Philippines: Import compression points to possible soft 3Q GDP

August trade data showed a surprise narrowing of the trade deficit, pointing to soft GDP and possible easing from the BSP in early 2020.

Source: Shutterstock

Trade deficit shrinks to 2.4 billion as imports drop 11.8%

The trade gap hit -$2.41bn, much narrower than market consensus of -$3.6bn. Imports fell more than expected, with almost all import subsectors in the red. Capital goods, raw materials, fuel and consumer imports all contracted as elevated borrowing costs and the budget delay knocked capital formation. In particular, all types of capital imports contracted and raw materials related to construction fell as the impact of the BSP's aggressive 2018 rate hike and the budget delay continued to surface.

Exports managed to string togther a fifth straight month of gain (0.6%) as the mainstay electronics subsector grew 6.6% for the month despite the trade war. Outbound shipments kept the growth streak (now at 5 months) alive amidst the trade war. The mainstay electronics subsector showed resilience despite the tech slowdown. Exports to the US were up again, growing despite the Peso's recent strength.

Import numbers point to GDP struggles in 3Q

Sustained import compression signals continued weakness in overall growth momentum for the Philippines. The 2Q GDP disappointment of 5.5% growth (vs consensus of 6.0%) was due in large part to the contraction in durable goods investment. With the import numbers indicating a sustained pullback in investment machinery, Philippine 3Q growth numbers might exhibit further weakness in capital formation. Sub par growth in 3Q will help convince the Bangko Sentral ng Pilipinas (BSP) to continue walking back 2018's rate hike cycle with ING penciling further rate cuts as early as 1Q20. Meanwhile, import compression coupled with surprise export growth is in line with our forecast of only mild Peso depreciation by year-end, to settle at 52.89.

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