. In the fourth quarter, the growth in total value of hog production, which typically accounts for over half the value of total livestock production, worsened to -13.8 percent year-on-year from -7.7 percent the previous quarter and -9.8 percent the previous year.¹⁹ From September to December 2020, the average commercial farm price of hogs for slaughter rose from 106.79 per kilogram to P163.04²⁰, while the average backyard farm price rose from P104.22 per kilogram to P126.61.²¹ Furthermore, Department of Agriculture price reports show that from October 1 to December 29, 2020, prevailing prices rose from P250 to P320 for pork ham and from P280 to P350 for pork belly in markets in Metro Manila.^{22,23} The increased prices of pork in the fourth quarter were the likely drivers of the rise in meat inflation to 7.6 percent from 3.9 percent the previous quarter, which contributed to the increase in inflation of the Food and Non-Alcoholic Beverages group to 3.9 percent from 1.9 percent and consequently the increase in headline inflation to 3.1 percent from 2.5 percent.²⁴
- Typhoons contributed to higher inflation and poorer agricultural production.** According to the Department of Agriculture (DA), total damage to the agri-fishery sector due to Typhoons

⁹ <https://doh.gov.ph/sites/default/files/health-update/IATFResolution75-A.pdf>

¹⁰ <https://newsinfo.inquirer.net/1344614/mecq-imposed-on-ilagan-city-kids-among-33-new-covid-19-patients>

¹¹ <https://news.abs-cbn.com/news/10/17/20/ilagan-city-shifts-back-to-ecq>

¹² <https://news.abs-cbn.com/news/11/27/20/quarantine-lockdown-mecq-laoag-city-covid19-coronavirus-response>

¹³ <https://cnnphilippines.com/news/2020/9/28/PH-new-quarantine-classifications-October.html>

¹⁴ <https://newsinfo.inquirer.net/1344607/cagayan-town-placed-on-14-day-mecq>

¹⁵ <https://www.neda.gov.ph/losses-and-setbacks-in-2020-offer-lessons-to-recover-together-in-2021-neda/>

¹⁶ <https://ncovtracker.doh.gov.ph/>

¹⁷ <https://www.neda.gov.ph/joint-statement-of-the-duterte-administrations-economic-managers-on-the-philippine-economic-performance-for-the-fourth-quarter-and-full-year-of-2020/>

¹⁸ <https://interaksyon.philstar.com/politics-issues/2020/09/24/177561/departament-of-agriculture-detects-new-swine-fever-outbreaks-eyes-more-pork-imports/>

¹⁹

²⁰ <https://psa.gov.ph/system/files/Value%20of%20Production%20in%20Philippine%20Agriculture%20and%20Fisheries%2C%20Fourth%20Quarter%202020.pdf>

²¹ https://openstat.psa.gov.ph/PXWeb/pxweb/en/DB/DB__2M__FG/0032M4AFP11.px/table/tableViewLayout1/?rxid=f9b0dcc2-8495-4624-8540-56b39c9e178c

²² https://openstat.psa.gov.ph/PXWeb/pxweb/en/DB/DB__2M__FG/0032M4AFP10.px/table/tableViewLayout1/?rxid=f9b0dcc2-8495-4624-8540-56b39c9e178c

²³ <https://www.da.gov.ph/wp-content/uploads/2020/10/Price-Monitoring-October-1-2020.pdf>

²⁴ <https://www.da.gov.ph/wp-content/uploads/2020/12/Price-Monitoring-December-29-2020.pdf>

²⁴ Quarterly year-on-year inflation rates were obtained from https://www.bsp.gov.ph/Lists/Inflation%20Report/Attachments/20/IR4qtr_2020.pdf

Nika, Ofel, Pepito, Quinta, Rolly, Siony, and Ulysses amounted to P12.8B²⁵. In addition, Typhoon Vicky, the last of the season, was last reported to have caused P129.76M in losses²⁶. Typhoons Rolly, Ulysses, and Quinta resulted in the largest production losses, amounting to P5.79B, P4.18B, and P2.66B, respectively.²⁷ The onslaught of the typhoons were the likely drivers of the fourth quarter contractions in crop and fish production and higher inflation for fish, fruit, and vegetables in the fourth quarter. Fourth quarter crop production dropped in value by 0.4 percent, mostly due to production declines in palay (1.4 percent), corn (0.3 percent), eggplant (5.9 percent), potato (3.7 percent), and calamansi (3.2 percent); fisheries posted a 4.7 percent contraction in fourth quarter production value due to decreases in production of fimbriated sardines (35.9 percent), blue crab (19.6 percent), tiger prawn (16.4 percent), tilapia (14.3 percent), and yellowfin tuna (10.8 percent).²⁸ Fish price inflation was estimated to have risen to 4.1 percent from 2.9 percent the previous quarter and 3.6 percent, while vegetables price inflation skyrocketed to 11.3 percent from -0.9 percent the previous quarter and 2.7 percent the previous year.²⁹

Other recent developments

- Inflation rate rises to a two-year high in January.** In the last quarter of 2020, headline inflation began an uptrend that has continued into 2021. In January, headline inflation was estimated at 4.2 percent, marking the highest inflation rate since the January 2019 rate of 4.4 percent. The latest inflation shows an alarming acceleration as it greatly exceeded the previous month's rate of 3.5 percent and rose above the 4.1 percent upper bound of the BSP's month-ahead forecast.³⁰ Similar to the previous months, the higher overall inflation rate was largely due to higher inflation of the Food and non-alcoholic beverages index, which is heavily weighted in the overall consumer price index.³¹ The annual mark-up on Food and non-alcoholic beverages quickened to 6.2 percent from 4.8 percent in December, reflecting the higher inflation rates for Corn (1.6 percent from 0.1 percent), Meat (17.1 percent from 10 percent), Fish (3.7 percent from 3.1 percent), Fruits (9.0 percent from 6.3 percent), and Vegetables (21.2 percent from 19.7 percent). The higher inflation of meat was attributed to the African Swine Fever's continued disruption of the domestic pork supply and fish inflation was attributed to reduced supply with the end of the fishing season.³² Other main commodity group indices that recorded higher annual increments since December 2020 were Transport (8.6 percent from 8.3 percent) and Restaurants and Miscellaneous Goods and Services (3 percent from 2.5 percent). Lower inflation was recorded for Alcoholic Beverages and Tobacco (11.7 percent from 12.2 percent), Recreation and Culture. Inflation was generally stable for Clothing and Footwear (1.6 percent); Housing, Water, Electricity, Gas, and Other Fuels (0.4 percent); Health (2.6 percent); Communication (0.2 percent); and Education (1.1 percent).

²⁵ <https://www.da.gov.ph/da-allots-p8-5-b-to-enable-typhoon-affected-farmers-fishers-recover-start-anew/>

²⁶ <https://www.pna.gov.ph/articles/1125566>

²⁷ <https://www.da.gov.ph/da-allots-p8-5-b-to-enable-typhoon-affected-farmers-fishers-recover-start-anew/>

²⁸ <https://psa.gov.ph/system/files/Value%20of%20Production%20in%20the%20Philippine%20Agriculture%20and%20Fisheries%2C%20Fourth%20Quarter%202020.pdf>

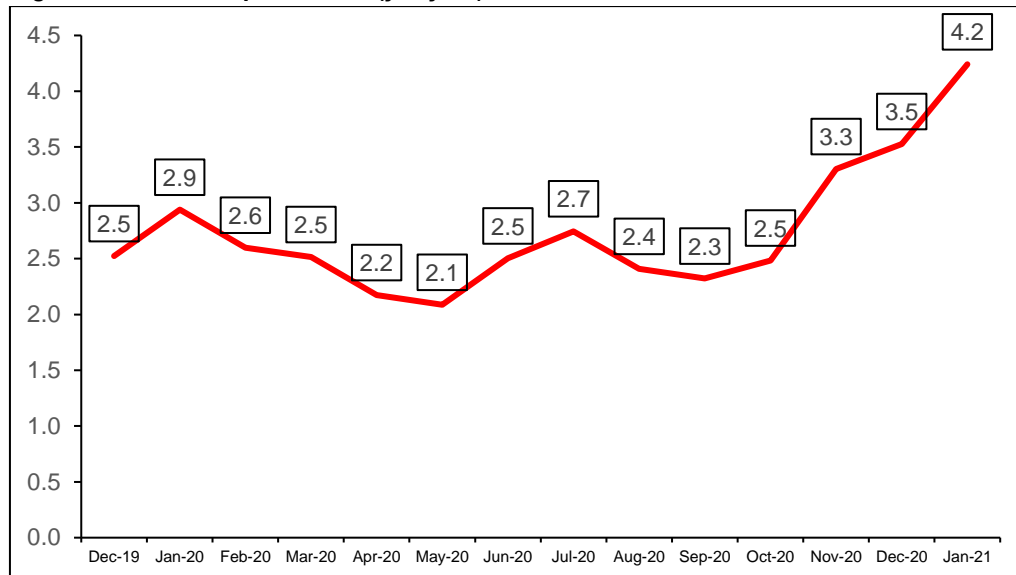
²⁹ https://www.bsp.gov.ph/Lists/Inflation%20Report/Attachments/20/IR4qtr_2020.pdf

³⁰ <https://www.bsp.gov.ph/SitePages/MediaAndResearch/MediaDisp.aspx?ItemId=5674>

³¹ <https://psa.gov.ph/price-indices/cpi-ir/title/Summary%20Inflation%20Report%20Consumer%20Price%20Index%20%282012%3D100%29%3A%20January%202021>

³² <https://www.bsp.gov.ph/SitePages/MediaAndResearch/MediaDisp.aspx?ItemId=5679>

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



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

- **Peso continues to strengthen against US dollar.** In the fourth quarter, the average peso-dollar exchange rate lowered by 1.39 percent to P48.27/USD in the fourth quarter P48.94/USD the previous quarter. The BSP cited various factors to the peso's appreciation in the fourth quarter, such as positive market sentiment amid progress in the development of a COVID-19 vaccine, the narrowing of the trade deficit, the interest rate cut in November, higher remittances during the holiday season, stronger international reserves and balance of payments performance, and lower unemployment data in October.³³ The BSP also cited external factors in the improved market sentiment during the quarter, namely, the US posting lower inflation in November for the month of October and news of stimulus prospects in the US.³⁴ The latest monthly average rate was posted at P48.0614/USD, showing further appreciation from the P48.0637/USD average posted in December 2020. The month-on-month appreciation in January was supported by announcements of higher remittances for the month of November 2020³⁵ as well as higher gross and net international reserves in end-December 2020³⁶.
- **BSP maintained interest rates in December.** The Monetary Board of the BSP decided to maintain the interest rates on the BSP's overnight reverse repurchase, overnight deposit, and overnight lending facilities at a meeting on December 17, 2020³⁷. The interest rates were most recently adjusted on November 19, 2020, from 2.25 percent to 2.0 percent for overnight reverse repurchases, from 1.75 percent to 1.5 percent for overnight deposits, and from 2.75 percent to 2.5 percent for overnight lending on November 19, 2020 and were made effective on November 20, 2020³⁸. The Monetary Board cited a benign inflation environment, the consistency of inflation expectations with the government's 2-4 percent inflation target, and its anticipation of economic recovery in the coming months as the main considerations in its decision³⁹.

³³ https://www.bsp.gov.ph/Lists/Inflation%20Report/Attachments/20/IR4qtr_2020.pdf

³⁴ https://www.bsp.gov.ph/Lists/Inflation%20Report/Attachments/20/IR4qtr_2020.pdf

³⁵ <https://www.bsp.gov.ph/SitePages/MediaAndResearch/MediaDisp.aspx?ItemId=5662>

³⁶ <https://www.bsp.gov.ph/SitePages/MediaAndResearch/MediaDisp.aspx?ItemId=5663>

³⁷ <https://www.bsp.gov.ph/SitePages/MediaAndResearch/MediaDisp.aspx?ItemId=5639>

³⁸ <https://www.bsp.gov.ph/SitePages/MediaAndResearch/MediaDisp.aspx?ItemId=5612>

³⁹ <https://www.bsp.gov.ph/SitePages/MediaAndResearch/MediaDisp.aspx?ItemId=5639>

- PSEi.**⁴⁰ On an average quarter-on-quarter basis, the Philippine Stock Exchange index (PSEi) rose 12.2 percent in the fourth quarter of 2020. The BSP cited the easing of business restrictions, improved third quarter earnings performance, and the anticipation of COVID-19 vaccines as the primary drivers in the index's rally during the fourth quarter. Furthermore, the BSP attributed improved market sentiment during the fourth quarter to additional factors during the quarter such as benign inflation amid policy easing, higher export figures in September, easing of the unemployment rate in October, higher cash remittances from overseas Filipinos in September and October, the year-to-date BOP surplus and higher GIR levels recorded in November, the signing of the 2021 national budget in December, and improvements in consumers' and businesses' confidence during the quarter. The index's rise may continue with improved prospects for COVID-19 vaccine distribution in the country, lowered interest rates, and lowered corporate income taxes with the Corporate Recovery and Tax Incentives for Enterprises (CREATE) bill.
- Consumer sentiment posts a small uptick.**⁴¹ Consumers were less pessimistic about the fourth quarter as the current-quarter confidence index increased to -47.9 percent from -54.5 percent in the third quarter. According to the BSP's report on the fourth quarter Consumer Expectations survey, consumer outlook was less negative in the fourth quarter due to expectations of (a) *availability of more jobs and permanent employment*, (b) *additional and high income*, (c) *effective government policies and programs such as the Social Amelioration Program and the Plant, Plant, Plant Program*, and (d) *less community restrictions, reopening of businesses, and end to COVID-19 pandemic*. Next-quarter expectations also improved in the fourth quarter as the confidence index for the next-quarter consumer outlook rose to 4.3 percent from -4.1 percent in the previous quarter for the same reasons (a) to (d). However, consumer sentiment for the next twelve months was slightly less optimistic in the fourth quarter as the confidence index lowered to 23.6 percent from 25.5 percent the previous quarter.
- Business confidence shows recovery.**⁴² Current-quarter business confidence became optimistic in the fourth quarter as the confidence index rose to 10.6 percent from -5.3 percent in the third quarter. According to the BSP's report on the fourth quarter business expectations survey, businesses' optimism in the fourth quarter was credited to (a) *reopening of business and adapting to the "new normal,"* (b) *easing of community quarantines nationwide,* (c) *seasonal factors such as uptick in demand during the holiday season and start of milling season,* and (d) *increase in volume of sales and orders*. Businesses also showed higher confidence for the next quarter and the next twelve months: the confidence index for the next quarter outlook rose to 37.4 percent from 16.8 percent and the index for the next twelve months rose to 57.7 percent from 37.5 percent. According to the BSP report on the fourth quarter Business Expectations Survey, the improved optimism of businesses for the next quarter and the next twelve months was due to similar factors (a) to (d) noted above.

⁴⁰ https://www.bsp.gov.ph/Lists/Inflation%20Report/Attachments/20/IR4qtr_2020.pdf

⁴¹ https://www.bsp.gov.ph/Lists/Consumer%20Expectation%20Report/Attachments/17/CES_4qtr2020.pdf

⁴² https://www.bsp.gov.ph/Lists/Business%20Expectations%20Report/Attachments/1/BES_4qtr2020.pdf



Table 1. Philippine Economic Indicators

Monthly Leading Indicators	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20
Industrial Production (y-o-y, %)	3.8	7.6	-8.4	-36.8	-26.5	-15.3	-13.5	-9.2	-7.8	-9.3	-10.6	...
Consumer Price Index (y-o-y, %)	2.9	2.6	2.5	2.2	2.1	2.5	2.7	2.4	2.3	2.5	3.3	3.5
Retail Sales (y-o-y, %)	6.8	6.5	-12.3	-43.0	-29.4	-14.3	-7.7	-5.6	-3.2	-9.6	-7.6	...
Exports (y-o-y, %)	9.4	2.8	-24.7	-49.9	-26.9	-12.5	-9.1	-12.8	2.9	-1.2	4.0	-0.2
Imports (y-o-y, %)	-2.8	-11.6	-26.2	-65.3	-40.6	-23.1	-23.8	-21.3	-15.3	-18.8	-18.3	-9.1
Trade Balance, US\$ million	-3,504	-1,656	-2,368	-449	-1,321	-1,375	-1,860	-1,831	-1,783	-1,786	-1,726	-2,181
Total Reserves (less gold), US\$ billion	79	80	81	83	85	85	86	87	89	92	94	98
Policy Rate	4	3.75	3.25	2.75	2.75	2.25	2.25	2.25	2.25	2.25	2	2
Fiscal Balance (million pesos)	23,045	-37,595	-59,479	no info	-202,136	1,766	no info	-40,074	-138,525	no info	-128,278	...
Quarterly/Annual Economic Indicators	2015	2016	2017	2018	1Q2019	2Q2019	3Q2019	4Q2019	1Q2020	2Q2020	3Q2020	4Q2020
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	-11.4	-8.3
- Private Consumption	6.3	7.1	5.9	5.6	6.2	5.6	6.0	5.7	0.2	-15.3	-9.2	-7.2
- Government Consumption	7.6	9.0	6.2	13.0	6.4	6.8	8.8	17.0	7.0	21.8	5.8	4.4
- 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	-29.0
Current Account (% of GDP)	2.9	-0.4	-0.7	-2.7	-2.1	0.2	-0.4	0.7	0.1	2.6	4.8	...
Financial Account (US\$ million)	2,523	175	-2,798	-9,332	-4,584	572	391	-2,374	3,796	3,938	646	...
- Net Direct Investments, US\$ million	-122	-5,883	-6,952	-5,833	-1,053	-692	-825	-1,824	-1,116	-2,168	-1,111	...
- Net Portfolio Investments, US\$ million	4,757	1,480	2,454	1,448	1,257	481	474	36	555	1,481	2,887	...
Overall BOP position (US\$, million)	2,616	-1,038	-863	-2,306	3,797	991	778	2,277	-68	4,109	2,769	...
Unemployment rate	6.0	5.1	5.7	5.3	5.2	5.1	5.1	5.1	5.3	17.6	10.0	8.7
Others	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20
Overseas Filipinos' Remittances (US\$, million)	2,648	2,358	2,397	2,046	2,106	2,465	2,783	2,483	2,601	2,747	2,379	...

... = not available

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



Table 2. Level of Philippine GDP, 2019Q2 – 2020Q2

	Nominal GDP (million current pesos)		Real GDP (million constant pesos*)	
	2019Q4	2020Q4	2019Q4	2020Q4
Agriculture	513,406	550,358	533,055	519,641
Industry	1,749,956	1,589,724	1,637,964	1,475,386
Mining and quarrying	37,161	35,370	38,102	30,929
Manufacturing	1,148,524	1,078,511	1,017,760	974,013
Electricity, steam, water and waste management	142,898	139,654	145,158	143,873
Construction	421,373	336,189	436,945	326,571
Services	3,243,814	3,027,560	3,089,208	2,830,158
Wholesale and retail trade; repair of motor vehicles and motorcycles	996,544	956,222	985,496	945,300
Transportation and storage	178,107	146,210	172,381	135,648
Accommodation and food service activities	119,094	70,611	116,489	66,761
Information and communication	158,111	163,667	156,456	162,059
Financial and insurance activities	420,412	449,008	413,247	431,528
Real estate and ownership of dwellings	311,308	272,057	304,257	257,454
Professional and business services	337,401	320,529	310,785	283,421
Public administration and defense; compulsory social activities	296,741	303,933	247,923	249,426
Education	208,662	182,336	181,136	153,946
Human health and social work activities	92,585	93,451	80,617	78,621
Other services	124,850	69,533	120,422	65,994
Sum = GDP	5,507,177	5,167,641	5,260,228	4,825,185

*Base year 2018

Source: Philippine Statistics Authority



Table 3. Industry Contributions to Philippine GDP Growth, 2019Q2 – 2020Q2

	TRAD GDP Growth PGE* (percent)	GEAD		GEAD GDP Growth PGE* + PCE* (percent)
		PGE* (percent)	PCE* (percent)	
		(1)	(2)	(1)+(2)
GDP Growth	-8.27	-8.27	0.00	-8.27
Industry Growth Contribution				
Agriculture	-0.26	-0.26	-0.11	-0.36
Industry	-3.09	-3.09	0.17	-2.92
Mining and quarrying	-0.14	-0.14	0.04	-0.10
Manufacturing	-0.83	-0.83	0.63	-0.20
Electricity, steam, water and waste management	-0.02	-0.02	-0.26	-0.28
Construction	-2.10	-2.10	-0.24	-2.34
Services	-4.92	-4.92	-0.06	-4.99
Wholesale and retail trade; repair of motor vehicles and motorcycles	-0.76	-0.76	-1.00	-1.76
Transportation and storage	-0.70	-0.70	0.02	-0.68
Accommodation and food service activities	-0.95	-0.95	-0.02	-0.96
Information and communication	0.11	0.11	-0.18	-0.07
Financial and insurance activities	0.35	0.35	-0.23	0.11
Real estate and ownership of dwellings	-0.89	-0.89	-0.07	-0.95
Professional and business services	-0.52	-0.52	0.30	-0.22
Public administration and defense; compulsory social activities	0.03	0.03	0.65	0.68
Education	-0.52	-0.52	0.31	-0.21
Human health and social work activities	-0.04	-0.04	0.16	0.13
Other services	-1.03	-1.03	-0.02	-1.06

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.