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Monitoring the Philippine Economy Fourth Quarter Report for 2013

Project of Angelo King Institute

By Mitzie Irene P. Conchada¹

Assistant Professor
School of Economics

Fourth quarter GDP stood at 6.5 percent despite internal shocks caused by the Zamboanga crisis, Bohol earthquake, and typhoon Yolanda, as well as external shocks triggered by the US Federal Reserve tapering coupled with the slowdown in China's economy.

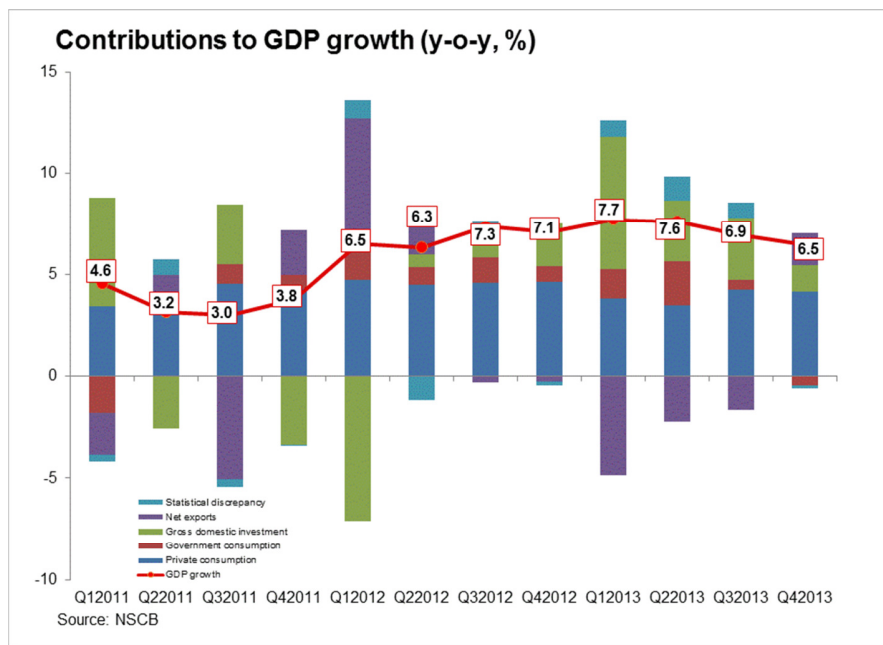
Economic performance: consumer and investment still remain as main drivers of economy

- **Philippines' economic growth slips further in the fourth quarter.** The growth of the domestic economy decelerated to 6.5 percent from 7.1 percent the previous year. This is the lowest recorded since third quarter of last year. The fourth quarter growth was driven mainly by the services sector, which contributed 3.6 percentage points, and a rapid boom in the manufacturing sector.
- **Major components of aggregate demand**
 - **Household spending slows down.** Fourth quarter figures show a 5.6 percent increase in household expenditure, which is lower than the 6.2 percent from last year. The National Statistical Coordination Board reported that expenditures on food and non-alcoholic beverages, which grew 7.8 percent, had the highest contributed 43.1 percent of total Household Final Consumption Expenditure (HFCE). Other main drivers of growth are: Alcoholic Beverages and Tobacco, which grew by 13.3 percent; Health, which grew 12.1 percent; and utilities which grew 10.5 percent. Weakest contributors to growth were Miscellaneous Goods and Services and Furnishings and Household Equipment, which grew 5.3 percent and 5.4 percent respectively.
 - **Domestic investment posts lower growth in fourth quarter.** Capital Formation slowed down to a 5.7 percent growth rate due mainly to lower construction activity. According to the NSCB, the construction sector posted a negative 0.5 growth in the fourth quarter on sluggish performance of both the public and private construction subsectors. Despite this, investments in durable equipment posted a positive growth of 15.5 percent compared to last year's 14.1 percent. This was mainly

¹ Author would like to thank Ariane Gabrielle Lim for research assistance. Report is based on latest available data as of March 17, 2014. For comments and questions, please email mitzie.conchada@dlsu.edu.ph

driven by investments in office machine and other miscellaneous durable equipment.

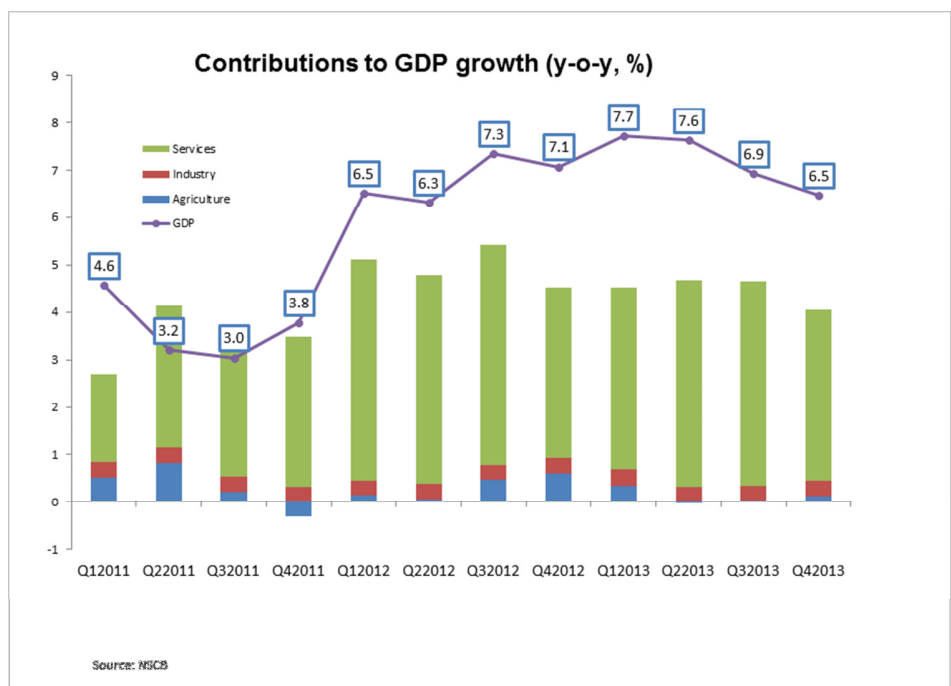
- Government expenditure declines.** Fourth quarter government expenditures further decreased to 5.2 percent from 9.5 percent growth in the previous year. This can be attributed to the decrease in spending for both government personnel expenses and maintenance and other operating expenses in the fourth quarter.



- Philippine exports decrease in the fourth quarter.** Total value of exports has decreased after peaking last September 2013. With a value of USD 5,026 million last October, USD 4,294 million last November, and USD 4,599 million last December, the total value of exports for the fourth quarter amounted to USD 13,919. Exports for the fourth quarter have increased by 6.4 percent from the 8.6 percent last year. The increase in exports was driven by the following subsectors: Electronic Data Processing, which grew by 110.2 percent; Ignition and Wiring Sets, which grew by 45.4 percent; Apparel and Clothing, which grew by 41.1 percent; Consumer Electronics, which grew by 103.6 percent; and Sugar, which grew by 58,333.9 percent. The NSO reported that the electronic products remained the top export of the country, increasing by 7.0 percent. On the other hand, total value of imports in the fourth quarter rose by 1.9 percent, amounting to USD 15,354 million. This was due to increase in imports of transport equipment, electronic products, medical products, and other food and live animals.

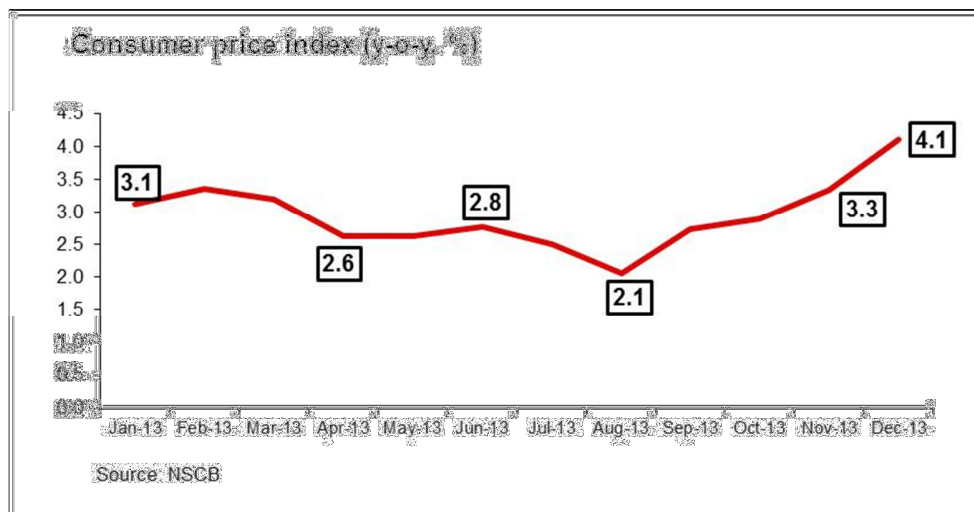
- **Major components of aggregate supply**

- **Services sector remains as the main driver of supply-side growth.** The services sector had the highest contribution to economic growth with 3.6 percent. This sector has sustained its growth of 6.5 percent from fourth quarter of the previous year. The subsectors financial intermediation, trade, and real estate had the highest growth rates with 9.9 percent, 7.4 percent and 6.3 percent respectively. Renting and other business activities as well as transportation also boosted the performance of the service sector.
- **Industry sector expands on robust manufacturing sector, but suffers a rapid decline in construction.** Fourth quarter growth for the industry sector was registered at 8.4 percent, slightly lower than last year's 8.9 percent performance. The positive performance of the sector was mainly driven by the manufacturing sector, which grew by 12.3 percent. The subsectors chemical and chemical products, tobacco and furniture and fixtures were the top gainers in the manufacturing sector with growth rates of 124.8 percent, 55.8 percent, and 74.8 percent respectively. Although the construction subsector declined by a rate of 0.8 percent, it is still one of the main contributors to growth in the Industry sector.
- **Agriculture sector continues to recover on sustained growth of certain crops.** Despite the calamities experienced in the Visayas regions, the agriculture sector managed to grow by 1.1 percent in the fourth quarter. This is slightly lower than the 4.9 percent growth experienced in the previous year. Palay, poultry, and livestock were the main drivers of growth for this sector. Palay, the leading driver for the sector grew by 8.1 percent compared to the 10.2 percent growth last year. The increase can be accredited to the yield improvement in Central Luzon, Caraga, SOCCSKSARGEN, Bicol Region and ARMM. On the other hand, decreased growth rates in mangoes and corn can be attributed to damages caused by Typhoon Yolanda in the Visayas regions.



Challenges facing the economy

- **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 February'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.



Policy response

- **BSP Monetary Board retains policy rate.** The Monetary Board decided in its meeting on December 12 to keep 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. The slight increase in January inflation may put pressure on the BSP Board to revisit its policy in the coming months.

Other economic news

- **Philippine remittance ends strong in December.** The Bangko Sentral ng Pilipinas 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.
- **Philippine stocks recover on renewed investor confidence.** As of March 31, the Philippines PSEi closed with 6,428.71, displaying a 1.09 percent increase from the previous closing day on rising investor and consumer confidence. The BSP's decision to leave policy rates unchanged to motivate investors helped in keeping the stock market above the 6,400 mark. On a regional level, most Asian stocks displayed a positive growth. The upward trend is expected to continue on hopes that the US will continue to receive stimulus from the Federal Reserve.



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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 ...	...
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.