

Philippines: January imports rise while exports continue to contract

Medium term view on current account deficit intact



Source: Shutterstock

-\$3.76 bn January trade gap

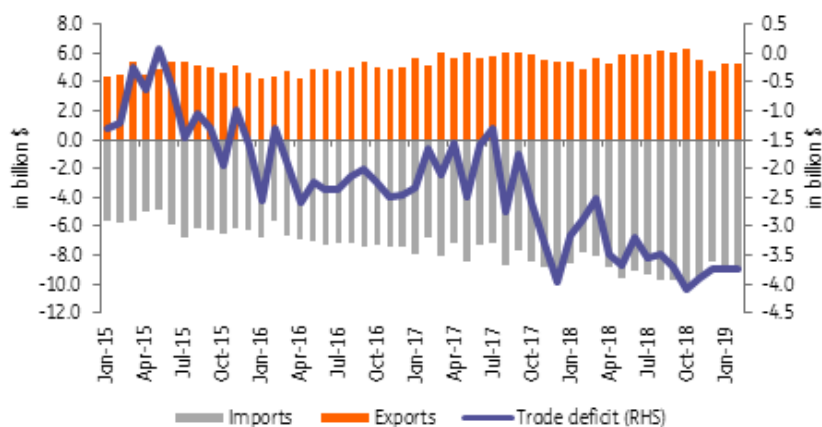
Worse than expected

Same (trade) story, different month

The Philippines posted a trade deficit of US\$3.76 billion. Exports continued to contract while import growth was at 5.8%. As expected, the contraction in the fuel import bill weighed on the overall sector while capital goods and raw materials posted single-digit growth. Consumer goods saw a sizeable expansion, up 19.1%. Domestic consumption remains strong although the slowdown in the capital goods and raw materials numbers could show that capital formation may have reached its peak. Imports of raw materials related to construction - such as iron and steel and non-ferrous metals - posted contractions while raw material imports used for exports was up 5.1%.

Exports recorded a third month of contraction with the mainstay electronics subsector managing to eke out a 1.7% expansion. The rest of the export sector posted a 5.3% contraction despite the protracted weakness of the PHP. This might have cushioned the impact of the US-China trade war somewhat, given that it buys exports some time and helps preserve local currency earnings. With raw materials used for electronic exports growing by 5.1%, this could mean that exporters are building up on work in process and raw material inventory for a possible rebound in 2019, despite the US-China trade spat.

Philippine exports, imports and trade gap (in billion \$)



Source: Bloomberg

Some trends to monitor

Imports will likely continue to grow, albeit at a more subdued pace in 2019. The fuel import bill is expected to contract (given the \$ price of oil versus 2018) and both the capital goods and raw materials accounts are likely at or past peak. Elevated borrowing costs may have been hampering some of the capital expansion although, given the prospects for the economy, corporates and the government remain bullish with capital outlay plans announced. Consumer import growth shows that household spending will likely regain prominence in 2019. Passenger car imports are up 14.6% with car dealers looking to rebound from the dismal performance in 2018 on TRAIN-related base effects.

On the export side, outbound shipments remain heavily dependent on the electronics trade. The rise in raw materials imports for electronic exports appears to be increasing in dollar terms, which should give hope for a turnaround in 2019. However the ongoing trade war means that the Philippine export sector will need to continue to build on sector-changing reforms to help boost productivity, by enhancing supply chains and increasing standards. With the government's "build build build" initiative seen to help boost efficiencies, perhaps the export sector can take advantage of this push and we can see the export renaissance that we've all been waiting for.

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 <http://www.ing.com>.