Philippines: 3Q GDP contracts by 11.5% with households still sidelined by Covid-19

Philippine 3Q GDP fell by 11.5%, worse than what the market had expected and with almost all sectors posting negative growth

Source: Shutterstock

-11.5% 3Q GDP

Worse than expected

3Q GDP contracts by 11.5%

Despite the government relaxing lockdown measures, the Philippine economy contracted by 11.5%, a downturn more severe than the median of analyst estimates. On the demand side, government spending was the lone bright spot, managing to post positive growth of 5.8% while key sectors such as household spending fell by 9.3% and capital formation plunged a notable

41.6%. For the nine months through to 30 September, GDP fell by 10% and 4Q GDP is expected to remain in contraction. Although the authorities are aiming to relax lockdown measures further before the end of the year to help foster a quicker recovery, worrisome trends in consumption and investments paint a different picture.

Bouncing from the lows but a slow grind higher

With unemployment still elevated at 10% and business sentiment negative according to the Bangko Sentral ng Pilipinas (BSP), we do not expect a quick rebound in growth with GDP remaining in negative territory until a base effect-induced bounce in 2Q 2021. Household consumption, which accounts for the bulk of economic activity, will be muted in the months ahead. The labor market is challenging and bank lending has slowed to single digit growth, signaling a parallel slowdown in investment momentum. We also highlight the sustained elevated number of Covid-19 daily infections which may increase in the coming months as the authorities plan to relax lockdown measures further. The persistent threat of the virus will likely sap consumption appetite and keep investment outlays at bay.

Government spending was the lone bright spot in 3Q GDP, but we expect this sector to contract in 4Q as the authorities reign in spending to limit pressure on the deficit to GDP ratio. Meanwhile, the Philippine legislative body has yet to pass the 2021 budget, which if delayed could make the 2021 recovery even more of a challenge. We maintain our forecast for a -11.9% contraction in 4Q and we are now revising our full year 2020 GDP forecast to -10.8%.

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