

Philippines: Import implosion continues with economy in recession

Trends in Philippine trade data continue to be supportive of PHP strength in the near term



Source: Shutterstock

-\$2.1 bn August trade balance

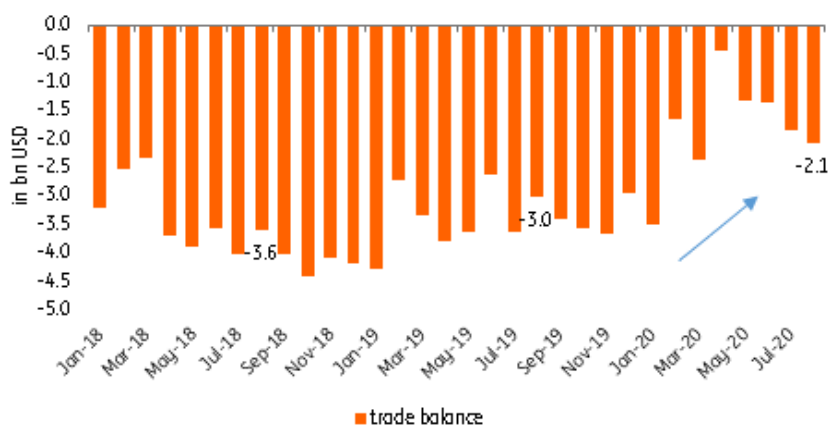
As expected

Exports and imports fall again on anemic global demand and sputtering domestic economy

Both inbound and outbound shipments in August contracted at double digit rates with exports down 18.6% while imports fell 22.6%, on poor external demand and a sputtering domestic economy. The pullback in export performance was tagged to the substantial drop-off in its mainstay semiconductor sector, with exports of electronics products down 20.1%. Meanwhile,

imports dropped substantially with double digit contractions recorded for capital equipment (-27.6%), consumer goods (-24.6%) and fuel (-47.7%). The trends for both exports and imports resulted in a trade deficit of \$2.07 bn, bringing the year-to-date deficit of \$14.6 bn, much lower than the deficit of \$27.1 bn posted in the same period last year.

Philippine trade balance



Source: PSA

Trade trends point to stable PHP but weaker GDP

Trends in Philippine trade data continue to be supportive of our view for peso strength in the near term. The import implosion and its resultant impact on the trade balance can be tagged as the main reason for the reversal in the current account, which is now back in surplus. The narrowing of the trade deficit has been so severe (-\$12.5 bn), the current account surplus surged to \$5.4 bn as of June, even after overseas Filipinos remittances pulled back by more than 4%. We expect these trends to continue for the balance of the year, with the peso expected to remain on an appreciation bias, albeit at a more muted pace as the central bank moves to shore up its gross international reserves. Meanwhile, prospects for economic growth continue to dim with imports revealing yet another month of double digit contractions for both consumer goods and capital formation. This development will likely translate into a similar impact on both household consumption and capital formation in the GDP accounts with ING expecting negative growth for both 3Q and 4Q 2020. In short, the sharp narrowing of the trade deficit will likely keep PHP supported for the balance of the year, but import trends point to worrying signs of poor growth prospects for the months to come.