

Philippines: Rate hike could temper impact of wider trade gap

Strong imports and weak exports resulted in a \$3.3 billion deficit in June. The widening trade gap has been driving weakness in the Philippine peso but aggressive policy tightening could help



Source: Shutterstock

-\$3.3bn

June trade balance

1H trade deficit at -\$19.1bn

Strong import growth reflects a strong domestically driven economy

Philippine imports posted another month of robust growth in June. Imports accelerated 24.2% year-on-year from 11.4% YoY in May. The 2Q average growth rate quickened to 19% from 1Q's modest 7%. Strong import growth reflects vibrant domestic demand. Investments and consumption remain strong.

- Imports of capital equipment posted a 14% YoY increase in June and 2Q growth of almost

25%.

- Industrial machinery and transport equipment were up 22% and 28%, respectively, in June.
- Imports of consumer goods were higher by 16% in June and 18% for 2Q.
- Add to this the oil import bill which increased by 31% in June and by 35% in 2Q. This reflects not only good demand but also higher oil prices.

Exports remained weak with a roughly flat growth rate in June and 2Q average contraction of almost 3%.

- Electronics exports, which account for 54% of total exports, remain a bright spot with an almost 14% YoY increase in June and an average 10% growth in 2Q. The immediate term outlook for the export product remains favourable with a 35% YoY increase in June imports of electronics. However, non-electronics exports dropped by 12% YoY in June and in May, and contracted by 11% in 2Q. The combination of stronger imports and weak exports has led to a widening trade deficit. The 1H trade deficit amounted to -\$19.1 billion, more than 60% wider than 1H 2017. We expect the trade deficit (BoP basis) to worsen to \$46-50 billion this year from just \$41 billion in 2017. The wider trade gap has been driving the peso's weakness. Offsetting this is a more vigilant central bank which is likely to raise policy rates by 50 basis points at tomorrow's BSP-Monetary Board meeting.