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Monitoring the Philippine Economy First Quarter Report for 2013

Project of Angelo King Institute

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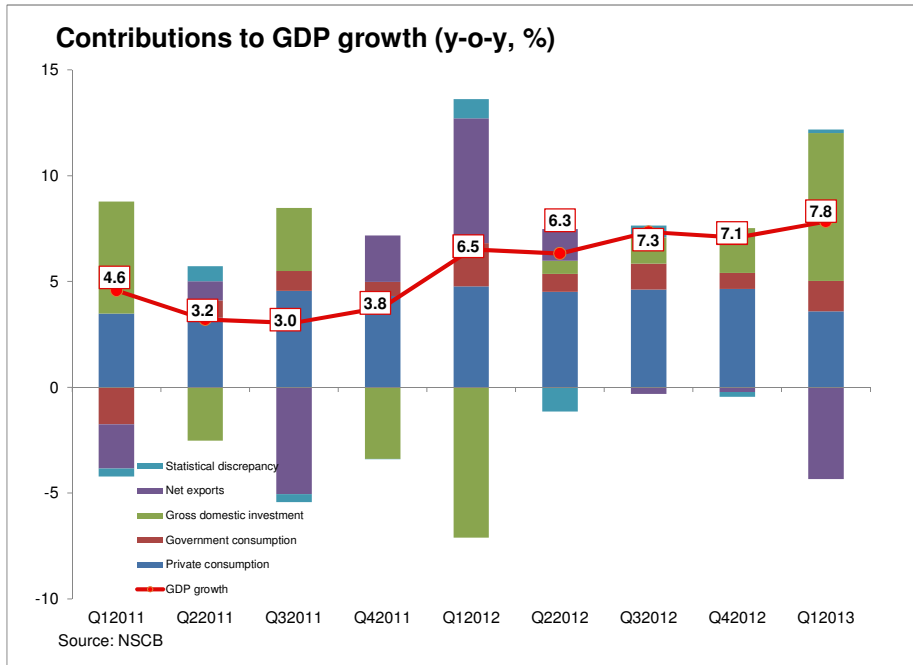
The Philippine domestic economic growth in the first quarter surprises many but prospects for its sustainability remains.

Economic performance: Investment contributes the highest to growth.

- **Philippines' economic first quarter growth soars to 7.8 percent.** The first quarter ended with a stunning 7.8 percent year-on-year (y-o-y) growth, the highest for the current administration. Growth was mainly consumption, government, and construction expenditure driven. Specifically, household spending spurred by remittances and government spending led by the local and national elections had the highest contribution to growth. With the improving performance of the domestic economy, job creation and improved social services should be the next focus.
- **Major components of aggregate demand**
 - **Domestic investment displays highest growth in the first quarter.** Investment grew 48 percent y-o-y based mainly on the positive performance of inventories and construction. Increase in inventories registered a 14.5 percent y-o-y growth, an improvement from last year's negative growth of 29 percent. Inventories have picked up in the first quarter on higher demand. Construction also performed better this quarter with 12.4 percent y-o-y growth compared to last year's 0.14 percent growth. Investment in private construction picked up on higher demand for real estate.
 - **Government expenditure continues to surge on election related spending.** The first quarter government spending grew 13.2 percent y-o-y as the country prepared for the national and local elections. Growth however was lower than last year's 21.3 percent. The increase may continue on the coming quarters with the implementation of the projects under the private and public partnership program.
 - **Household spending maintains positive growth.** Though household spending was the second highest contributor to economic growth in the first quarter, its growth of 5.1 percent was lower than last year's 6.9 percent. Among the top three household expenditures that had the highest growth were communication,

¹ Report is based on latest available data as of June 19, 2013. For comments and questions, please email mitzie.conchada@dlsu.edu.ph

restaurants and hotels, and recreation and culture with 8.3%, 7.5% and 7.1% respectively.

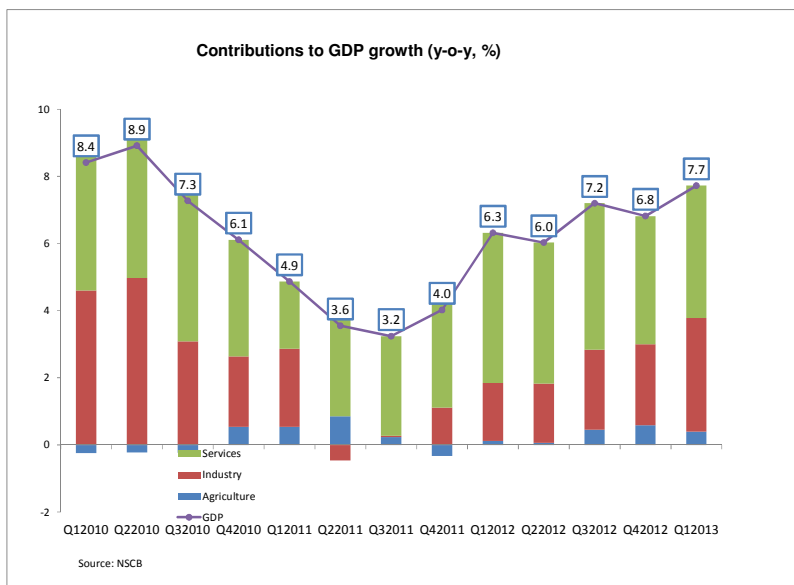


- Philippine exports inches up in March but trade deficit remains.** Total value of merchandise exports in March amounted to USD4,329 million, 0.1 percent higher than last year's figure. Top exports for March were electronic products, other manufactures, and woodcrafts and furniture. Electronic products earned a total revenue of USD1.8 billion. Aggregate exports for the first quarter amounted to USD12 billion, 6.1 percent lower than last year's performance due to lower demand for electronics and semiconductors.
- Major components of aggregate supply**

 - Services sector maintains its position as main driver of supply-side growth.** Services sector grew 7.0 percent in the first quarter from 8.4 percent last year due mainly to the sterling performance of subsectors financial intermediation (13.9%). The performance of the banking institutions and insurance contributed to the growth of the financial sector. Public administration and defense had the second largest growth with 8.0 percent on account of funding positions (NSCB, 2013).
 - Industry sector displays impressive expansion in first quarter.** The second largest sector was the industry sector that had a growth of 10.5 percent from 5.5 percent the previous year, driven by the manufacturing subsector. The National Statistical Coordination Board reported an 9.7 percent y-o-y growth for the manufacturing subsector brought about by increase in food manufactures and

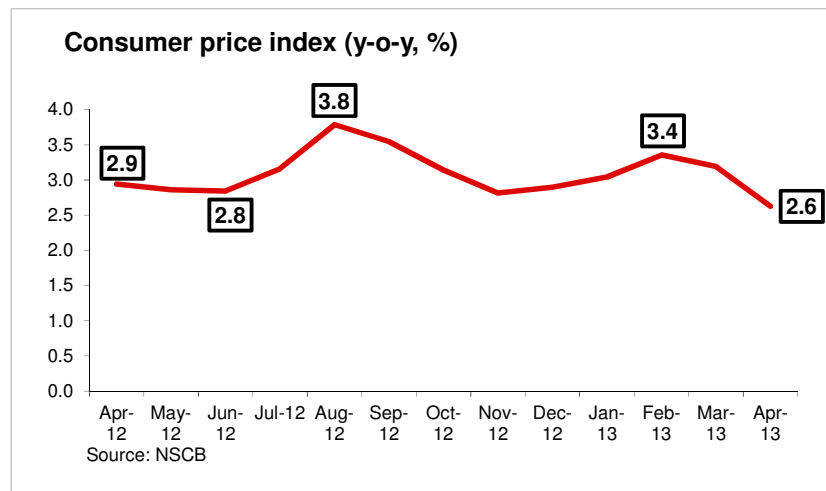
radio, television and communication equipment and apparatus due to high domestic demand.

- Agriculture sector shows improvement in growth.** First quarter growth for the agricultural sector was recorded at 3.4 percent, higher than last year's 0.9 percent. Growth in the sector was mainly driven by growth in forestry, corn, pineapple and fishing. Corn and palay grew 11.4 and 4.5 percent respectively in the first quarter due to better weather conditions and increases in yield in Cagayan Valley, Nueva Vizcaya, and CALABARZON among others.



Challenges facing the economy

- Unemployment rate hikes up in April.** The National Statistics Office reported a 7.5 percent unemployment rate in the April 2013 Labor Force Survey, the highest since April 2010. A total of 3.1 million were unemployed, most of whom belong to the age group 15-24 years old and are mostly males. Two occupation groups namely farmers and the laborers and unskilled workers experienced a significant drop in employment rate. The regions with the highest unemployment rate were CALABARZON and NCR with 10.6 percent and 10.4 percent respectively.
- Inflation remains steady on slowdown of prices of basic commodities.** Average headline inflation for April was recorded at 2.6 percent, lower than last year's 2.9 percent. This was the lowest since March last year. The National Statistics Office reported that this was due to mixed movements in annual growths among various commodity groups. While indices for food and non-alcoholic beverages, gas and other fuels, as well as utilities increased, indices for transport reported a slowdown. Inflation in the NCR (1.8 percent) was lower than the areas outside NCR (2.9 percent).



Policy responses

- **BSP Monetary Board keeps policy rate at same level.** The Monetary Board decided in its meeting on June 13 to keep its key policy rate at 3.50 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 first quarter. In addition, recent developments in the global financial market have taken place.

Other economic news

- **Philippine remittance reaches USD6.9 billion by end of April.** The Bangko Sentral ng Pilipinas announced that cash remittances amounted to USD1.8 billion in April alone bringing total remittances higher by 6.1 percent despite the tenuous economic conditions in advance economies. This could be attributed to the steady deployment of skilled and professional Filipino workers, especially in the Middle East countries, coupled with commercial banks' continued efforts to strengthen its network with remittance business partners.
- **Gross international reserves continue to build up.** The gross international reserves (less gold) by end of May stood at USD 74.2 billion. Reserves increased 11.9 percent in May, higher than last year's 8.3 percent. The continuous increase in the total reserves is attributed to the inflows from foreign exchange operations and income from investments of BSP. Total reserves from January to May are enough to cover nearly a year of imports.
- **Philippine stocks slump along with other Asian markets towards end of May.** Growth of the Philippine stock market from the start of the year to date was recorded at 8.16 percent amidst an environment of high consumer and business confidence. However, the Philippine stock market dropped during the last week of May due to improvements in the US economy and worries over China's credit crunch. On a lighter note, the Philippines PSEi stock index displayed slight improvement in performance closing with 6,339.41 by end of trading day June 17, displaying 1.56 percent increase from the previous day.



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Philippines Economic Data										
Monthly Leading Indicators	Sep-12	Oct-12	Nov-12	Dec-12	Jan-13	Feb-13	Mar-13	Apr-13	May-13	Jun-13
Industrial Production (y-o-y, %)	9.8	20.5	11.4	10.2	13.3	8.3	1.1 ...	...	...	...
Consumer Price Index (y-o-y, %)	3.5	3.1	2.8	2.9	3.0	3.4	3.2	2.6 ...	...	...
Retail Sales (y-o-y, %)	10.3	13.0	9.8	13.7 ...	...	...	...	...	...	...
Broad Money (y-o-y, %)	8.4	9.4	10.6	10.9	11.0	10.7 ...	...	...	...	...
Exports (y-o-y, %)	23.5	7.9	7.3	16.5	-2.7	-15.6	0.1 ...	...	...	...
Imports (y-o-y, %)	3.7	5.1	3.7	14.4	-8.0	-5.8	-8.4 ...	...	...	...
Trade Balance, US\$ million	-516.00	-867.00	-1,597.00	-1,329.00	-716.00	-966.22	-593.23 ...	...	...	...
Total Reserves (less gold), US\$ billion	70.99	71.23	73.30	73.48	74.97	73.84	74.20	74.19	74.3	...
Policy Rate	3.75	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5
Fiscal Balance (million pesos)	-32,834	-11,664	-11,475	-115,745	-19,531	-11,749	-35,198 ...	...	...	...
Quarterly/Annual Economic Indicators	2010	1Q2011	2Q2011	3Q2011	4Q2011	1Q2012	2Q2012	3Q2012	4Q2012	1Q2013
Real GDP (y-o-y, %)	7.6	4.6	3.2	3.0	3.8	6.5	6.3	7.3	7.1	7.8
- Private Consumption	3.4	5.0	4.9	6.8	5.9	6.9	6.6	6.7	6.2	6.6
- Government Consumption	4.0	-14.9	7.2	10.1	8.8	21.3	7.2	12.3	9.5	12.6
- Gross Capital Fixed Formation	31.6	28.8	-12.6	17.1	-12.8	-31.3	3.6	6.2	9.5	-3.0
Current Account (% of GDP)	4.5	1.9	3.4	4.4	2.9	0.7	3.7	3.7	3.1	...
Financial Account (US\$ million)	7290	3624	35	2430	-1032	-4821	722	510	-2542	...
- Net Direct Investments, US\$ million	682	406	464	-78	461	-898	80	-42	-92	...
- Net Portfolio Investments, US\$ million	4365	2674	2199	722	-71	-1248	-363	-61	-1851	...
Overall BOP position (US\$, million)	14308	3493	1523	4705	458	1243	73	4515	3405	...
Unemployment rate	7.3	7.4	7.2	7.1	6.4	7.2	6.9	7.0	6.8	7.1
Others	Jul-12	Aug-12	Sep-12	Oct-12	Nov-12	Dec-12	Jan-13	Feb-13	Mar-13	Apr-13
Overseas Filipinos' Remittances (US\$, million)	1,809	1,797	1,838	1,928	1,918	1,975	1,681	1,682	1,749	1,804
... = not available										

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