

Philippines: April imports surge while trade gap widens

The domestically driven economy continues to pressure the trade balance as imports surge. This, with weak exports, means wider trade deficits which pressure PHP.



Source: Shutterstock

22.2%

April import growth

Accelerates from 7% YoY increase in 1Q

Higher than expected

Strong imports reflect a strong domestically driven economy but PHP to remain under pressure due to a wider trade deficit.

Strong import growth reflects relatively strong household and business spending and enhanced fiscal deficit spending this year. These drivers of growth are likely to lead to another year of close to 7% GDP growth in 2018. Imports surged in April, with a 22% YoY increase from a 1Q average

growth of 7%. A 30% YoY increase in consumer imports and a 29 % increase in capital equipment imports are responsible for the surge. These two import categories account for a 4M 2018 average of 50% of total imports and posted 4M average growth of 12% and 16% respectively. Exports, however, remain weak - contracting 8.5% YoY in April and 6.2% in 4M 2018. The near term outlook for exports remains dreary with base effects working against the sector after last year's rebound. Investments in the export sector have not also been significant enough to boost export performance. Electronics exports, accounting for 54% of total exports in the four months to April, managed only a 6% YoY increase April and a 4M average of nearly 7%. Strong imports and weak exports combine to widen the trade gap. The trade deficit amounted to -\$3.6bn in April and to -\$12.2bn for the 4M period, \$4.5bn wider than the deficit in 4M 2017. We expect this year's trade deficit to be \$6-8bn wider than last year's trade deficit of \$27.4bn. Financing the wider trade deficit remains a challenge since a modest 4-5% overseas worker remittance growth this year would still be inadequate. Such a weak external payment position would continue to pressure PHP and increases the risk of lower foreign exchange reserves this year. PHP weakness could be more moderate with a hawkish central bank which augments the financing of the trade deficit with its reserves.