Philippines: Economy contracts 9.5% in 2020, with the slump set to extend into early 2021

The Philippine economy contracted by 8.3% in 4Q 2020. Partial lockdowns and elevated unemployment continure to weigh on the recovery

Source: Shutterstock

-8.3% 4Q GDP

Worse than expected

4Q GDP slump worse than expected

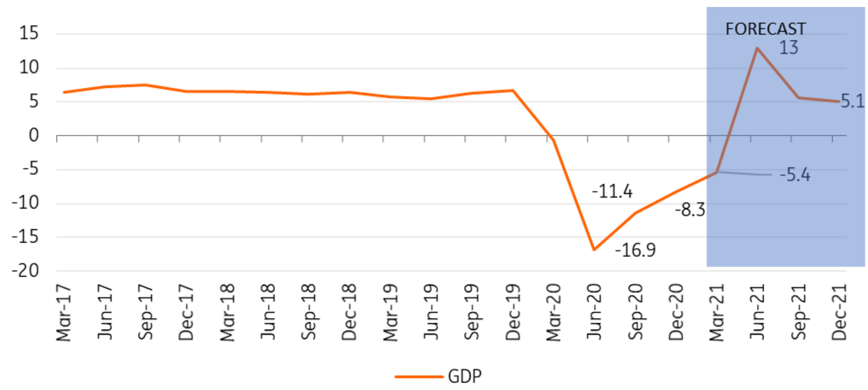
Despite relaxing some mobility restrictions, 4Q2020 dropped by an unexpected 8.3% with mainstay household consumption weaker by 7.1%, stifled by still elevated unemployment.

Meanwhile, capital formation struggled on dimming economic growth prospects, highlighted by a 34% dip in construction activity while investment in durable equipment slid by 24.7%. The lone bright spot for the economy in 4Q2020 was government spending which rose by 4.4%, with the authorities deploying the remainder of its modest fiscal stimulus spending package. On the income side, all three major sectors recorded declines with agriculture falling by 2.5%, industry sliding by 9.9% and the services sector contracting by 8.4%. The 4Q reading translated to a 9.5% contraction in GDP for the whole of 2020 with officials touting a "strong comeback" in 2021. GDP is forecast to rise sharply, by 6.5-7.5%, with the economy returning to pre-pandemic levels by mid-2022.

Don't expect the cavalry

Despite the 9.5% contraction in the economy, we are not counting on the authorities to offer any form of stimulus to offset the downturn, both on the monetary or fiscal front. Bangko Sentral ng Pilipinas (BSP) Governor Diokno has front-loaded a flurry of rate cuts in 2020 and is likely out of ammunition with the policy rate at 2.0% while inflation trends closer to the top-end of their 2-4% inflation target. Meanwhile, the fiscal authorities appear confident in a strong recovery in 2021 and beyond with acting planning secretary Chua suggesting that growth would hit 8% by 2022. The 2021 budget was bumped up by 10% in 2021 and will not likely be enough to move the needle to jumpstart the ailing economy.

The Big Dip: Philippine GDP growth and forecasts



Source: PSA and ING estimates

The "Big Dip" to extend into 1Q 2021

ING expects GDP to remain in contraction in 1Q 2021 before posting a substantial 13.0% rise by 2Q, mainly on base effects. Household spending, the main growth engine of the economy will likely stay in low gear with the unemployment rate at 8.7% with prospects for a quick turnaround in consumption confounded further by the return of inflation, which is expected to breach BSP's inflation target as early as April. Capital formation is another sector that is not expected to make a significant comeback with commercial bank loan growth grinding to a mere 0.3% expansion in November of last year. With only a modest pickup in government outlays expected in 2021 and with the trade balance forecast to remain in deficit, we do not see a stark pickup in economic activity with GDP growth powered mainly by base effects with the economy still lacking substantial momentum to drive growth back to the 6% level.