Philippine falling imports help keep peso on an appreciation trend

Exports and imports continued to contract sharply in June on weak global demand and a weaker domestic economy

Source: Shutterstock

-US$1.3bn Philippine trade balance

June

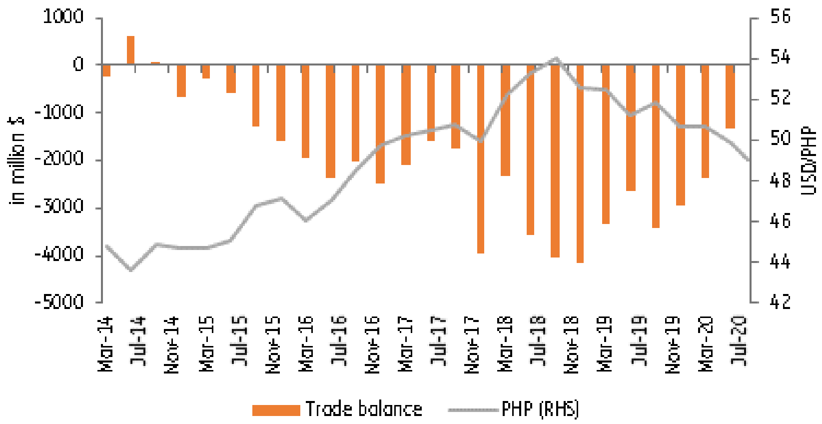
Trade data points to weaker global and domestic growth

Trade figures for The Philippines continued to contract in June with exports down 13.3% and imports declining by 24.5% reflecting weak global demand and a stalling domestic economy.

Exports contracted across subsectors with the mainstay electronics outbound shipments falling by 10.4% while agro-based products and garments posted even steeper declines of 23.5% and 20.5%, respectively. Inbound shipments also showed a declining trend with a broad-based contraction led by fuel (-56.9%), capital goods (-28.4%) and raw materials (-10.7%), which should translate to weaker potential output for the Philippine economy in the coming months.

Meanwhile, consumer imports fell by 23% indicating that domestic demand conditions remain weak and we expect this trend to continue over the next couple of quarters with consumer sentiment hampered by the recent surge in the virus and a return to more stringent lockdown measures.

Philippine trade balance and PHP



Source: PSA and Bangko Sentral ng Pilipinas

Trade balance narrows, stalling imports to support peso appreciation

The June trade balance narrowed to -US$1.3bn from -US$1.8 bn in May as imports fell faster than the drop in exports. We expect this trend to continue for the remainder of the year.

Weaker imports translate to lower demand for foreign currency onshore, which has helped support the recent PHP appreciation trend. Since we expect imports to continue contracting, we forecast the peso to remain supported in the near term as steady inflows related to overseas remittances and foreign borrowings outpace onshore dollar demand.

Meanwhile, we also expect GDP momentum to slow even further as the flow of capital goods, raw materials and consumer goods remain weak with positive GDP growth only expected to return in a base-effect induced rebound in 2021.

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