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economic snapshots

QUICK FACTS AND FIGURES OF THE PHILIPPINE ECONOMY

QUARTERLY

CURRENT ECONOMIC SITUATION

In overall terms, the GDP growth for the first half of the year barely reached the low end of the government's target of 6.5% to 7.5% due to the lingering effects from last year's elections. This Economic Snapshots provide a glimpse into the macro-level changes that have occurred in various parts of the Philippine economy. How has the economy fared as the Duterte administration's reforms are starting to take shape?

picture credit: inquirer.n

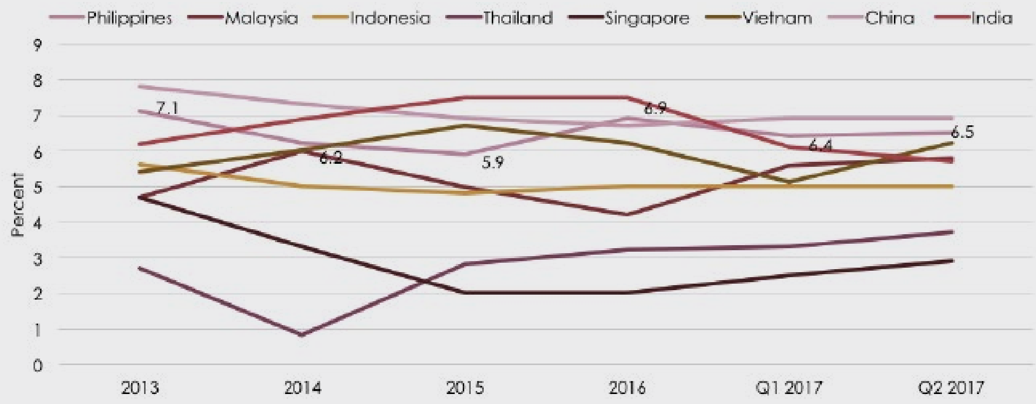
ECONOMIC DEVELOPMENTS

Growth

The Philippine economy expanded by 6.5% in the 2nd quarter of 2017, remaining one of the fastest-growing economies in the region. Growth fell behind China's 6.9%, but was ahead of Vietnam's 6.2% expansion. For the first half of the year, however, GDP growth barely reached the lower-end of the government's target of 6.5%-7.5%. This year's growth was generally slower compared to last year's due to the lingering effects of the election. Nevertheless, the Asian Development Bank (ADB) retained its growth forecast for the country at 6.5% in 2017, supported by robust domestic demand, increased investments in infrastructure and social services, and a more positive business environment.

On the demand side, growth remains consumption-driven, although its share has been declining in favor of capital formation. Household consumption expanded by 5.8% for the first half of the year, slower than the 7.3% expansion registered in the comparable period in 2016. Capital formation expanded by 8.7% during the 2nd quarter, slower than its 1st quarter expansion of 10.6%. For the first semester of the year, capital formation expanded at a sluggish pace of only 9.7%, compared to 30.9% during the same period in 2016. Fixed capital already accounts for 23.5% of the GDP. However, this figure still lags behind the average investment rate of 26.4% of our peers in the ASEAN-6. Meanwhile, government spending has expanded by 4% for the first semester of the year, slower than the 12.7% expansion in 2016.

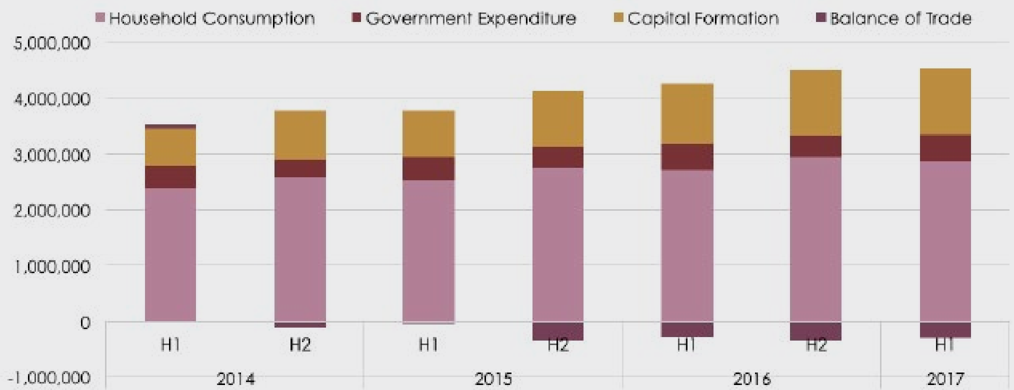
Figure 1. GDP Growth Rates (%) in Selected Asian Countries



Source: BSP

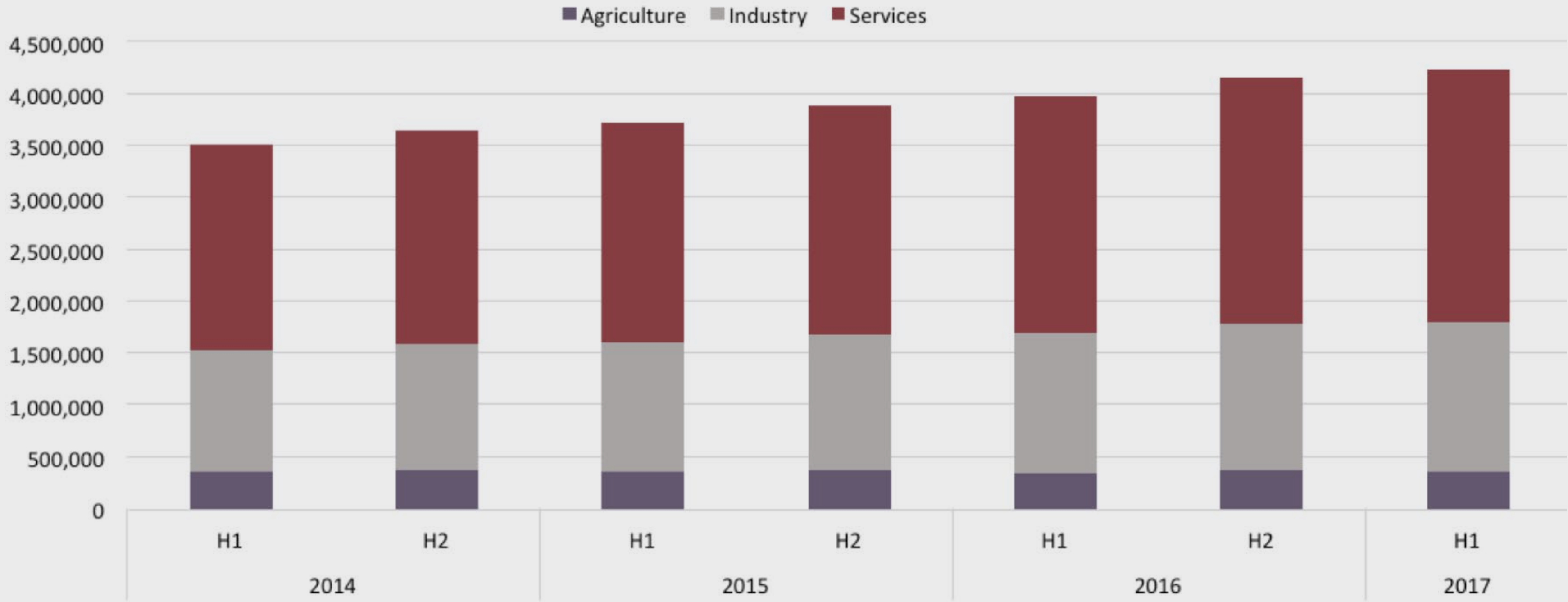
Figure 2. Demand-side Contribution to GDP

(PHP Million)



Source: PSA

Figure 3. Supply-side Contribution to GDP
(PHP Million)

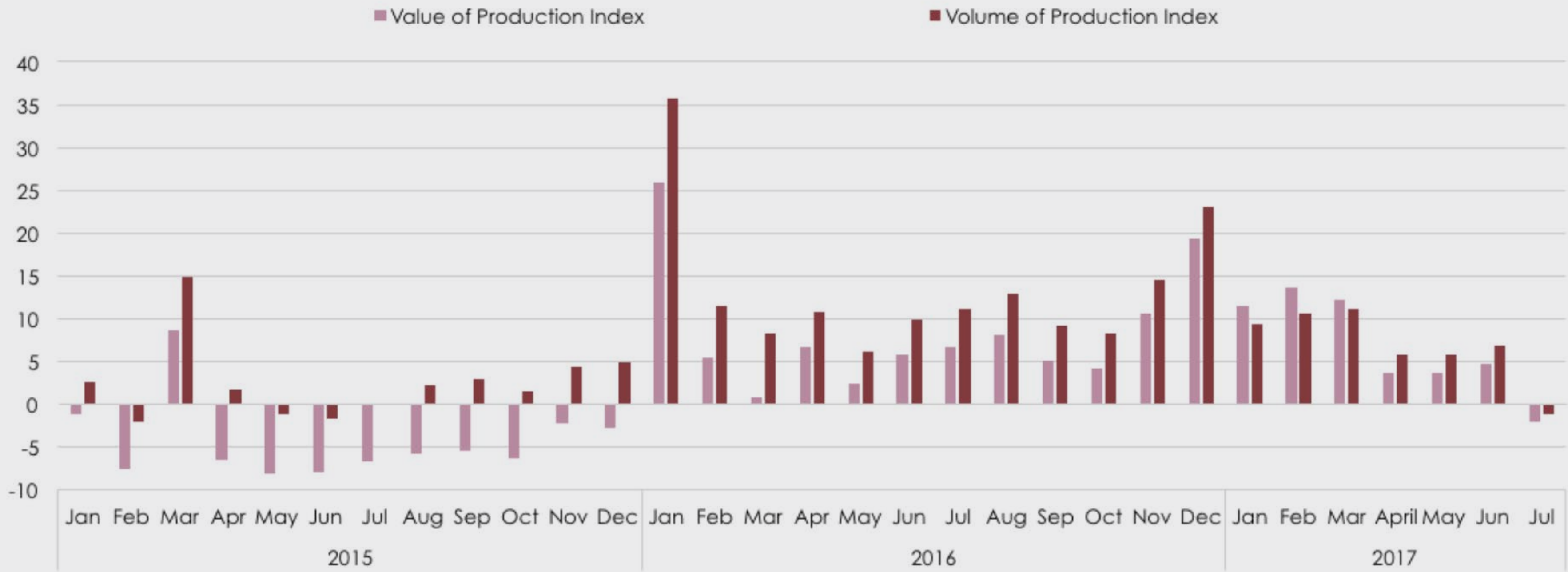


Source: PSA

On the supply side, agriculture continued its recovery for the year, expanding by 5.6% during the first half of 2017, a reversal from its 3.2% contraction during the comparable period in 2016. Palay, corn, sugarcane, and poultry contributed to the sector's expansion. In contrast, the contraction in the fisheries subsector has dragged the sector's growth downward. To aid agriculture, the administration has introduced financing schemes to help small farmers, and crafted roadmaps including the PhilRice Strategic Plan 2017-2022, to improve the rice industry with the use of better technology and farming practices, and a Hog Industry Roadmap 2017-2022, to increase productivity and adopt safety regulations and standards for the industry.

Services still account for almost half of the country's economy, expanding by 6.4% in the first half of 2017, slower than the 7.9% registered during the first semester of 2016. Industry has expanded by 6.8%, lower by 1.6 percentage points compared to the first half last year. The mining and quarrying subsector contracted by 1.2% during the first half of the year due to the policy uncertainty surrounding the sector.

Figure 4. Year-on-Year Changes in Production
(In Percent)



Source: PSA

The Monthly Integrated Survey of Selected Industries (MISSI) shows that growth in manufacturing production has generally slowed in 2017, relative to the previous year. Nevertheless, sectors including petroleum products, basic metals, wood products, and footwear and apparel have supported the industry's growth for the 1st semester of the year. In July 2017, the index contracted for the first time since 2015 due to the downtrend in the production of chemical products, textiles, and rubber and plastic products.

The Purchasing Managers' Index (PMI), which tracks the manufacturing sector based on new orders, inventory levels, production, supplier deliveries, and the employment environment, shows that the sector has remained upbeat during the 2nd quarter of 2017 due to stronger external demand. At the start of the third quarter, the PMI posted a lower reading, attributed to weaker export demand and Martial Law in Mindanao. Despite this, the country fared better in its PMI reading compared to its ASEAN neighbors.

Figure 5. Purchasing Managers' Index

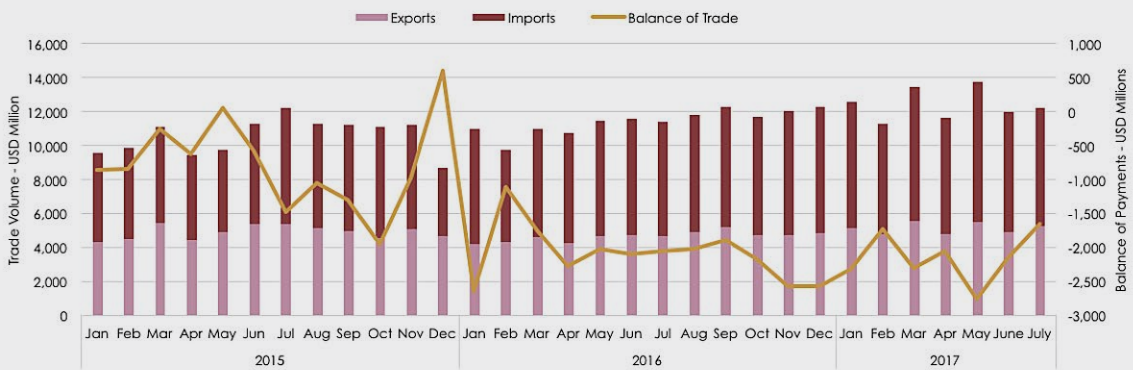
Source:IHS Markit

Foreign Trade

The trade deficit has widened in the first half of the year, as imports surged ahead of exports; however, the deficit narrowed in July. The balance of trade stood at a deficit of USD 14.9 Billion in the first 7 months of the year. Exports rebounded, growing by an average of 13.6% for the first half of the year on the back of stronger external demand. This is a turnaround from the contraction in the previous year as the world's major economies have started to recover. Exports growth was driven by manufactured goods, agro-based products, and mineral products. Electronic products, which make up around 50% of the country's total exports, expanded by 12%. The stronger performance was also attributed to the sharper increase in receipts from the Netherlands (42.9%), Hong Kong (33.5%), South Korea (28.8%), and China (20.1%) in the first half of the year. However, exports to Japan, our largest exports market, contracted by 10% during the 1st semester of 2017.

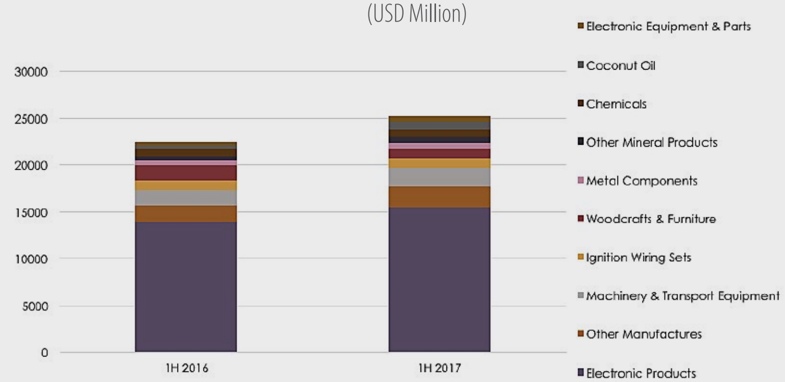
Figure 6. Total Merchandise Trade Performance

(USD Million)



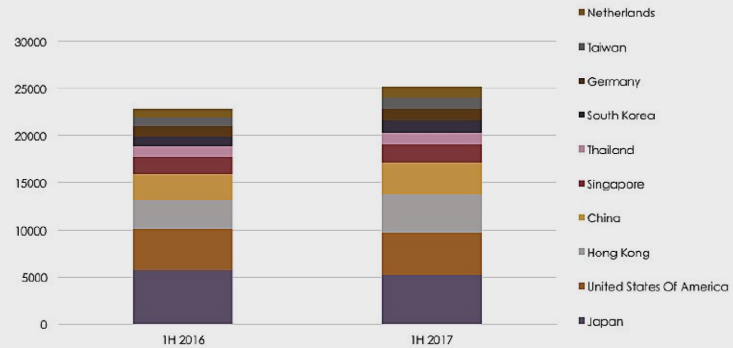
Source: PSA

Figure 7. Exports by Commodity Groups
(USD Million)



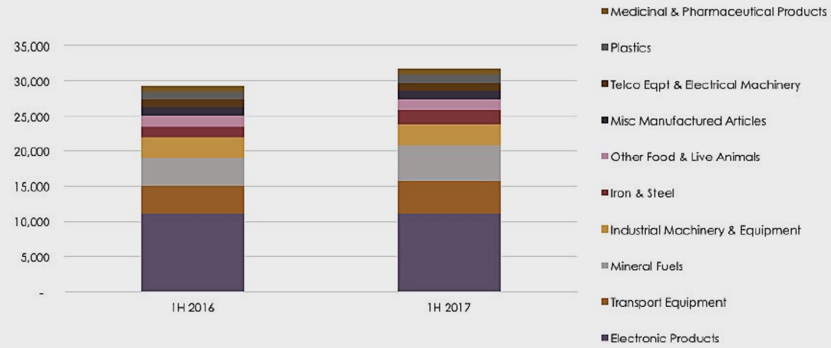
Source: PSA

Figure 8. Top Exports Partners
(USD Million)



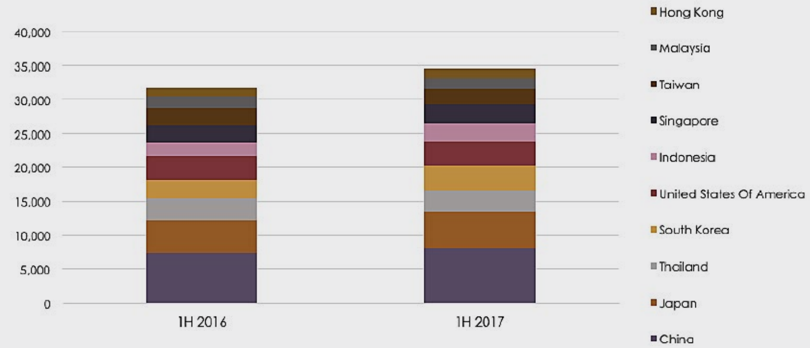
Source: PSA

Figure 9. Imports by Commodity Groups
(USD Million)



Source: PSA

Figure 10. Top Imports Partners
(USD Million)



Source: PSA

Meanwhile, imports expanded by 9.6% during the 1st semester of the year, but contracted by 3.2% in July. Imports of raw materials and intermediate goods expanded by 9.9%, while capital goods grew by 5.5% for the first half of 2017. Among the country's top exports, there was a significant increase in mineral fuels (30.9%) and iron and steel (32.5%). Imports from China, the country's top source of imports, expanded by 18.4% during the first half of 2017. Top imports from China include electronic products, iron and steel, and mineral fuels.

Fiscal Balance

The budget deficit for the first 8 months of the year amounted to PHP 176 Billion, as revenue collections totaled to PHP 1,600 Billion, expanding by 8%, while expenditures reached PHP 1,777.5 Billion, increasing by 9.7% during the same period.

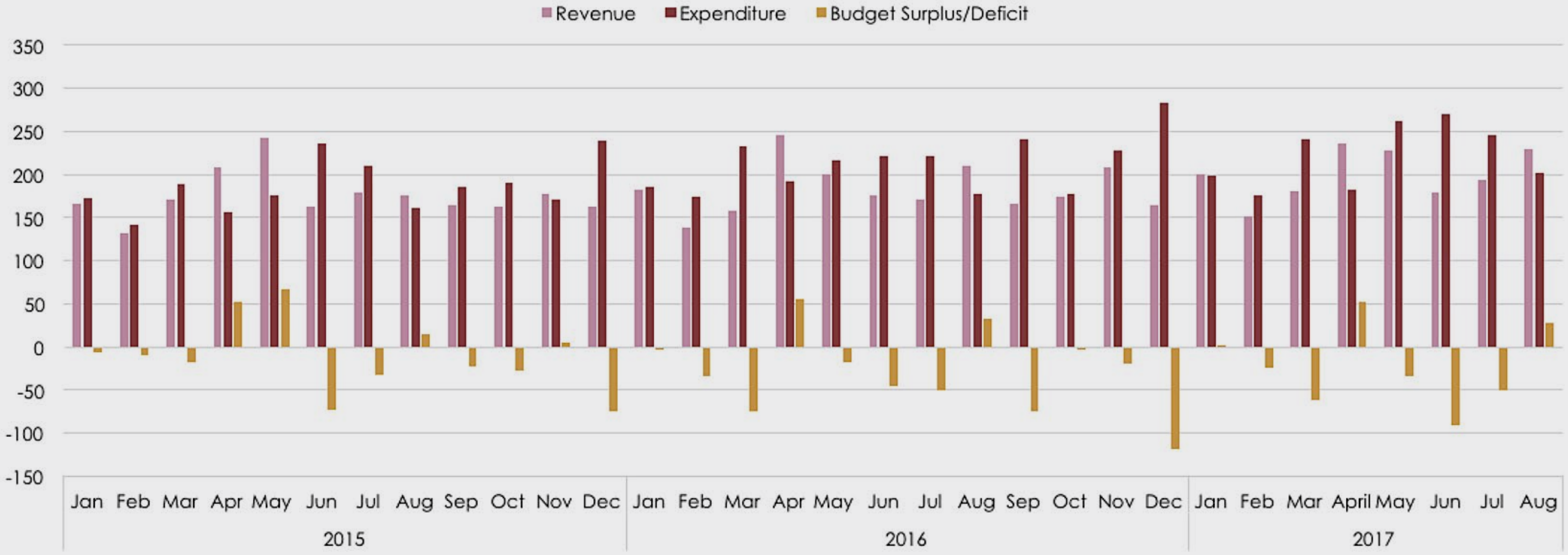
In August, Budget Secretary Benjamin Diokno declared that underspending was "a thing of the past," noting that for the first half of 2017, disbursements were almost "on the dot" for the programmed budget, with a shortfall of only PHP 6 Billion. This was a marked improvement from the previous administration, which was embattled with underspending. In the final semester of the Aquino years, underspending amounted to PHP 164.4 Billion. Underspending was traced to inefficiencies and other delays in project planning, design and execution, as well as difficulties in procurement.

Government spending failed to reach its target during the first quarter of the year, as disbursements slowed owing to the ongoing procurement of big-spending agencies. In the second quarter, spending started to pick up thanks to infrastructure projects, maintenance spending (including cash grants under the conditional cash transfer program), and higher personnel spending, with the payments of salaries and benefits to employees, as well as additional combat pay and incentives for military personnel.

Diokno attributed the pace of disbursements to a "change in the rules of the game." DBM's policy change: starting in 2017, unlike the two-year period previously, the budget can only be obligated for one year. This change comes on top of this administration's revisions to the Implementing Rules and Regulations of the Procurement Law in 2016 and the ongoing effort to strengthen coordination among different agencies.

Figure 11. Fiscal Balance

(PHP Billion)



Source: BTr

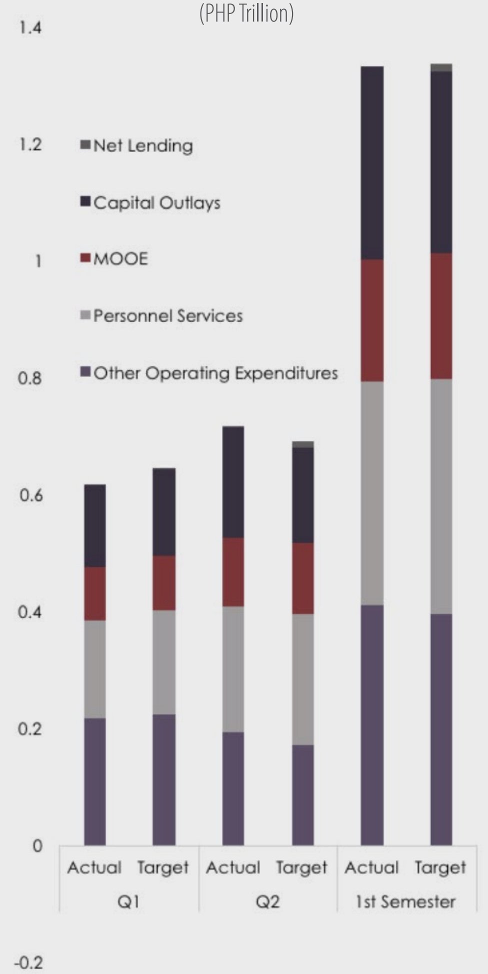
DBM's targeted spending for the first semester of 2017 dropped from 2016, as the country's economic managers backloaded programmed disbursements to the second half of the year. A discussion paper released by the University of the Philippines School of Economics observed that underspending from 2011 to 2015 may have had more to do with ambitious targets, rather than bureaucratic incompetence. The paper pointed out that during the Aquino administration, targeted disbursements increased at a faster rate than actual disbursements.[1]

Build, Build, Build

Dutertenomics is centered on an ambitious drive to address the country's infrastructure deficit. For 2017, infrastructure spending was targeted for 5.4% of GDP. To achieve this and the other economic objectives, it will be crucial for the government to execute its budget efficiently. On this point, while disbursements may have exceeded programmed spending for the first half of the year, the growth in infrastructure and capital outlay disbursements has fallen sharply. The government has attributed the slower pace to base effects, as the previous administration ramped up spending in the run-up to the 2016 elections.

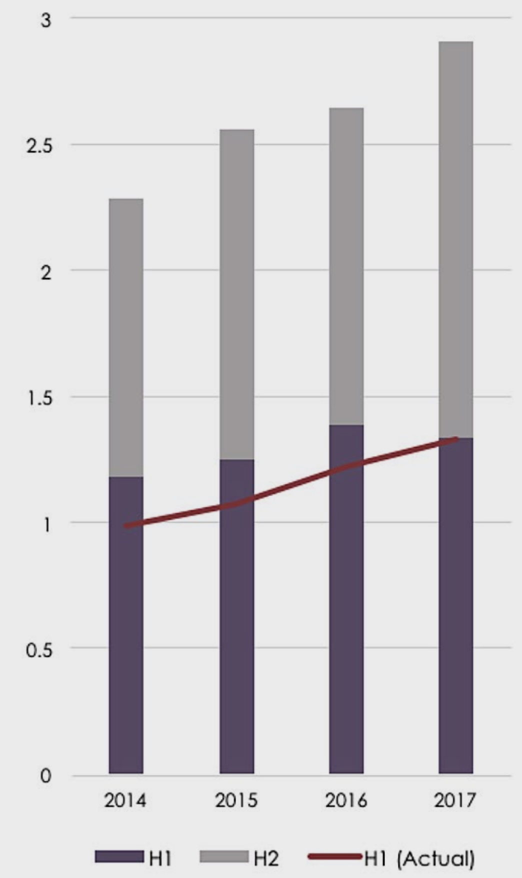
However, the two agencies primarily tasked to implement infrastructure projects—the Department of Public Works and Highways (DPWH) and the

Figure 12. 2017 Disbursement
(PHP Trillion)



Source: DBM

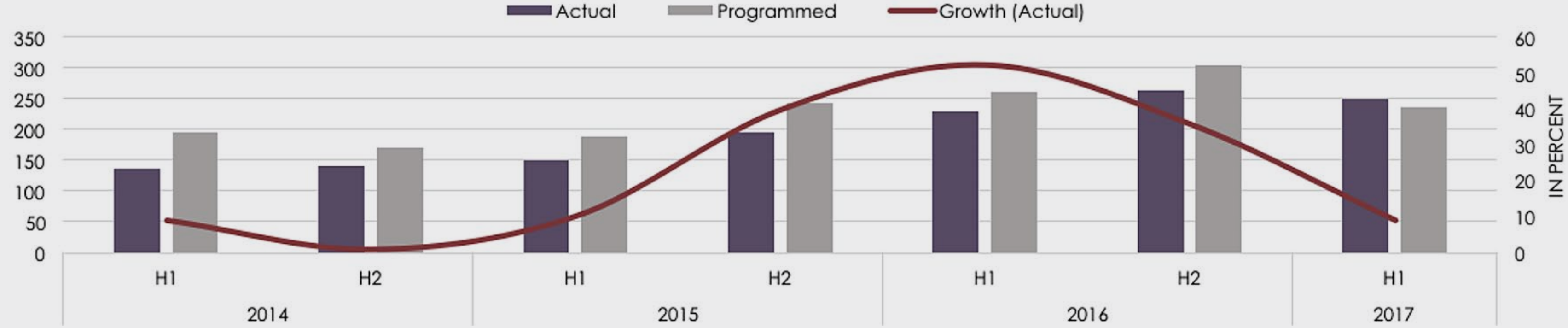
Figure 13. Programmed Spending
(PHP Trillion)



Source: DBM

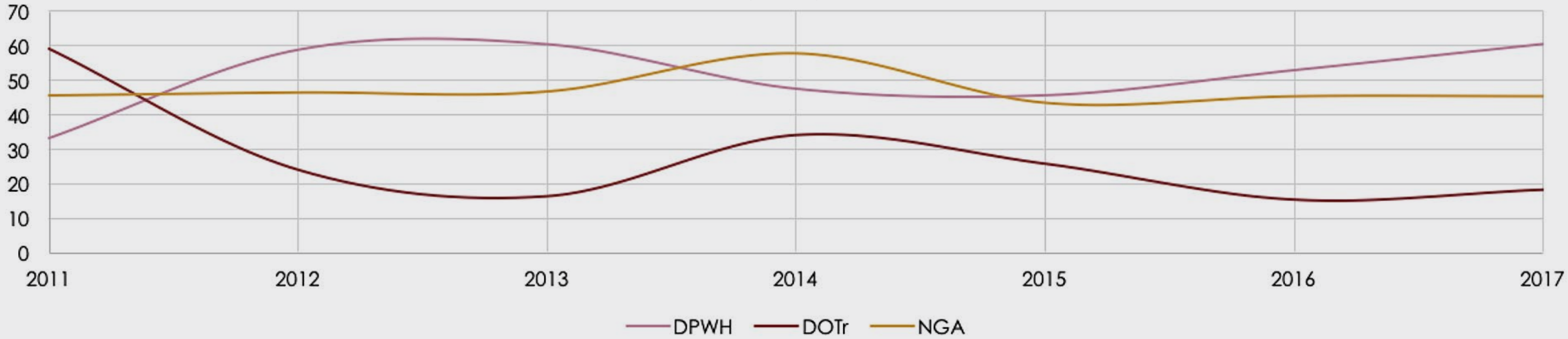
Department of Transportation (DOTr)[2] —have widely disparate budget utilization rates.[3] DOTr has only utilized 7.3% of its capital outlay allotment, which makes up around 62% of its budget. Unsurprisingly, the agency has revised several project completion dates. In April, for instance, DOTr said it targeted completing several airports in 2018 (i.e., Bicol International Mactan-Cebu International); the completion dates have since been pushed back by at least a year. The government will need to work double time in the second half of the year to avoid falling into the same trap as its predecessor.

Figure 14. Infrastructure and Capital Outlay Disbursements
(PHP Billion)



Source: DBM

Figure 15. Half-year Budget Utilization Rates
(In Percent)



Source: DBM

Financial Markets

Inflation

Inflation inched higher to 3.1% for the first 8 months of the year, higher than the 1.5% registered during the same period in 2016, although it is still within the 2%-4% target set by the Bangko Sentral ng Pilipinas (BSP). The higher inflation can be attributed to the surge in prices of food, petroleum products and other utilities. The ADB revised its inflation forecast downwards to 3.2% from 3.5% in 2017, in line with the BSP's forecast. The depreciation of the Peso against the US Dollar can also put upward pressure on inflation.

Foreign Direct Investments

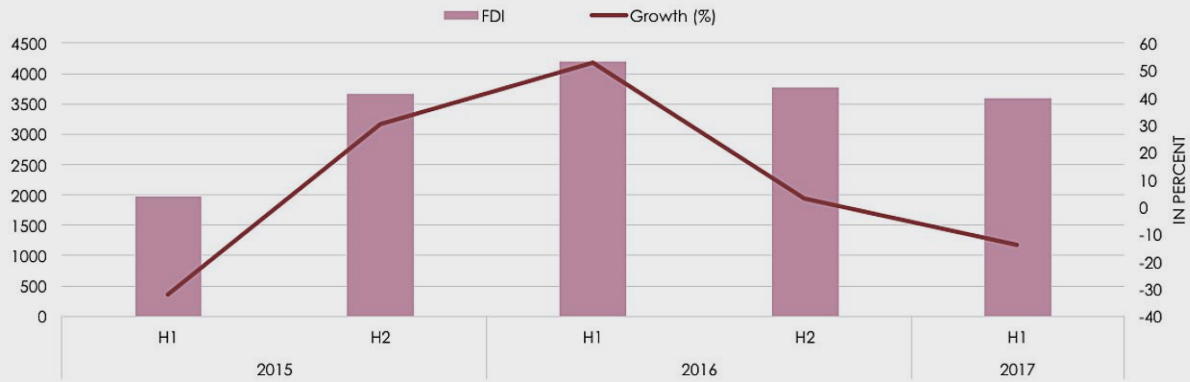
FDI totaled to USD 3.6 Billion for the first semester of the year, 14% lower than the USD 4.2 Billion posted in the same period in 2016. The decline can be attributed to the 90.3% decrease in net equity capital. Most of the equity capital inflows came from the US, Japan, Singapore, Hong Kong, and Taiwan, and are funneled into the real estate, financial and insurance, manufacturing, electricity, gas, steam and air conditioning supply, and wholesale and retail trade activities. Debt instruments expanded by 29.2%, while reinvestment of earnings grew by 9% in the first half of the year.

The country's FDI has also fallen behind its peers in the ASEAN-6. The Duterte administration is

Figure 16. Inflation Rate
(In Percent)

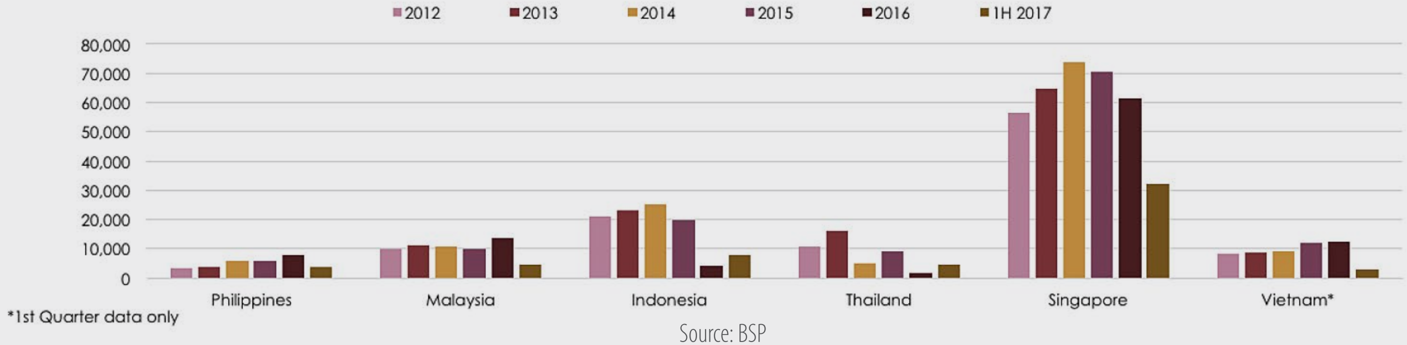
Source: PSA

Figure 17. Foreign Direct Investments
(USD Billion)



Source: BSP

Figure 18. FDI Inflows in ASEAN
(USD Million)

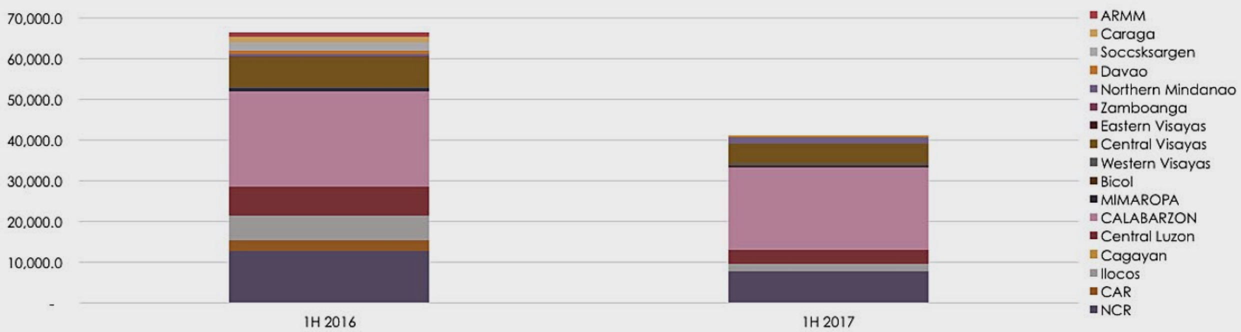


Source: BSP

pushing for reforms to further liberalize the economy. The country's economic managers are currently reviewing the Foreign Investment Negative List, which details sectors where foreign participation is excluded. The new list is expected to be released sometime in the next quarter, as the next draft will still have to be presented to the NEDA board for approval. According to Secretary Pernia, the sectors that he aims to open for foreign inclusion are: retail trade, professions, public utilities, and contractors. The government is planning to remove the cap on foreign contractors to participate in public construction projects to support the country's infrastructure drive. Currently, foreign contractors are only allowed to hold a 40% stake in public utilities.[4] Some of these sectors are also expected to liberalize in line with the rest of the region as part of the ASEAN Economic Community.

Total approved investments, or prospective investments from foreigners, as well as Filipinos in Special Economic Zones, jumped

Figure 19. Total Approved Foreign Direct Investments
(PHP Million)



Source: PSA

by 27% during the 1st half of the year. However, foreign investment pledges contracted by 38.4% during the same period. Manufacturing continued to receive the largest amount of foreign investment commitments, making up 52.8% of total pledges. Around 77% of these investments are channeled into CALABARZON, NCR, and Central Luzon. CALABARZON alone accounted for 49% of these investments. Unsurprisingly, the region hosts 47% of manufacturing ecozones.

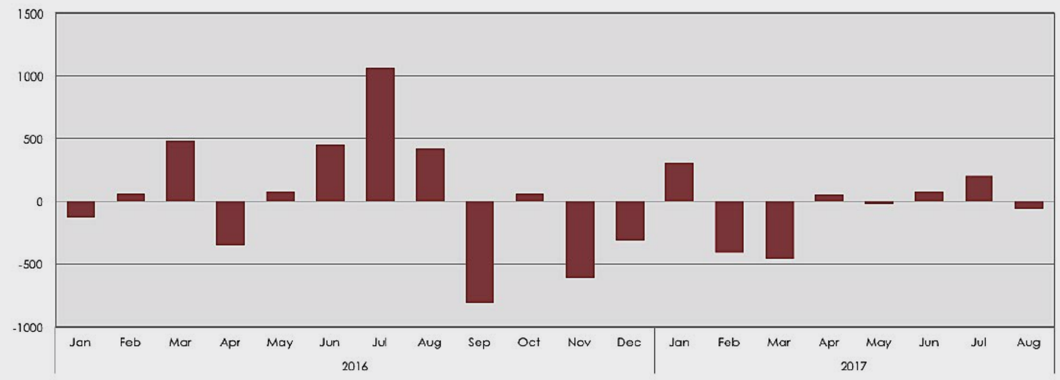
Foreign Portfolio Investments

Foreign portfolio investments posted net outflows of USD 320 Million for the first 8 months of the year, a reversal from the USD 2,074 Million in inflows during the same period in 2016. At least 80% of hot money is channeled into securities listed on the stock exchange. The net outflows were attributed to international developments, such as the US airstrikes in Syria, global terrorist attacks, interest rate hikes by the US Federal Reserve, US and North Korea tensions; and domestic concerns including the closure orders for several mining companies, the conflict in Marawi, and the declaration of Martial Law in Mindanao. The BSP expects foreign portfolio investment outflows of USD 900 Million for 2017, unlike the inflows of USD 404.43 Million registered last year.

Current Account

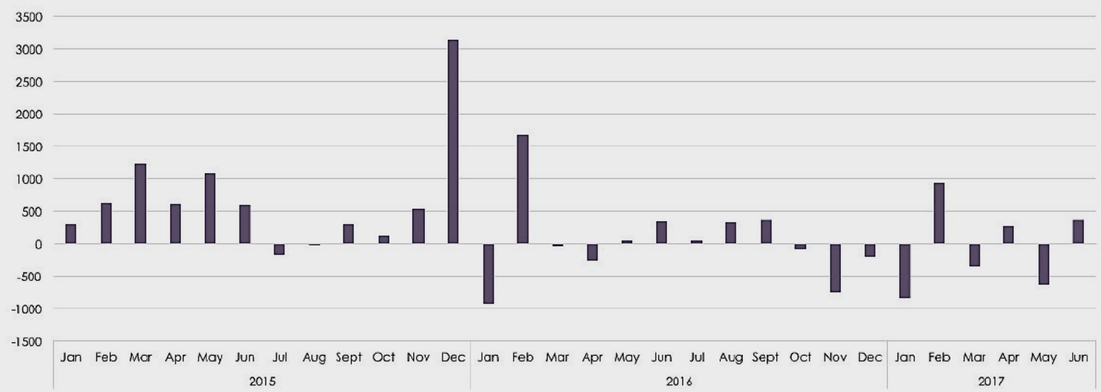
For the first time in 15 years, the current account balance for 2017 is expected to be in the negative due to the widening trade deficit, as imports surged

Figure 20. Foreign Portfolio Investments
(USD Million)



Source: BSP

Figure 21. Current Account
(USD Million)



Source: BSP

ahead of exports. The BSP projects the current account to register a deficit of USD 600 Million in 2017, a reversal from the USD 600 Million surplus posted in 2016. For the first half of the year, the current account has already posted a deficit of USD 233 Million. The increase in inflows of capital goods and intermediate goods imports, such as transport equipment, industrial machinery, and iron and steel, highlights the shift towards a more investment-led growth. This deficit could be mitigated by the robust remittances from OFWs and receipts from the BPO industry.

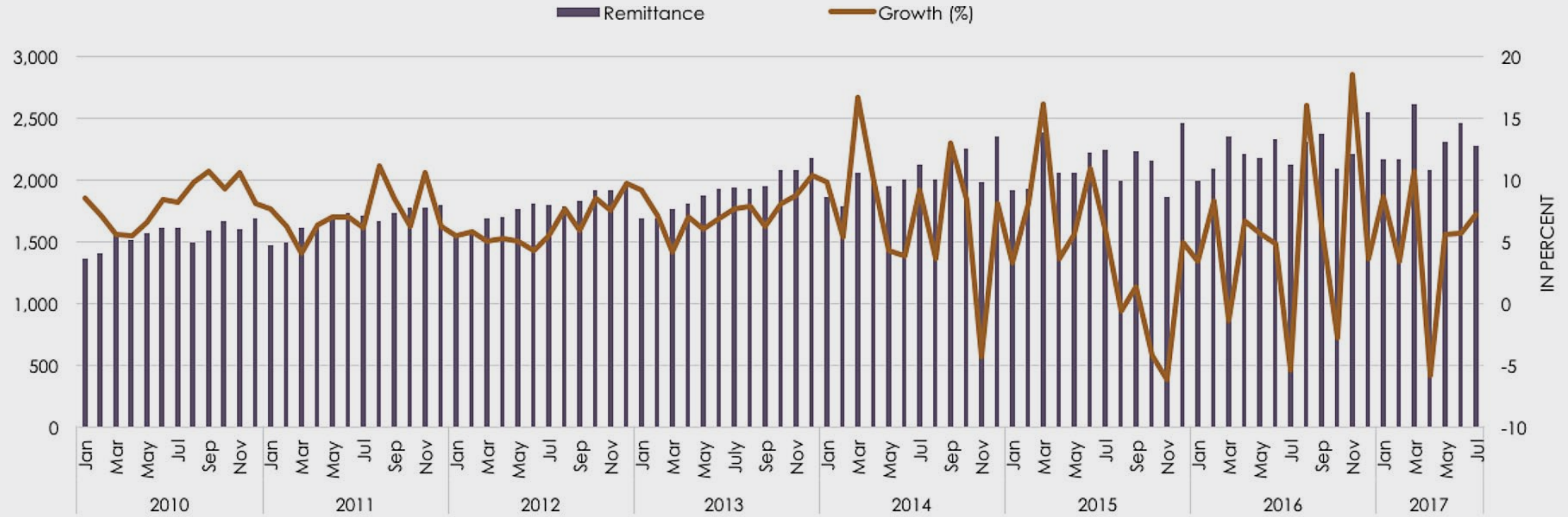
In April 2017, President Duterte signed Executive Order No. 22, which extends the duty-free importation of capital equipment[5], a necessary input to support businesses in their startup operations or expansion. In a bid to spur investments, the Board of Investments (BOI), continues to grant incentives to BOI-registered importers of capital equipment, provided that these products are not manufactured domestically in sufficient quantity, of comparable quality, and at reasonable prices.

Remittances

Remittances continued to remain robust. On a cumulative basis, cash remittances from Overseas Filipinos channeled through banks totaled USD 16.1 Billion for the first 7 months of the year, growing by 5% from the same period in 2016. Remittances from land-based workers reached USD 12.8 Billion, while those from sea-based

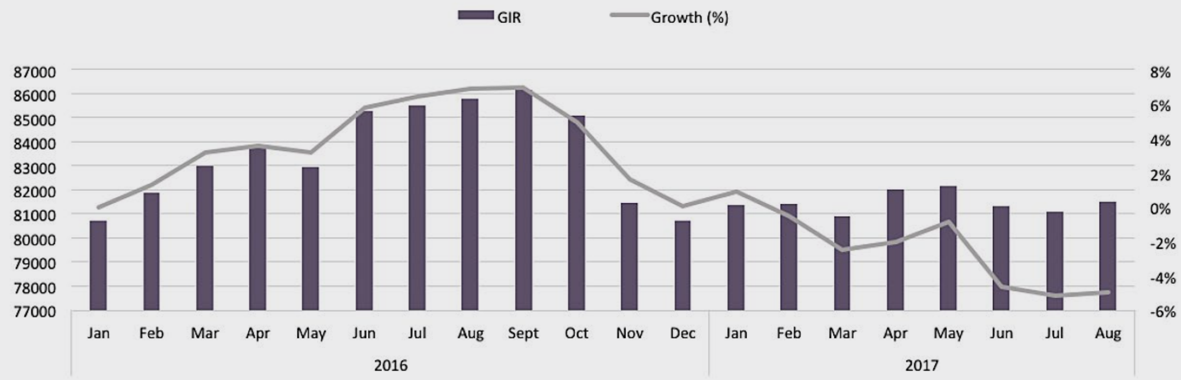
Figure 22. Monthly OFW Cash Remittances

(USD Million)



Source: BSP

Figure 23. Gross International Reserves
(USD Million)



Source: BSP

Figure 24. Import Cover

Source: BSP

workers registered inflows of USD 3.3 Billion. During this period, around 1.2 million Filipino workers were deployed. Around 80% of cash remittances were sourced from the following countries: the US, Saudi Arabia, UAE, Singapore, Japan, United Kingdom, Qatar, Kuwait, Germany and Hong Kong.[6]

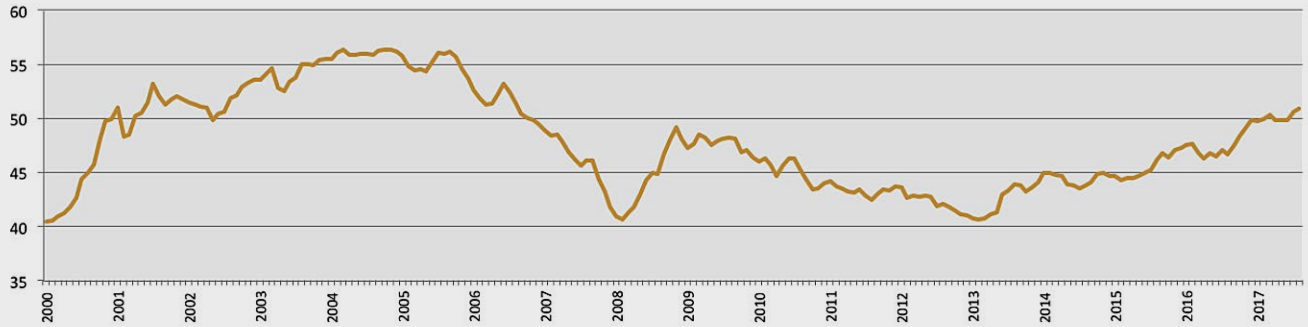
Gross International Reserves (GIR)

Foreign exchange reserves, which buffers the economy during external shocks, have been declining since the end of 2016. The GIR for the first 8 months of the year is USD 17 Million lower than the same period last year. The decline can be attributed to outflows from the BSP's foreign exchange operations, payments by the government for its maturing foreign obligations, and revaluation adjustments on the BSP's gold holdings from the fluctuation of gold prices in the international market. The outflows are offset by net foreign currency deposits by the government and income from the central bank's investments abroad. The import cover has also been declining, albeit much higher than the 3-month international standard. As of August, it can only cover 8.7 months' worth of imports of goods and payments of services and primary income, compared to 9.8 months in the previous year.

Exchange Rate

The peso has dropped to an 11-year low, declining by 3% against the dollar, making it the worst performing currency in the region in 2017. Federal rates are expected to increase at least once before

Figure 25. Monthly Average USD-PHP Exchange Rate



Source: BSP

Table 1. Labor Force Survey Results

	July 2016	July 2017
Labor Force Participation Rate	63.3%	60.6%
Employment Rate	94.6%	94.4%
Unemployment Rate	5.4%	5.6%
Underemployment Rate	17.3%	16.3%
Employment by sector		
Services	55.3%	55.6%
Agriculture	26.9%	25.2%
Industry	17.8%	19.2%

	July 2016	July 2017
Unemployment by age group		
15-24	48%	49.3%
25-34	28.3%	29.7%
35-44	12.2%	10.4%
45-54	7%	6.3%
55-64	3.4%	3.7%
65 and over	1.1%	0.6%

the year ends, which could further weaken the peso and put pressure on the balance of payments. The weaker peso could help support the country's exports.

Employment

Data from the Labor Force Survey show that while unemployment and underemployment are generally improving, it still remains high. Unemployment in July inched higher to 5.6%, compared to 5.4% in the previous year. This means that around 2.37 million Filipinos are unemployed. Ilocos (8.2%), NCR (7.9%), and Central Luzon (7.1%) registered the highest unemployment rates. Among those unemployed, almost 80% are in the 15-34 age group. By sector, services still accounted for over half of the labor force. The share of agricultural workers dipped by 1.7 percentage points in July 2017, compared to last year, while industry's share rose by 1.4 percentage points. Workers in the mining and quarrying sector have declined, while those working construction have increased. Underemployment, at 16.3% in July, has dropped from 17.3% in 2016.

The World Economic Forum's 2017 Human Capital Report puts the Philippines in the 50th place out of 130 countries included in the study. The report revealed that the Philippines fared most poorly in deployment, an indicator which covers skills application and accumulation of skills through work. This highlights the skills mismatch in the labor market.

Table 2. The Philippines' Performance in the Global Competitiveness Report

Global Competitiveness Index	Rank/137	Change from last year/138	Score (1-7)	Change from last year
Overall	56	+1	4.35	-.01
Institutions	94	-3	3.5	-0.1
Infrastructure	97	-2	3.4	-
Macroeconomic Environment	22	-2	5.8	-0.1
Health and Primary Education	82	-1	5.6	-
Higher Education and Training	55	+3	4.6	-
Goods Market Efficiency	103	-4	4	-0.1
Labor Market Efficiency	84	+2	4	-
Financial Market Development	52	-4	4.2	-
Technological Readiness	83	-	3.8	+0.2
Market Size	27	+4	5	+0.1
Business Sophistication	58	-6	4.1	-
Innovation	65	-3	3.3	-0.1

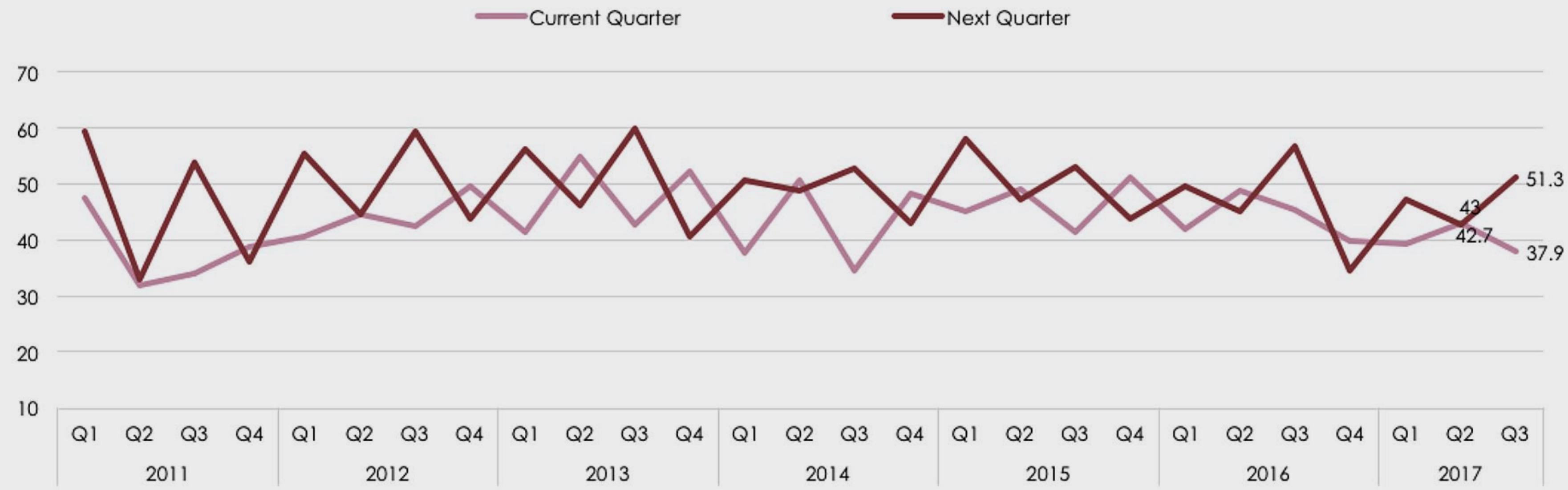
World Economic Forum Global Competitiveness Report 2017-2018

The Global Competitiveness Index tracks 137 countries on 12 pillars of competitiveness. Switzerland topped the list, followed by the United States. The Philippines ranked 56th this year, climbing up a notch, but trailing behind other ASEAN-6 members. Singapore ranked 3rd, Malaysia 23rd, Thailand 32nd, Indonesia 36th, and Vietnam 55th. Vietnam has narrowly overtaken the Philippines, jumping by 5 spots from 60th place last year.

The country fared the worst in institutions, infrastructure, and goods market efficiency. The country ranked 125th in the burden of customs procedures, 115th in the time to start a business, and 136th in terms of number of procedures to start a business, falling in the 2nd to the last place. In terms of infrastructure, the country ranked behind its peers in the ASEAN-6. The country, however, performed best in terms of macroeconomic environment, landing in the 22nd spot. The report noted that the country can make large gains in competitiveness at a relatively lower cost by improving performance on infrastructure, health, and education. The country's score has remained unchanged from last year on these three pillars.

The report also identified the most problematic factors for doing business, which include: inefficient government bureaucracy, inadequate supply of infrastructure, corruption, tax regulation, tax rates, and policy instability.

Figure 26. Overall Business Confidence Index



Source: BSP

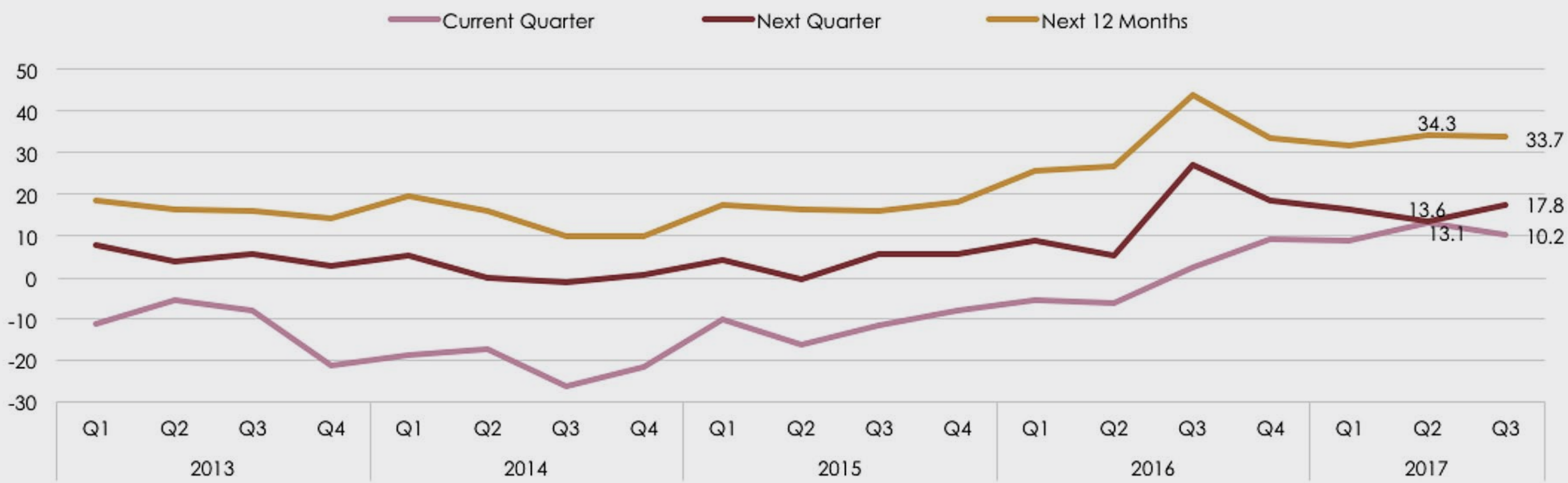
BSP Expectations Survey

Business Expectations Survey

Business confidence hit 37.9%, recording its lowest levels in three years. The less optimistic outlook was rooted in concerns including the slowdown of business activities during the rainy season, the ongoing Marawi crisis and Martial Law in Mindanao, weaker peso and higher prices, increased competition, and damages wrought by the earthquake in the Visayas. Optimism is more positive in the final quarter of the year, as consumer demand is typically stronger during the holiday season, in addition to the positive expectations from the government's infrastructure program and the passage of its tax reform program.

The business community also expected inflation to inch higher, the peso to depreciate, and the interest rate to rise during this quarter and the next.[7]

Figure 27. Overall Consumer Confidence Index



Source: BSP

Consumer Expectations Survey

Consumer sentiment also mirrored that of businesses, as optimism lowered in anticipation of higher prices, concerns on the peace and order situation, stagnating incomes, and increase in unemployment. In the 4th quarter of the year, consumers are more optimistic due to additional income, improvement in peace and order, and expectations of more jobs. Consumer sentiment in the NCR reached a record-high in the index in the current quarter.

The spending outlook index on basic goods declined, which means that fewer households expect higher spending on basic goods and services. Buying intentions for big-ticket items within the next 12 months, except motor vehicles, have also declined. The proportion of household with savings also increased in the current quarter, however, those who said they could set aside money for savings declined. Households that receive and use OFW remittances for savings dropped in the current quarter. Consumers expect prices and interest rates to increase, but the peso to weaken in the next 12 months.[8]


Malagkit
50.00
Per kilo
Per kilo
33.00
34.00

ENDNOTES:

[1] Toby Monsod. (December 2016). Government "underspending" in perspective: Incompetence, inertia, or indigestion? UP School of Economics Discussion Papers.

[2] The Department of Transportation and Communications was split into the Department of Transportation and the Department of Information and Communications Technology in May 2016.

[3] This is defined as the obligations incurred against allotments.

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[5] Cigaral, I. (23 May 2017). Duterte Signs Eos Granting Incentives. BusinessWorld. Retrieved from: http://bworldonline.com/content.php?id=145630

[6] Bangko Sentral ng Pilipinas. (15 September 2017). Personal Remittances Hit USD 17.9 Billion in the First Seven Months of 2017. Retrieved from: http://www.bsp.gov.ph/publications/media.asp?id=4470

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