Philippines: Trade deficit improves but exports remain in contraction

The import growth is negative as all subsectors are in contraction

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-$3.75 bn December trade gap

Better than expected

Trade gap improves but exports remain in contraction

The Philippines posted a trade deficit of US$3.75 billion with exports remaining in contraction while import growth slowed sharply (-9.4%). All subsectors of imports showed negative growth with capital goods, raw materials, fuel and consumer goods all in the red to close out the year. Consumer imports were once again hit by the one-off effects of the car buying spree in late 2017, but we are mildly concerned about the surprise pullback in capital goods and raw materials. If this continues, this could show that recent aggressive tightening by the BSP is starting to bite into investment appetite, hampering the nascent investment-driven growth story that we have witnessed of late.

Exports slumped again by -12.3% YoY with the key electronics subsector dragging on the entire sector, down 15.2% while the rest of the export base contracting by 8.2% with global trade likely starting to see the ill effects of the ongoing US-China trade spat. For the year so far, exports have posted a disappointing -1.8% growth rate, indicating that the sector may need more than just a depreciating currency to take off.

2018 trade gap swells to US$41.4bn, wider by 51.3%

Despite the blip in December, import growth registered a solid 13.4% expansion, bannered by capital goods (12.9%) and raw materials (13.8%) as the Philippines attempts to move into a more investment-driven growth story. The recent tightening cycle by the central bank may hinder this growth to some extent while fuel imports will also likely be smaller in 2019, leading us to expect only single-digit growth in the import bill for the year. Meanwhile, exports are seen to remain lacklustre given the dependence on the electronics sector to carry the entire export base, all the more given the external environment and the US-China trade war. Despite the continued weakening of the Peso, export performance has not gained the so-called competitive edge that we had hoped it would derive from a weaker currency. Much more will be needed to get the export base off the ground. Overall, the trade gap will remain relatively wide in 2019, which could continue to exert a weakening bias on the Peso throughout the year.