Philippines: Strong 1Q growth

Strong fiscal spending and recovery of business spending more than compensated for slower household spending and weak exports. The strong economy can tolerate monetary tightening

Source: Shutterstock

6.8%

As expected

GDP growth in 1Q

Full-year growth forecast of 6.8% is intact

Acceleration in fiscal spending and recovery of investments underpin economic growth

Fiscal spending accelerated to a growth rate of 13.6% in 1Q from a flat rate in 1Q 2017 and 4Q 2017's 12% annual increase.

- Investment activity recovered from relatively modest growth during most of 2017.
- Construction activity improved with a 9% increase from an average of 8% in the last three quarters of 2017 and despite a high base of comparison in 1Q 2017. Government construction activity accelerated with a 25% year-on-year increase, more than 12 times the

pace in 1Q 2017. More notable is private construction growth of almost 7% YoY in 1Q 2018 from just around 1% in the last three quarters of 2017.
- Business spending on production also recovered. Durable equipment investments also accelerated from 3-6% growth in the last nine months of last year.
- Household spending slowed to 5.6% from 5.9% in 1Q 2017 and form 6.2% in 4Q. We attribute the marginal deceleration to higher inflation. Food, alcoholic and tobacco consumption and transportation contracted in 1Q but spending on housing and utilities, household equipment communication and recreation accelerated.

Outlook for 2018 and beyond

We expect fiscal spending, business and household spending to continue to drive growth in 2018 and 2019. We retain our 6.8% full-year 2018 growth forecast. The moderation of inflation together with election spending for the mid-term election will spur greater household spending and also support a 6.9% 2019 growth rate. These drivers of growth can easily withstand measured monetary tightening this year and next. Market interest rates have reflected higher inflation and higher policy rates. We have seen strength in the economy during this period of rising financing costs.