

Philippines: Growth momentum sustained by solid consumption in the fourth quarter of 2022

Economic growth hit 7.2% in 4Q22, taking 2022 full-year growth to 7.6%



Increases in food prices are slowing in the Philippines

7.2% 4Q 2022 YoY growth

Higher than expected

4Q GDP growth lifts 2022 growth above target

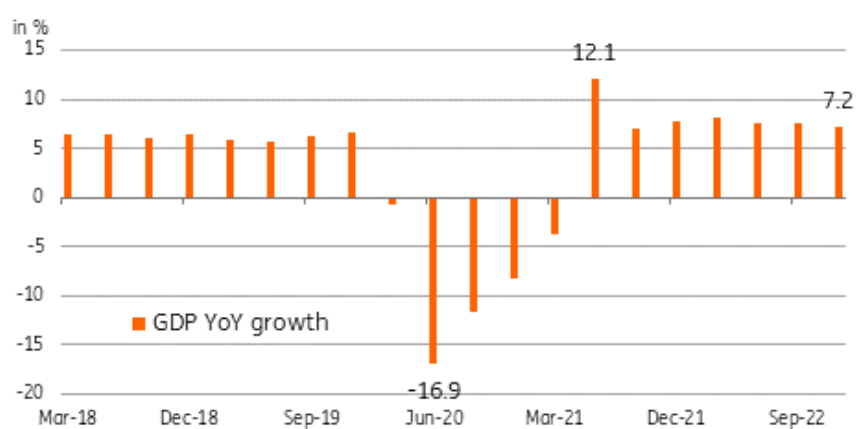
Philippine 4Q 2022 economic growth hit 7.2% YoY, taking full-year growth to 7.6% YoY. The official government target had GDP growth at 6.5-7.5% YoY for the year. So-called “revenge spending” extended into the holiday season, when face masks were no longer required and limited capacity restrictions eased.

Household spending grew 7% YoY in the face of multi-year high inflation, powered by yet another quarter of double-digit growth for restaurants & hotels (24.7%) and recreation (15.2%). Government spending was also a positive, growing 3.3%. Capital formation rose 5.9% and received a boost from construction (8.4%).

The solid household spending mirrored the strength of the services sector which was up 9.8% while industrial activity rose 4.8%. Agriculture, however, fell 0.3% as the sector faced substantial crop damage due to powerful storms during the period.

Although 4Q GDP growth was impressive, we believe that momentum could finally moderate this year amidst a challenging environment of still elevated inflation, rising borrowing costs and tight fiscal space.

Philippine GDP surprises on the upside



Source: Philippine Statistics Authority

Philippine exports slump on fading demand for electronics

Released alongside 4Q GDP today was the December 2022 trade report. Exports finally came down to earth, dropping 9.7% YoY as electronic exports struggled amidst softening global demand. Meanwhile, imports also contracted (-9.9%) after capital imports and raw materials recorded steep falls.

The overall trade deficit swelled to \$4.6bn. The previous month's shortfall was revised substantially to \$4.5bn, from the initial estimate of \$3.7bn. The sizeable trade deficit suggests that the Philippines will likely post a current account deficit in 4Q 2022.

Robust growth leaves BSP with space to tighten further

The above-consensus GDP growth in 2022 should give the Bangko Sentral ng Pilipinas (BSP) space to tighten policy further in the first half of 2023. Inflation, although close to peak, remains well-above target and could prove to be sticky over the coming months. BSP Governor Medalla hinted at possible rate hikes at the March meeting but has remained non-committal to hiking past 6% for the remainder of his term as Governor.

Rapid-fire rate hikes may have already begun to impact capital formation which posted the slowest growth this year. Just like for most other ASEAN central banks, we believe that the current

rate hike cycle could be coming to an end soon, with the BSP likely taking their lead from moves by the FOMC.

The PHP has largely tracked the moves of regional peers and is up 2.4% for the year. The peso may benefit from the upside surprise in growth. Today's other Philippine data release (external trade) should be a reminder that the economy's current account challenges could remain an issue in 2023.