Philippines: trade gap widens as exports slip

The Philippine trade gap widened more than expected, rekindling current account concerns reminiscent of 2018

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Trade gap widens more than expected

The Philippines posted a $3.34 billion trade deficit in November, slightly wider than market expectations (Bloomberg median at $3.25 billion) as exports contracted. Imports also remained in the red due to a drop in inbound orders for construction materials tied to the almost six-month delay in the fiscal budget. For the year, the trade deficit hit $34.6 billion, a slight improvement from the same period in 2018 (-$39.4 billion), but we expect a different story in 2020.

Trade gap to widen in 2020

In the coming year, we expect the trade gap to widen due to a recovery in imports and a possible drop in export performance. With the fiscal budget for 2020 and 2019 operating simultaneously, we expect a resumption of raw materials imports linked to construction and energy imports (higher dollar price of crude). Meanwhile, the central bank's move to rework its recent aggressive tightening will continue to help revitalise investment activity, translating into imports of capital goods and consumer durables. Export growth will be hard pressed to rebound from its 2019 performance given the recent drop in imports of raw materials used in electronics exports (down 13% year-to-date), which could point to weak orders for the Philippines' mainstay electronics export items.

A wider trade gap in 2020 could mean a weaker peso

The trade balance provided a boost to GDP (narrower trade gap) in 2019. This supported the peso, which was the second best performing currency in the region. With GDP growth picking up, we see a renewed widening of the trade gap as imports increase again, which in turn would exert downward pressure on the peso in 2020.