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Monitoring the Philippine Economy Year-End Report for 2013

Project of Angelo King Institute

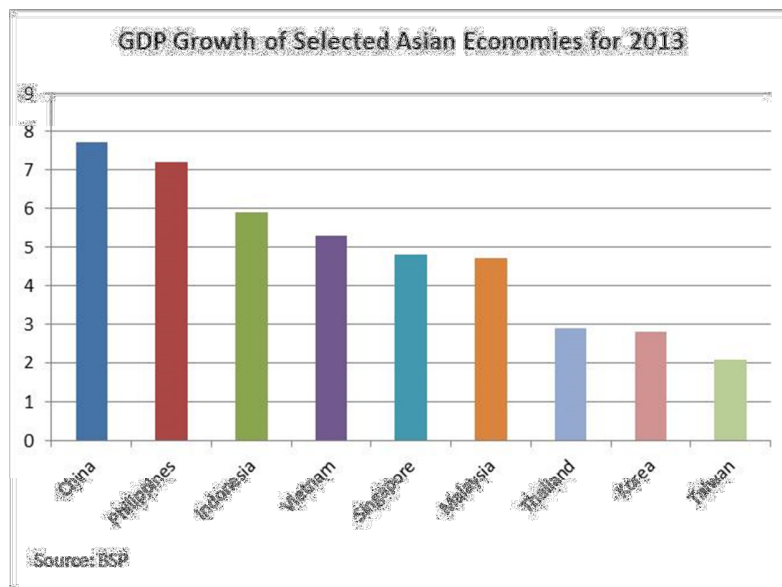
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Philippine economic growth for the year 2013 exceeds expectations – posting a 7.2 growth despite devastation brought about by the Zamboanga crisis and natural calamities.

Economic performance: Upward trend in the demand side was driven by consumer spending and domestic investment; on the other hand, the main growth factor for the supply side was the services sector.

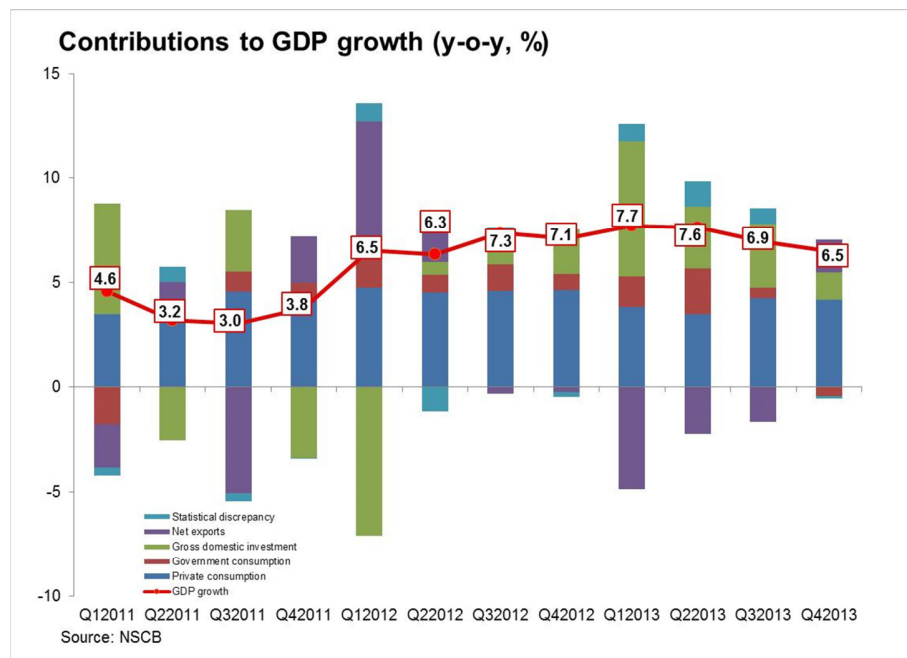
- **Philippines' sustained growth in 2013 surpasses other Asian economies.** Despite volatile global financial conditions and challenges posed by natural calamities in the second half of 2013, gross domestic product (GDP) growth exceeded government's target of 6-7 percent. GDP growth rose to 7.2 percent from 6.8 percent last year on strong consumer demand and capital formation backed up by sound macroeconomic policies and optimistic sentiment. The country's performance exceeds that of other East Asian economies such as Indonesia and Singapore.

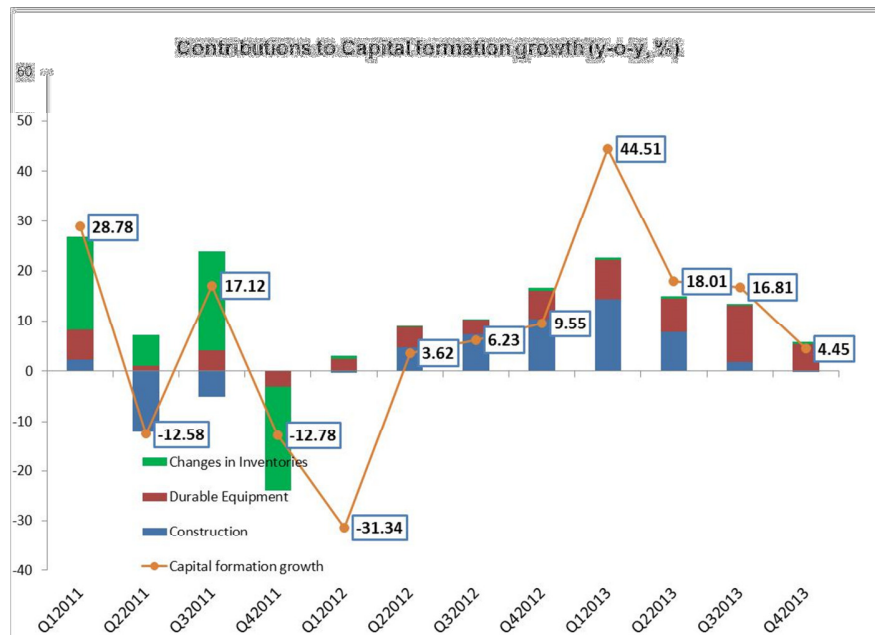


¹ The author would like to acknowledge the valuable contributions of Ariane Gabrielle Lim. Please direct your comments and questions to mitzie.conchada@dlsu.edu.ph

- **Major components of aggregate demand**

- **Household spending slightly loses steam.** Though household consumption still remains the largest contributor to growth, it displayed a slower growth in the year 2013. Household consumption stood at 5.6 percent, lower than the previous year's 6.6 percent. Consumer spending on utilities has grown the most for year 2013 with a growth rate of 6.9 percent. Top contributors to growth were food and non-alcoholic expenditure, miscellaneous goods and services, and expenditure in utilities with 5.5 percent, 6.9 percent and 6.9 percent respectively.
- **Domestic investment posts impressive growth.** Driven by high demand in the real estate sector and public construction, domestic investment grew at a rapid rate of 18.2 percent from a negative 3.2 percent growth the previous year. Although the growth rate of construction slowed down in the latter half of the year, the durable equipment subsector made-up for the decline with rapid double digit growth starting in the third quarter.
- **Government spending ends slightly lower.** The strong election spending and sustained government capital expenditure pushed government spending up during the first half of 2013. Despite this, government grew by only 8.6 percent, lower than the previous year's 12.2 percent on decreased personnel and operating & maintenance expenses. Moreover, rehabilitation efforts in typhoon-affected areas did not significantly increase government spending.



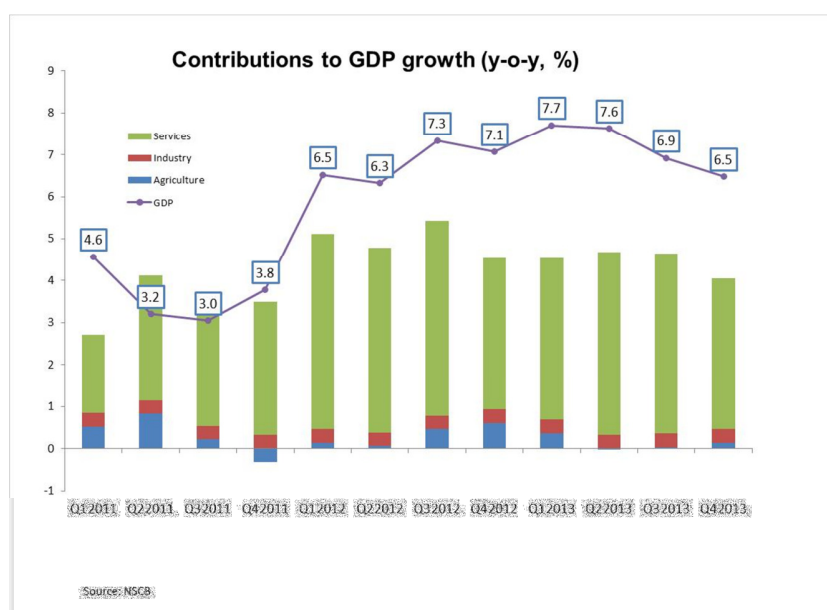


- Philippine exports slump in the 1st half, regain momentum in the 2nd.** Export of goods in the first quarter decreased at a rate of 8.4 percent primarily due to the decrease in the electronic components subsector; however, the decrease was somehow mitigated by the growth of agricultural products exports. In the second quarter, export of goods continued to decrease by 8.7 percent because of the decline in the electronic components subsector; however, there was a 4.0 growth for export of services due to the growth in miscellaneous services. For the latter half of 2013, export of goods grew by 11.5 percent and 6.2 percent for the third and fourth quarters respectively. The increase in the growth was primarily due to the recovery and acceleration of growth for the electronic components subsector.
- Major components of aggregate supply**

 - Services sector drives supply side growth.** By the end of 2013, the services sector reportedly had a 7.1 percent growth compared to 7.6 percent last year. The sector remains the main driver of supply side growth, and has been the consistent driver in all four quarters. The subsector financial intermediation grew the most with a 12.4 percent growth. All subsectors positively contributed to the sectors growth, but the trade and repair subsector had the biggest contribution.
 - Industry sector expands on robust manufacturing and construction.** Gaining momentum from the final quarter of 2012, the industry sector grew 9.5 percent in 2013. The performance of the industry sector exceeded the previous year's growth of 6.8 percent on a strong manufacturing and construction subsector. According to the BSP annual report, growth in the manufacturing sector was supported by the positive performance of the following subsectors: chemicals, fixtures and furnitures,

communication equipment, and beverage industries. On the other hand, construction posted double-digit growth rates due to the favorable business environment.

- Agriculture sector displays positive growth.** Despite weather conditions throughout the year, the agriculture sector managed to display a 1.1 percent growth by the end of 2013 on increase production of palay, poultry, and livestock. Forestry had improved for most of the year with a growth of 37.3 percent since the previous year. Agriculture in the second quarter declined by 1.1 percent due to intense heat and lack of water supply in the Visayas regions but recovered in the fourth quarter.



Policy responses

- BSP policy rates settles at a steady rate.** The Monetary Boarded its meetings last year kept its key policy rate at 3.5 percent. This has been the policy rate since October 2012. One of the factors of maintaining the policy rate is the manageable inflation rate and stable domestic economic growth in the past year. Policy rates have been at record lows since 2010, making the market favorable to local and foreign investors.

Other economic news

- Philippine remittance ends strong in December.** The Bangko Sentral ng Pilipinas (BSP) announced that cash remittances amounted to USD25 billion by end of December, 9 percent higher than the same period last year. The boost in remittance was brought about by a growth of remittance from land-based workers mainly from the United States, Saudi Arabia, and the United Kingdom. The increase in the number of remittance centers and correspondent banks have also contributed to the inflow of remittance.

- Gross international reserves slacken in December.** The gross international reserves (less gold) by end of December grew by only 3 percent with USD 75.6 billion, compared to 9 percent the previous year. This was a result of the revaluation adjustments on BSP's gold holdings and payments by the National Government for its foreign exchange obligations. According to the BSP, a large portion of the reserves were held in foreign investments while a portion went to gold reserves and combined holdings of Special Drawing Rights and foreign exchange.
- Unemployment rate sends alarming signals about labor market.** The latest unemployment figures for the year 2013 reveal that the number of people who were unemployed this year is larger compared to the previous year. As of July, unemployment rate was recorded at 7.3 percent, higher than last year's 7.0 percent. Based on the Labor Force Survey, most of the unemployed were males (62.1 %), were high school graduates (32.7%) and belonged to the age group of 15 to 24 years old (48.8%). Among the regions, the National Capital Region had the lowest employment rate of 89.1 percent. Despite the impressive economic growth, there are fears that it is not sustainable as it does not generate enough jobs.
- December inflation remains above the 4 percent level.** Average headline inflation for December was recorded at 4.1 percent, higher than last year's 3.4 percent. The increase was the effect of higher fuel prices. This was reflected in higher prices of food and non-alcoholic beverages, along with clothing and footwear; furnishing, household equipment; health; and recreation and culture. The Bangko Sentral ng Pilipinas continues to monitor global as well as domestic developments that may have a significant impact on the level of prices. Among them are the looming electricity price hike and fare hike.



Special report: The US Federal Reserves' Monetary Policy on Quantitative Easing

With the US Federal Reserve's monetary policy on quantitative easing on its third round, apprehensions that it will soon end have negatively affected emerging economies such as the Philippines. Quantitative easing is a special monetary policy that involves keeping interest rates low to keep investors' confidence and increase money supply to stimulate the economy during a recession. This is done through the purchasing of government bonds or securities.

The main reason for its implementation is the weak job market in the US. To stimulate the economy, the Federal Reserve plans to keep interest rates low with hopes of fueling spending and eventually, hiring. Reports that the Federal Reserve would gradually lessen its purchases of government securities and bonds mid last year have created speculations, which created volatility in the stock market. During the time of the rumored tapering, Philippine Stock Exchange (PSE) plunged at the second and third weeks of June while the Philippine peso also depreciated to approximately PhP 43 from its value of PhP 40 to PhP 42. Although the PSE index has slowly recovered, the Philippine peso remained at PhP 43 (or higher), per US dollar. At the end of 2013, the Federal Reserve announced its approach to start QE3 tapering due to improvement of economic conditions in the United States.



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Philippines Economic Data												
Monthly Leading Indicators	Jan-13	Feb-13	Mar-13	Apr-13	May-13	Jun-13	Jul-13	Aug-13	Sep-13	Oct-13	Nov-13	Dec-13
Industrial Production (y-o-y, %)	10.0	5.4	-1.0	9.0	20.2	9.0	14.5	18.6	20.0	22.3	19.8	25.1
Consumer Price Index (y-o-y, %)	3.1	3.4	3.2	2.6	2.6	2.8	2.5	2.1	2.7	2.9	3.3	4.1
Retail Sales (y-o-y, %)	10.4	10.1	7.1	23.7	18.9	19.8	27.9	30.3 ...	...	...	...	...
Broad Money (y-o-y, %)	8.8	10.6	13.4	13.2	16.1	20.0	30.1	31.0	31.3	32.5	36.5 ...	...
Exports (y-o-y, %)	-2.7	-15.6	0.1	-11.1	-0.8	4.1	2.3	20.2	5.1	14.0	18.9	15.8
Imports (y-o-y, %)	-8.0	-5.8	-8.4	7.4	-2.4	-4.8	8.7	7.0	7.2	-8.6	0.5	-0.1
Trade Balance, US\$ million	-716	-966	-593	-1,020	-365	-370	-650	-965	-655	202	-942	-695
Total Reserves (less gold), US\$ billion	75	74	74	74	73	74	75	74	75	75	76	76
Policy Rate	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5
Fiscal Balance (million pesos)	-19,531	-11,749	-35,198	36,803	-13,164	-8,451	-53,222	21,901	-18,616	-11,237	1,000 ...	...
Quarterly/Annual Economic Indicators	2008	2009	2010	2011	1Q2012	2Q2012	3Q2012	4Q2012	1Q2013	2Q2013	3Q2013	4Q2013
Real GDP (y-o-y, %)	4.2	1.1	7.6	3.6	6.5	6.3	7.3	7.1	7.7	7.6	6.9	6.5
- Private Consumption	3.7	2.3	3.4	5.7	6.9	6.6	6.7	6.2	6.6	6.5	6.5	6.5
- Government Consumption	0.3	10.9	4.0	2.1	21.3	7.2	12.3	9.5	12.6	10.4	11.2	10.9
- Gross Capital Fixed Formation	23.4	-8.7	31.6	2.0	-31.3	3.6	6.2	9.5	-3.0	4.1	4.2	3.7
Current Account (% of GDP)	2.1	5.6	4.5	2.3	0.7	3.7	3.7	3.1	5.0	3.8	5.0 ...	...
Financial Account (US\$ million)	-1702	-1731	7290	-5610	-4821	722	510	-2542	-655	835	1183 ...	...
- Net Direct Investments, US\$ million	1285	1604	682	-1277	-898	80	-42	-92	-1336	502	-589 ...	...
- Net Portfolio Investments, US\$ million	-3627	-625	4365	-4390	-1248	-363	-61	-1851	-1697	-255	217 ...	...
Overall BOP position (US\$, million)	89	6421	14308	11400	1243	73	4515	3405	1536	1041	1247 ...	...
Unemployment rate	7.4	7.7	7.3	7.4	7.2	6.9	7.0	6.8	7.1	7.5	7.3	6.5
Others	Jan-13	Feb-13	Mar-13	Apr-13	May-13	Jun-13	Jul-13	Aug-13	Sep-13	Oct-13	Nov-13	Dec-13
Overseas Filipinos' Remittances (US\$, million)	1,699	1,700	1,768	1,819	1,879	1,935	1,946	1,938	1,953	2,079	2,080	2,173
... = not available												

Source: Bangko Sentral ng Pilipinas, National Statistics Office, *International Financial Statistics*, IMF, Asian Development Bank.