Philippines: Trade activity sustains double digit growth but trend could be reversed as mobility curbs reinstated

June trade report showed double-digit growth for exports and imports.

Source: Jun Acullador

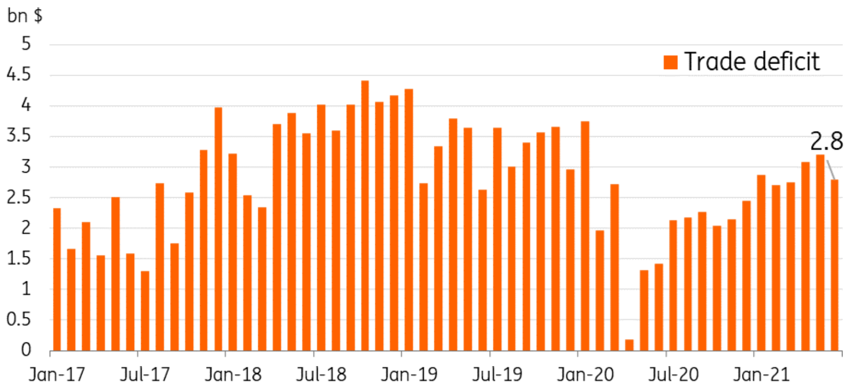
$2.83bn June trade deficit

Worse than expected

Trade balance settles at $2.83bn

Philippine exports and imports posted faster-than-expected growth in June, reflecting improved economic conditions in 2021 relative to 2020. Strict mobility restrictions imposed in 1Q 2021 slowed trade considerably, affecting both outbound shipments of goods as well as demand for imports. The overall June trade balance settled at -$2.83 bn, wider than the average trade deficit in 2020 of $2.0 bn, which could be enough to push the current account back into deficit for the month. These trends however may reverse as early as August with authorities reinstating the tightest level of mobility restrictions in the capital region and surrounding provinces after confirming the spread of the Covid-19 delta variant in the country. Should these curbs persist past the current two-week schedule, we could see overall trade flows diminish in the coming months.

Trade deficit wider in 2021 as imports rebound



Source: Philippine Statistics Authority

Trade trends could reverse but weaker PHP still likely

The import implosion in 2020 was one factor that may have played a role in the PHP's appreciation trend last year, as the Philippine current account balance swung back into surplus for the first time since 2017. This year, the rebound in imports has caused the trade deficit to widen, and the overall current account balance looks likely to revert to deficit territory. This development, alongside the recent resurgence of the dollar, has combined to push the peso weaker by 4.7% year-to-date. The reimposition of lockdowns across the country may force recent trade trends to reverse but we doubt another round of import decline in 2021 will be enough to duplicate the PHP appreciation trend we saw last year. An overall stronger dollar coupled with portfolio outflows tied to growing concerns about the Philippine growth trajectory are likely to drive PHP direction in the coming months even if the trade deficit narrows from its current level of $2.83 bn.

Author

Nicholas Mapa
Senior Economist, Philippines
nicholas.antonio.mapa@asia.ing.com