Philippines: Deficit surges to $26bn this year

Imports keep up the pace while exports underperform, yielding yet another substantial trade gap to keep the current account in the red

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-$3.513bn

As expected

August trade balance

YTD trade balance wider 64.7%

Imports sustain double-digit expansion, up by 11.0% while exports tepid at 3.1%

- Philippine imports for August grew by 11.0% YoY to deliver another month of robust growth. Capital equipment and the oil bill powered overall import growth, translating to annual growth rates of 12.9% and 42.3% respectively.
- Positive demand was seen across all subsectors, although consumer goods imports and raw

materials import growth slowed to single-digit growth prints of 5.9% and 4.3%, respectively.
- Electronics exports, which command the lion's share of total exports (54.3% of the total), grew by 7.0% to lift overall exports to a 3.1% growth print. All other exports however contracted by 1.2% despite a much weaker Peso, which has failed to boost export competitiveness to date.
- Manufacturers continue to import raw materials used for electronics exports. These are up 22.1% for the year. The prospect is for sustained growth of the export sector for the rest of the year.
- Capital goods imports in tandem with the bloated oil bill have kept the trade balance in the red as exports continue to underperform, down 2.0% for the year.

Trade gap to remain wide as imports sustain growth while exports disappoint despite weaker Peso

- The trade deficit in July of $3.513 billion will likely keep the country's current account in deficit as capital imports and oil import growth are not expected to slow down in the near term. Raw materials used for construction posted 38.7% growth in August, moving in-line with the aggressive building plans of the private sector and government alike. The 8-month 2018 trade deficit reached $26 billion, 65% wider than the deficit of $15.791 billion in the same 8-month period of 2017.
- Despite protracted weakness in the Philippine Peso, exports continue to underperform, posting a 2% contraction YTD and only a feeble 3.1% growth in August. In turn, the weaker currency may have fomented even more inflationary pressure given the hefty import bill related to consumption and transportation.
- Recent strong rhetoric from the central bank in response to soaring inflation and to a weakening PHP could help to stem the currency's weakness and prevent the trade gap from widening further. But exports will need to rebound in the coming months to truly make some headway. The prognosis is for the current account to remain in the red, exerting further pressure on the local unit despite BSP's already very hawkish stance.

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