

Philippines: Trade deficit widens further as exports contract

Exports unexpectedly contract as mainstay electronics shipments slide



Source: Shutterstock

\$5.9bn

July trade deficit

New all-time low

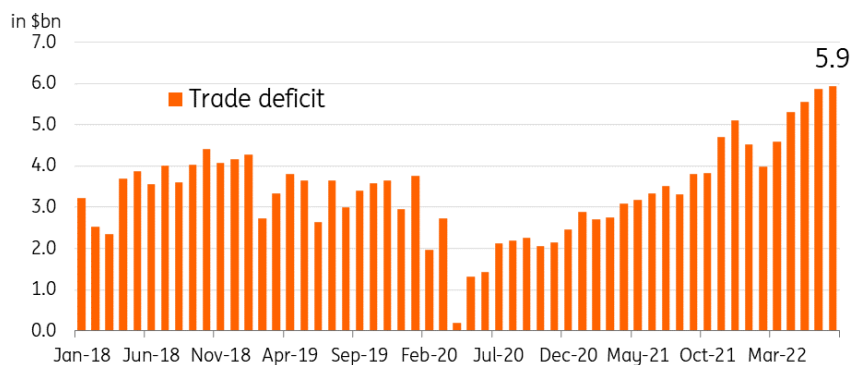
As expected

Trade deficit hits new low

Philippine July trade data show the trade deficit widening further to \$5.9bn, hitting a new record low. Imports sustained the recent trend of double-digit gains (21.5%YoY) while exports unexpectedly fell by 4.2%. Electronic exports, which account for the bulk of total outbound shipments, fell for a second straight month to post a contraction of 7.9%. [Softer demand for electronics](#) will likely persist, which does not bode well for the Philippine export sector.

Imports posted another month of strong gains but the increase can be tied to pricey energy and food imports. Fuel imports jumped 86.5% due to higher prices while cereal imports rose 64.7% due to domestic supply shortages. The extremely wide trade deficit suggests that the current account will also stay in the red, which should add to pressure on the PHP to weaken in the coming months.

Trade deficit hits a record low as exports unexpectedly contract



Source: Philippine Statistics Authority

Weak currency magnifies headwinds

The PHP has been on a downtrend in recent months and is currently the worst performing currency among ASEAN peers. A weaker currency tends to magnify headwinds faced by the Philippines as it fans imported inflation, reflecting the Philippines' reliance on imported food and energy items. Supply chain shocks, resurgent demand and a weaker currency have all contributed to inflation charging past target (currently at 6.3%YoY), hampering the economic recovery. Bangko Sentral ng Pilipinas (BSP) Governor Medalla recently expressed his concern about the impact of a weaker currency on the inflation path. Given expectations that the current account deficit will persist, we now expect BSP to front-load tightening, with a 50bp rate hike at the meeting on 22 September.