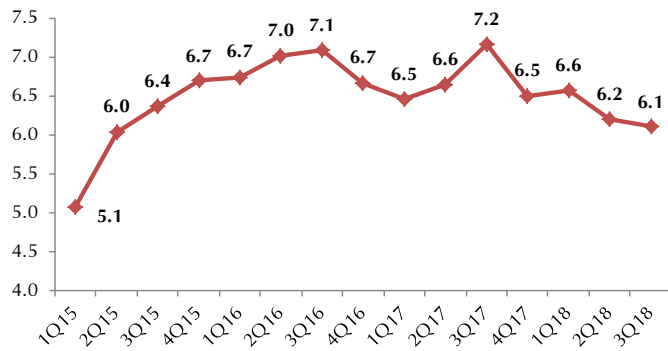


## Growth Moderates

November 15, 2018

Philippine Quarterly Real GDP Growth



Source: Philippine Statistics Authority (PSA)

Philippine gross domestic product (GDP) in the third quarter of 2018 (3Q18) expanded by 6.1% year-on-year (y/y), in-line with our (house view) estimate, albeit slightly behind the upwardly revised 2Q18 GDP print and consensus of 6.2%. Growth was lifted by robust government spending and investments, but was partly offset by weaker household consumption and manufacturing, and shrinking agriculture.

The 3Q18 figure highlighted the growth slowdown in nine months to 6.3% from last year's comparable 6.8% and the Philippines is now slower than China (+6.7%) and Vietnam (+7%) but still faster than our peer Indonesia (+5.2%).

**Strong Domestic Demand Drives Growth.** Domestic demand was still healthy, up 9.2% y/y from 2Q18's 10.5% and 3Q17's 7%, buoyed by double-digit expansion in capital formation (+16.7% y/y from 2Q18's +21.5%) and government spending (+14.3% from +11.9%). However, rising consumer prices in the quarter, which reached a 9-year high of 6.7% y/y in September due to elevated food and oil prices, dampened household consumption, down to a 4-year low of 5.2% from 5.9% in 2Q18. Higher imports demand vs exports also continued to drag 3Q18 GDP performance.

**Services Sustained Growth Momentum.** Services sustained its growth (+6.9% from 2Q18's 6.8%), driven by faster expansion in real estate, renting and business activities (+5.3% from 4.3% in 2Q18) and other services (+7.5% from 7%). Financial intermediation was also steady at 7.6%.

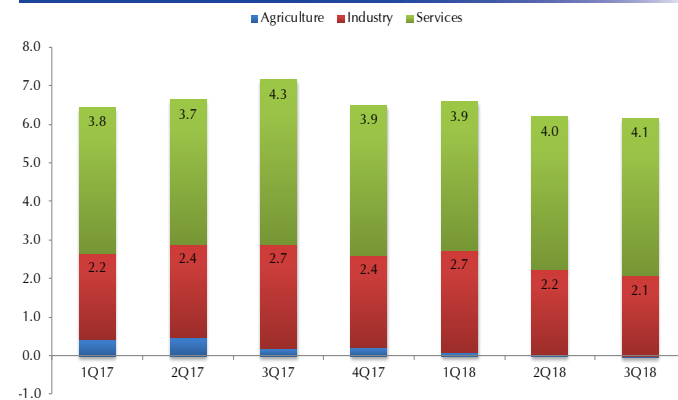
However, industry decelerated to 6.2% from 2Q18's 6.5% as manufacturing expanded to its slowest pace (+4% y/y from 2Q18's +5.5%) since 4Q11, reflecting weaker household spending on food (+2.8% from 2Q18's +6.2%) and export demand (-2.1% in 9M18 per Philippine Statistics Authority data). This was partially offset by acceleration in construction (+16.1% from 2Q18's +14.1%), supported by elevated public construction (+25.4% from +21%) and continued recovery of private construction (+12.5% from +9.1%).

As expected, poor agricultural output weighed on growth (-0.4% from 2Q18's +0.3%) as the sector took a hit from several typhoons that damaged significant portion of corn and rice fields, especially in Luzon.

**Outlook.** Despite the apparent slowdown in economic activities for the quarter, we expect the Philippine economy to sustain its above-6% growth for the rest of the year, still driven by government's fiscal stimulus and strong investments. These two sectors now account for 12% and 31% of GDP, respectively. The government is on track to utilize its full year infrastructure budget of P750bn as 8M18 tallied P505.6bn or 67% of the target, up 50% y/y, while foreign direct investments (FDI) for the same period also grew by 31% to \$7.4bn.

Household spending may also slightly recover as we enter the seasonally strong 4Q18 and as inflation outlook improves amid government efforts to curb rising inflation, especially for food, and declining global oil prices. Food inflation significantly slowed in October to 0.1% month-on-month (m/m) from June-September's 0.7-1.9% m/m price upticks, while global oil prices have gone down by 27% from its 2018's peak in October to \$55.69/barrel due to a shift in perception from shortage to excess supply in view of the following: recent uptrend in US inventory stockpiles, less than 2mn barrels per day drop of US sanctioned Iranian oil exports on the back of import waivers, Saudi oil supply boost of 500k barrels per day, and news about US oil industry on track to exporting oil for the first time since 1949 and a slower global economy.

Contribution to GDP Growth (By Industrial Origin)



Source of basic data: PSA

**Table 1. PH Quarterly Real GDP Growth by Industry, Year-on-Year**

	2017		2018		
	Q3	Q4	Q1	Q2	Q3
<b>GDP</b>	<b>7.2</b>	<b>6.5</b>	<b>6.6</b>	<b>6.2</b>	<b>6.1</b>
<b>Agri/Forestry/Fishery</b>	<b>2.6</b>	<b>2.4</b>	<b>1.1</b>	<b>0.3</b>	<b>-0.4</b>
Agriculture/Forestry	3.7	3.0	1.9	0.2	-0.2
Fishing	-2.1	-0.1	-3.6	0.4	-1.1
<b>Industry</b>	<b>8.1</b>	<b>7.0</b>	<b>7.7</b>	<b>6.5</b>	<b>6.2</b>
Mining/Quarrying	7.9	5.4	6.9	-6.9	-1.1
Manufacturing	10.1	7.9	7.6	5.5	4.0
Construction	4.0	4.3	8.8	14.1	16.1
Electricity/Gas/Water	3.4	5.5	6.4	3.7	5.0
<b>Service</b>	<b>7.3</b>	<b>6.9</b>	<b>6.8</b>	<b>6.8</b>	<b>6.9</b>
Transp./Storage/Comm'n	3.6	4.9	6.6	6.1	5.4
Trade	7.3	8.7	6.2	6.2	5.6
Finance	8.9	5.2	7.8	7.6	7.6
Real Estate	7.8	6.6	4.9	4.3	5.3
Public Admin/Defense	8.2	8.5	13.2	15.0	17.8
Other Services	7.5	6.3	6.9	7.0	7.5

**Table 2. PH Quarterly Real GDP by Industry, in PHP Billion**

	2017		2018		
	Q3	Q4	Q1	Q2	Q3
<b>GDP</b>	<b>2,093</b>	<b>2,345</b>	<b>2,140</b>	<b>2,357</b>	<b>2,221</b>
<b>Agri/Forestry/Fishery</b>	<b>164</b>	<b>219</b>	<b>184</b>	174	164
Agriculture/Forestry	135	180	158	148	135
Fishing	30	38	27	27	29
<b>Industry</b>	<b>698</b>	<b>810</b>	<b>740</b>	<b>801</b>	<b>741</b>
Mining/Quarrying	17	18	21	30	17
Manufacturing	471	580	532	525	490
Construction	130	146	122	172	151
Electricity/Gas/Water	79	67	65	74	83
<b>Service</b>	<b>1,231</b>	<b>1,316</b>	<b>1,217</b>	<b>1,381</b>	<b>1,316</b>
Transp./Storage/Comm'n	139	173	165	180	147
Trade	386	416	331	376	407
Finance	154	158	166	182	166
Real Estate	259	255	235	273	273
Public Admin/Defense	82	93	83	110	96
Other Services	211	222	237	260	227

**Table 3. PH Quarterly Real GDP Growth by Expenditures, Year-on-Year**

	2017		2018		
	Q3	Q4	Q1	Q2	Q3
<b>GDP</b>	<b>7.2</b>	<b>6.5</b>	<b>6.6</b>	<b>6.2</b>	<b>6.1</b>
<b>Private Consumption</b>	<b>5.4</b>	<b>6.2</b>	<b>5.7</b>	<b>5.9</b>	<b>5.2</b>
<b>Government Consumption</b>	<b>8.3</b>	<b>12.2</b>	<b>13.6</b>	<b>11.9</b>	<b>14.3</b>
<b>Investments</b>	<b>10.3</b>	<b>8.3</b>	<b>12.4</b>	<b>21.5</b>	<b>16.7</b>
Fixed Capital	7.8	9.4	8.8	21.2	16.5
Construction	2.8	5.7	10.0	13.6	14.8
Durable Equip't	9.7	11.2	8.4	28.2	17.5
Breeding Stock	3.5	2.5	4.2	3.6	6.2
Intel'l Property	25.9	24.0	11.3	26.8	22.9
<b>Exports</b>	<b>18.8</b>	<b>20.6</b>	<b>6.5</b>	<b>12.6</b>	<b>14.3</b>
Goods	17.1	22.2	3.7	13.9	16.9
Services	27.7	14.5	16.4	8.4	2.2
<b>Less : Imports</b>	<b>17.2</b>	<b>18.1</b>	<b>9.6</b>	<b>18.5</b>	<b>18.9</b>
Goods	18.2	18.2	9.9	21.1	20.5
Services	12.3	17.8	8.5	5.2	10.6

**Table 4. PH Quarterly Real GDP by Expenditures, in PHP Billion**

	2017		2018		
	Q3	Q4	Q1	Q2	Q3
<b>GDP</b>	<b>2,093</b>	<b>2,345</b>	<b>2,140</b>	<b>2,357</b>	<b>2,221</b>
<b>Private Consumption</b>	<b>1,407</b>	<b>1,700</b>	<b>1,477</b>	<b>1,557</b>	<b>1,480</b>
<b>Government Consumption</b>	<b>219</b>	<b>211</b>	<b>237</b>	<b>308</b>	<b>250</b>
<b>Investments</b>	<b>602</b>	<b>706</b>	<b>704</b>	<b>692</b>	<b>702</b>
Fixed Capital	604	685	678	695	704
Construction	203	228	196	262	233
Durable Equip't	350	394	425	379	411
Breeding Stock	20	33	29	26	22
Intel'l Property	31	29	28	28	38
<b>Exports</b>	<b>1,383</b>	<b>1,102</b>	<b>1,259</b>	<b>1,422</b>	<b>1,582</b>
Goods	1,144	886	955	1,112	1,337
Services	239	216	304	310	245
<b>Less : Imports</b>	<b>1,500</b>	<b>1,386</b>	<b>1,553</b>	<b>1,605</b>	<b>1,783</b>
Goods	1,256	1,082	1,271	1,377	1,513
Services	244	304	282	228	270

Source: PSA