Philippines Monthly Economic Developments

March 2020

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- The Philippine government is taking strong measures to curb the spread of the pandemic COVID-19.
- The local stock exchange market index fell to below 5,000 mark in mid-March.
- Manufacturing output contracted for the fourteenth consecutive month in January.

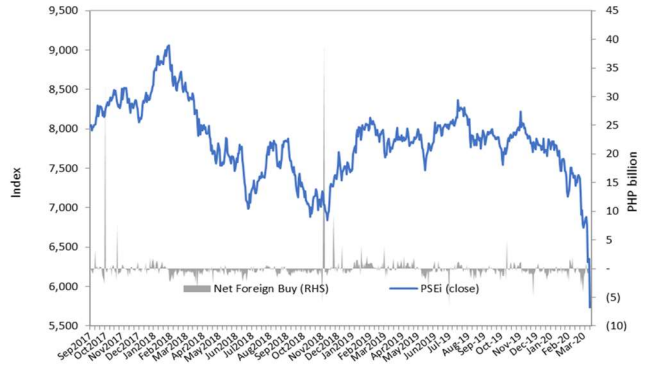
COVID-19 has been declared global pandemic by WHO and the Philippine government is taking strong measures to flatten the infections curve in the country. The president declared the Philippines under a state of public health emergency on March 9th due to the rising cases of infections in the country. The entire Luzon, home to over 57 million people and representing 70 percent of national GDP, was placed on enhanced community quarantine from March 16th to April 13th, which mandated strict social distancing measures including the suspension of transportation, regulation of the provision for food and essential health services, and the enhanced presence of uniformed personnel to enforce quarantine measures. While these measures might slowdown economic growth substantially, it is a proactive and timely measure to contain or slowdown the local transmission. The authorities are also taking steps to support the people and the economy including a Php27.1 billion stimulus package to help the tourism sector, vulnerable and displaced workers, and SMEs, among others. Several LGUs have also started food distribution in quarantined barangays to ensure basis needs are met. The central bank also delivered fresh monetary stimulus, slashing the key policy rate by 50 bps on March 19th. There are 217 confirmed Covid-19 cases in the country with the number of death toll recorded at 17 as of March 19th.

The local stock exchange market index plummeted to below 5,000 mark in mid-March. With community quarantine in Luzon, global pandemic declaration by WHO, and global oil price war, the PSEi dropped sharply to 4,623 on March 19th, nearly 30.0 percent lower than the closing of 6,787 in end-February. Drastic selloffs in the past two weeks triggered multiple circuit breakers when index dropped by at least 10.0 percent. Trading operations was also suspended for two days as initial response to the Luzon-wide quarantine. The large decline mirrored the negative developments in equity markets across Asia and the United States including a sell-off in the Dow Jones Index.

Inflation rate eased further in February. The Consumer Price Index (CPI) inflation slowed to 2.6 percent, year-on-year (yoy), in February from 2.9 percent in the previous month, within the Bangko Sentral ng Pilipinas' (BSP) 2-4 percent target band. Weaker price pressures from food and non-alcoholic beverages mostly contributed to the slowdown. Core inflation, which excludes volatile commodities like food and energy, also slid to 3.2 percent, year-on-year, in February from 3.3 percent in January and from 3.9 percent in February 2019.

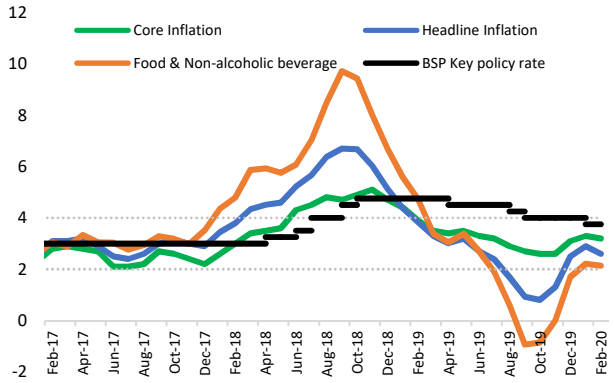
Manufacturing output contracted for the fourteenth consecutive month in January. The volume of production index (VoPI) contracted by 1.6 percent yoy in January, an improvement compared to the 4.2 percent decline in December 2019 and was the smallest decline since manufacturing output started its contraction in December 2018. The disruption to manufacturing activity due to the Taal

Figure 1: The Philippine stock exchange suffered drastic selloffs in mid-March.



Source: Philippine Stock Exchange

Figure 2: Inflation eased further in February.



Source: Philippine Statistics Authority (PSA)

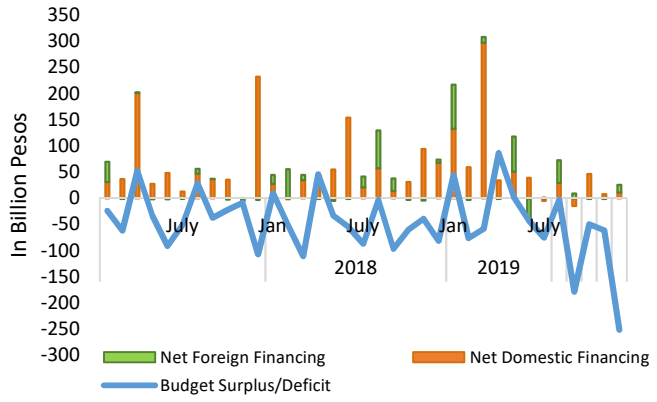
volcano eruption in CALABARZON, a key industrial region, contributed to the sector's continued weak performance, as the tepid performance of the sector was driven by double-digit declines in the manufactures of wood products, petroleum products, and basic metals. Meanwhile, leading indicators suggest that the manufacturing sector will continue to improve in February, as the IHS Markit Philippines Purchasing Managers' Index increased to 52.3 in February 2020 compared to 52.1 in January.

The sharp increase in public spending in December pushed the fiscal balance beyond its full-year deficit target for 2019. Public spending growth surged in December 2019 to 57.8 percent yoy in nominal terms, nearly thrice the 22.4 percent growth in November 2019, and a sharp reversal from the 5.1 percent contraction in December 2018. The substantial increase in public spending was driven by robust growth in infrastructure spending, the implementation of social protection programs, and increases in personnel services expenditures. Meanwhile, public revenues growth fell to its slowest pace since June 2019, increasing by 4.8 percent year-on-year in nominal terms in December 2019 as growth in tax collections moderated to 4.6 percent, its slowest pace since April 2019 (2.8 percent). As a result, the government's fiscal deficit tripled to Php251 billion in December 2019, pushing the government beyond its full year fiscal deficit target by Php40.2 billion in 2019.

Domestic liquidity expansion accelerated, and bank lending growth quickened in January. Domestic liquidity (M3) grew by 11.9 percent yoy to about Php12.8 trillion in January, faster than the 11.3-percent expansion (revised) in December 2019. Demand for credit remained the principal driver of money supply growth. Domestic claims grew by 11.7 percent in January due mainly to the sustained growth in credit to the private sector. Outstanding loans of universal and commercial banks, net of reverse repurchase (RRP) placements with the BSP, grew by 11.6 percent in January, faster than the 10.9-percent expansion in the previous month. Loans for production activities expanded at 8.8 percent in January, lower than the reported growth in December 2019 at 9.1 percent. The sustained increase in production loans was driven primarily by lending to the following sectors: real estate activities, financial and insurance activities, and electricity, gas, steam and air conditioning supply. Loans from universal and commercial banks for household consumption grew by 40.1 percent in January from 27.5 percent in December due to faster growth in credit card and motor vehicle loans.

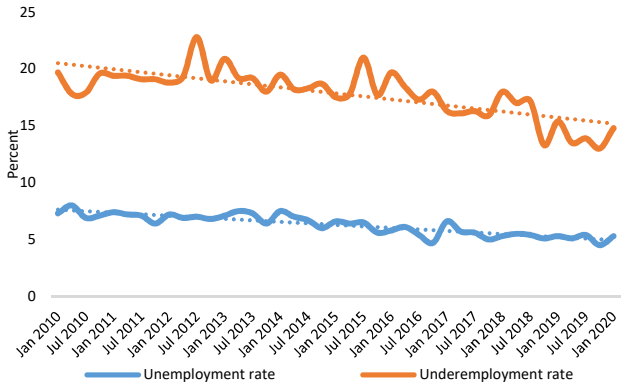
The year started off with a steady unemployment rate and reduced underemployment. The rate of unemployment remained at 5.3 percent in January 2020 relative to January 2019 and the number of employed individuals edged up to 42.7 million from 41.0 million in January 2019. The labor market generated additional 1.6 million net jobs with the services sector the largest contributor to net job creation with almost 1 million jobs, followed by the agriculture sector with 0.8 million jobs. Meanwhile, the industry sector lost almost 0.2 million jobs, half of which in construction, due to lesser construction activities as indicated by fewer approved building permits in Q3 2019. Nevertheless, labor force rose leading to increase in the number of jobless persons from 2.3 million in January 2019 to 2.4 million in January 2020. Meanwhile, there were fewer employed individuals looking for additional jobs as underemployment rate declined from 15.4 percent to 14.8 percent.

Figure 3: The government breached its full-year deficit target in 2019.



Source: Bureau of the Treasury

Figure 4: The unemployment and underemployment rates rose in January.



Source: PSA

Developments to Watch

- COVID-19 outbreak: when will the outbreak stabilize?
- Manufacturing: how much the covid outbreak will prolong the slump in manufacturing activities?
- Domestic consumption: how much will covid outbreak impact domestic consumption growth?

Selected Economic and Financial Indicators								
	2018	2019	Q2 2019	Q3 2019	Q4 2019	Dec-19	Jan-20	Feb-20
Real GDP growth, at constant market prices	6.2	5.9	5.5	6.0	6.4			
Private consumption	5.6	5.8	5.5	5.9	5.6			
Government consumption	12.8	10.5	7.3	9.6	18.7			
Capital formation	13.7	-0.6	-8.5	-2.6	0.4			
Exports, goods and services	11.5	3.2	4.8	0.7	2.0			
Imports, goods and services	14.5	2.1	-0.1	-0.2	0.3			
Industry Performance								
Value of Production Index	8.3	-7.0	-8.8	-8.4	-7.3	-8.7	-6.3	
Volume of Production Index	7.6	-8.4	-10.2	-9.0	-7.1	-9.1	-1.6	
Capacity Utilization	84.2	84.4	84.3	84.3	84.5	84.4	84.4	
Nikkei Philippines Purchasing Managers' Index	52.5	51.8	51.2	51.8	51.8	51.4	51.7	52.1
Monetary and Banking sector								
Headline Consumer Price Index	5.2	2.5	3.0	1.7	1.5	2.5	2.9	2.6
Core Consumer Price Index	4.1	3.3	3.4	2.9	2.8	3.1	3.3	3.2
Domestic liquidity (M3)	11.6	7.6	6.7	7.0	9.8	11.3	11.9	
Credit growth (universal and commercial banks)	18.3	11.5	11.5	10.5	9.8	10.6	11.4	
Business loans	18.4	10.7	11.2	9.3	8.2	9.1	8.8	
Consumer loans	17.3	20.3	15.0	24.8	26.9	27.5	40.1	
Fiscal sector							***In billions Php***	
Fiscal balance (% of GDP)	-3.2	-3.5	1.0	-5.7	-6.8	-251.1		
Total Revenue (% of GDP)	16.4	16.9	18.6	17.4	15.3	243.3		
Tax Revenue (% of GDP)	14.7	15.2	16.5	15.8	14.0	215.5		
Total Expenditure (% of GDP)	19.6	20.4	17.6	23.0	22.2	494.4		
National government debt (% of GDP)	41.9	41.5	43.7	42.6	41.5	7,731	7,763	
Stock market								
PSEi (month-end value)	7,466	7,815	8,000	7,819	7,815	7,815	7,201	6,788
External accounts								
Current account balance (% of GDP)	-2.4		0.0	0.8				
Exports of merchandise goods (growth rate)	0.8	1.6	1.8	1.0	7.1	21.4	9.7	
Imports of merchandise goods (growth rate)	18.2	-4.7	-2.9	-4.5	-3.1	-7.6	1.0	
Net foreign direct investment (in million US$)	9,832		1,653	1,533				
Balance of payment (% of GDP)	-0.7		1.1	0.9				
International reserves (in million US$)	79,193	87,839	84,932	85,581	87,840	87,839	86,869	
Import cover	6.9	7.7	7.4	7.5	7.7	7.7	7.6	
Nominal exchange rate	52.7	51.8	52.1	51.7	51.0	50.8	50.8	50.8
Labor Market								
Unemployment rate	5.3	5.1	5.1	5.4	4.5		5.3	
Underemployment rate	16.4	14.0	13.5	13.9	13.0		14.8	
Sentiments								
Consumer confidence index (end of period)	-22.5	1.3	-1.3	4.6	1.3			
Business confidence index (end of period)	27.2	40.2	40.5	37.3	40.2			

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