

Philippines: Double-edged trade balance impact

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



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-\$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.

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