Philippines: 4Q GDP could slide below key threshold

With three out of the four sources of growth seen to be challenged in the last three months of 2018, the string of above 6% growth prints for the Philippines is under threat when the GDP figure is announced on 24 January

Source: Shutterstock

5.9% ING 4Q 2018 GDP forecast

FY forecast 6.2%

Consumption: High (inflation) rates and growth don't mix

Household consumption is the main driver of growth for the economy, accounting for roughly 67% of total output. With inflation above target, averaging 5.9% in 4Q 2018, we can expect this major component of growth to be challenged. The 3Q 2018 GDP figure showed us how damaging inflation can be to consumption growth as 6.3% inflation slowed household final consumption growth to 5.2%, the slowest pace of growth since 3Q 2014.

Investment: Rate hikes mean slower growth

A key component to the recent run of above 6% growth has been the resurgence of capital formation. Capital formation or investments have averaged 15.1% in terms of growth since 2014 as the Philippines moves into a new growth story. Low borrowing costs and improved economic prospects have both contributed to the investment boom but the recent tightening cycle by Bangko Sentral ng Pilipinas (BSP) appears to have changed the equation. Already, we've seen commercial bank lending, still high at 16.8% but posting the slowest pace of expansion seen since April 2016. In a bid to get a handle on inflation, the central bank fired off successive salvos of rate adjustments but these rate hikes can and will eventually take their toll on economic growth in the coming months. As such, utilizing monetary policy to address supply-side inflation is still an option, but it oftentimes comes at the price of slowing down your economy.

Base effects: Don't levy my Chevy

Back in 4Q 2017, car dealers had to send away would-be car buyers as they simply ran out of units to sell. This was the case when Filipinos rushed to dealerships to secure a vehicle ahead of the impending implementation of the TRAIN law and its impact on car prices beginning January 2018. However, with the buying spree gone, car sales in 4Q 2018 have slumped to post a 21.5% contraction and this will have a non-negligible impact on capital formation numbers as it accounts for 24.3% of total fixed capital.

Net exports: Trade deficit to strike again

On the trade front, net exports, or the difference between exports and imports will likely pose a steeper drag on overall GDP as well. For October and November, the trade gap widened by 36.1%, yet another reason why the overall GDP print may be challenged.

Government spending: Last man standing, government spending to save the day?

The lone sector that appears to be accelerating is government spending with October-November 2018 numbers showing a 26.4% increase compared to the same period in 2017. Investment in infrastructure for November 2018 alone picked up 43.6%, which could be one source of growth to offset the other sectors.

Summary: String of above 6% growth under threat

The Philippines has strung together 14 straight months of above 6% growth as tepid inflation boosted an already voracious consumption machine while accommodative borrowing costs helped foster the early beginnings of the Philippine investment cycle. However with inflation accelerating past target and with the BSP rattling off a string of aggressive hikes, growth momentum will undoubtedly begin to take a hit and the slowdown may manifest again in 4Q 2018 GDP, which is seen to expand by 5.9%.