

Philippines: Trade deficit improves but exports remain in contraction

The import growth is negative as all subsectors are in contraction



Source: Shutterstock

-\$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.

Author

Nicholas Mapa

Senior Economist, Philippines

nicholas.antonio.mapa@asia.ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.