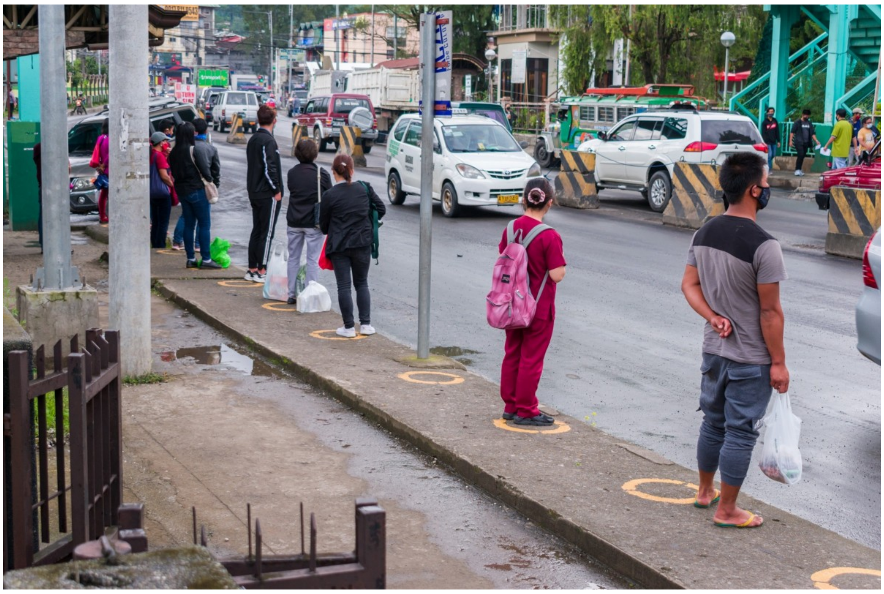
Philippines: Economic recovery sidetracked as mobility restrictions bite

Despite posting an 11.8% YoY expansion in 2Q, the Philippine economic outlook dims as momentum fades



People observe social distancing as they stand on circle shaped yellow markers while waiting for public transport to arrive, Philippines

Source: Shutterstock

-1.3% QoQ GDP growth

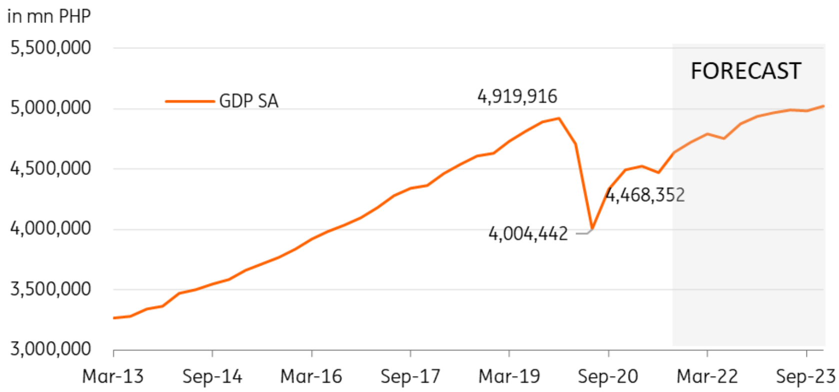
Worse than expected

Economy contracts 1.3% from previous quarter

The Philippine economy expanded 11.8% YoY in 2Q 2021, driven largely by base effects given the 14.9% QoQ tumble in the second quarter of last year. Despite the double-digit expansion on a YoY basis, economic momentum actually slowed in 2Q with GDP contracting 1.3% on a QoQ basis after authorities reimposed tighter mobility restrictions in April. With firms forced to operate at partial capacity, the manufacturing activity purchasing managers' index dropped back into contraction for April and May while business sentiment turned less optimistic over growth prospects in 3Q and

2022. One interesting development was that government expenditure was the lone sector to contract as the authorities rein in spending to limit its impact on the country's debt levels. The economic recovery will likely face a similar setback in 3Q as mobility restrictions returned in August with the country now facing a surge in Covid-19 infections due to the Delta variant.

Philippine economy struggles to recover after deep 2021 tumble



Source: PSA and ING estimates

Help wanted

The Philippine economy was expected to grow 6.5-7.5% in 2021 with authorities hopeful for a sustained recovery as the economy re-opened. The resumption of lockdowns in April and in August have derailed the economic recovery with the economy backtracking by 1.3% in 2Q. We can expect this trend to continue in the second half of the year. Consumer sentiment remains negative, likely due to elevated unemployment figures (7.7% in June) while bank lending has been negative for 7 months now and counting.

With a relatively slow vaccination rollout (only 10.4% of the total population is fully vaccinated) the Philippines may be forced to resort to costly mobility restrictions again should new variants cause future waves of infection. Bangko Sentral ng Pilipinas has vowed to retain its accommodative monetary policy stance for as long as the economy is in "recovery mode" and we expect Governor Diokno to be on hold well into 2022. Fiscal stimulus may also be warranted to reverse the economic downturn but it appears that the authorities will cut back on spending to preserve debt metrics after the recent Fitch outlook revision. We will likely need to rework lower our full-year GDP forecast for 2021 especially if the planned 2-week period for heightened mobility curbs is extended further.

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