Philippines: October trade numbers suggest a slow recovery

Imports fall at double-digit rate for ninth straight month, now in contraction for 18 months

Source: Jun Acullador

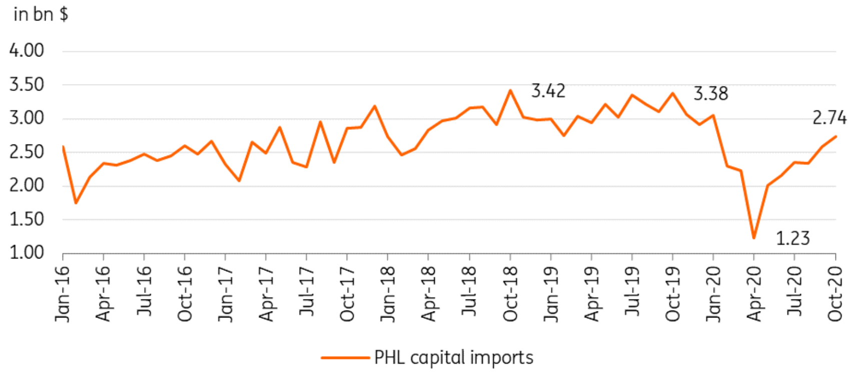
-19.5% Change in October imports

Worse than expected

Exports post 2.2% contraction while imports down for 18 straight months

Philippine October trade data showed exports remaining weak on subdued global demand while imports sustained their freefall, down for a notable 18 straight months with the economy in recession. Fast-fading domestic demand coupled with negative investment sentiment forced imports to fall at a double digit rate for the 9th consecutive month, with capital goods, a leading indicator of productive capacity, falling by 19.1%. With inbound shipments of capital machinery fading fast, we forecast a slow and arduous recovery for the Philippine economy given the likely hit on potential output. Meanwhile, a substantial drop-off in consumer goods (-21.8%) reflects hobbled domestic demand conditions, with the Philippines recording a third quarter of negative growth. The movements in trade resulted in a trade deficit of $1.77 bn, almost half the shortfall recorded in the same period in 2019 (-$3.57 bn), pointing to subdued demand for foreign currency.

Philippines capital imports (change in %)



Source: Philippine Statistics Authority

Trade trends to continue into 2021, suggest slow economic recovery

We expect the current trends of anaemic exports and freefalling imports to continue into early 2021 with both global growth and domestic demand lackluster to start the year. Despite early optimism derived from vaccine development, we believe vaccine deployment will not be instantaneous, especially in the Philippines with authorities yet to secure a single dose of the vaccine as of this writing. The absence of vaccines and a projected slow rollout (3-5 years per official government estimates) will weigh on domestic economic activity and curtail any potential recovery in investment appetite. Thus we expect import demand to recover but at a very shallow trajectory - leading to a very gradual and slow recovery for the Philippines as it operates with diminished productive capacity. The ongoing trends in trade will also translate into near-term support for PHP as corporate dollar demand remains light, with the peso forecast at 48.25 by year end with an appreciation bias going into 2021.