Philippines: Trade deficits continue

External payments imbalances continue as May registers the widest trade gap for this year

Source: Shutterstock

-$3.7bn

May trade balance

Five-month trade deficit at -$15.7bn

Worse than expected

Import growth reflects a strong domestically driven economy while exports remain weak despite years of PHP weakness.

Philippine imports increased by 11.4% YoY in May. Imports posted a five-month average growth of 11%. We attribute the sustained growth in imports to the sustained expansion of the domestic economy. Capital goods imports rose 10% YoY in May and posted an average 16% growth for 5M18 - faster than the average 11% increase for 5M17. Consumer goods imports were 12% higher for May and for the five month period. The country's oil bill was up 42% in May and an average 18% up for the first five months. Electronics imports, which account for 26% of total imports, were 16% higher YoY in May and posted a five-month average of around 15%. Exports remained weak with a YoY contraction of 3.8%, and of 5% for the five-month period. Electronics exports, which account for 54% of total exports, were 2.3% higher YoY in May and averaged at roughly 8% for the year-to-May. Non-electronics exports dropped by around 12% YoY in May and by an average of 14% for the period. The weak PHP since 2012 has not corrected the imbalance generated by strong domestic demand and by strong imports and weak exports. The export sector is largely a one-product one. Without improvements in the structure of the export sector and implementation of countercyclical economic policy to moderate imports, we expect a deterioration in the imbalance. We expect the trade deficit (on a BoP basis) to worsen to $46-50bn this year from just $41bn in 2017. The deterioration would keep PHP on a weakening path.