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Article

Philippines: Double-edged trade balance impact

Strong domestic economy powers imports while wide trade deficits continue to undermine the peso

Contents

-$3.1bn

February trade deficit
Strong imports but weak exports

Worse than expected

Strength of imports reflects a strong economic outlook

February imports posted a rapid YoY increase of 18.6% from January's pace of 11.4%.

Capital equipment imports climbed 24.5% YoY and sustained the double-digit growth since December. This imported item accounts for 33% of total imports, and they have largely been on a tear since early 2015 and have contributed to the strong overall economic expansion of 6.6% in the past three years. Consumer goods imports also accelerated to a 20% YoY increase from a soft 7% in January. Both import categories account for almost 50% of total imports. Raw material imports including electronics imports accounted for 40% increased by 19% YoY (with electronics rising by 13.5% and with 26% share of total).

The strength of strong equipment imports not only reflects a strong domestic economy but continues to support the extended economic expansion. But a large trade gap due to weak exports continues to weigh down the peso.

18.6%

February import growth
Domestic expansion drives strong growth

Higher than expected

Trade deficit to continue as exports haven't benefited from the weak peso

The Philippine peso has lost 17% since the end of 2014 while exports have posted an average annual growth of barely 1%.

Performance has turned for the worst. Exports in February posted the first contraction of -1.8% YoY in 15 months. Electronics exports slowed to 5% growth from 11% in January and 14.4% in 4Q.

This export category accounts for almost 52% of total exports. Non-electronics exports declined by 9% YoY in February and have been contracting since November.

Fears of a trade war and the less likely competitiveness of Philippine exports compounded by a limited range of exports is likely to keep export growth anaemic and the combination of strong imports and weak exports is likely to see wider trade deficits.

> We expect the trade deficit to rise to -$34.7bn this year and a current account deficit of -$3.7bn or -1.1% of GDP. The peso is likely to remain an underperformer with this external payments burden despite likely investment inflows.