

## 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.

### Author

#### Nicholas Mapa

Senior Economist, Philippines

[nicholas.antonio.mapa@asia.ing.com](mailto:nicholas.antonio.mapa@asia.ing.com)

### Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by

the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.