

Philippines: Import implosion supports PHP but points to slowing GDP momentum

Exports and imports remain in the red, with the trade deficit at \$1.83 bn



Source: Jun Acullador

\$1.83 bn July trade balance

Worse than expected

Pandemic continues to weigh on Philippine trade

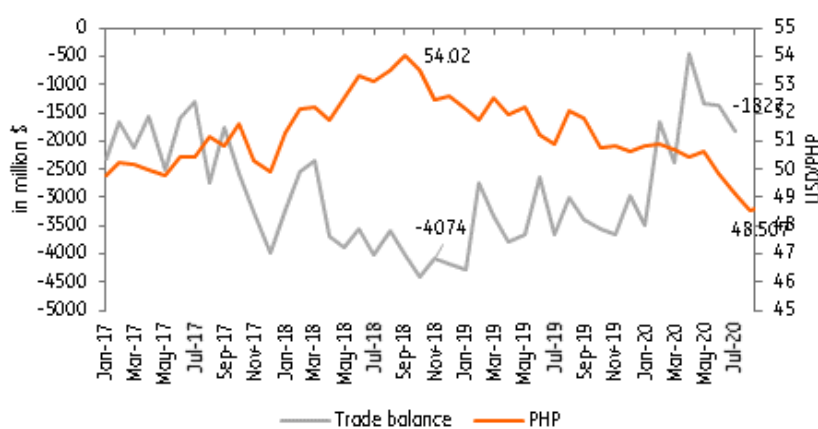
The ongoing Covid-19 pandemic continues to weigh on overall trade activity, with both exports and imports falling in July. Exports showed a broad-based decline with all but one sub-sector posting a contraction from the same period a year ago as global demand remains depressed due to the pandemic. The mainstay electronics subsector fell by 2.6% while most other subsectors registered double digit contractions. Exports are likely to remain subdued for the balance of the

year and possibly into mid 2021 as the global economy slowly recovers from the effects of Covid-19.

Import implosion points to fading potential output

Inbound shipments of goods fell at double digit rates again as capital machinery (-29.8%), raw materials (-14.8%), fuel (36.2%) and consumer imports (27.3%) all posted severe contractions for the month, reflecting fading domestic demand and the economy in recession. Moreover, the sustained double digit contraction in capital goods and raw materials points to fading potential output, increasing the possibility that the Philippine economy enters a lower growth trajectory over the course of the next few years.

Philippine trade balance and USD/PHP



Source: PSA and PDS

Fading imports point to near term support for PHP

The continued fall in imports translates into subdued demand for foreign currency and will likely lead to short term support for PHP. The Philippine Peso continues to outperform regional peers as the country posts a current account surplus year-to-date in 2020, due mainly to the substantial drop-off in imports, and we can expect this trend to continue going into 4Q 2020. Meanwhile, the stark drop in imports of capital machinery and raw materials points to fast-fading potential output which should handicap growth momentum with the Philippines entering a lower growth path after the 2021 base effect-induced rebound in GDP.