Philippine trade deficit approaches pre-Covid level

Philippine trade numbers reflect economic reopening but the widening trade deficit suggests sustained PHP weakness

Source: Shutterstock

$3.3 bn Philippine July trade deficit

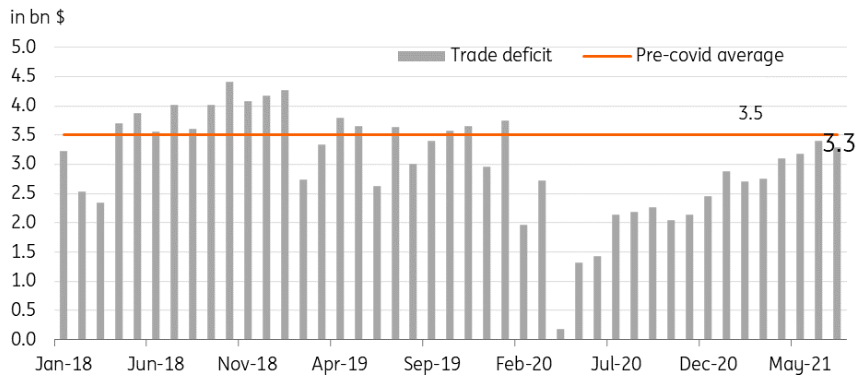
Worse than expected

Trade deficit approaches pre-Covid levels

Philippine trade numbers reflect the gradual reopening of the economy although the YoY figures may have been bloated due to base effects. Both exports and imports posted strong YoY gains, up 12.7% and 24% respectively with overall economic activity improving compared to 2020 levels. Inbound shipments outpaced export growth due in part to increased volume of fuel and as crude oil prices rose over the last year. Meanwhile, the overall trade balance approached pre-Covid levels and widened further to $3.3 bn in July.

We can expect a pullback in trade activity for the August report after Philippine authorities reimposed tighter lockdown measures during the month. Nonetheless, we forecast import growth to continue to outperform the export sector with the trade deficit likely staying elevated for the balance of the year.

Philippine trade deficit



Source: Philippine Statistics Authority

Widening trade gap to usher in current account woes

We had previously flagged the likely return of current account deficit for the Philippines this year and today's trade report solidifies this expectation. As the trade gap approaches pre-Covid levels, we forecast the country's current account to reverse into deficit as well. Current account deficits coupled with possible portfolio outflows in the coming months due to the Fed taper translates to more pressure on the local currency. With BSP signalling it would refrain from hiking policy rates this year, it looks like PHP will remain on the backfoot to close out 2021.