

12 March 2018

## Philippines

### Economic Activity Is Mixed In January

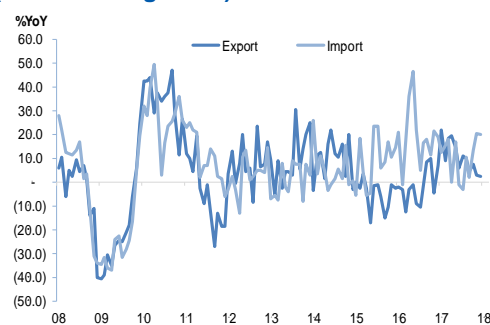
Overall economic activity in the Philippines was mixed in January, with merchandise export growth easing during the month. Inflationary pressure, however, surged, along with M3 growth, but loan growth eased. Following the robust GDP growth in 4Q17, we expect the archipelago's economic growth to be sustained at 6.5% YoY in 2018, holding up from +6.7% last year.

**Exports eased in January.** Merchandise export growth moderated as a result of a decline in manufactured product exports, along with a softer increase in forest product exports. However, import growth still recorded a robust double-digit increase, albeit softening, during the month.

**Inflation surged in January.** Headline inflation surged to 4% YoY, on the back of faster increases across the board. By category, it was mainly affected by the heavily-weighted costs of food and non-alcoholic beverages, alcoholic beverages & tobacco, and transport.

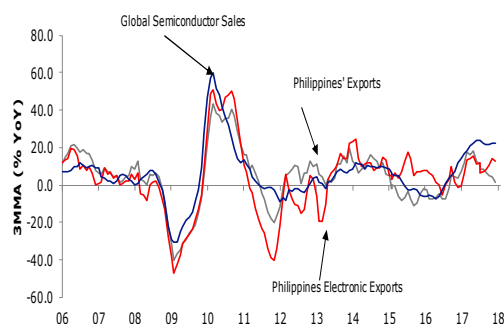
**January's broad money supply (M3) picked up while loan growth edged down.** M3 growth rose at a faster pace, attributed to a pick-up in net foreign assets. Total loan growth, however, eased on account of the slower growth in both business and consumer loans.

The Philippines' exports and imports (USD % change YoY)



Source: Philippines Statistics Authority (PSA)

The Philippines' main exports



Source: PSA

### Key economic indicators

% YoY	2015	2016	2017	Sep 2017	Oct 2017	Nov 2017	Dec 2017	Jan 2018
Exports	-5.3	-2.4	10.2	4.9	7.1	2.7	2.3	0.5
Imports	8.7	18.3	10.4	4.4	13.1	20.1	20.0	11.4
Trade balance (USDbn)	-12.2	-26.7	-29.8	-2.1	-2.8	-3.8	-3.8	-3.3
CPI	1.4	1.8	3.2	3.4	3.5	3.3	3.3	4.0
M3	9.4	12.7	11.9	14.5	14.8	14.0	11.9	12.8
Loan	12.7	16.1	18.1	20.1	18.0	18.4	18.4	18.3

Source: PSA

### Economist

Rizki Fajar

+6221 2970 7065

[rizki.fajar@rhbgroup.com](mailto:rizki.fajar@rhbgroup.com)



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## January's Exports And Imports Moderated

### Exports to continue growing in 2018

The Philippines' merchandise exports moderated to 0.5% YoY in January after easing to +2.3% in Dec 2017 and +2.7% in Nov 2017. The weaker merchandise exports were due to a decline in manufactured product exports, along with a softer increase in forest product exports.

Moving into 2018, we expect export growth to be sustained (albeit slower) at 8%, after rising by 9.5% in 2017, on account of a:

- i. Sustained increase in global demand and, hence, world merchandise trade;
- ii. Demand for electrical & electronic (E&E) goods and agricultural exports holding up.

As it stands, manufactured exports, which accounted for some 83% of total exports, declined by 4.4% YoY in January from +2.7% in Dec 2017 (Figure 2).

Weaker growth was recorded across the board in both electronic and non-electronic products. In addition, the softer increase in the export of forest products, made it worse.

On a MoM basis, merchandise exports picked up to 2.7% in January, from +1.2% in the previous month. This was driven by a rebound in agricultural, petroleum, and forest product exports as well as a smaller contraction in the export of mineral product exports during the month under review.

Imports, however, still recorded a robust growth of 11.4% YoY in January, albeit moderating from +20% in Dec 2017 and from +20.1% in Nov 2017. The softening in imports was driven by a moderation in raw materials and consumer goods imports.

Figure 1: The Philippines' trade balance

		Exports (% YoY)	Imports	Trade balance (USDbn)
2012		7.9	2.7	-10.0
2013		8.8	0.5	-5.7
2014		9.5	4.8	-3.3
2015		-5.3	8.7	-12.2
2016		-2.4	18.3	-26.7
2014	3Q	12.6	2.5	-0.4
	4Q	5.7	4.5	-1.5
2015	1Q	0.2	4.5	-2.8
	2Q	-7.9	3.7	-1.1
	3Q	-7.7	12.1	-3.8
	4Q	27.8	51.4	-5.8
2016	1Q	-6.7	12.1	-5.8
	2Q	-4.8	33.8	-7.2
	3Q	-1.8	12.6	-6.5
	4Q	-23.0	-12.2	-7.2
2017	1Q	16.3	15.1	-6.5
	2Q	12.7	5.1	-6.5
	3Q	8.4	3.9	-6.1
	4Q	11.1	8.0	-10.7
2016		-2.4	18.3	-26.7
2017		10.2	10.4	-29.8

Source: PSA

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Figure 2: Breakdown of the Philippines' exports

	% share of total	Dec	Jan	Dec	Jan	Jan	
	2018	2017	2018	2017	2018	2017	2018
		% YoY		% MoM		% YoY	
By products:							
Agricultural products	6.7	-30.4	-11.2	-8.8	28.5	6.0	6.0
Coconut products	3.1	-19.4	-26.1	-9.6	26.3	26.8	26.8
Sugar products	0.3	1219.3	4471.5	30.7	112.9	47.2	47.2
Fruits & vegetables	2.2	-48.8	3.4	-11.2	55.7	-14.1	-14.1
Other agriculture-based	1.4	-28.5	-10.2	5.1	-11.5	3.0	3.0
Forest products	0.3	235.3	83.2	-37.8	1.4	492.7	492.7
Mineral products	6.8	40.6	235.8	-3.0	-1.3	69.3	69.3
Petroleum products	0.5	-57.0	147.7	-63.0	75.4	-6.4	-6.4
Manufactured products	83.2	2.7	-4.4	3.6	0.8	6.6	6.6
Electronics	50.3	15.4	10.8	-0.3	-8.5	11.2	11.2
Semiconductors	36.4	19.0	16.9	1.6	-11.8	12.2	12.2
Data processing	8.5	6.2	-6.3	-5.0	1.1	9.0	9.0
Other electrical equipment	5.2	-10.4	-7.0	-23.6	31.2	12.8	12.8
Garments	1.1	-53.2	-82.7	13.3	30.9	-2.8	-2.8
Wood products	0.8	-79.2	-72.7	116.0	6.0	-55.0	-55.0
Chemicals	1.9	-53.0	-47.5	17.4	10.2	-12.7	-12.7
Machinery & transport	11.4	41.6	23.3	63.0	27.4	30.7	30.7
Processed food & beverages	1.4	-29.2	-16.6	7.5	-7.5	23.5	23.5
Total exports	100.0	2.3	0.5	1.2	2.7	9.5	9.5
By destination:							
Japan	17.2	-30.0	0.7	-10.6	31.7	-12.7	-12.7
China	11.3	-1.0	17.7	8.3	-1.5	8.4	8.4
ASEAN	14.6	13.6	1.2	-10.2	-5.5	11.7	11.7
US	14.3	-0.9	-12.2	-0.7	6.0	3.5	3.5
EU	15.4	53.9	-11.5	29.9	-3.3	32.8	32.8

Source: PSA, RHB

### Inflation surged in January

The Philippines' headline inflation surged to 4% YoY in January, from +3.3% in Dec 2017. This was due to faster increases across the board, which were mainly led by the heavily-weighted costs of food and non-alcoholic beverages, alcoholic beverages & tobacco, as well as transport. The food and non-alcoholic beverages was caused by the end of harvest season and weather-related disruptions while the other segments were affected by the implementation of the Tax Reform for Acceleration and Inclusion (TRAIN) Law.

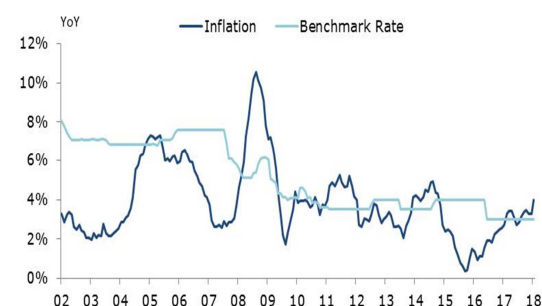
For the full year, we revised upward our headline inflation to 4% from previous estimation of 3.3% in 2018 due to higher oil prices and the implementation of the TRAIN Law. This is also a pick-up from +3.2% in 2017 and +1.8% in 2016.

TRAIN Law increases the tax on certain passive income, documents, as well as excise tax on petroleum products, minerals, automobiles, and cigarettes. It also imposes new taxes in the form of an excise tax on sweetened beverages and non-essential services (invasive cosmetic procedures).

The core inflation rate, which excludes food and energy items, picked up to +3.9% YoY in January (+3% in Dec 2017), pointing to a higher price pressure at the beginning of the year.

MoM, headline inflation increased to 1% in January, after easing to 0.3% in the previous month. This, likewise, was recorded across the board.

Figure 3: Inflation and policy rate



Note: Starting Jun 2016, the Philippines' policy rate was changed to purely Bangko Sentral ng Pilipinas' (BSP) overnight RRP facility at 3%.

Source: PSA, BSP

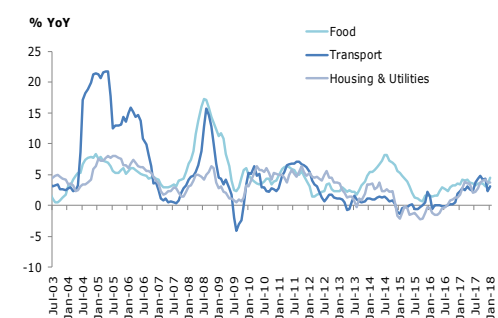
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Figure 4: Inflation indicators

% YoY	2015	2016	2017	Oct 2017	Nov 2017	Dec 2017	Jan 2018
% average							
CPI	1.4	1.8	3.2	3.5	3.3	3.3	4.0
Core CPI	2.0	1.9	2.9	3.2	3.3	3.0	3.9
Food	2.5	2.5	3.7	3.6	3.2	3.5	4.5
Housing	-1.3	-0.2	3.2	4.0	4.2	3.8	3.7
Restaurants	1.3	2.1	2.2	2.6	2.9	3.0	3.7
Transport	-0.1	0.3	3.4	4.2	4.4	2.4	3.2
Education	4.2	2.5	2.1	2.3	2.2	2.2	3.2

Source: PSA

Figure 5: Major categories' goods inflation



Source: PSA

Figure 6: Consumer Price Index (2006 = 100)

Group	Weight (%)	% MoM		% YoY		2016	2017
		Dec 2017	Jan 2018	Dec 2017	Jan 2018	% YoY	% YoY
Food & non-alcoholic beverages	39.0	0.5	1.5	0.5	4.0	2.5	3.6
Alcoholic beverages & tobacco	2.0	0.9	5.9	0.9	12.3	5.7	6.2
Clothing & footwear	3.0	0.1	0.5	0.1	1.8	2.4	2.2
Housing & utilities	22.5	-0.1	0.1	-0.1	3.7	-0.2	3.2
Furnishing & housing equipment	3.2	0.2	0.4	0.2	2.0	1.9	2.1
Healthcare	3.0	0.1	0.7	0.1	2.6	2.4	2.4
Transport	7.8	0.4	0.4	0.4	3.2	0.3	3.3
Communications	2.3	0.0	0.0	0.0	0.4	0.1	0.3
Recreation & culture	1.9	0.1	0.1	0.1	1.4	1.5	1.5
Education	3.4	0.0	0.0	0.0	2.2	2.5	2.5
Restaurants & miscellaneous goods & services	12.0	0.3	0.9	0.3	3.7	2.1	2.1
<b>Headline CPI</b>	<b>100.0</b>	<b>0.3</b>	<b>1.0</b>	<b>0.3</b>	<b>4.0</b>	<b>1.8</b>	<b>3.2</b>
<b>Core CPI</b>	<b>80.0</b>	<b>0.3</b>	<b>0.9</b>	<b>0.3</b>	<b>3.9</b>	<b>1.9</b>	<b>2.9</b>

Source: PSA, RHBRI

### M3 picks up while loan growth moderates in January

The Philippines' M3 growth picked up to 12.8% YoY in January. By comparison, it grew 11.9% in Dec 2017 and 14% in Nov 2017. The uptick was driven by a pick-up in net foreign assets during the month, reflecting forex inflow coming mainly from overseas Filipinos' remittances, business process outsourcing, and foreign portfolio investments.

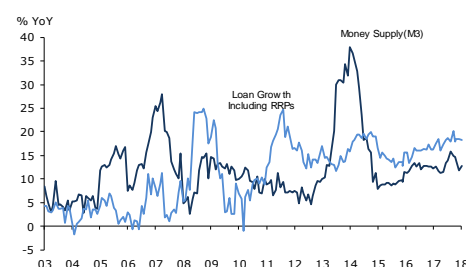
Going forward, we expect the broad money supply to ease to 10% in 2018, from +11.9% in 2017. This is in line with the more moderate economic growth projected for the year.

The commercial banks' outstanding loans – inclusive of overnight reverse repurchases (RRPs) with the central bank – grew at 18.3% YoY in January, slightly weaker from +18.4% in Dec 2017. Excluding RRP, bank lending, likewise, edged down to 19.1% YoY during the month from +19.4% in Dec 2017.

The slowdown in loan growth was due to a slower increase in the growth of loans extended to businesses and households at 18.1% and 20.3% YoY, from +18.6% and +20.8% YoY in Dec 2017. The latter was on account of a slower growth in motor vehicle, salary and other loans.

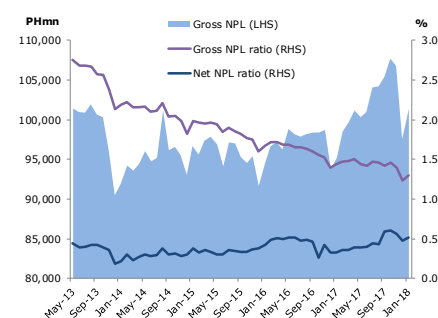
Meanwhile, the moderating growth in loans extended to productive activities – comprising about 89% of the banks' aggregate loan portfolios – was mainly affected by weaker loans extended to manufacturing, trade, utilities, real estate and financial activities but partly mitigated by stronger performances in loans extended to agriculture, mining, construction, information & communication, accommodation & food services, and administrative & support services.

Figure 7: Banking system's loan growth



Source: BSP

Figure 8: Banking system's impaired loans



Source: BSP

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Figure 9: Money supply and banking statistics

	Money supply (M3)	Net foreign assets	Domestic claims	Loans growth including RRPs	Loans to businesses	Loans to households
% YoY						
2013	31.8	10.1	10.6	16.3	15.3	8.3
2014	11.2	5.0	17.8	19.1	15.4	19.9
2015	9.4	6.6	11.5	12.7	13.7	15.1
2016	12.7	7.8	17.0	16.1	16.9	23.4
2017	11.9	2.3	13.4	18.1	18.5	17.1
Nov	14.0	1.9	14.7	18.4	18.5	20.6
Dec	11.9	2.2	13.7	18.4	18.6	20.8
Jan	12.8	4.1	13.5	18.3	18.1	20.3
% MoM						
Nov	0.9	(3.5)	1.4	3.1	2.3	2.4
Dec	2.8	(0.7)	2.5	3.2	3.8	2.0
Jan	(0.5)	4.6	(0.7)	(1.0)	(1.3)	0.7
% 3MMA						
Nov	14.4	2.7	15.3	18.8	19.3	21.4
Dec	13.5	3.4	14.5	18.3	18.6	21.6
Jan	12.9	2.7	14.0	18.4	18.4	20.6

Source: BSP

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Figure 10: Regional economic indicators

ASEAN & CHINA ECONOMIC INDICATORS																
Country	GDP growth (%)				Inflation (%)				Policy rate (end period,%)				Exchange rate (end period, vs. USD)			
	2015	2016	2017	2018F	2015	2016	2017	2018F	2015	2016	2017	2018F	2015	2016	2017	2018F
Indonesia	4.9	5.0	5.1	5.3	6.4	3.5	3.8	3.6	6.25	4.75	4.25	4.25	13856	13540	13588	13700
Malaysia	5.0	4.2	5.9	5.2	2.1	2.1	3.7	3.0	3.25	3.00	3.00	3.25	4.29	4.49	4.06	3.95
Philippines	5.9	6.8	6.7	6.5	1.4	1.8	3.2	3.3	4.00	3.00	3.00	3.25	46.86	49.62	49.83	49.79
Singapore	2.0	2.4	3.6	3.0	-0.5	-0.5	0.6	1.6	-	-	-	-	1.42	1.45	1.34	1.32
Thailand	2.8	3.2	3.9	4.2	-1.2	0.2	0.7	1.2	1.50	1.50	1.50	1.50	36.02	35.85	32.57	32.10
Vietnam*	6.7	6.2	6.8	6.3	0.6	2.7	3.5	3.4	6.50	6.50	6.00	6.00	22485	22770	22709	22700
China**	6.9	6.7	6.9	6.4	1.4	2.0	1.5	2.3	4.35	4.35	4.35	4.35	6.49	6.95	6.51	6.70

\*prime rate; \*\*1-yr lending rate

Country	Exports growth (%)				Imports growth (%)				Industrial Production growth (%)				Unemployment rate (% labour force)			
	2015	2016	2017	2018F	2015	2016	2017	2018F	2015	2016	2017	2018F	2015	2016	2017	2018F
Indonesia	-14.6	-3.9	16.2	10.0	-19.9	-4.9	15.6	11.0	4.6	5.0	5.1	5.3	6.2	5.6	5.5	5.4
Malaysia	1.8	1.1	18.9	6.5	0.4	1.9	19.9	6.2	4.5	3.8	5.2	4.5	3.2	3.5	3.4	3.3
Philippines	-5.3	-2.4	9.5	8.0	8.7	18.3	10.2	9.0	-4.4	6.4	6.2	6.2	6.3	5.5	5.7	5.6
Singapore	-7.3	-4.4	8.5	6.7	-12.1	-4.2	10.6	10.9	-5.1	3.7	10.1	7.6	2.0	2.2	2.1	2.0
Thailand	-5.8	0.5	9.9	7.0	-10.7	-3.9	14.7	8.6	0.3	1.6	1.6	2.9	0.9	0.9	1.0	0.9
Vietnam	7.7	9.2	21.4	9.5	10.7	5.6	21.4	8.7	9.8	6.9	10.0	8.1	3.4	3.3	3.5	3.6
China	-2.8	1.8	6.8	5.2	-14.1	3.8	7.3	5.6	6.1	6.1	6.5	5.5	4.1	4.1	4.1	4.1

Country	Fiscal Balance (% GDP)				Current Acc. (% GDP)				Forex Reserves (USD bn)				External Debt (USD bn)			
	2015	2016	2017F	2018F	2015	2016	2017F	2018F	2015	2016	2017	2018F	2015	2016	2017F	2018F
Indonesia	-2.5	-2.5	-2.6	-2.7	-2.0	-1.8	-1.6	-1.8	106	116	130	147	311	319	335	348
Malaysia	-3.2	-3.1	-3.0	-2.8	3.0	2.4	3.0	2.7	95	95	102	114	194	201	213	222
Philippines	-0.9	-2.4	-2.7	-2.8	2.6	0.2	0.3	0.6	81	81	82	90	77	75	73	71
Singapore	-1.0	1.3	0.5	0.8	19.7	19.0	18.8	17.8	248	247	280	265	-	-	-	-
Thailand	-2.4	-2.6	-1.8	-2.9	8.0	11.4	9.6	8.4	157	172	203	208	147	152	155	159
Vietnam	-5.3	-5.0	-5.3	-5.2	1.4	2.7	1.9	2.1	28	43	40	45	72	76	79	83
China	-3.4	-3.5	-3.6	-3.3	2.8	1.8	1.3	1.1	3330	3010	3140	3000	1416	1400	1450	1400

Country	Deposit Growth (%)				Loan Growth (%)				L/D Ratio (%)				Money Supply* (%)			
	2015	2016	2017	2018F	2015	2016	2017	2018F	2015	2016	2017	2018F	2015	2016	2017	2018F
Indonesia	8.0	9.6	11.0	11.9	10.1	7.8	10.0	12.8	94.2	92.7	91.9	94.3	9.0	10.0	11.0	12.4
Malaysia	1.8	1.5	5.7	4.6	7.9	5.3	4.1	5.2	88.7	89.8	90.5	90.9	2.6	3.0	4.7	5.0
Philippines	8.0	14.3	11.9	11.8	12.7	16.1	18.1	18.0	69.0	70.7	74.1	74.1	9.4	12.8	11.9	10.0
Singapore	0.2	2.7	3.2	5.4	0.0	0.5	8.0	5.8	108.5	107.9	104.5	104.9	4.1	8.1	4.1	6.2
Thailand	4.2	3.8	4.1	5.3	5.5	3.6	4.1	5.1	93.5	93.3	93.1	92.9	4.4	4.2	5.2	5.3
Vietnam	13.6	15.0	10.0	11.2	17.2	18.0	15.0	13.5	78.1	79.6	81.0	83.0	13.6	16.0	17.0	18.0
China	12.4	11.0	10.7	9.6	14.3	13.5	12.0	10.3	69.2	70.8	71.7	72.2	13.3	11.3	11.0	10.6

Note: As at 01 Mar 2018

Note 2: \*M2 is used for all countries except for Thailand M1 is used and Philippines M3 is used instead.

Note 3: \*\*Starting 3 Jun 2016, the Philippines' policy rate was changed to purely Bangko Sentral ng Pilipinas' overnight reverse repurchase (RRP) facility at 3%

Source: International Monetary Fund (IMF), Oxford Economics, Various central banks, RHB

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Jakarta	Shanghai	Bangkok
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