

## Philippines: Strong growth can be sustained in 2018

The Philippine economy grew 6.7% in 2017 in line with consensus and within the government target of 6.5% to 7.5%. This forms a good base for sustained 2018 growth



Philippine growth

### Philippine economy grows in line with 2017 government target

The Philippine government announced that the economy grew by 6.7% in 2017, slower than the 6.9% achieved in 2016. Nevertheless, last year's growth was within the government's target of 6.5% to 7.5%. Fourth quarter growth of 6.6% was a shade slower than the consensus forecast of 6.7%. Domestic demand activity remained robust, led by strong household and government spending. Business spending moderated as private construction activity remained weak.

### Household and government spending accelerate in 4Q

Household spending growth accelerated in 4Q to 6.1% from 3Q's 5.3% but is on a par with 4Q 2016 growth. The peso value of OFW (overseas workers) remittances was 11% higher in October-November and was likely to have been sustained in December. Agriculture, which employs around 30% of employed Filipinos, posted a more moderate pace of growth in 4Q at 2.4%, slower than the nine-month average growth of 4.6% but better than 4Q 2016. Fiscal stimulus remains evident with faster government spending growth of 14.3% in 4Q from the 4Q 2016 pace of only 4.5%. Full-year

household and government spending growth was 5.8% and 7.3% respectively. Full-year growth was slightly off the pace seen in 2016. Overall growth is reasonable considering the high base of comparison. The outlook for 2018 remains upbeat as the government rolls out major infrastructure projects that would add to rising public works construction activity. Overall, the fiscal budget for 2018 programmes represents a 16% increase of nominal government spending, slightly more than the 2017 growth of 14%. Agriculture is also likely to maintain a good pace in 2018, with growth of around 3% to 4% from 2017's 3.9%. Remittances are expected to sustain 4% annual growth. This, coupled with a moderately weaker PHP would still see an increase of around 10% for the nominal peso value of remittances. Higher 2018 inflation may result in a moderate pace of household spending growth of 5.4%.

# 6.1%

## Household spending growth in 4Q

5.4% growth is reasonable for 2018

## Business spending growth slows in 4Q and for full year 2017

Business spending surprised on the downside with 8.2% growth in 4Q. We had anticipated the slowdown, especially after 4Q 2016's robust growth of 15%. We expected a moderately faster growth of investment. Capacity expansion continues with durable equipment investment rising by 12.1% YoY from 3Q's 10%. But 4Q growth was less than half the 26% YoY increase in 4Q 2016. Full year business spending slowed to an average of 9% from 2016's fast-paced 24% growth and 2015's 18.4% increase. This 4Q 2017 and full year 2017 slowdown is normal after two years of fast-paced growth. Construction activity, in particular private construction, remains weak. Overall, construction posted modest 2.9% YoY growth in 4Q and 5.7% for the full year. This is slower than the 4Q 2016 growth of 9.3% and full-year 2016 pace of 15.1%. Private construction contracted by 2.9% YoY in 4Q 2017 and slowed to 4% for the full year 2017. Public construction accelerated to a 25.1% YoY increase in 4Q from 3Q's 12.6%. 4Q public construction growth lifted 2017 growth to 13%. This is slower than 2016's 28% YoY increase and 2015's 25% growth. We expect private construction to recover in 2018 with new developments going into actual construction. But we do not expect private construction to return to 20% growth anytime soon. Public construction is likely to sustain high growth this year as we expect government construction activity to increase by 20% to 30% this year.

# -2.9%

## Private construction drops YoY in 4Q

Recovery is likely in 2018

## GDP growth of 6.7% can be sustained in 2018

Domestic demand-driven growth will continue to support 2018 GDP growth at a rate of 6.7%. Household and government spending are likely to post strong growth again in 2018. Household spending should continue to benefit from 4Q remittance growth and a moderately weaker exchange rate. Agriculture is likely to replicate the growth of 2017 with 3% to 4% growth in 2018

as agriculture conditions remain favourable. Government spending is likely to accelerate as the 2018 budget targets a 16% increase this year from the programmed 14% growth in 2017. Public infrastructure is targeted to expand 40% this year. We expect infrastructure growth of 20% to 30% this year as the government started to roll out large projects in 2017 that feed into some construction activity this year. Private construction activity is set to recover in 2018 after the robust pre-selling of residential and commercial units in 2017. However, we do not expect private construction to return to strong (circa 20%) growth anytime soon, as outsourcing growth is expected to slow this year.