Philippines: Exports post fourth month of gains amid trade war

The Philippines posted a fourth straight month of gains as shipments to the US jumped 8.9%

Source: Shutterstock

$3.39bn July trade deficit

As expected

Trade war?

The Philippines recorded a fourth straight month of rising exports despite the escalation in the US-China trade spat, while imports contracted for a fourth month. Despite the growth in exports and the pullback in inbound shipments, the trade deficit widened to $3.39 billion, only slightly wider than expected and roughly $1bn more than the deficit posted in the previous month. The still substantial trade gap will likely curtail the peso's appreciation but the direction of the local currency appears to be more affected by sharp swings in sentiment related to the trade war and the direction of global monetary policy.

Looks like you made a new friend

Exports to the United States jumped 8.9% in July with outbound shipments to the US posting growth for six out of seven months of the year as electronics exports proved expectations wrong by showing 2.9% growth for the month. Electronics corner the lion's share of the Philippine export sector and where the mainstay sector goes, we can expect the fortunes of the entire export sector to follow. Despite the trade war and the relative strength of the peso, exports have managed to post gains (albeit on the back of a favourable base) with manufacturers finding creative ways to skirt the new levies.

Rate hikes and budget delay hit home

The recent run of GDP above 6% coincided with a stable base of household consumption complemented by a nascent investment-driven expansion and topped off by government spending. This year however presented the double whammy of a heavy-handed Bangko Sentral ng Pilipinas (BSP) rate bazooka- which all but knocked out capital formation- and the budget delay, which scuttled public construction. The July import numbers show a stark contraction in raw materials (-11.7%) as construction components such as iron and steel (-35.8%) and non-ferrous metals (-14.5%) weighed on the subsector. Meanwhile, 2Q GDP showed that capital formation, in particular durable equipment cratered, plunging the entire capital formation account into the red. BSP's 175 basis point rate hike barrage, which was designed to combat inflation, did its job but at the cost of capital formation, with capital goods showing a mere 3.4% growth for July.

Imports a barometer for 3Q GDP

With the July import numbers showing likely weakness in capital formation as capital imports show modest gains and raw material inbound shipments contracting, we may have to rely once again on household spending to carry the load as we chase 6% growth. BSP's 50-bps redux on rates and the government budget online will probably help but jump starting the Philippine economy in time to save the second half may be increasingly challenging, as the ill effects of rate hikes and budget delays continue to sap already fading growth momentum.

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