Philippines: Domestic demand is 2Q's silver lining

Domestic demand remains strong in the Philippines, with business, household and government spending posting robust growth. But net trade weighed on economic growth in the second quarter and we've cut our GDP forecast for the year

Source: Shutterstock

6%

Worse than expected

GDP growth in 2Q

But domestic demand remains storng

Domestic demand remains strong despite disappointing 2Q GDP

The economy slowed to 6% growth in the second quarter, below the consensus forecast and the government's target rate.

- Business spending accelerated to 21% YoY growth in 2Q from 1Q's 12% and 2Q2017's 7.6% pace.
- Construction and durable equipment investment accelerated on the back of infrastructure spending and capacity expansion (consistent with strong imports of capital equipment in 2Q).
- Government spending also improved with growth of 12%, faster than the year-ago growth of 7.6%.
- Household spending moderated to a 5.6% increase YoY from 6% in the same period last year. High inflation and weak agriculture production (rising 0.2% YoY in 2Q from last year's 6.3%) weakened purchasing power and restrained household spending but almost 6% growth is still respectable.
- The moderation in household spending is also seen in slower manufacturing growth of 5.6% in 2Q from 8% last year. Higher take-home income from income tax reform offset the combined impact of high inflation and weak agriculture output.
- The downside surprise also came from a deterioration of the trade sector. High import growth coupled with weaker export performance weighed on overall GDP growth. Strong imports are a manifestation of strong domestic demand. A strong private sector performance and the government's aggressive infrastructure catch-up programme contributed to the worsening trade imbalance while exports remained weak despite the multi-year weakness in the Philippine peso.

We cut out forecast for 2018 GDP growth to 6.3% from our earlier forecast of 6.8%.