Philippines: 1Q GDP disappoints as consumption stays weak

Philippine 1Q21 GDP contracted by 4.2% compared to the same period last year, falling below market expectations as mobility curbs weigh on activity

Source: Shutterstock

-4.2% 1Q21 GDP YoY

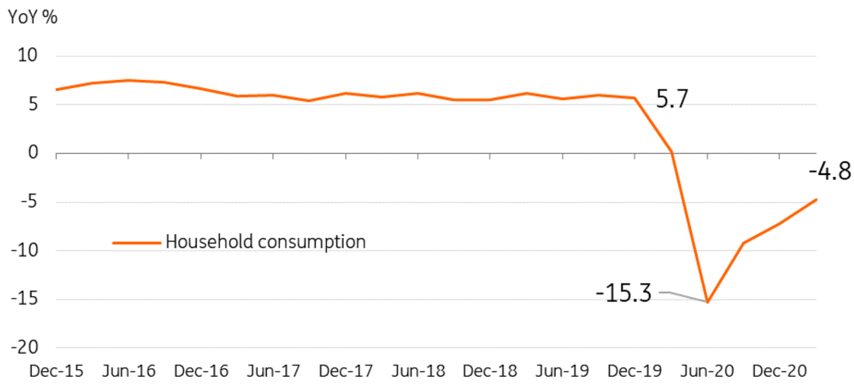
Worse than expected

1Q21 GDP falls by 4.2%

Philippines 1Q21 GDP contracted by 4.2% YoY with year-on-year economic growth slowing more sharply than anticipated (-3.2% consensus) as partial lockdowns weighed on consumer sentiment and overall economic activity. Almost all major sectors of the economy contracted from a year ago, with only government expenditures managing to post an expansion of 16.1% as fiscal authorities deployed the second round of stimulus to help support the recovery. Household consumption, which accounts for more than 70% of GDP, slipped by 4.8%YoY, the 4th straight negative growth rate, as incomes remain depressed with the unemployment rate at elevated levels. Meanwhile, capital formation also remained negative at -18.3%YoY which was reflected in the recent 3-month string of contractions in commercial bank loans. On the income side, all major sectors of the economy were in the red with agriculture down by 1.2%YoY, industry weaker by 4.7% while services declined by 4.4%. On a seasonally adjusted basis, however, the economy managed to grow a meagre 0.3% compared to the previous quarter.

Still missing the household spending punch

Household final consumption expenditure component of GDP



Source: Philippine Statistics Authority

Struggles to continue

The growth outlook for the Philippines remains relatively downbeat with the authorities recently tightening partial lockdown measures again in April as Covid-19 infections spiked. These tighter mobility curbs remain in place in the capital region and surrounding provinces and will likely shave off momentum from the economic recovery. The negative impact of these renewed lockdowns quickly surfaced in the latest PMI report, which showed manufacturing reverting back to a contraction in April after a 3-month streak of expansions to start the year. Recent lockdowns are expected to weigh on the services sector the most, with personal services not allowed to operate due to social distancing regulations. Although we continue to expect 2Q GDP to post growth on a YoY basis, we may have to trim our expectations, especially if partial lockdowns are extended through May.

All eyes on the BSP

Attention now shifts to the Bangko Sentral ng Pilipinas (BSP) policy meeting on Wednesday, with the central bank widely expected to hold policy rates unchanged. BSP Governor, Diokno, has signalled his preference to keep monetary support for as long as the economy is in recovery mode and we continue to price in a steady policy rate for the balance of 2021. Inflation has remained above the 2-4% target for 4 months now, although price pressures appear to be stabilizing as the authorities move to implement supply-side remedies to help lower the cost of food items. Meanwhile, the dimming outlook for growth has translated to muted corporate demand for foreign currency as firms put off large scale expansion plans. Softer corporate demand for the dollar leads to weaker imports and an improved external position, a development that will be supportive for the PHP in the near term.

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