# Philippines: Slowing growth manifests in trade figures

Exports in fourth month of contraction while import growth momentum slows too

Source: Shutterstock

**-$2.79 billion**

February trade balance

Better than expected

## Exports in contraction for 4th month while imports remain in single digit growth

The Philippines posted a trade deficit of US$2.79 billion in February, narrower than the previous month's US$3.76 billion deficit. Exports continued to contract, led by the heavyweight electronics subsector growing only by 0.8% year-on-year. Growth was tepid at 2.6% with both raw materials and consumer goods in the red for February.

## Imports: Budget delay hits construction imports, higher rates hit capital goods

The sizeable drop in passenger car imports (-19.4%) held back the entire consumer goods imports subsector with the car industry still posting lacklustre sales numbers ahead of the imminent excise tax. Meanwhile, imports of raw materials related to construction - such as iron and steel and non-ferrous metals - continued to contract and raw material imports used for exports were down 12.7%. Fuel imports grew by 15.5% and capital goods were up by 11.5% as airline companies took delivery of new aircraft. The country's flagship carrier recently reported that it would take delivery of up to six aircraft in 2019, down from 15 in 2018.

## Exports: Electronics unable to offset overall export sector weakness

Exports recorded a fourth month of contraction with the mainstay electronics subsector managing to eke out a meagre 0.8% growth amidst the trade tensions between the US and China. The rest of the export sector posted a 2.9% fall. Raw materials used for electronic exports slipped back into negative territory, now down 12.7%, a sign of continued weak exports ahead.

## Slowing growth momentum manifests in trade figures

Slowing imports is a cause of concern. Elevated borrowing cost after the central bank's (BSP) aggressive 175 basis point rate hike in 2018 seems to be hampering capital expansion. Add to this the budget delay, which put government projects on hold. As such, capital goods imports are likely to remain weak. Meanwhile, slowing inflation should support household spending, and thereby the consumer goods import growth.

On the export side, outbound shipments remain heavily dependent on the electronics trade which has managed to post only meagre growth prints while the rest of the sector has struggled. The ongoing trade war means that the Philippine export sector will need to continue to build on reforms to boost productivity, by enhancing supply chains and increasing standards. At the same time, hopes remain pinned on a weaker currency buying them some time to stay afloat until the true export renaissance.

Until then, we expect the persistent trade deficit to continue to exert a deprecation bias on the PHP, though with the slowdown in capital goods and raw material imports, trade deficits may not be as pronounced and current account gaps should improve in the coming months.

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