NEW ZEALAND
FOREIGN AFFAIRS & TRADE
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Philippines Fourth Quarter and Annual Update

Market Report

22 February 2021

Prepared by the New Zealand Embassy in Manila, Philippines.

Summary

- In 2020 the Philippines economy shrank by 9.5%, the first economic contraction in more than two decades, and the worst contraction since records began being kept in 1946. In the fourth quarter GDP contracted by 8.3% compared to the same period the previous year.
- The Philippines' prolonged, stringent lockdown and its associated impact on household spending and average wages have resulted in lacklustre private consumption. Fiscal stimulus to date has also been conservative.
- New Zealand good exports to the Philippines are down 16.6% compared to 2019 on the back of constrained household spending and the logistical challenges brought about by the pandemic. However, the Philippine government and businesses remain optimistic that the economy will rebound strongly by the end of 2021. This is based on the assumption that a wide vaccine rollout will be well under way, facilitating the relaxation of community quarantine restrictions, which will in-turn encourage private consumption.

Report

The Statistics

- The Philippine Government released fourth quarter and annual economic data for 2020. Fourth quarter GDP growth declined 8.3% compared to the same period last year, which was an improvement on the two previous declines of 16.9% in the second quarter and 11.4% in the third quarter. The economic impact of COVID-19 appears to have softened as quarantine restrictions have eased gradually since March 2020. However, the improvement was not enough to prevent an annual GDP reduction of 9.5% compared to the previous year, capping the country's largest economic contraction since records began being kept in 1946.

- Private consumption, which represents 70% of GDP, fell 7.2% in 2020 compared to the previous year due to the prolonged restrictions on family (particularly children) movement during the lockdown and reductions in household income.

- All three major sectors of the economy contracted over the course of the year. The services sector declined by 9.1%, and the unemployment rate is around 8.7%. The Department of Labor and Employment reported approximately 5 million Filipinos have lost their jobs during the pandemic, and a further 7 million either had their jobs temporarily put on-hold or working on reduced hours. The return of over 400,000 overseas Filipino workers has compounded the situation. The industries sector slipped by 13.1%, with construction dropping by over 25% largely due to movement restrictions placed on domestic and international workers. The Philippine Government hoped that agriculture might record positive growth, but the impact from the estimated NZ$500 million in losses and damages from recent typhoons proved too great and the sector declined by 2.5%. On a positive note, December 2020 exports only declined 0.2% compared to December 2019, reflecting strengthening demand from neighbouring economies, most notably China and Viet Nam.

Prospects

- Acting Socioeconomic Planning Secretary Karl Chua said that the prospects for 2021 were encouraging, referring to the gradual economic improvements on the back of the gradual easing of restrictions, reopening of businesses and wider access to public transportation. Chua expects a "strong recovery before the end of the year, when the government would have rolled out enough vaccines against COVID-19 for the majority of our people." President Duterte's administration was "very concerned" about low private consumption and "looking to find a better balance" between future health and economic decisions.

- The National Economic and Development Authority (NEDA) has updated its growth target to 6.5-7.5% for the next two years and the unemployment target from 3-5% to 7-9%. Analysts predict that the economy will not return to pre-pandemic levels of 6% annual growth until sometime in 2022 due to the Philippines' more stringent and prolonged movement restrictions and more conservative fiscal stimulus. The forecasts of the government and analysts are both based on the assumption of a successful nationwide COVID-19 vaccine rollout in 2021, which will encourage the relaxation of community quarantine restrictions and subsequent private consumption. However, this is becoming increasingly challenging due to issues with vaccine procurement and supply.

Implications for New Zealand Businesses

- Two-way goods trade with the Philippines for 2020 was approximately NZ$847 million, down almost 16% on 2019 with New Zealand exports making up about 86% of the goods trade relationship.

- New Zealand goods exports to the Philippines in 2020 were approximately NZ$729 million, which was a decline of 16.6%. Dairy exports, which represent over 75% of all exports, saw an almost 12% decline, with an over 21% reduction in butter exports being of particular note. Wood and wood products, nearly 7% of all exports, saw an over 26% reduction. Although still only around 1% of all exports, potato exports declined 58% (Comment: a downturn in the Philippine hospitality industry during the pandemic has combined with a surplus of potato fries flooding the market from large EU players). Meat (predominantly frozen beef) and casein exports, each approximately 3% of all exports, bucked the trend with 3% and 16% increases respectively.

- New Zealand goods imports from the Philippines in 2020 were approximately NZ$117 million, a reduction of almost 12% on 2019. The key imports of electrical equipment, fruits and machinery all saw significant declines, but within the fruit category, bananas achieved an over 6% increase.[1]

- NZTE reports that the pandemic has negatively impacted the Philippine retail and foodservice sectors (major channels for New Zealand food and beverage exports). Traditional importers and distributors of New Zealand products appear hesitant to introduce new brands into the market and are choosing to focus on growth from their existing portfolio of products, rather than invest in new product launches or brand development. Nevertheless, Fitch Research Group expects private consumption to improve in 2021 with increased household income and optimism and a government reluctant to return to the strictest lockdown levels. However, a surge in retail activity over the near term is not likely.

[1] All trade statistics sourced from Global Trade Atlas. All commodity statistics are by value.

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