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Snap

Philippines: November Remittances Disappoint

The Philippine peso's (PHP) bias for weakness is due to challenging external payments as November overseas worker remittances slow to 2% YoY

Slower growth from major sources of remittances

November cash remittances slowed to 2% YoY from November 2016's growth of 18.5% and from October 2017's growth of 8.4%. The 11-month growth of total remittances is 4% which is in line with the central bank's forecast growth of 4% in 2017. Slower remittances were seen in most regions and major host economies. Remittances from Japan slowed to 2.8% YoY in November bringing 11-month growth to 7% from the 10-month average of 7.4%. Remittances from the US also slowed to 2.4% YoY, bringing the 11-month growth rate to 5.5%. The US remains the largest source of remittances with an 11-month share of 34% while Japan is responsible for 5.2%. Remittances from the Middle East, which accounts for 28% of total remittances, contracted by 6% YoY in November as remittances from Saudi Arabia slid 18.5% YoY. The country accounts for 10% of total remittances. The exceptions are Asian and European regions. Remittances from other Asian economies offset the slowdown from Japan and pushed regional remittance growth to 13% YoY in November to bring the 11-month growth rate to 6.2%. Remittances from Asia account for 19% of the total. Remittances from Europe increased by 6.2% YoY in November and brought the 11-month growth rate to 1.5% from only 1% for the 10-month period. Sustained recoveries in these regions partially offset the slower US, Middle East and Japanese remittances. However, we expect a seasonal rise in December due to the Christmas holidays.

2% YoY

Worse than expected

November Remittances slow

Negative base effects only?

PHP weakness as remittances cannot finance the trade deficit

Overseas worker remittances of $2.3bn is $1.5bn short of fully financing the November trade deficit of $3.8bn. The 11-month shortfall amounted to $413m, a reversal of the $107m surplus in the same 11-month period in 2016 and a major collapse from the 11-month surplus of $12.6bn in 2015. Strong import growth reflects a vibrant domestic economy. Rising government infrastructure and business spending together with steady consumer spending growth have driven economic growth of 6.5% in 2015 and 2016 and 6.7% in 2017. We expect these drivers of growth to keep the economy growing by 6.7% this year and keep imports strong. The shortfall of remittances against the wider trade deficit in 2018 could worsen to between $1bn and $2bn. This imbalance would likely keep PHP on the defensive unless foreign direct investments rise as they did in 4Q 2017.

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