Monitoring the Philippine Economy
Fourth Quarter Report for 2015

Project of Angelo King Institute
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Fourth quarter growth inched up to 6.3 percent from 6.0 percent in the third quarter due to greater government spending and domestic consumption, contributed by public and private sector expenditures.

Economic performance: satisfactory economic growth in the fourth quarter despite slackening external demand, global economic slowdown and aberrant climate impacts.

- **Philippine economic growth peaks in the fourth quarter.** Growth reaches 6.3 percent in 2015 fourth quarter, slightly lower than in 2014 in the same quarter at 6.6 percent, but higher than in 2015 third quarter at 6.0 percent (Figure 1). Despite declining exports, lower sales in agro-based, manufactured and mineral products, and the recovery of petroleum sales, the economy has outperformed quarter forecasts by 0.4 percent.

- **Major components of aggregate demand**

    - **Domestic consumption increases with low prices.** Household Final Consumption Expenditure (HFCE) accelerated to 6.4, higher than last quarter's 6.3 percent and last year's 5.0 percent growth. The sustained low prices of consumer goods and services availability bouyed household spending. The National Statistical Coordination Board (NSCB) reported that food and non-alcoholic beverages accelerated to 6.5 percent from 5.5 percent last year. Miscellaneous goods and services grew by 9.2 percent from 3.0 percent last year. Other top HFCE contributors were: Communication, 11.0 percent from 5.6 percent; Transport, 7.5 percent from 8.4 percent; and Restaurants and Hotels, 11.6 percent from 1.2 percent.

    - **Domestic investment surges for fixed capital and construction.** Investment in Fixed Capital Formation surged to 22.5 percent in the fourth quarter of 2015 from 8.0 percent in the same period last year. Investments in Construction increased by

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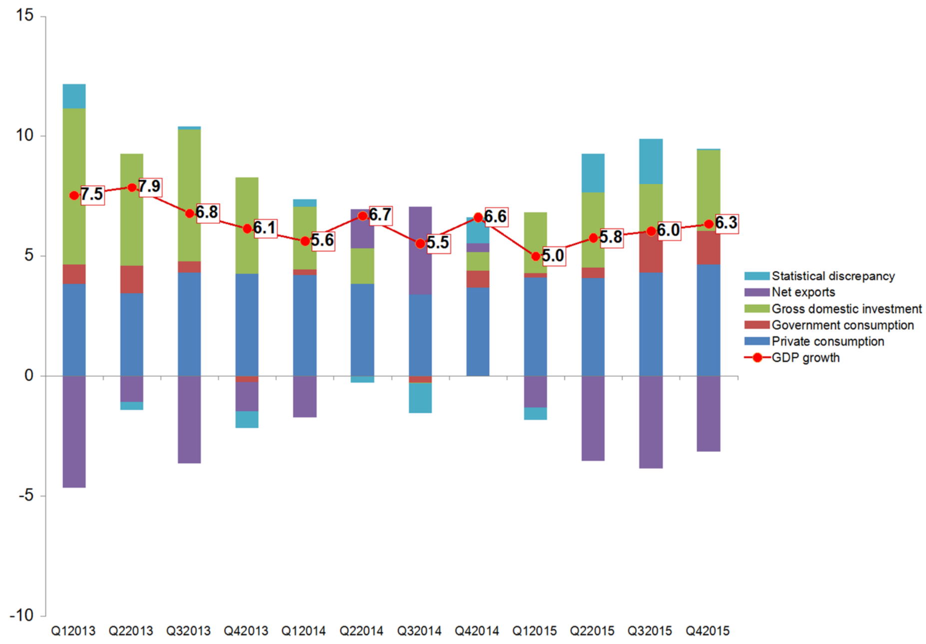
[1] Report is based on latest available data as of February 29, 2016. For comments and questions, please email mitzie.conchada@dlsu.edu.ph

7.8 percent from 19.2 percent. The rise in total investments in Construction was fueled by the growth in Public Construction, which jumped to 51.0 percent from 3.3 percent. Meanwhile, Private Construction declined by 0.4 percent, coming from a growth of 22.9 percent.

- **Government expenditure doubles for projects.** Government Final Consumption Expenditure (GFCE) rose to 17.4 percent in the fourth quarter of 2015 from 9.4 percent in the same period last year. This was due to higher disbursement of major government expenditures under Maintenance and Other Operating Expenses for the implementation of projects and social protection programs.



Source: Author's calculations based on NSCB data

- **Faster growth in exports of services (EoS) but slower growth in exports of goods (EoG).** EoS accelerated to 30.2 percent from 5.0 percent. The contributors to EoS's growth were: Travel Services, 58.9 percent from 18.1 percent; Transportation Services, 34.3 percent from 11.3 percent; Miscellaneous Services, 23.8 percent from 1.8 percent; and Government Services, 11.1 percent from 17.3 percent. Insurance Services declined by 14.4 percent from 6.0 percent. EoG grew at a slower pace of 1.7 percent in Q4 2015 from 14.8 percent in 2014, driven by the growth of: Components/Devices (Semiconductors), 14.6 percent from 24.6 percent; Ignition Wiring Sets, 36.6 percent from 7.7 percent; Office Equipment, 55.0 percent from 41.5 percent; Telecommunication, 119.5 percent from 38.8 percent; and Communication/Radar, 66.1 from 15.7 percent.

- **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 also 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 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 2).[2]

  - **Services sector steers supply-side growth upwards.** Services, remaining as the driver of the economy, accelerated to 7.4 percent in the fourth quarter of 2015 (Table 1) from 5.6 percent last year. To the total GDP growth of 6.3 percent, Services contributed 5.1 percentage points (Table 2) from 4.0 percentage points of quantity growth (PGE) and 1.1 percentage points of combined relative price change effects (GPIE + RPE). The growth of Services during the period was the fastest since the 7.8 percent recorded in the second quarter of 2013. All subsectors, led by Trade; Real Estate, Renting & Business Activities; and Other Services contributed robustly to the sector's growth.

  - **Manufacturing leads industry sector.** Industry accelerated to 6.8 percent in the fourth quarter of 2014 (Table 1) and contributed 2.0 percentage points to total GDP growth (Table 2). Manufacturing, which grew by 6.6 percent, is still the top contributing sector under the Industry group, contributing 1.3 percentage points to

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[2] The results in Table 2 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), growth-price interaction effect (GPIE), and relative price effect (RPE) as an alternative to the "traditional" (TRAD) GDP growth decomposition. Analytically, PGE is the result of "quantity" growth holding real price constant; RPE is the result of "real price" growth holding quantity constant; and GPIE results from quantity-price growth interaction. The GEN formulas for PGE, GPIE, RPE, and the TRAD formula are given, respectively, by equations (15), (16), (17), and (23) in Dumagan, Jesus C. (2014), "An Alternative Framework for Sectoral Contributions to GDP Level and Growth: Application to the Philippines," Working Paper Series 2014-009, 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 in the former paper which is implemented in Table 2.

total GDP growth. The next largest contributor in this group is Construction with 0.7 percentage points.

- **Wobbly growth drives agriculture sector into decline.**, The agriculture sector, comprising Agriculture & Forestry and Fishing, which together accounted for 10.5 percent of GDP, contracted by 0.3 percent in the fourth quarter of 2015 from the same quarter last year. However, it grew by 0.4 percent in the third quarter of 2015 from a year ago. Agriculture & Forestry slightly grew by 0.7 percent while Fishing plunged by 4.5 percent during the period as compared with the 0.9 percent growth in the previous year.

Challenges facing the economy

- **Oil prices tumble, OPEC calls for help.** In a nutshell, it's down to too much supply and too little demand. The benchmark Brent crude oil price fell 6.3% to $30.15 a barrel following a 10% rise on Friday, while US oil shed 7.1% to $29.90. China's economic slowdown has curbed appetite for commodities in general, while Saudi Arabia, which produces a third of the OPEC cartel's output, is keener on preserving its market share than it is on cutting production to boost prices. At the same time, the rise of the US as a shale oil producer means it now imports less oil, adding to the glut on world markets. This makes life harder for other non-US, non-OPEC producers, who are facing cutbacks. While OPEC accounts for almost 42% of the world's oil production, it is hard-pressed to ask non-members to join in with curbing production since they will cut oil supply only if it makes commercial sense to them and their shareholders. The OPEC secretary-general said all major producers should agree on methods to reduce stockpiles and thus help prices recover. Analysts at Energy Aspects said global oil inventories would continue to rise in the next few months, but should start to decline by the summer.

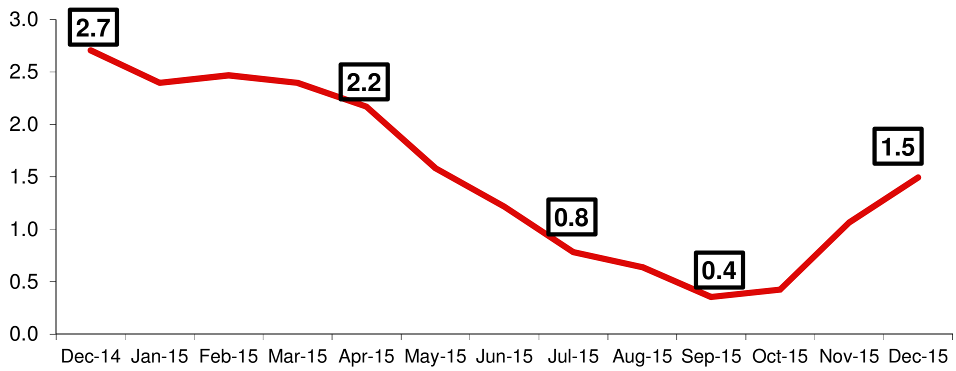
- **US economy grows, US dollar strengthens.** The questions of whether the Federal Reserve would raise rates dominated market commentary, particularly towards the latter half of the year. Expectations stirred dollar markets as monetary policy meetings concluded without talk of a rate hike, until December, when the Federal Reserve raised it by 0.25%. Deutsche Bank AG, the world's second-largest currency trader in Euromoney rankings, says the dollar's rally has plenty of room to run -- another two years, and about 10 percent on a trade-weighted basis. JPMorgan Chase & Co. says the dollar will strengthen versus the currencies of New Zealand and Singapore, peaking in the second half of 2016. Goldman Sachs Group Inc., Barclays Plc and Credit Suisse Group AG are also bullish as the Federal Reserve moves toward raising interest rates for the first time in almost a decade. Bank of America, Barclays and Danske Bank recommend to buy the dollar, and sell offshore Chinese yuan.

- **Chinese economy slows; ripples felt globally.** The economic slowdown in China through its stock market crash in August had a ripple effect on economies across the globe. The yuan fell to a four-year low in Shanghai on Monday, after China published an index on Dec. 11 that values it against a broad range of currencies. The move by the China Foreign Exchange Trade System spurred speculation that policy makers want to reduce the currency's link to the dollar and let it weaken further.

Other economic news

- **Inflation picks up in December.** Consumer price index inched up to 1.5 percent on higher food, alcoholic drinks and tobacco, healthcare, transport and recreation costs in December. Inflation for December brought the average inflation rate for the year 2015 to 1.4 percent, lower than the previous year's average of 4.1 percent and below the Bangko Sentral ng Pilipinas' 2-4 percent target for the year.

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



.Source: Graph prepared by author based on NSCB data

- **Key rates steady; inflation forecast lower.** The Bangko Sentral ng Pilipinas (BSP) kept its policy stance unchanged anew in the face of relatively fast economic growth on the back of strong domestic demand, but lowered its inflation forecast for this year. BSP said it would remain on the lookout for shocks that could affect the local economy, similar to the stance taken by the United States Federal Reserve. On Wednesday, US Fed chair Janet L. Yellen said the Federal Open Market Committee would not likely reverse its course of "gradual" interest rate increases, while noting that global financial developments could pose risks to the world's largest economy. In December, the United States Federal Reserve hiked federal fund rates by 25 basis points after keeping these near zero for nearly a decade, with hints of a total of four rate hikes within the year.

- **Year-to-date FDI fall eases on November Surge.** Net inflow of foreign direct investments (FDI) to the Philippines rose annually for the fifth straight month in November last year, tempering further a year-to-date fall but remains pale in comparison to those that went to Southeast Asian peers. FDI--a key source of jobs and capital for the economy--recorded a net inflow of $464 million for the month, a

16.3% increase from the $399 million year-ago level and 2.9% more than October's $451 million, the BSP reported. In a statement, the central bank attributed November's increase to "sustained investor confidence in the economy on the back of the country's sound macroeconomic fundamentals."

Philippines Economic Data													
Monthly Leading Indicators	**Dec-14**	**Jan-15**	**Feb-15**	**Mar-15**	**Apr-15**	**May-15**	**Jun-15**	**Jul-15**	**Aug-15**	**Sep-15**	**Oct-15**	**Nov-15**	**Dec-15**
Industrial Production (y-o-y, %)	4.6	2.7	-2.1	14.9	1.8	-1.1	-1.9	-0.2	2.2	2.9	1.4	4.4	4.9
Consumer Price Index (y-o-y, %)	2.7	2.4	2.5	2.4	2.2	1.6	1.2	0.8	0.6	0.4	0.4	1.1	1.5
Exports (y-o-y, %)	-3.2	0.0	-3.0	2.1	-4.1	-17.4	-1.8	-1.8	-6.3	-15.5	-10.8	-1.1	-3.0
Imports (y-o-y, %)	-10.6	-13.1	10.2	-6.5	-12.2	-13.4	22.6	23.0	5.7	8.2	16.9	11.4	-16.7
Trade Balance, US$ million	-67	-862	-838	246	-337	507	-554	-1,519	-1,048	-1,316	-1,944	-977	604
Total Reserves (less gold), US$ billion	72	73	73	73	73	73	73	73	73	74	74	73	74
Policy Rate	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0
Fiscal Balance (million pesos)	-46,317	-6,472	-9,673	-17,372	52,599	67,337	-72,673	-32,198	15,040	-22,140	-27,022	6,029	…
Quarterly/Annual Economic Indicators	**2009**	**2010**	**2011**	**2012**	**2013**	**1Q2014**	**2Q2014**	**3Q2014**	**4Q2014**	**1Q2015**	**2Q2015**	**3Q2015**	**4Q2015**
Real GDP (y-o-y, %)	1.1	7.6	3.6	6.8	7.2	5.6	6.7	5.5	6.6	5.0	5.8	6.1	6.3
- Private Consumption	2.3	3.4	5.7	6.6	5.7	6.1	5.7	4.9	5.0	6.0	6.2	6.1	6.4
- Government Consumption	10.9	4.0	2.1	12.2	10.8	1.9	0.0	-2.5	9.4	1.7	3.9	17.4	17.4
- Gross Capital Fixed Formation	-8.7	31.6	2.0	-3.2	28.1	12.8	8.3	-0.2	3.0	11.6	17.2	12.4	13.5
Current Account (% of GDP)	5.6	4.5	2.3	0.7	4.2	2.3	4.4	4.8	5.9	2.8	4	1	…
Financial Account (US$ million)	-1,731	7,290	-5,610	-4,821	2,230	4,098	696	810	4,480	1,025	1,255	858	…
- Net Direct Investments, US$ million	1,604	682	-1,277	-898	-90	-487	-543	842	977	405	-447	-118	…
- Net Portfolio Investments, US$ million	-625	4,365	-4,390	-1,248	-1,001	2,811	-649	-903	1,202	396	3,050	3,226	…
Overall BOP position (US$, million)	6,421	14,308	11,400	1,243	5,085	-4,475	330	712	574	877	807	124	…
Unemployment rate	7.7	7.3	7.4	7.0	7.1	7.5	7.0	6.7	6.0	6.4	6.5	5.6	…
Others	**Dec-14**	**Jan-15**	**Feb-15**	**Mar-15**	**Apr-15**	**May-15**	**Jun-15**	**Jul-15**	**Aug-15**	**Sep-15**	**Oct-15**	**Nov-15**	**Dec-15**
Overseas Filipinos' Remittances (US$, million)	2,354	1,956	1,935	2,390	2,126	2,147	2,227	2,253	1,994	2,234	2,164	1,871	2,470

… = not available

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

Table 1. Level of Philippine GDP, 2014Q4 - 2015Q4

	Nominal GDP (million current pesos)		Real GDP (million constant 2000 pesos)	
	2014Q4	**2015Q4**	**2014Q4**	**2015Q4**
Agriculture and Forestry	391,607	364,601	175,282	176,519
Fishing	52,450	50,642	41,085	39,236
Mining and Quarrying	26,294	23,910	13,295	14,326
Manufacturing	836,065	872,460	472,363	503,552
Construction	223,390	246,374	117,827	127,725
Electricity Gas and Water Supply	91,500	90,655	54,142	56,729
Transport Communication and Storage	203,243	221,922	143,565	156,405
Trade and Repair of Motor Vehicles Motorcycles Personal	631,095	673,214	330,248	353,290
Financial Intermediation	250,045	271,207	129,243	138,802
Real Estate Renting & Bus. Actvt	407,373	451,770	204,989	221,085
Public Administration & Defense: Compulsory Social Security	141,524	146,274	70,172	72,444
Other Services	320,263	347,098	182,954	197,720
Sum = GDP	**3,574,849**	**3,760,127**	**1,935,164**	**2,057,833**

Source: Philippine Statistical Authority.

Table 2. Industry Contributions to Philippine GDP Growth, 2014Q4 - 2015Q4

	TRAD	PGE	GPIE	RPE	GEN
	GDP Growth				**GDP Growth**
	(percent)	(percent)	(percent)	(percent)	(percent)
		(1)	(2)	(3)	(1)+(2)+(3)
GDP Growth	**6.34**	**6.26**	**0.05**	**0.02**	**6.34**
Industry Growth Contribution					
Agriculture	**-0.03**	**0.01**	**-0.01**	**-0.68**	**-0.68**
Agriculture and Forestry	0.06	0.08	-0.01	-0.72	-0.64
Fishing	-0.10	-0.07	0.00	0.03	-0.04
Industry	**2.31**	**2.25**	**-0.01**	**-0.28**	**1.95**
Mining and Quarrying	0.05	0.06	-0.01	-0.11	-0.06
Manufacturing	1.61	1.54	-0.02	-0.24	1.29
Construction	0.51	0.52	0.02	0.18	0.72
Electricity Gas and Water Supply	0.13	0.12	-0.01	-0.11	0.00
Services	**4.06**	**4.00**	**0.07**	**0.99**	**5.07**
Transport Communication and Storage	0.66	0.51	0.01	0.08	0.59
Trade and Repair of Motor Vehicles Motorcycles Personal	1.19	1.23	0.01	0.14	1.39
Financial Intermediation	0.49	0.52	0.01	0.15	0.68
Real Estate Renting & Bus. Actvt	0.83	0.89	0.04	0.45	1.38
Public Administration & Defense: Compulsory Social Security	0.12	0.13	0.00	0.05	0.18
Other Services	0.76	0.72	0.01	0.12	0.86

Source: DLSU-AKI *Philippine Economic Monitor* calculations by applying the data in Table 1 to a "generalized" (GEN) exactly addtive decomposition of GDP growth into *pure growth effect* (PGE), *growth-price interaction effect* (GPIE), and *relative price effect* (RPE) as an alternative to the "traditional" (TRAD) GDP growth decomposition. The GEN formulas for PGE, GPIE, RPE, and the TRAD formula are given, respectively, by equations (15), (16), (17), and (23) in Dumagan, Jesus C. (2014), "An Alternative Framework for Sectoral Contributions to GDP Level and Growth: Application to the Philippines," Working Paper Series 2014-009, Angelo King Institute for Economic and Business Studies, De La Salle University, Manila. Analytically, PGE is the result of "quantity" growth holding real price constant; RPE is the result of "real price" growth holding quantity constant; and GPIE results from quantity-price growth interaction. 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