Philippines: Worsening trade balance to hit currency

The trade deficit of $4bn in December is a record high and worsened the overall trade deficit to $30bn in 2017. Soft exports and strong imports mean further balance of trade deterioration in 2018 and are likely to lead to PHP weakness

Source: Shutterstock

-$4bn

December trade deficit

Record high

Worse than expected

Imports outpacing exports lead to wider trade gaps and weaker Philippine Peso

Soft export growth and sustained high imports account for the deterioration of the trade balance. December's trade deficit of $4bn is a record high and worsened the overall trade balance to a deficit of $29.8bn in 2017. This is $3bn worse than 2016. The trade deficit is likely to worsen to $35bn in 2018 on 11% import growth and an 8% export increase. Exports are likely to moderate after the 9.5% YoY rebound in 2017, largely due to favorable base effects. Exports net of electronics drag overall export performance in December and in 2017. The export sector remains shallow and relies heavily on electronics exports which account for almost 50% of total exports. Imports are likely to remain strong in 2018. Domestic demand driven economic growth will continue to see strong imports of consumer goods, capital equipment and oil. Consumer goods imports were 16% higher YoY in December and 10% stronger in 2017. The double-digit growth of capital equipment imports in November and December brought the full-year gain to 5.3%. Durable equipment investments are likely to sustain the upturn. Oil imports soared, with December growth of 65% bringing the full year increase to 34%. The worsening trade balance will likely lead to another year of underperformance for the Philippine peso. Yesterday's relatively dovish central bank assessment of inflation for 2019 also contributes to the weakness.