# Philippines: Import compression continues, points to better 3Q GDP

The pullback in September imports, despite the drop in exports, means that net trade will likely not weigh on overall growth momentum in 3Q GDP accounting


Source: Shutterstock

-$11.5 bn

3Q merchandise trade deficit

narrower vs -$15.19 bn in 3Q 2018

## September trade gap at $3.12 bn even as imports fall for a sixth month

The Philippines posted a trade deficit of $3.12 bn even as imports fell for a sixth month as exports snapped a string of five months' worth of gains. The September trade gap brings the YTD deficit to $28.1 bn, wider by 9% from the $24.97 bn gap seen in 2018. Despite the wider deficit, the Peso has still managed to post quite a strong performance. This is probably because of positive current account movements (remittances and BPO receipts) as well as financial flows helping to lift the currency.

## Imports down a sixth month

Capital goods imports remained modest (+0.3%) with a huge drop-off in "planes and ships" (-41.4%) and photographic equipment (-21.5%) while heavyweights such as electrical machinery, specialized machinery and construction vehicles were up 7.1%, 6.7% and 6.4% respectively. Meanwhile, raw materials (-23.1%) and fuel (-14.5%) proved to be the biggest drag on import demand given the movement in global crude oil prices and with the government drawing from the stores of construction equipment stockpiled during the budget delay. Noteworthy is that construction materials such as iron and non-ferrous metals dropped a substantial 46.8% and 18.7%, respectively. The bright spot for imports was the consumer goods account, which gained 2.6% after falling previously, with passenger cars registering a gain of 8.5% after months of contraction as vehicle sales have picked up (reflected in the central bank's report showing an improvement in auto loans as policy rates have come down).

## Exports decline as electronics unable to lift rest of sector

For outbound shipments, the mainstay electronics subsector managed yet another month of gains (+3.8%) despite the trade war and earlier tech slump. But it was unable to compensate for the -2.62% print from the rest of the export sector. Global headwinds are weighing on export demand and the sector will continue to require reforms.

## Trade sector sets up substantially better 3Q GDP

The pullback in imports and positive run of exports until the September reversal means that even though net trade is still in deficit, the trade sector could provide a boost to GDP in 3Q19. For the quarter, 3Q19 saw a 24% improvement from the same period in 2018 and this development should help bolster year-on-year 3Q19 GDP. The September trade report also shows some green shoots for the return of investment activity.  After dropping substantially in 2Q, capital formation is set to rebound in 3Q and beyond with capital goods imports picking up after stalling in the first half of the year. Monetary easing and a general improvement in risk sentiment has pulled corporates out of the woods and they are now bolstering the consumption-heavy growth story. This development, together with a report showing improved farm output helps support our forecast for a 6.3% GDP expansion in 3Q19.