

Philippines Monthly Economic Developments

August 2022

The Philippine economy expanded by 7.4 percent in the second quarter of 2022, anchored on robust domestic activity. The strong domestic environment stood in contrast with the weak external conditions which led to the modest growth in manufacturing and exports. In July, headline inflation further accelerated due to rising food and energy prices, and second-round effects from high fuel cost. To address inflation, the authorities have raised its key policy rates, rolled out fuel subsidy to vulnerable groups including public utility jeepney drivers and operators, farmers and fisherfolks, and provided cash transfers to poor households.

The Philippine economy grew by 7.4 percent in the second quarter of 2022 from 12.1 percent in Q2 2021.¹ Growth was fueled by private consumption (8.6 percent) as the relaxation of movement restrictions, the improvement in consumer confidence, and election-related activities buoyed domestic activity. However, on a seasonally-adjusted quarter-on-quarter basis, private consumption declined by 2.7 percent compared to Q1, tempered by rising inflation. Investment spending also fueled growth, as increased optimism from the private sector led to double-digit growth in construction and durable investment spending. Meanwhile, global headwinds led to a slowdown in merchandise export growth to 2.1 percent in Q2 2022. Import growth remained robust at 13.6 percent (40.3 percent in Q2 2021) to support the strong expansion of private domestic demand.

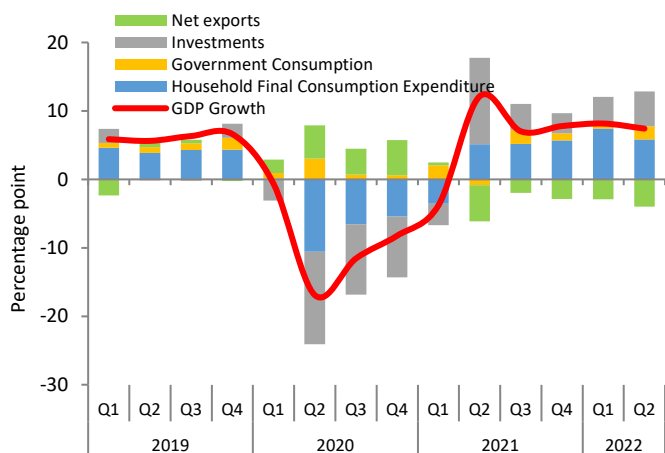
Industry and services sector drove growth, while the performance of the agriculture sector remained tepid. The industry sector drove growth despite a moderation to 6.3 percent in Q2 2022 (21.3 percent in Q2 2021). The slowdown in industry output was due to the contraction in mining activities and softer manufacturing growth (2.1 percent in Q2 2022) amid the contraction in exports and in part due to base effects. Services expanded by 9.1 percent, as the reopening

benefitted key industries such as wholesale and retail trade, transportation, accommodation and food services.

Accelerating food and transport prices pushed inflation to 6.4 percent in July. Food and non-alcoholic beverages inflation quickened to 6.9 percent from 6.0 percent in June. Most food groups saw upticks in prices, particularly, cereals, meat, fish, and sugar. Fuel inflation remained at double-digit high (56.0 percent y-o-y) but slowed from the previous month. Transport prices also rose amid the approved fare hikes, suggesting the second-round effects of elevated fuel costs. The core inflation is estimated to have accelerated, suggesting rising demand-side price pressures. The authorities rolled out a fuel subsidy to vulnerable groups including public utility jeepney drivers and operators, farmers and fisherfolks, and distributed cash transfers to low-income families. The central bank raised the benchmark interest rate to 3.25 percent in July.

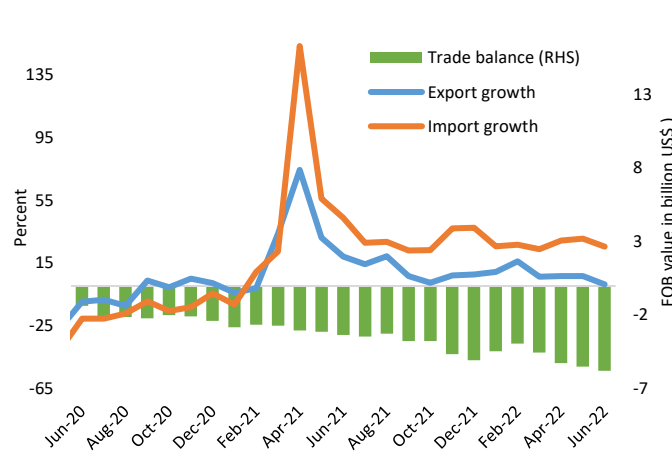
Manufacturing activity maintained its modest growth last June. The volume of production index (VoPI) grew by 2.4 percent, compared to 0.9 percent the month before. Eleven out of 22 industry divisions reported output expansion by volume. The machinery and equipment industry division posted the largest growth rate (45.3 percent), while the printing, metals, and pharmaceutical industry divisions posted

Figure 1: The economy expanded in Q2 2022 fueled by domestic demand.



Source: Philippine Statistics Authority (PSA)

Figure 2: The trade deficit further widened in June.



Source: PSA

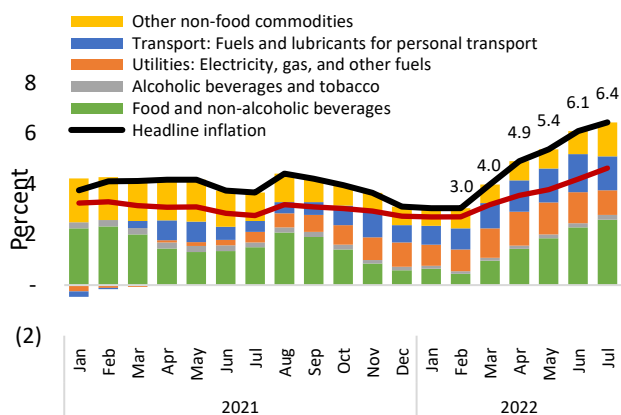
¹ All growth numbers are year-on-year unless otherwise stated.

the largest declines. Meanwhile, the average capacity utilization rate stood at 71.1 percent, up from 70.9 percent. High input prices and declining export orders caused a decline in the latest IHS Markit Purchasing Managers' Index (PMI) reading for the Philippines (50.8 in July compared to 53.8 in June). In ASEAN, Singapore and Thailand registered higher PMI readings last July, due to stronger purchasing activity.

The goods trade deficit widened in June amid a sharp slowdown in exports growth. Exports grew by 1.0 percent in June, slower than the 6.4 percent growth in May. Disruptions in global supply chains weighed heavily on electronic products, which contracted by 5.2 percent and accounted for 53 percent of total exports. Other top exports posted declines such as cathodes, ignition wiring set, and electronic equipment parts. Meanwhile, imports expanded at 26.0 percent in June from 30.2 percent in May. Growth in imported capital goods and raw materials slowed while consumer goods accelerated. Nine of the top ten imported goods increased led by mineral fuels, lubricants and related materials as global oil prices remained elevated. As a result, the trade deficit widened to US\$5.8 billion in June, from US\$5.6 billion in May.

The Philippine Stock Exchange Index (PSEi) rebounded in the past month. The PSEi recovered by 4.6 percent month-on-month (m-o-m) to close at 6,680 on August 11th. The expansion followed regional trend with expansions in the stock indices of neighboring ASEAN peers. Regional stocks rallied on news of potential US inflation peaking that may slow the pace of US Federal Reserve rate hikes. Meanwhile, the Philippine peso appreciated by 0.9 percent m-o-m, closing at Php/US\$55.47 on August 12th. The regional experience was mixed with m-o-m appreciation in the Thai Baht and Indonesian Rupiah, but depreciation in the Malaysian Ringgit.

Figure 3: Higher food and transport prices, and second-round effects pushed inflation up in July.



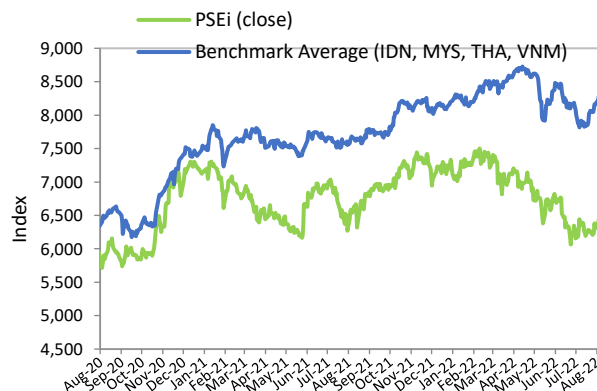
Source: PSA

The fiscal deficit narrowed to 6.6 percent of GDP in Q2 2022 (-8.3 percent of GDP in Q2 2021). Public Revenues increased by 0.8 percentage points (ppt) of GDP in Q2 2022 compared to a year ago to reach 17.5 percent of GDP, fueled by the 0.5 ppt increase in tax revenues. Tax collections benefitted from robust growth in the quarter, and the windfall from oil excise taxes amid the rise in global oil prices. Meanwhile, public expenditures declined by 0.8 ppt of GDP in Q2 to reach 24.1 percent of GDP. This resulted from the slowdown in capital spending due to the spending ban during the election campaign period.

Banking sector liquidity remains strong. Domestic liquidity (M3) increased by 6.9 percent in June 2022, and continued to improve relative to April and May, with the liquid assets to deposits ratio of 53.2 percent in June. Claims on the private sector grew by 8.7 percent, with increased bank lending to non-financial private corporations and households. Outstanding loans for production activities increased, with the biggest share going to real estate, wholesale and retail trade, and manufacturing. Household consumption loans increased, led by credit card and motor vehicle loans.

COVID-19 cases rose in early August as Omicron subvariants spread. The national number of daily cases averaged around 3,951 from August 1-14, higher than 2,330 average cases in July. Despite the rise in cases, the low-risk classification of the country is maintained due to the slow increase in average daily attack rate, and the manageable hospital bed occupancy rate. The administration kept the alert level system, and most localities remained under alert level 1. Nationwide, over 72.1 million Filipinos have received their complete doses of vaccine, and 17.0 million individuals got their boosters/additional doses as of August 14.

Figure 4: The stock market in the region recovered in the past month.



Source: Philippine Stock Exchange, Haver Analytics

Developments to Watch

- Growth and inflation: will inflationary pressure temper household consumption growth in the next quarters?
- Labor: will we see continued improvement in the labor market as many localities maintain the low alert level?
- Manufacturing and exports: what is the prospect of exports as weakness persists in the external environment?

Selected Economic and Financial Indicators							
	2020	2021	Q1 2022	Q2 2022	May-22	Jun-22	Jul-22
	<i>In percent, unless otherwise indicated</i>						
Real GDP growth, at constant market prices	-9.5	5.7	8.2	7.4			
Private consumption	-8.0	4.2	10	8.6			
Government consumption	10.5	7.1	3.6	11.1			
Capital formation	-34.2	20.3	20.4	20.5			
Exports, goods and services	-16.1	8.0	10.4	4.3			
Imports, goods and services	-21.6	13.0	15.4	13.6			
Industry Performance							
Value of Production Index (growth rate)	-40.7	164.1	154.4	8.0	8.0	9.8	
Volume of Production Index (growth rate)	-38.2	167.3	142.7	1.0	0.9	2.4	
Capacity Utilization	56.8	65.8	70.0	70.5	70.9	71.1	
Nikkei Philippines Purchasing Managers' Index	42.5	51.3	52.0	54.1	54.1	53.8	50.8
Monetary and Banking sector							
Headline Consumer Price Index (growth rate)	2.4	3.9	3.7	5.5	5.4	6.1	6.4
Core Consumer Price Index (growth rate) 1/	3.1						
Domestic liquidity (M3) (growth rate)	12.8	7.3	8.6	7.0	6.9	6.9	
Credit growth (universal and commercial banks loans to residents)	7.0	0.6	8.7	10.9	10.6	11.9	
Business loans	6.0	0.9	9.7	11	10.8	12.0	
Consumer loans	20.9	-8.2	1.3	8.6	8.5	10.6	
Fiscal sector							
Fiscal balance (% of GDP)	-7.6	-8.6	-6.4	-6.6			
Total Revenue (% of GDP)	15.9	15.5	15.9	17.5			
Tax Revenue (% of GDP)	13.9	14.1	14.2	15.6			
Total Expenditure (% of GDP)	23.5	24.1	22.3	24.1			
National government debt (% of GDP, in million Php for monthly [ytd])	54.5	60.4	63.5	62.1	12,495	12,791	
Stock market							
PSEi (month-end value)	7,139.7	7,122.6	7,292.1	6,553.8	6,774.7	6,155.4	6315.9
External accounts							
Current account balance (% of GDP)	3.6	-3.5	-5.0	-3.9			
Exports of goods (growth rate)	-7.8	17.2	10.2	4.5	6.4	1.0	
Imports of goods (growth rate)	-19.2	34.0	25.2	28.4	30.2	26.0	
Net foreign direct investment (in million US\$)	6822	10518	2439				
Balance of payment (% of GDP, in million US\$ for monthly)	2.2	0.4	0.5	-3.5	-1606	-1574	
International reserves (in million US\$)	110117	106952	107599	103267	103637.0	100854	98827
Import cover (months)	11.8	10.1	9.2	8.6	8.7	8.4	8.3
Nominal exchange rate (Php/US\$1)	49.6	49.3	51.5	53.1	52.2	55.0	55.7
Labor Market							
Unemployment rate	10.4	7.8	6.2	5.9	6	6	
Underemployment rate	16.4	15.9	14.9	13.7	14.5	12.6	
Sentiments							
Consumer confidence index (end of period)	-47.9	-24.0	-15.1	-5.2			
Business confidence index (end of period)	10.6	39.7	32.9	35.4			

1/ No data on core inflation was reported by the PSA after rebasing to 2018.

Source: Philippine Statistics Authority, Bangko Sentral ng Pilipinas, and Bureau of the Treasury.