

Philippine GDP beats expectations but falls short of revised growth target

Fourth quarter GDP slipped to 5.6% year-on-year in the Philippines from a revised 6.0% in the previous quarter



The phenomenon of 'revenge spending' has extended much longer than we had previously anticipated in the Philippines, but we think it could be coming to an end

5.6% YoY% growth

Higher than expected

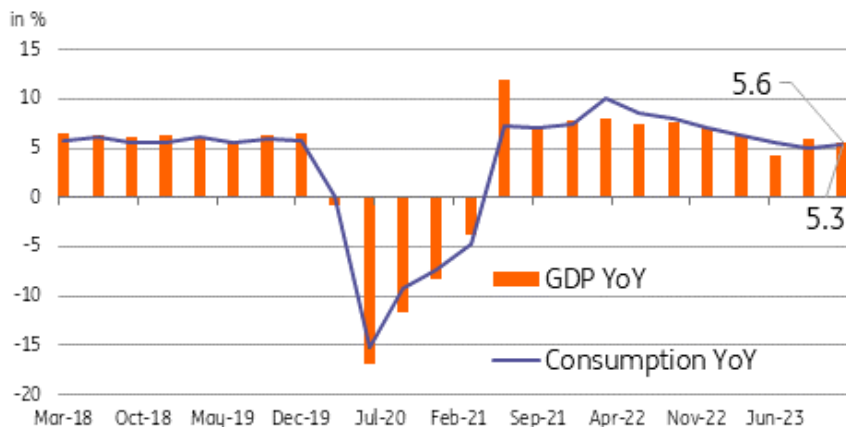
Fourth quarter GDP settles at 5.6%

Philippine fourth quarter GDP for 2023 settled at 5.6% year-on-year, down slightly from the upwardly revised third quarter reading of 6.0%. As expected, household spending took care of the heavy lifting, expanding by 5.3% YoY while capital formation made a surprise comeback, surging 11.2% YoY after a quarter in contraction. A bit disappointing was the 1.2% YoY decline in government outlays which had been a source of growth in the previous quarter.

On a quarter-on-quarter basis, the economy expanded 2.1%. The fourth quarter GDP growth rate took full-year 2023 GDP to a similar 5.6% YoY, which unfortunately was below the lower end of the

official government growth target of 6-7%.

Philippine growth hits 5.6%, short of the official target for the year



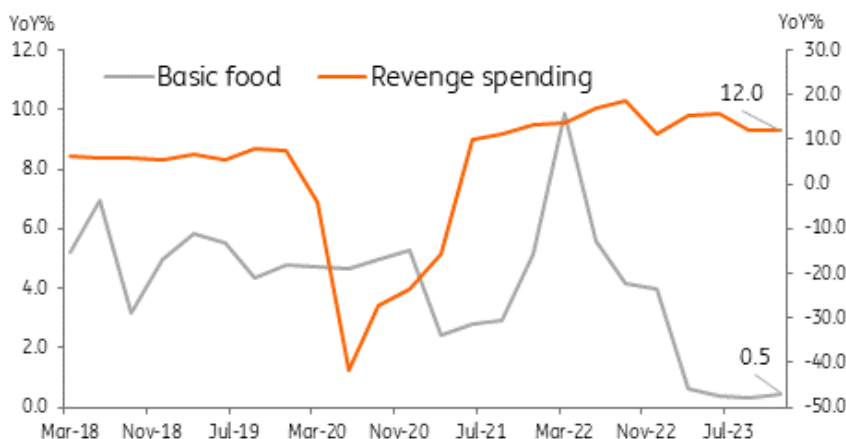
Source: Philippine Statistics Authority

Revenge spending, one for the road?

The phenomenon of so-called 'revenge spending' has extended much longer than we had previously anticipated. Overall, household spending was up 5.3% YoY largely due to the 12.0% YoY increase in items associated with this revenge spending.

Meanwhile, spending on basic food items managed a modest 0.5% YoY increase, while expenditure on clothing and footwear fell for a second quarter by 1.4% YoY, with households likely allocating funds away from basic purchases to sustain leisure-related spending. We believe, however, that we could be seeing the last leg of revenge spending with households facing depleted savings and mounting consumer debt.

Spending on leisure-related items remains surprisingly robust but spending on basic items has fallen



Source: Philippine Statistics Authority

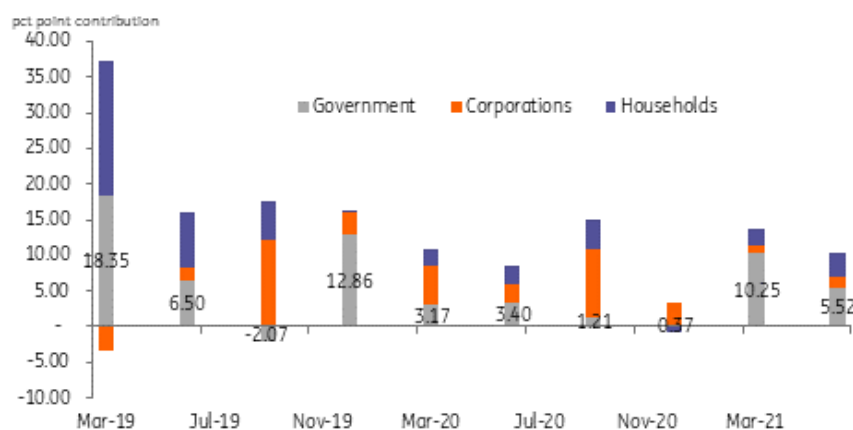
Capital formation surprise

Investment activity was the big surprise for the day, rising sharply by 11.2% YoY. Spending on durable equipment jumped 14.6% YoY, thanks to an outsized 344.6% YoY increase in air transport as a local airline conducted re-fleeting operations resulting in a 26.9% YoY rise for transport equipment.

Investment in other equipment, however, remained modest. Specialised machinery was up 3.5% YoY, general machinery rose 3.2% YoY and miscellaneous equipment inched higher by 1.8% YoY.

Meanwhile, construction activity also picked up nicely, registering a 10.1% YoY gain possibly driven by robust government construction efforts (14.6% YoY). Construction for corporations increased 5.2% YoY while household construction increased by 9.6% YoY.

Public construction powers sharp rise in construction activity



Source: Philippine Statistics Authority

2024 points to growth slipping below official target again

Should current trends continue into this year, we believe 2024 growth should hit a respectable 5.4% YoY rise driven by robust but moderating household spending.

Given our expectation that revenge spending is indeed winding down, we could see household spending capped as consumers work to pay off debt built up over the past two years. Capital formation, which posted a surprise jump in the fourth quarter of 2023, could be muted this year once aircraft re-fleeting operations of local airlines come to an end by the first quarter. The wild card remains government spending with fiscal authorities receiving a decent 11% increase in this year's budget. Unless we see a sustained push from both government expenditures and public construction, however, we could see growth slipping below the upsized 6.5-7.5% target in 2024.

GDP slowdown means BSP done with rate hikes

Bangko Sentral ng Pilipinas (BSP) Governor Eli Remolona shared recently that he would be open to hiking rates further if fourth quarter GDP came in stronger than the third quarter. With growth registering a slower pace of expansion, we believe the BSP is likely done with hiking. However, given Remolona's previous rhetoric, we believe a rate cut will likely be delayed until the second half of the year.

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