# Philippines: Surprise export growth not likely to last much longer

Philippine exports managed to post 9.7%YoY growth in January, although the trade gap widened to -US$3.49bn as imports rose 1.0%

Source: Jun Acullador

## January trade numbers likely not capturing Covid-19 impact

Philippine exports continued to grow in January, showing 9.7%YoY growth after the 21.7% jump posted in December 2019 and was likely driven by orders related to the much-anticipated Phase 1 US-China trade deal. Outbound shipments to the Philippines' top 3 export destinations were up 13.5% with exports to the United States, Japan and Hong Kong up 12.9%, 5.2% and 25.5%, respectively. The 9.7% gain was driven largely by the mainstay electronics subsector, which grew 15.8% as semiconductor exports surged 21.9%. In the coming months, we may expect a drop in demand for these electronic components as the global supply chain is impaired by work stoppages and depressed demand due to Covid-19. A projected slowdown or contraction in electronics exports will likely drag on the entire export sector in 2020.

## Imports manage to gain 1.0% but oil impact could weigh on import bill

Imports finally posted a gain of 1.0% after posting 9 straight months of contraction as fuel imports rose sharply by 20.2%YoY and capital imports inched up 1.7%. Inbound shipments from China jumped 16.4%, but this pace of growth will not be sustained in the near term given logistical concerns and of manufacturing due to the Covid-19 virus. Meanwhile, the substantial drop in crude oil prices following the failure of the OPEC+ negotiations will likely lead to a smaller energy import bill and raw materials, which posted a 3.7% drop in January, will continue to remain subdued as imports from China slow down.

## Imports could reverse to contraction in coming months

After exports gained 9.7% and imports inched up 1.0%, the trade balance showed a deficit of US$3.49bn, a 10.7% narrowing from January 2019. The narrowing trade deficit may be one reason why the Peso has managed to remain resilient despite Covid-19 concerns. In the coming months however, we can expect a downtrend for both exports and imports as global trade will likely pull back on supply chain disruptions linked to the virus outbreak. Imports from China, despite posting a decent rebound in January, will likely contract, with the bulk of these imports being raw materials for construction or re-export. This development may be crucial for the government and its ambitious infrastructure plans as iron and steel are sourced from China, which could lead to delays in the government's construction efforts. Meanwhile, Philippine exports may also revert to a contraction in the coming months as raw materials used in the production of goods for re-export fail to arrive, resulting in softer exports. In the coming months, we can expect both exports and imports to face weakness. The overall trade deficit should remain sizeable, at roughly US$3.3bn, which could also translate into current account deficits. The peso's fate will be tied to financial market flows, and hangs in the balance, as further monetary easing from global central banks tries to offset market retrenchment.