

Philippines Monthly Economic Developments

April 2018

- The Philippine Stock Exchange index (PSEi) continued its decline in March as global financial markets experienced renewed volatility.
- Heightened policy uncertainty in the global markets and a hike in the U.S. Federal Reserve rate contributed to a weakening of the Philippine peso.
- Exports contracted for the first time since November 2016, while import growth continued to grow in double-digits.
- Manufacturing activities sustained their rapid growth from February.
- Inflation overshot the upper bound of the central bank's target range in March.
- Domestic credit growth increased further in February.
- The government registered a fiscal surplus in January as revenue expanded faster than expenditure.
- Consumer sentiment dropped heavily in the first quarter of 2017.

The Philippine Stock Exchange index (PSEi) continued its decline in March as global financial markets experienced renewed volatility. The PSEi lost 5.8 percent month-on-month in March 2018, following a 3.3 percent drop in February 2018. It reached its lowest level in six months while tracking the performance of global financial markets. Global financial markets reported losses in March amid fears of rising trade protectionism. The loss of the PSEi coincided with significant net-foreign selling amounting to Php19.3 billion in March, up from the Php15.3 billion in February. Since end-2017, the PSEi has contracted by 6.8 percent, although it is still 9.1 percent higher than its value as of end-March 2017.

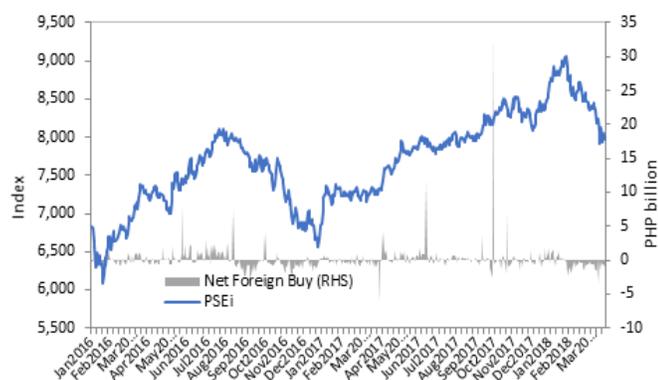
Heightened policy uncertainty in global markets and a hike in the U.S. Federal Reserve rate contributed to a weakening of the Philippine peso in March. The peso closed in March at Php/US\$52.21, representing a 4.0 percent year-on-year depreciation from the closing of Php/US\$50.19 in March 2017, and a 0.3 percent month-on-month depreciation from the Php/US\$52.03 closing in February. The weaker peso has been linked to a widening current account deficit given strong import demand for capital and intermediate goods. However, in March, the peso depreciation was also driven by the effects of the 25 basis points hike of the U.S. Federal Reserve and the ongoing global trade tariff debate. The gross international reserves dropped slightly in March to US\$80.1 billion from US\$80.9 billion in March 2017, while the import coverage decreased to 7.8 months from 8.6 months in March a year ago. Personal remittances grew by 10.8 percent year-on-year to reach US\$2.7 billion in January, compared to the 8.5 percent growth registered in January 2017.

Exports contracted for the first time since November 2016, while import growth continued to grow in double-digits. Exports contracted by 1.8 percent year-on-year in February, a

reversal from the 3.5 percent growth in January, and compares to the 8.7 percent growth in February 2017. This represents the weakest performance of the country's merchandise exports since its contraction of 4.5 percent year-on-year in November 2016. The decline was driven by a contraction in agriculture exports, which shrank by 31.0 percent in February. Electronics exports, which accounted for 55.4 percent of the total export bill, expanded by 4.6 percent, but slower than the 10.8 percent growth in January and the 14.4 percent growth a year ago. Meanwhile, import growth remained robust, accelerating to 18.6 percent year-on-year in February, from 11.4 percent in January, and compared to 15.2 percent growth in February 2017. This surge in imports was driven by strong annual growth in capital goods imports (24.5 percent), consumer goods imports (20.3 percent), and raw materials and intermediate goods imports (19.2 percent).

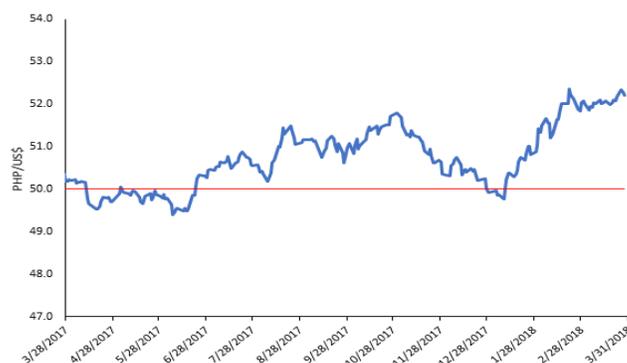
Manufacturing activities sustained their rapid growth from February. For the second month in a row, the volume of production index (VoPI) grew in February by double-digits, reaching 24.8 percent year-on-year from a downward-revised 18.5 percent in January, compared to 9.8 percent in February 2017. This represents a strong break from the nearly consecutive monthly contractions since May last year. Stronger factory activities were recorded in printing services, food manufacturing, and electrical machinery production. The Nikkei Philippines Purchasing Managers' Index (PMI) also showed an uptick in March to 51.5 from 50.8 in February, but lower than the 53.8 in March last year. Survey respondents cited greater client demand, resulting in higher outputs. In February, the average capacity utilization rates remained elevated and inched up to 84.2 percent from 83.7 percent in February last year. Eleven of the 20 major industries are operating at 80 percent and above capacity.

Figure 1: As a result of renewed global market volatility, the PSEi dropped by 5.8 percent month-on-month in March...



Source: Philippine Stock Exchange

Figure 2: ... and the Philippine peso depreciated further.



Source: Bangko Sentral ng Pilipinas (BSP)

Inflation overshoot the upper bound of the central bank’s target range in March.

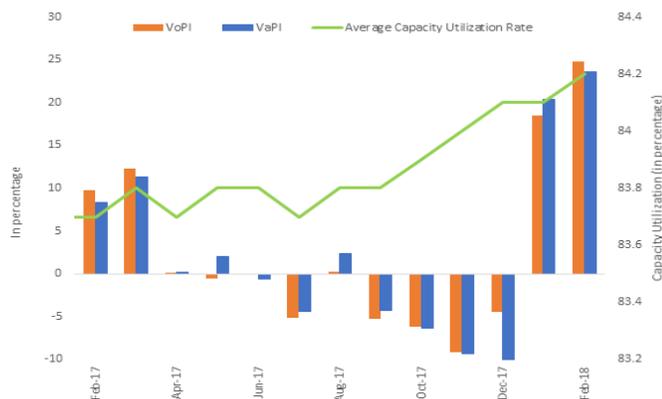
The 12-month Consumer Price Index (CPI) inflation reached 4.3 percent year-on-year in March, breaking the upper bound of the central bank’s 2-4 percent target range. This compared to the 3.1 percent inflation in March 2017 and the downward-revised 3.8 percent of February. It was also the highest inflation level registered since August 2014, when the country suffered from high food inflation due to a domestic rice shortage. The March price increase was driven by food inflation brought on by higher prices for corn, fish and rice. Faster price increases were also reported for alcoholic beverage and tobacco products, while upward adjustments in electricity rates contributed to energy inflation. The year-to-date headline inflation averaged 3.8 percent in the first three months of 2018, falling within the central bank’s target range. Measured with the old 2006-base numbers, core inflation accelerated to 4.7 percent year-on-year in March from 2.9 percent in March 2017. It will be

important to evaluate the appropriateness of a measured policy response to anchor inflation expectations during the next monetary board meeting on May 10th.

Domestic credit growth increased further in February.

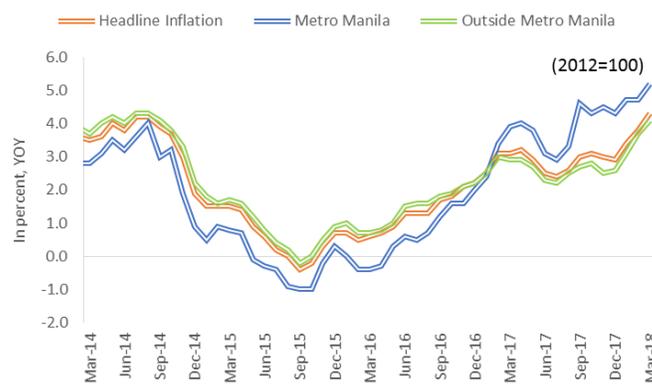
Domestic liquidity (M3) grew by 13.5 percent year-on-year to about Php10.7 trillion in February, faster than the 12.8 percent expansion in the previous month. On a month-on-month seasonally-adjusted basis, M3 increased by 1.5 percent. Outstanding loans, net of reverse repurchase placements (RRP) with the BSP, expanded at a faster rate of 19.5 percent in February from a revised 19.0 percent in January, and compared to 17.3 percent in February 2017. Firm credits—which comprised 88.4 percent of banks’ aggregate loan portfolio—grew by 18.6 percent in February, compared to 16.5 percent in February last year, while credit to households slowed to 19.9 percent in February, compared to 22.9 percent in February last year due to a slower increase in motor vehicle loans and other types of household loans.

Figure 3: Manufacturing activities registered another month of double-digit growth.



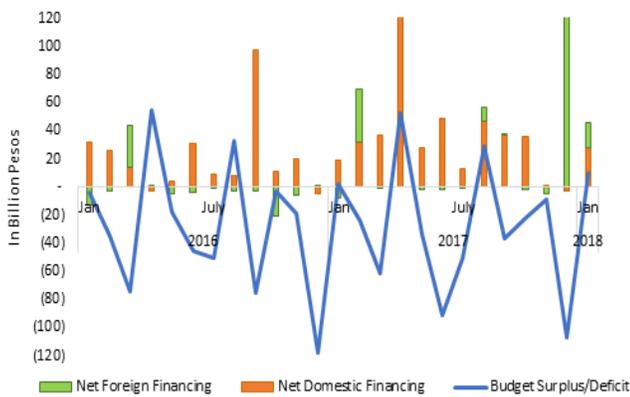
Source: Philippine Statistics Authority (PSA)

Figure 4: In March, inflation surpassed the upper bound of the central bank’s target range.



Source: PSA

Figure 5: The government registered a fiscal surplus in January as revenue growth outpaced expenditure growth.

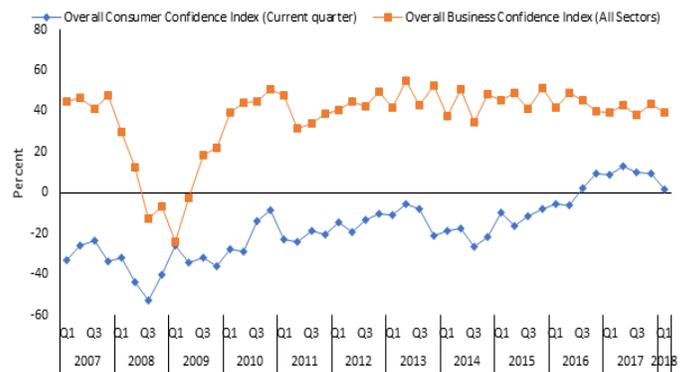


Source: Bureau of the Treasury

The government registered a fiscal surplus in January as revenue expanded faster than expenditure. Revenue growth accelerated significantly in January, expanding in nominal terms by 19.3 percent year-on-year, compared to the 9.9 percent growth in January 2017, reaching Php238.9 billion. The surge in revenues was fueled by robust tax revenue growth, which increased in nominal terms by 17.9 percent in January compared to 14.0 percent growth in the same month a year ago. Meanwhile, government expenditures also grew in the double-digits in nominal terms for the fourth consecutive month, expanding in January by 15.5 percent year-on-year, more than double the 6.7 percent growth in January a year ago, to reach Php228.7 billion. The government attributes the growth in public expenditures to higher infrastructure spending and the release of the third tranche of adjustments to the government’s Salary Standardization Law. As revenue growth outpaced expenditure growth, the national government registered a Php10.2 billion surplus in January 2018, compared to the Php2.2 billion surplus a year ago.

The Department of Finance targets the approval of the tax reform package 1-B in both Houses of Congress by June. Package 1-B is a follow-up to the first December 2017 Tax Reform for Acceleration and Inclusion (TRAIN) law, and proposes an estate and general tax amnesty, an easing of the Bank Secrecy law, and an increase in the motor vehicle use charge. It is intended to generate an estimated revenue of Php40 billion in 2018, in addition to the estimated Php82.3 billion from the TRAIN law.

Figure 6: Consumer confidence fell to its lowest level since the third quarter of 2016.



Source: BSP

Consumer sentiment dropped heavily in the first quarter of 2018. According to the *Bangko Sentral ng Pilipinas’* consumer expectations survey, the overall consumer confidence index dropped to 1.7 percent in the first quarter of 2018 from 9.5 percent in the fourth quarter of 2017, and compared to 8.1 percent in the first quarter of 2017. This represents the lowest level of the consumer confidence index since it reached 2.5 percent in the third quarter of 2016. The less optimistic outlook from consumers was primarily driven by expectations of rising prices of goods and household expenses. Dampened consumer sentiment is consistently recorded across income groups, as all three income groups registered a lower consumer confidence index compared to the previous quarter. Low-income households registered the lowest overall consumer confidence index at -8.5 percent, while middle-income and high-income households registered 8.3 percent and 23.8 percent overall consumer confidence index, respectively. Business confidence also declined in the first quarter of 2018 to 39.5 percent from 43.3 percent in quarter three of 2017.

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