

Philippines' first quarter GDP surprises on the upside but could mark the peak

First quarter GDP growth topped estimates, rising 6.4% year-on-year



Source: Shutterstock

6.4% YoY growth

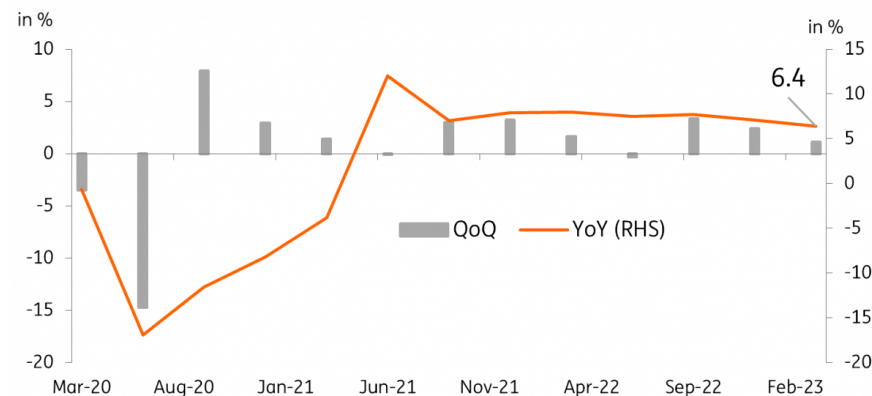
Higher than expected

1Q GDP settles at 6.4%

The Philippine economy grew by 6.4% year-over-year in 1Q, rising above market consensus for a 6.1% gain. Compared to the previous quarter, overall GDP was higher by 1.1%. Economic growth was supported by still robust household consumption (6.3%) which provided 4.8 percentage points of the 6.4% growth. Capital formation was also upbeat, increasing by 12.2% YoY, helped by a 14.3% YoY increase in private construction and investment in road vehicles. Government spending surprised on the upside, managing to gain 6.2% YoY despite the relatively elevated debt levels. We also noted another quarter of build-up in inventories with firms likely restocking for the rest of the

year on expectations for a sustained expansion.

GDP surprises on the upside but this could be the peak for the year as momentum slows



Source: Philippine Statistics Authority

1Q GDP surprise could be the peak for the year

The Philippine economy managed to expand faster than most had anticipated but the 6.4% gain could be the high for the year given lingering headwinds. We expect GDP to remain in expansion mode for the rest of the year, although we are bracing for a likely slowdown as the triple threat of high inflation, elevated borrowing costs and rising debt levels weigh on momentum.

Meanwhile, base effects from the reopening will be completely washed out by the second quarter, which should make topping the 1Q GDP growth number a tall order. Challenges are also mounting across sectors with the agricultural sector facing an El Nino episode, which could also take down with it a substantial part of the Philippine manufacturing sector given the sizable contribution of food manufacturers.

With this expectation, we believe attaining the full-year growth aspiration of the government (6.5-7.5%) will be a challenge and we expect full-year growth to settle at about 5.5% YoY.

Lastly, this will be the last major data point for the Bangko Sentral ng Pilipinas (BSP) to digest ahead of its all-important policy meeting next week. With inflation on the downtrend and growth showing signs of slowing, we believe this opens the door for Governor Felipe Medalla to pause and keep policy rates at 6.25%.