

Snap | 9 October 2020

PHILIPPINES

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

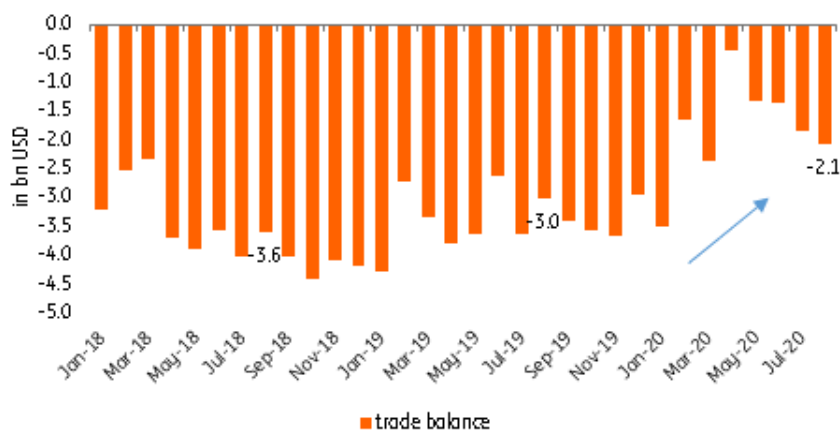
As expected

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.

Author

Nicholas Mapa

Senior Economist, Philippines

nicholas.antonio.mapa@asia.ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. (“ING”) solely for information purposes without regard to any particular user’s investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit www.ing.com.