Philippines: Trade deficit widens in July to third worst on record

Domestic demand continues to drive strong import growth which has not been matched by exports. Import growth accelerated 32% year-on-year in July, the fastest rate since June 2016 while exports languished, eking out a 0.3% gain in July

Source: Shutterstock

-$3.55bn

July trade balance

Third worst trade balance on record

Worse than expected

Imports roar by 31.6% while exports are flat at 0.3%

- Philippine imports in July accelerated by 32% YoY to deliver another month of robust growth. Capital equipment, oil and consumer imports powered overall import growth, translating to annual growth rates of 39%, 36% and 22%, respectively.

- Positive demand was seen across all subsectors, reflecting strong expansion in the GDP components of consumption, investment and government spending.
- Electronics exports, which account for 56% of the total, managed to post a decent 5.2% annual growth rate in July, helping to offset the struggles of other sectors but overall outbound shipments only managed a feeble 0.3% rate.
- The prospects for sustained growth of this export sector for August are high given strong electronics imports in July.
- The strong import performance coupled with a weak export sector resulted in a further widening of the trade deficit.

Third worst trade deficit

- The trade deficit in July of $3.55 billion was the third worst trade deficit on record and also the third worst trade deficit during this administration. The worst trade deficit of $3.97 billion was posted in December 2017 while the second worst was in May 2018 (at -$3.69 billion). The 7-month 2018 trade deficit reached $22.5 billion, 72% wider than the deficit of $13.1 billion in the same 7-month period of 2017.
- The weak Philippine peso contributed to the weak trade performance. PHP depreciated by 5.5% in July, by an average 4.3% for the 7-month period and by 6% for the year to the end of July. Recent strong rhetoric from the central bank in response to soaring inflation and to a weakening PHP could help to stem the currency's weakness and prevent the trade gap from widening further.

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