

Philippines: 1Q GDP contracts - steep drop ahead

The streak of 84 consecutive quarters of positive growth has ended, at the hands of Covid-19



Source: Shutterstock

-0.2%

1Q 2020 GDP

first contraction in 84 quarters

Worse than expected

The prelude: 1Q GDP shows early signs of Covid-19 impact

GDP contracted in 1Q due to a volcanic eruption and the early onset of the Covid-19 virus. Disruptions to the supply chain and anxiety about the then looming virus may have hurt investment momentum (-18.3%). Exports and imports fell sharply as the global supply chain was in disarray - with major trading partners China, Japan and Korea all battling the virus from as early as January. Household consumption posted a mere 0.2% expansion as the 15 March implementation of the lockdown forced Filipinos into home quarantine, while shuttering business

and manufacturing activity for roughly 75% of the economy. Government spending was the lone bright spot, posting 7.1% growth.

Steep drop ahead

Philippine 1Q GDP dipped unexpectedly into negative territory and we continue to price in a probable deep contraction as early as 2Q, due to stringent lockdown measures and the overall impact of Covid-19. The manufacturing PMI fell into contraction as early as March, remaining so in April (31.6). Manufacturing has remained sidelined, with supply chains disrupted by government restrictions on mobility. Inflation reported last Thursday also hinted at tightening supply conditions, especially for food items which registered an acceleration in inflation to 3.4%, suggesting a possible rebound in price pressures in the near term. The current lockdown which spans almost a full two months of 2Q will undoubtedly drag GDP deep into contraction as we see how destructive an enhanced community quarantine can be for a consumption-driven economy. The 1Q GDP report leads us to downgrade our current -2.2% full year growth forecast to -2.9%.

Help needed

It's all but official. The Philippines will likely post a technical recession in 2020 after 1Q slipped into contraction. 1Q GDP showcases how detrimental lockdown can be for the economy. Bangko Sentral ng Pilipinas (BSP) has rolled out several support measures - with 125 bps worth of rate cuts and 200 bps worth of rate reductions while also partnering with the Treasury to conduct a Php300 bn repurchase agreement. On the fiscal front, the government has rolled out several relief efforts including social amelioration and income replacement. Given the Covid-19 impact on the economy, we expect the government to redouble efforts to plug the gaps through increased spending. The private sector appears to have lost all any punch from its consumption arm.

We expect at least another 25 bps rate cut by the BSP, as early as Thursday. We also look for a possible upsizing of the government's social amelioration package and income replacement programmes, coupled with an aggressive spending plan on construction once the lockdown is lifted.