Philippines: Trade deficit expected to widen further in coming months

The trade deficit settled at $4.7 bn but could widen further as oil prices surge

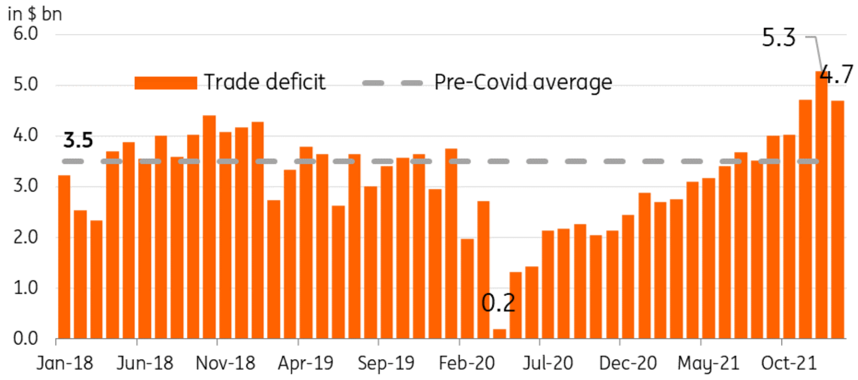
Source: Shutterstock

$4.7 bn January trade deficit

Trade deficit sizable at $4.7bn

January trade figures continued the trend of modest expansion for exports coupled with surging imports. Exports managed to post growth of 8.9%YoY, helped along by the steady demand for semiconductors and circuitry. Meanwhile, imports grew 27.5%YoY after recording double-digit growth across most major sectors. Capital goods, raw materials, consumer goods and fuel & minerals all showed sizable gains for the month as the economy gradually reopens after months of restrictions. In terms of the trade balance, the trade deficit narrowed slightly to $4.7bn from $5.2 bn which likely kept the current account balance in deficit territory.

Trade gap expected to widen further in the coming months



Source: Philippine Statistics Authority

Gap likely to yawn further

Currently, the trade deficit of $4.7 bn is already well above the pre-Covid average of $3.5 bn. In the coming months, we expect the trade gap to yawn further especially with the oil import bill forecast to bloat due to expensive crude. The fuel import bill could swell from $1.4 bn to $2.1 bn due to pricier global crude, causing the overall trade deficit to deteriorate further. A wider trade gap spells depreciation for the peso which is down 2.4% for the year. More expensive energy and a weaker currency will likely feed through to faster inflation in the near term despite the central bank's expectation that inflation will remain within target for the year. We will need to revise our inflation projections and a breach in the inflation target can not be ruled out at this point.

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