Philippines: GDP prints at 6.1% as consumption slows

Downgrade of GDP and BSP policy forecast

Source: Shutterstock

6.1%

GDP growth in 3Q

consumption slows to 5.2%

Lower than expected

Weak consumption, wide trade deficit limit GDP upside

Household spending, traditionally the driving force behind growth, has been slowing in the face of above-target inflation and elevated borrowing costs, posted 5.2% growth versus 5.9% in 2Q18 and from 5.4% in 3Q17. The 3Q GDP growth of 6.1% brings YTD growth to 6.3%, well within reach of ING's full-year 6.3% forecast.

Reinforcements have arrived

With consumption decelerating, government spending and investments were up to the task, growing by 14.3% and 21.5%, respectively, to help offset the weaker punch from household expenditure. On the external front, the net trade numbers continue to be a drag on overall economic growth with the deficit sapping 4.06 percentage points from growth.

Change in game plan but net trade to continue to be a drag

Going forward, growth is likely to follow the same formula of late with slowing consumption offset by government spending and investments. Meanwhile, given the burgeoning economy, the trade gap is expected to widen as imports of capital machinery, construction materials and consumer goods look to meet the demands of the economy, exerting fundamental pressure on the Philippine peso to weaken.

"Moderate" rate hike next? BSP watch is on

The disappointing growth print may give some ammunition for the doves to call for a pause at next week's 15 November Bangko Sentral ng Pilipinas (BSP) meeting. The 150 basis point cumulative rate hike for the year is likely weighing on consumption and will dampen investment going forward. Holding off on an additional rate hike, as marginal as it may be, would give the Philippine economy the room it needs to catch its breath and sustain its above 6% growth trajectory in 4Q with the mid-term election approaching. With the 6.1% print, the likelihood that BSP leaves policy on-hold has increased with recent dovish undertones from key voting BSP officials likely to pick up as slowing consumption is now a "concern" according to the government. Stay tuned.

Outlook for growth

4Q growth should moderate with household final consumption expected to decelerate further while the drag from net trade will likely remain. Offsetting these two factors will be a possible pick-up in government spending ahead of the mid-term elections while business investment is seen to remain healthy, bringing 4Q GDP to 6.0% (down from the previous forecast of 6.2%). The projected slowdown in the last quarter forces us to revise our full-year 2018 GDP forecast to 6.2% while 2019 growth will likely settle at 6.3% with strong growth seen in 1H19 on election-related spending.

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