

Philippines: Downside risks to 1Q GDP forecast

Weak trade and agriculture in 1Q could lead to disappointing 1Q GDP growth. We hope that robust government spending will more than compensate.



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1.47%

Agriculture sector 1Q growth

Possible 0.2ppt cut from our GDP forecast

Significant slowdown in agriculture could lead to disappointing 1Q GDP growth.

The government releases its 1Q GDP growth estimate tomorrow morning. Consensus forecast is 6.8%, a shade below our 6.9%. Recent data may lead to a disappointing 1Q GDP report. We expect agriculture, which accounted for around 8.5% of GDP in 2017, to have registered a 3.3% increase. The government revealed earlier this week that 1Q output was only 1.5% higher than a year ago. A

high base effect (with 1Q 2017 agriculture growth at 5.5%) and contraction in the fisheries sub-sector accounted for the 1Q disappointment. The silver lining to the otherwise weak performance is that rice production was 4.6% higher YoY while farm gate prices were 5% higher. This implies that incomes in the farming sector would have been quite strong. High inflation, however, may have moderated household spending. Nevertheless, the weaker agriculture turnout in 1Q could shave 0.15ppt from our GDP forecast.

-\$8.7bn Trade deficit in 1Q
Wider than 1Q 2017's -\$6.1bn

March and 1Q trade results are not encouraging, with contracting exports and weak imports.

We do not think this is just base effects. In a growing world economy, exports would normally grow as well but export contraction intensified in March. We have not seen significant investments in the export sector other than pledges for economic zones. Electronics exports are up 7% in March and electronics exports account for 53% of total exports in 1Q. Exports net of electronics were down 20% in March and 17% in 1Q, in contrast to more than 30% growth year ago. Import growth in March and in 1Q was also disappointing. An economy that is expected to grow at close to 7% in the next few years should see strong import growth. Imports were largely flat in March and slowed to 6.8% YoY in 1Q, from 19% a year ago. Base effects too are working here but there are indications of a worrisome slowdown. Imports net of oil imports contracted almost 4% YoY in March and slowed to 6.8% in 1Q, from growth of 15.4% a year ago. Imports of transport equipment including vehicles have softened quite a bit, attributable to the impact of higher excise taxes on automobiles and fuels. Consumer goods imports are down -7% YoY in March and slowed to 6.3% in 1Q from more than double that pace in 1Q 2017. Imports of industrial machinery contracted YoY in March after robust growth in January and February. Industrial machinery imports were 25% higher YoY in 1Q. We hope that the March import weakness is a one-off and a matter of absorption rather than the start of a trend of slowing economic activity.

27% Government spending growth in 1Q
Up from 2% in 1Q17

Strong government fiscal stimulus could more than compensate for the weakness in agriculture and trade.

Headline government spending in 1Q rocketed to a 27% YoY increase, following weak 1Q 2017 growth of 1.6%. Core government spending was even faster at a 30% increase from a year ago and 10x faster than 1Q 2017's growth rate of 3%. Government spending accounted for 10.5% of 2017 GDP. Infrastructure spending (for roads, school buildings and other structures) accelerated while modernization of government and military equipment also contributed to the strong fiscal

stimulus. Behind the strong growth are government measures including the one-year life of programmed allocation and improved procurement processes. We expect these improvements to sustain the strong fiscal spending for the rest of 2018.