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Snap

Philippines: November trade deficit shrinks to $3.9bn

Import growth slows, but exports actually shrink

-$3.9bn

November trade deficit
Better than expected as car imports contract sharply

Same story different month

The Philippine trade story remains the same with imports running well ahead of outbound shipments. Imports for November grew by 6.8%YoY versus Bloomberg consensus forecasts for a 13.3% print while exports struggled, posting negative growth at -0.3% when expectations were at 5.5%.

Fuel, raw materials and capital goods remained the largest contributors to overall import growth, expanding by 34.1%, 6.7%, and 4.9% respectively. Meanwhile, imports of consumer goods posted a contraction, mainly due to the -28.1% contraction for passenger cars with the negative growth attributed to the car buying spree ahead of the 2018 TRAIN law implementation.

Meanwhile, exports slumped by -0.3%YoY with the key electronics subsector contracting by 1.6%. All other export sectors managed to post a 1.6% expansion but this was not sufficient to offset the slump in the electronics sector. For the year so far, exports have posted a disappointing -0.9% growth rate despite the protracted weakness in the PHP.

Year-to-date trade gap swells to $37.69bn

With the Philippines shifting gears in its growth story, and investment becoming more important, imports of capital machinery and raw materials have helped push the year-to-date import bill to $86.74bn, widening the trade gap to $37.69bn for the first 11 months of 2018. With both the government and corporates doubling down on this capital-intensive growth, wide trade gaps are likely to be the norm in the medium term. Meanwhile, exports have seen a nice rebound. But they continue to lag outbound shipments with more than half of the entire portfolio linked to the weak electronics sector. These products rely heavily on imported components for production, which could explain why several episodes of Peso depreciation have not been able to give the export sector the type of boost it sorely needs.

Imports slow on base effects and car imports contracted 28.1%

Going forward, the current account will likely remain in the red as imports are well ahead of outbound shipments. The PHP has been benefiting from the EM rally in the first few weeks of the year with the Fed seen to be more dovish than last year. But with the Philippines expected to post current account deficits for the foreseeable future, we expect further pressure on the PHP to return in the coming months.

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