Philippines: Second Quarter Economic Update

Market Report

NEW ZEALAND
FOREIGN AFFAIRS & TRADE
Manatū Aorere

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Prepared by the New Zealand Embassy in Manila, Philippines

Summary

- The Philippines economy has entered a technical recession after GDP contracted in two consecutive quarters. The Philippines economy contracted 16.5% in the second quarter, a larger decrease than what analysts predicted. The size of the contraction has been attributed to the severity of COVID-19 lockdown, one of the longest in the world.
- Yet there is confidence from the government that the Philippines remains in a strong fiscal position with the ability for further borrowing without endangering the Philippines debt profile, as well as confidence that the economy will rebound in 2021.

Report

The statistics

- GDP in the second quarter of 2020 contracted by 16.5%, the biggest single quarter contraction since 1981. During the height of the lockdown in March and April, only 25% of the economy was operational, according to Karl Chua, Acting Secretary of the National Economic and Development Authority. Three key sectors have been significantly impacted. In the second quarter Manufacturing was down 21.3%, Construction down 33.5%, and Transportation and Storage down 59.2%. On a more positive note some Agriculture, Forestry and Fishery sectors saw a combined growth of 1.6%. Trade has also been significantly impacted with Exports down 37% and imports down 40%.
- The Philippines is not alone in its struggle against COVID-19 impacts, with similar contractions for credit ratings peers Italy (11.6%) and Mexico (10.2%)
- The Social Weather Station conducting a labour survey in early July found that adult joblessness reached a 12-year high of 45.5% (around 27.3 million people). The most recent Labour Force Survey conducted by the Philippines Statistics Authority in April found an unemployment rate of 17.7%. The hardest hit sectors include tourism, hotels and catering, transportation particularly airlines, non-essential trade, construction and manufacturing. The service sector accounts for over 50% of jobs in the Philippines.

The nature of the Philippines economy

- The Philippines is largely a services-driven economy, and quarantine restrictions saw a sharp reduction in household expenditure and consumption. Remittances, another significant driver of the Philippines economy, has taken a significant hit with the World Bank expecting them to decline by as much as 20% this year. More than 10 million Filipinos, or about 10% of the population, work abroad at any given time, with their remittances accounting for about 10% of GDP.
- Benjamin Diokno, the Governor of the Central Bank of the Philippines, has argued that the Philippines has "strong fundamentals" with a relatively low debt-to-GDP ratio (around 40%), a resilient banking sector, low interest rates and an appreciating peso. Diokno highlighted that lending to MSME's had spiked by 50% over the previous year.

- Credit rating agencies have thus far largely supported the view that the Philippines economy retains strong fundamentals (e.g. S&P and Fitch ratings of BBB- and outlooks of 'Stable'). Fitch has warned that the latest figures and lockdown measures are likely to further depress economic growth below earlier estimates, but that the Philippines should still have enough fiscal headroom to accommodate some further deterioration.

Prospects

- Secretary of Finance Carlos Dominguez has said that the Philippine economy has already bottomed out and was "already beginning to recover". Dominguez highlighted that the Philippines would need to be cognisant of the impact stimulus efforts have on the Philippines debt profile. Dominguez was supportive of the PHP165.5 billion (NZD 5.2 billion) Bayanihan Two (Heal As One) stimulus package, which has been passed by the Senate and the House of Representatives. Earlier the House of Representatives had proposed a PHP1.3 trillion (NZD 41 billion) stimulus packaged, something which Secretary Chua said was "not fundable".
- Economic commentators are concerned that inadequate stimulus support would mean the Philippine economy may experience one of the slowest recoveries in the region. Secretary Chua said that the economy was now expected to contract by 5.5% for the year. The World Bank is forecasting a contraction on 1.9% this year. Governor Diokno said he expected the economy to rebound strongly in 2021 once domestic consumption recovered and predicted a GDP growth of between 6.5 to 7.5%.

Implications for New Zealand businesses

- All businesses, including New Zealand businesses, have had to adapt to new consumer behaviours. E-commerce has taken on a much more significant role. GCash, a mobile wallet app, saw PHP100 billion (NZD 3.1 billion) worth of transactions in the current year to the end of July, compared to PHP28 billion (NZD 880 million) last year. Businesses that were able to shift to digital means of operations were less significantly impacted, both in selling goods and services to customers, but also in keeping productivity high under work-from-home arrangements.
- The impact on the Food and Beverage sector, which makes up the bulk of New Zealand exports to the Philippines, paints a mixed picture for New Zealand businesses. New Zealand's reputation for high quality and healthy food has seen demand for some products grow (e.g. Manuka Honey). Companies supplying retail stores (primarily supermarkets) continue to see strong demand, but demand from the hospitality sector has dropped significantly. Food security is an issue that is front of mind for the Philippines.

External links

- Social Weather Station – July 3-6, 2020 National Mobile Phone Survey
- Statement of Philippine National Economic Development Agency on 2020 Q2 Growth

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