Philippines: Trade deficit swells to widest this year

Imports continue to surge while exports underperform, yielding the widest trade gap year to date and keeping the current account in the red

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-$3.93 bn September trade balance

Worse than expected

Imports sustain double-digit expansion, up by 26.1% while exports contract by 2.6%

Philippine imports for September grew by a whopping 26.1% while exports remained in the doldrums, falling by 2.6%. Capital equipment, raw materials and the oil bill powered overall import growth, translating to annual growth rates of 16.4%, 15.9%, and 23.4% respectively. Positive demand was seen across all import subsectors with consumer goods posting a 22.2% increase in September alone despite the 10.3% contraction in passenger car imports.

On outbound shipments, electronics exports, which account for more than half of the entire export bill (58.6% of the total), grew by 4.2% but were unable to offset the 10.9% drop in all other exports.

Imports sustain growth while exports underperform despite weaker peso

The trade deficit in September of $3.93 billion indicates that the current account will likely remain in the red. Capital imports and raw material growth are not expected to slow down in the near term as imports feed the burgeoning economy. Raw materials used for construction (iron, steel, metals, non-ferrous metals) posted 42.4% growth in September, reflecting the aggressive building plans of the private sector and government alike. The nine-month 2018 trade deficit reached $29.91 billion, 70.5% wider than the deficit of $17.54 bn in the same nine-month period of 2017.

Despite protracted weakness in the Philippine peso, exports continue to underperform, posting a 2% contraction YTD after a 2.6% fall in September. In turn, the weaker currency may have contributed to imported inflation, with more expensive import costs being passed on to the consumer.

Robust import growth reflects a healthy and burgeoning economy moving into a higher growth path but exports remain the missing link to the new Philippine growth story. Going forward, the current account will likely remain in deficit with the Philippine peso looking to structural flows such as remittances ahead of the holiday season and the capital and financial account for support.

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