NEW ZEALAND
FOREIGN AFFAIRS & TRADE
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# Philippines: Economic Update - Third Quarter

Market Report

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## Prepared by the New Zealand Embassy in Manila, Philippines


## Summary

- In the third quarter GDP in the Philippines contracted 11.5% year-on-year, a larger decrease than what analysts predicted. However, economic activity has been picking up as COVID-19 restrictions have gradually eased, with varying levels of quarantine restrictions still in place across the country. Low consumer confidence and its impact on domestic consumption are a concern for the Philippines.
- The effects of the recent typhoons could further weaken household spending and agricultural production. New Zealand good exports to the Philippines are down 5.64% for the year ending September 2020. But there still remains optimism amongst government and business that the Philippine economy is in a good position to recover.


## Report

**The Statistics**

- The Philippine Government released third quarter figures showing a GDP contraction of 11.5% year-on-year. Analysts had predicted a 9% contraction. While a bigger than expected, it represents an improvement over the second quarter. Second quarter GDP figures were also adjusted from the previously reported -16.5% to -16.9%. GDP grew 8% quarter-on-quarter as lockdown restrictions eased and the economy gradually opened up.
- Agriculture was the most significant sector to grow compared to last year, improving by 1.2% in production. Although damage to agriculture caused by recent typhoons may dampen figures in the fourth quarter. The industrial sector slid by 17.2%, while services – once the growth leader in a bustling labor market – dropped by 10.6%. However, data showed all three sectors saw stronger activity when compared to the second quarter. Household consumption dropped 9.3% compared to the same period in the previous year, but rose 15.3% compared to the second quarter.
- National Statistician Dennis Mapa said there were big improvements in domestic activity. More MSMEs started to open up and malls, restaurants and hospitality were allowed to open (with restrictions) as the government had moved to revive revenues for hard hit sectors. This contributed to the increase in quarter-on-quarter figures.

**Prospects**

- Acting Socioeconomic Planning Secretary Karl Chua said the government was optimistic that the worst was over for the Philippines, adding that the local economy is “on the mend”. However, the 11.5% contraction in the third quarter has rendered unattainable the original -5.5% GDP forecast by the government for the entire 2020. To meet the original -5.5% projection, the economy would need to grow by 6.6% in the fourth quarter. Chua said that with public transport opening up further, it would expect to see further improvements in figures.
- Carlos Dominguez, Secretary of Finance, had stated that he did not see a need to borrow more than already planned, as he expected the economy to bounce back next year with GDP growth of 6.5 to 7.5%. Dominguez said the lower than expected decline in overseas remittances (up 9% in September), and the highest ever foreign exchange reserves at US$ 104 billion, had helped the economy track towards recovery. Dominguez cited low consumer confidence as a concern, with increases in domestic consumption needed to further stimulate the economy.

- Meanwhile, Ramon Lopez, Secretary of Trade and Industry welcomed the signing of RCEP. Lopez cited RCEP's importance in broadening "the Philippines' economic engagements with its trading partners through improved trade and investment, enhanced transparency, integrated regional supply chains, and strengthened economic cooperation". For the Philippines RCEP will help improve market access for key products, including garments, automotive parts and agricultural products.

**Implications for New Zealand businesses**

- Two-way goods trade with the Philippines for the year ending September 2020 was NZ$ 924 million, a decline of 7.07% from the same period last year.
- New Zealand goods exports to the Philippines was NZ$ 810 million, a decline of 5.64%. Dairy exports account for approximately 75% of goods exports and declined by 0.72%. Goods categories associated with wood, wood products, paper and paperboard account for approximately 10% of goods exports and these categories saw double digit percentage declines (Comment: The construction sector in the Philippines had been one of the hardest hit, down 39.8% in the third quarter). Some commodities saw improvements, although all make up for smaller portions of exports to the Philippines. The most notable is the 46% increase in fish exports, which makes up approximately 1% of goods exports.
- New Zealand goods imports from the Philippines saw a more significant decline 16.09%, standing at NZ$ 114 million. Electronics and fruit imports saw significant declines. [1]
- In the services sector New Zealand businesses continue to experience mixed fortunes. NZTE has seen some of its customers able to secure new deals, but others have made moves to reduce their engagement with the Philippines market. The Philippines has gradually adjusted its border settings, meaning some New Zealand contractors have been able to enter the Philippines.

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

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