



AKI

Angelo King Institute
for Economic and Business Studies

Monitoring the Philippine Economy Fourth Quarter Report for 2017

Project of Angelo King Institute

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Fourth quarter economic performance: Philippine economy experienced robust growth of 6.6 percent, a maintained year-on-year (y-o-y) growth from the previous year.

Fourth quarter 2017 Philippine GDP grew slower at 6.6 percent making the 6.7 percent year-on-year (y-o-y) 2017 growth lower than the 6.9 percent y-o-y growth recorded in 2016.

On the demand side, growth acceleration in government consumption offset the deceleration in private consumption and gross capital fixed formation. Trade deficit widened due to growing imports vis-à-vis declining exports. On the supply side, all sectors were able to register positive growth rates. However, only the agriculture sector reflected improved growth. Industry and service sector experienced slight reduction in growth relative to the previous year.

Major components of aggregate demand

Private consumption remains static. Overall, household spending in the fourth quarter grew slightly slower at 6.1 percent y-o-y relative to its 6.2 percent growth the previous year. The Philippine Statistics Authority (PSA)² accounted expansions in some components of Household Final Consumption Expenditure such as furnishings, household equipment and routine household maintenance (from 1.7 percent y-o-y to 10.5 percent y-o-y), housing, water, electricity, gas and other fuels (from 5.9 percent y-o-y to 9.5 percent y-o-y), and restaurants and hotels (from 6.2 percent y-o-y to 9.5 percent y-o-y). On the other hand, these were offset by contractions in alcoholic beverages and tobacco (from 4.2 percent y-o-y to -7.6 percent y-o-y), transport (from 12.4 percent y-o-y to 2.2 percent y-o-y), and health (from 6.2 percent y-o-y to 4.6 percent y-o-y).

Contraction in domestic investment growth. Gross fixed capital formation growth decelerated to 8.2 percent from the 14.7 percent growth the previous year. According to PSA³, investments in Intellectual Property Products (IPP) achieved an increased growth of

¹ Report is based on latest available data as of February 6, 2018. For comments and questions, please email mitzie.conchada@dlsu.edu.ph

² <http://psa.gov.ph/nap-press-release/sector/Household%20Final%20Consumption>

³ <http://psa.gov.ph/nap-press-release/sector/Capital%20Formation>

35.3 percent from 29.0 percent growth the previous year. This was caused mainly by the heightened investment in Computer Software and Databases in the country. Meanwhile, durable equipment, construction, and breeding stock & orchard development all reflected a decreased y-o-y growth of 12.1 percent, 2.9 percent, and 2.5 percent, respectively.

Rising government expenditures. Government expenditures increased to 14.3 percent from 4.5 percent the previous year. PSA disclosed that among the factors for the acceleration are releases of year-end bonuses and cash gifts of government employees, including performance-based bonuses of some agencies, and the filling up of government positions. Additional spending came from relief works and operations in Marawi, increased school expenses for normalizing operations, as well as for drugs and medicines in rehabilitation. Also, payments for completed ASEAN-related events significantly contributed in the increased growth of government expenditures.⁴

Trade deficit widened. At the end of December, the Philippines registered a widened trade deficit of 4.02 billion USD from the 2.47 billion USD deficit the previous year. Exports and imports were recorded at 4.72 billion USD (-4.9 percent growth y-o-y) and 8.74 billion USD (17.6 percent growth y-o-y), respectively. The decline in export sales was caused by decreased sales of four out of the top ten commodities for the month, namely coconut oil (-56.7 percent), ignition wiring set and other wiring sets used for vehicles, aircrafts and ships (-27.1 percent), other manufactured goods (-24.4 percent), and metal components (-3.0 percent). In contrast, the remarkable growth in imports was caused by increased purchases of nine out of the top ten major import commodities for the month, namely mineral fuels, lubricants and related materials (61.8 percent), miscellaneous manufactured articles (26.6 percent), electronic products (20.3 percent), telecommunication equipment and electrical machinery (18.2 percent), iron and steel (17.9 percent), metalliferous ores and metal scrap (14.3 percent), transport equipment (3.8 percent), plastics in primary and non-primary forms (3.5 percent), and industrial machinery and equipment (1.4 percent).⁵

Major components of aggregate supply

In this report, we present results from an alternative to the “traditional” (TRAD) method of decomposing growth of GDP in constant prices into sector contributions. This alternative method is a “generalized” (GEN) growth decomposition that applies to GDP in constant prices (e.g., in the Philippines) and to GDP in chained prices (e.g., in Canada and the US). While TRAD recognizes only “quantity” growth as the source of a sector’s contribution to GDP growth, GEN posits that a sector’s contribution comes from “quantity” growth and from “real price” growth where this price is, by definition, the ratio of a sector’s deflator to the overall GDP deflator. The GDP deflator as the common denominator of the above ratio makes real GDP the numeraire and, thus, this ratio is the relative price or exchange value of

⁴ <http://psa.gov.ph/nap-press-release/sector/Government%20Final%20Consumption>

⁵ <https://psa.gov.ph/content/highlights-philippine-export-and-import-statistics-december-2017>

the GDP of a sector in “GDP units,” i.e., the “real price” of a sector’s GDP. Therefore, a sector’s positive “quantity” growth contribution will be diminished if accompanied by a negative “real price” growth of the same sector that may even result in a negative net contribution by the sector to GDP growth. On the other hand, a sector’s positive “quantity” growth contribution will be enhanced if accompanied by a positive “real price” growth (see Table 3).⁶

Services sector remains the highest contributor to supply-side growth. Services sector exhibited the highest contribution to growth, with 4.39 percentage points from positive quantity and real price growth (see Table 3). The sector expanded 6.8 percent, which was slower than the 7.2 percent growth the previous year. Its share of GDP maintained its robustness at 55.9 percent from last year’s 55.8 percent. Top contributors in the service sector for Q4 2017 were the same ones as those in the previous quarter and year: trade and repair of vehicles, personal, and household goods (TR), real estate renting and business activity (RERBA), and other services (OS) with 31.1 percent, 19.5 percent, and 18.0 percent, respectively.

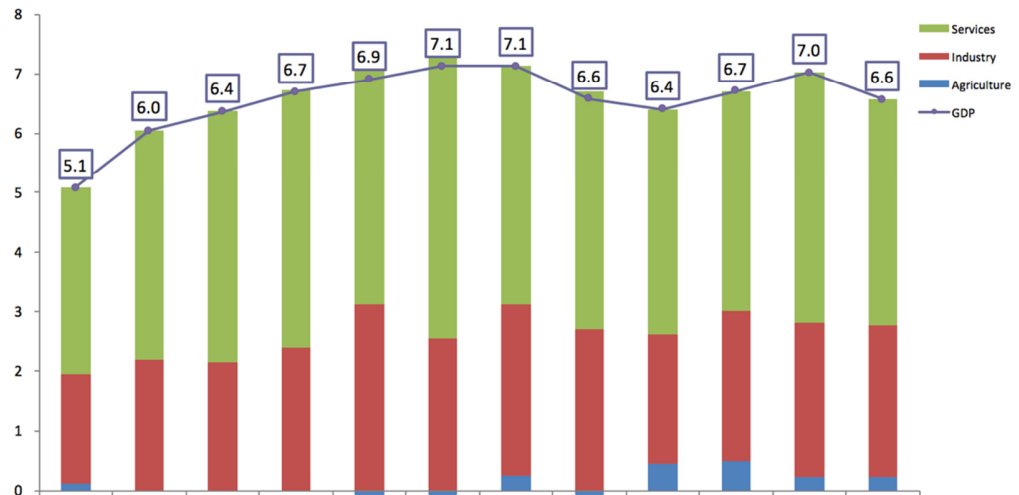
Manufacturing is the main driver of industry sector growth. Industry sector contributed 2.17 percentage points to GDP growth. The industry sector grew by 7.3 percent, a bit sluggish than the 7.9 percent growth the previous year. Manufacturing (MAN) remained as the top contributor to the industry, with 71.5 percent share in the sector. Also, MAN served as the largest contributor in the group with 1.36 percentage points to total GDP growth (Table 3).

Agriculture sector rebounds. The Agriculture sector as a whole rebounded with a growth of 2.4 percent in Q4 2017, compared to the negative growth of 1.3 the previous year and, as a result, contributed 0.72 percentage points to GDP growth with 0.27 percentage points from quantity growth alone. Agriculture, which accounted 82.5 percent of the total AHFF sector, recovered with an increased performance of 3.0 percent growth from a 0.7 percent decrease the previous year. Likewise, forestry grew by 1.0 percent vis-à-vis 6.6 percent decline the previous year. On the other hand, fishing, which accounted for 17.4 percent of the total AHFF sector, declined by 0.5 percent y-o-y (see Table 3).⁷

⁶ The results in Table 3 are AKI-DLSU *Philippine Economic Monitor* calculations by applying the data in Table 1 to a “generalized” (GEN) exactly additive decomposition of GDP growth into *pure growth effect* (PGE) and *price change effect* (PCE) as an alternative to the “traditional” (TRAD) GDP growth decomposition. Analytically, PGE is the result of real GDP or “quantity” growth holding real price constant and PCE is the result of relative price or “real price” growth holding quantity constant. The GEN formulas for PGE and PCE and the TRAD formula are given, respectively, by equations (12), (13), and (17) in Dumagan, Jesus C. (2016), “Effects of Relative Prices on Contributions to the Level and Growth of Real GDP,” Working Paper Series No. 2016-036, Angelo King Institute for Economic and Business Studies, De La Salle University, Manila. This alternative framework follows from the decomposition of “aggregate labor productivity” (ALP) growth in Dumagan, Jesus C. (2013), “A Generalized Exactly Additive Decomposition of Aggregate Labor Productivity Growth,” *Review of Income and Wealth*, 59 (Issue 1): 157-168, where ALP is the ratio of GDP to total labor employment. Thus, by removing the labor variable, the decomposition of ALP growth in the latter paper yields the decomposition of GDP growth into PGE and PCE in the former paper which is implemented in Table 2.

⁷ <http://psa.gov.ph/nap-press-release/sector/Agriculture%2C%20Hunting%2C%20Forestry%20and%20Fishing>

Figure 1. Contributions to GDP growth (y-o-y, %) from Aggregate Supply



Source: Author's calculations based on data in Table 3 below.

Challenges facing the economy

1. **Peso continues to depreciate against the US dollar**⁸. The peso slightly depreciated by 0.19 percent to average ₱50.93/US\$1, on a quarter-on-quarter (q-o-q) basis, from the previous average of ₱50.84/US\$1. Furthermore, on a y-o-y basis, peso depreciated by 3.59 percent, from the previous year's ₱49.11/US\$1 average. The peso depreciation or dollar appreciation was mainly caused by expectations of a rosier GDP in the US.
2. **Unfavorable economic factors may jeopardize the economy**⁹. Depreciation of the peso, higher crude oil prices, and potential transitory effects on consumer prices that may arise from the proposed tax reform program serve as challenges the Philippine economy has to overcome.

⁸ http://www.bsp.gov.ph/downloads/Publications/2017/IR4qtr_2017.pdf

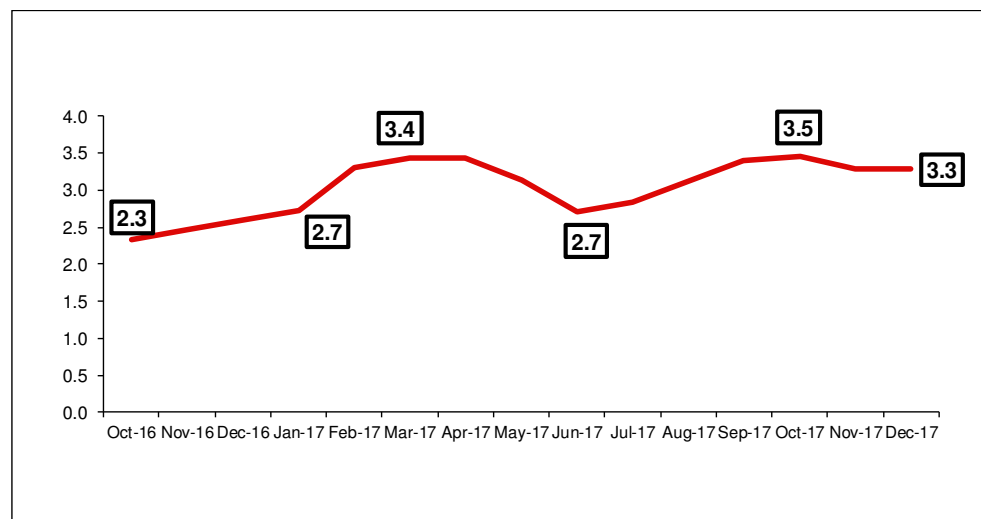
⁹ http://www.bsp.gov.ph/downloads/Publications/2017/IR4qtr_2017.pdf

- Weather disturbances adversely impact the economy.** Unexpected inclement weather conditions, natural disasters, and the like distract agricultural activities and negatively affect the domestic supply in the country. These harsh conditions may worsen poverty level, unemployment rate, and threaten food security, especially for the poor Filipinos. Infrastructure improvements are deemed vital to augment agriculture sector's resiliency.

Other economic news

- Stock market records increase PSEi¹⁰.** For the fourth quarter, PSEi reported an increase q-o-q of 4.2 percent to average 8,354.1 index points. Robust quarterly GDP growth reports, favorable legislation for the tax reform program, and recent credit rating upgrade induced optimistic investor confidence on Philippine assets.
- Inflation level slightly increases but remains within target range¹¹.** BSP reported an average headline inflation of 3.3 percent in Q4 2017, which was higher than 3.1 percent q-o-q and 2.5 percent y-o-y. Nevertheless, the consumer price index remained within the national government's target range of 3.0 percent \pm 1.0 percentage point (Figure 3). The increase in inflation was mainly triggered by higher prices of domestic petroleum products and increased prices in selected services, coupled with holiday spending.

Figure 2. Consumer price index (y-o-y, %)



Source: Graph prepared by author based on Philippine Statistics Authority data.

¹⁰ http://www.bsp.gov.ph/downloads/Publications/2017/IR4qtr_2017.pdf

¹¹ http://www.bsp.gov.ph/downloads/Publications/2017/IR4qtr_2017.pdf

3. **Consumer confidence remains unchanged**¹². Consumer sentiment generally did not change for Q4 2017. Consumer confidence index (CI) diminished a little bit to 9.5 percent from 10.2 percent the previous quarter. The continued positive sentiment was secured by additional family income, higher salary, and availability of more number of jobs leading to increased employed family members. However, the slight decrease in CI was due to concerns on (a) higher prices of goods and household expenditures, (b) peace and order problems, especially issues on extra-judicial killings, war against drugs, and crisis in Marawi, (c) incidences of natural calamities, and (d) poor health and high medical spending.

4. **Manufacturing sector continues to utilize capacity above 80 percent**¹³. PSA reported on its Monthly Integrated Survey of Selected Industries (MISSI) that manufacturing, the industry sector that consistently contributes the most to GDP, had an average capacity utilization of 83.9 percent as of November 2017. Majority of the manufacturing establishments in the country have been operating above 80.0 percent capacity since 2010. But the industry has posted a decline of 8.1 percent y-o-y in the volume of production index (VoPI). The reduction in output was due to decreases in the production of chemical products (-62.7 percent), tobacco products (-48.3 percent), footwear and wearing apparel (-23.9 percent), textiles (-33.8 percent), rubber and plastic products (-8.4 percent), and food manufacturing (-0.3 percent).

5. **World Economic Forum’s “Readiness for the Future of Production Assessment 2018” profiled the Philippines as a Legacy Country**¹⁴. The World Economic Forum evaluated the readiness of 100 countries and economies for the future of production on a scale of 0 (lowest) to 10 (highest). Two components of the assessment are Drivers of Production and Structure of Production. Then, countries are identified as one of the four archetypes (Leading/Legacy/High-Potential/Nascent) depending on their scores. The Philippines scored 6.12 (Rank 28) in Structure of Production and 4.51 (Rank 66) in Drivers of Production. Under the Structure of Production component, the Philippines scored the following: Complexity (Score: 5.91; Rank: 43) and Scale (Score: 6.44; Rank: 11). And, under the Drivers of Production component, the Philippines scored the following: Technology & Innovation (Score: 4.02; Rank: 59), Human Capital (Score: 4.59; Rank: 66), Global Trade & Investment (Score: 4.52; Rank: 69), Institutional Framework (Score: 4.35; Rank: 76), Sustainable Resources (Score: 5.45; Rank: 69), and Demand Environment (Score: 4.94; Rank: 45).

¹² <http://www.bsp.gov.ph/publications/media.asp?id=4550>

¹³ <http://www.bsp.gov.ph/publications/media.asp?id=4550>

¹⁴ http://www3.weforum.org/docs/FOP_Readiness_Report_2018.pdf

Hungary, India, Lithuania, Mexico, Romania, Russian Federation, Slovak Republic, Thailand, and Turkey were profiled together with the Philippines under the Legacy archetype.

Table 1. Philippine Economic Indicators

Monthly Leading Indicators	Feb-17	Mar-17	Apr-17	May-17	Jun-17	Jul-17	Aug-17	Sep-17	Oct-17	Nov-17	Dec-17	Jan-18
Industrial Production (y-o-y, %)	9.78406731	12.311932	3.0535674	5.2887698	2.927025	-4.03147	1.608188	-4.025165	-5.781508	-8.075134	...	...
Consumer Price Index (y-o-y, %)	3.29824561	3.4361851	3.4289713	3.1380753	2.7083333	2.843273	3.118503	3.388658	3.450656	3.292181	3.2809296	3.950954
Retail Sales (y-o-y, %)	21.527	21.617	2.36	6.528	0.995	-6.094	-2.19	-4.1	-10.751	...	...	...
Exports (y-o-y, %)	8.74180337	18.060063	19.149805	14.049044	5.7742741	10.39739	10.95312	7.970568	9.189768	4.877124	...	...
Imports (y-o-y, %)	15.2128524	18.016951	-0.0822788	16.633643	-1.34496	-3.193464	14.22787	8.488399	18.64821	19.81713	...	...
Trade Balance, US\$ million	-1,768.19	-2,297.26	-1,753.52	-2,736.81	-1,991.95	-1,646.16	-2,392.62	-2,077.39	-2,819.46	-3,781.04	...	...
Total Reserves (less gold), US\$ billion	73.58	73.01	74.08	74.18	73.49	73.06	73.29	72.90	72.35	72.26	73.23	...
Policy Rate	3	3	3	3	3	3	3	3	3	3	3	...
Fiscal Balance (million pesos)	-23,724	-61,471	52,797	-33,421	-90,873	-50,512	28,808	-36,892	-21,800	-8,623	...	...
Quarterly/Annual Economic Indicators	2012	2013	2014	2015	1Q2016	2Q2016	3Q2016	4Q2016	1Q2017	2Q2017	3Q2017	4Q2017
Real GDP (y-o-y, %)	6.8	6.9	6.2	6.1	6.9039699	7.123369	7.127595	6.572915	6.397803	6.701647	7.0184352	6.557509
- Private Consumption	6.6	5.6	5.6	6.3	7.1400708	7.499265	7.157641	6.156893	5.780396	5.885406	5.2600131	6.132923
- Government Consumption	12.2	8.1	3.3	7.6	11.827435	13.45112	3.107417	4.48916	0.14944	7.066541	8.3327796	14.30173
- Gross Capital Fixed Formation	-3.2	27.3	4.4	18.4	31.486381	30.25191	21.73405	14.66275	10.62518	8.530519	8.6731579	8.245212
Current Account (% of GDP)	4.2	4.4	3.8	2.9	0.9	0.1	1.3	1.2	-0.7	-0.1	0.7	...
Financial Account (US\$ million)	-3026	1968	9,631	2523	995	-1039	308	54	838	-928	855	...
- Net Direct Investments, US\$ million	525	471	1,014	-122	-1119	-1030	-498	-1829	-1067	-2067	-1864	...
- Net Portfolio Investments, US\$ million	-877	1118	2,708	4757	1573	787	-843	-309	3258	-109	785	...
Overall BOP position (US\$, million)	3405	1260	-2,858	2616	-210	843	1014	-2068	-994	289	-662	...
Unemployment rate	6.8	6.5	6	5.8	5.8	5.4	4.7	4.7	6.6	5.6	5.7	5.7
Others	Dec-16	Jan-17	Feb-17	Mar-17	Apr-17	May-17	Jun-17	Jul-17	Aug-17	Sep-17	Oct-17	Nov-17
Overseas Filipinos' Remittances (US\$, million)	2,559	2,169	2,169	2,615	2,083	2,310	2,467	2,283	2,499	2,186	2,275	2,262

... = not available

Source: Bangko Sentral ng Pilipinas, Philippine Statistics Authority, Asian Development Bank.

Table 2. Level of Philippine GDP, 2016Q4 – 2017Q4

	Nominal GDP		Real GDP	
	(million current pesos)		(million constant 2000 pesos)	
	2016Q4	2017Q4	2016Q4	2017Q4
Agriculture and Forestry	377,876	411,798	174,889	180,144
Fishing	47,747	51,479	38,139	37,935
Mining and Quarrying	27,026	32,489	16,852	18,340
Manufacturing	938,630	1,003,502	536,167	583,093
Construction	274,670	287,734	141,360	145,379
Electricity Gas and Water Supply	102,270	113,148	65,240	68,548
Transport Communication and Storage	239,653	254,501	168,233	177,279
Trade and Repair of Motor Vehicles Motorcycles Personal	740,438	811,449	377,393	407,278
Financial Intermediation	296,576	324,508	148,144	156,873
Real Estate Renting & Bus. Actvt	500,520	544,340	239,238	254,936
Public Administration & Defense: Compulsory Social Security	179,814	202,731	85,426	92,826
Other Services	378,392	411,036	208,242	220,913
Sum = GDP	4,103,611	4,448,714	2,199,324	2,343,545

Source: Philippine Statistics Authority.

Table 3. Industry Contributions to Philippine GDP Growth, 2016Q4 – 2017Q4

	TRAD	PGE	PCE	GEN
	GDP Growth			GDP Growth
	(percent)	(percent)	(percent)	(percent)
		(1)	(2)	(1)+(2)
GDP Growth	6.56	6.56	0.00	6.56
Industry Growth Contribution				
Agriculture	0.23	0.27	0.45	0.72
Agriculture and Forestry	0.24	0.28	0.38	0.66
Fishing	-0.01	-0.01	0.08	0.07
Industry	2.53	2.38	-0.20	2.17
Mining and Quarrying	0.07	0.06	-0.02	0.04
Manufacturing	2.13	2.00	-0.64	1.36
Construction	0.18	0.19	0.52	0.71
Electricity Gas and Water Supply	0.15	0.13	-0.06	0.07
Services	3.79	3.91	0.48	4.39
Transport Communication and Storage	0.41	0.31	0.00	0.31
Trade and Repair of Motor Vehicles Motorcycles Personal	1.36	1.43	-0.15	1.28
Financial Intermediation	0.40	0.43	0.01	0.44
Real Estate Renting & Bus. Actvt	0.71	0.80	0.35	1.16
Public Administration & Defense: Compulsory Social Security	0.34	0.38	0.26	0.64
Other Services	0.58	0.56	0.01	0.57

Source: DLSU-AKI Philippine Economic Monitor calculations by applying the data in Table 2 to a "generalized" (GEN) exactly additive decomposition of GDP growth into pure growth effect (PGE) and price change effect (PCE) as an alternative to the "traditional" (TRAD) GDP growth decomposition. The GEN formulas for PGE and PCE and the TRAD formula are given, respectively, by equations (12), (13), and (17) in Dumagan, Jesus C. (2016), "Effects of Relative Prices on Contributions to the Level and Growth of Real GDP," Working Paper Series No. 2016-036, Angelo King Institute for Economic and Business Studies, De La Salle University, Manila. Analytically, PGE is the result of real GDP or "quantity" growth holding real price constant and PCE is the result of relative price or "real price" growth holding quantity constant. This alternative framework follows from the decomposition of "aggregate labor productivity" (ALP) growth in Dumagan, Jesus C. (2013), "A Generalized Exactly Additive Decomposition of Aggregate Labor Productivity Growth," Review of Income and Wealth, 59 (Issue 1): 157-168, where ALP is the ratio of GDP to total labor employment. Thus, by removing the labor variable, the decomposition of ALP growth in the latter paper yields the decomposition of GDP growth into PGE and PCE which is implemented in this Table 3.