Philippines: Even wider trade deficit

Year-to-date trade gap soars to $33.9bn as imports surge and exports struggle, putting further pressure on PHP

Source: Shutterstock

-$4.21bn

October trade balance

Widest in history

Worse than expected

Imports surge while exports struggle

Philippine imports for October continued to expand by 21.4% while exports were lackluster for yet another month, posting a 3.3% gain. Raw materials, capital goods and the oil bill remained the largest contributors to overall import growth, translating to annual growth rates of 16.7%, 16.8%, and 25.5% respectively. Meanwhile, the demand for imports was seen across all import subsectors with consumer goods posting a 7.5% increase in October alone despite the 25.1% contraction in passenger car imports.

On exports, the mainstay electronics subsector, which account for more than half of the entire export bill (53.2% of the total), grew by only 0.6% while growth for all other export sectors managed a 6.54% given a rebound in exports of other manufactures (up 24.3%), machinery and transport equipment (up 94.1%) and bananas (higher by 30.9%). For the year, however, exports posted a disappointing -1.2% growth rate despite the protracted weakness in the PHP.

Imports sustain growth while exports underperform despite weaker peso

The trade deficit in October of $4.21bn indicates that the current account will likely remain in the red during 4Q18. Capital imports and raw material growth are not expected to slow down in the near term as imports fuel the growing economy. Raw materials used for construction continue to post healthy growth although we do see some hope on the horizon with raw materials used for electronic exports posting a rebound of 28.9% for October. The ten-month 2018 trade deficit reached $33.9 billion, 14.2% wider than the deficit of $29.71bn in the same ten-month period of 2017. Despite protracted weakness in PHP, exports remain in contraction YTD despite their 3.3% gain in October.

Shift in (import) dietary requirement

Robust import growth is yet another sign that the Philippines has moved into a new chapter in its growth story, requiring a shift in the country's import requirement. In the past, import growth was driven largely by fuel and consumer goods with only sporadic flows of capital goods and raw materials outside those used for electronic exports. Going forward, the current account will likely remain deep in the red with the PHP looking to structural flows such as remittances ahead of the holiday season and the capital and financial account for support. Over the medium term, protracted current account deficits will likely keep pressure on the PHP in 2019.