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Philippines: Trade data points to more of the same in 2021 with economy in recession

Philippine January trade data showed both exports and imports contracting as the economy remains in recession

Source: Shutterstock

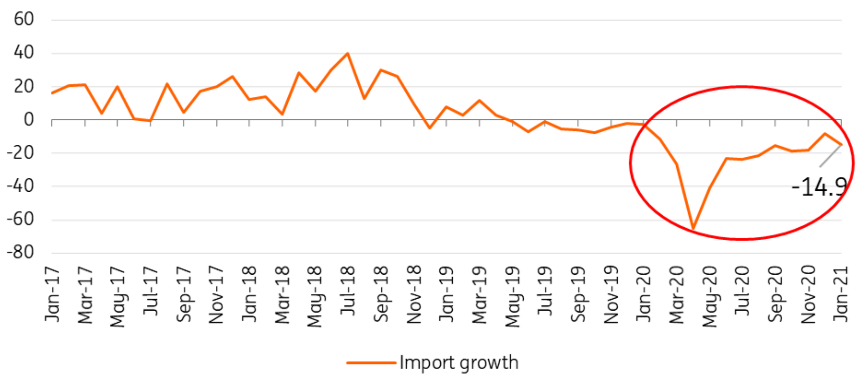
21 months imports have been in contraction

More of the same with economy stuck in recession

Trends in Philippine trade continued in 2021 with both exports and imports registering contractions to open the year. Exports fell sharply in January despite a marginal increase in the country's mainstay electronics sector (+0.3%), which received a boost from exports of medical instrumentation (+84.3%) as demand for this equipment picked up as a result of the pandemic. The growth of electronics exports was eclipsed by weakness in exports of other manufactured goods (-12.8%), transport equipment (-11.9%), bananas (-46.9%), coconut oil (-11.7%) and a substantial 22.9% drop in "other" exports. The poor showing of exports related to food manufactures is tied to recent storm damage that hurt crop production and weighed on 4Q 2020 GDP.

Imports have now been in the red for 21 months and counting, with all sub-sectors posting declines in January. The sustained drop in imports highlights the negative impact of the recession with a 14.8% drop in capital goods mirroring falling capital formation while the 12.9% contraction in consumer goods reflects fast-fading household consumption.

21 months of falling imports and counting (YoY%)



Source: Philippine Statistics Authority

Weak imports point to weaker GDP and stronger PHP

The ongoing slump in imports suggests that growth pains for the Philippines will be around for some time with the sustained drop in capital goods and raw materials suggesting that potential output is falling as well. Heavy machinery for construction, commercial aircraft, and road vehicles have all fallen sharply, which will dent capital formation and cap any recovery effort for an economy still struggling with recession. Meanwhile, weak imports have translated to soft corporate demand for the US dollar, which has been one of the key factors behind the PHP's resilience over the past few months. With the trade deficit now hovering at roughly $2 bn a month (compared to $3.3 bn prior to Covid-19), we can expect soft corporate demand for the dollar to help support PHP in the near term.

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