Metrobank

Research and Business Analytics Department

ECONOMIC UPDATES

METROBANK RESEARCH FORECASTS

	Actual		Forecasts
	2021	2022	2023
Real GDP (2018=100)	5.7%	7.6%	**6.0% - 7.0%**
Inflation (2018=100)	3.9%	5.8%	**5.0% - 6.0%**
BSP RRP Rate	2.0%	5.5%	**6.0%**
USDPHP (BSP)	50.77	56.12	**55.1**

Updated as of February 2, 2023

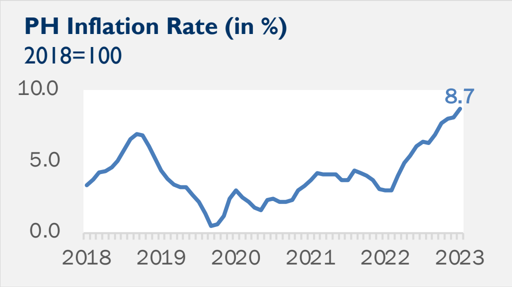
"Next meeting will focus on inflationary expectations in (the Philippines), not the Fed's 25-bp (basis point) rate increase."

- *BSP Governor Felipe Medalla*

OUTLOOK

Real Economy

- Consumption is expected to continue to drive the growth trajectory of the country but is seen to normalize in the coming months as it was mainly propelled by the economic reopening last year.
- More discriminate spending and possibly even a contraction in consumption in the coming months are expected due to rising interest rates and prices.
- Global economic headwinds such as the slowdown of advanced economies, including the US and Europe, may likewise pull down PH growth this year but can also reduce inflationary pressures.



Source: Philippine Statistics Authority (PSA)

Inflation

- Inflation spiked to 8.7% in January 2023 versus 8.1% the prior month, the highest in over 14 years or since November 2008 (during the Global Financial Crisis when inflation was at 9.1%). The 8.7% acceleration last month was mainly driven by housing, water, electricity, gas, and other fuels, as landlords adjusted rental rates to reflect the economic reopening, and also stemmed from elevated energy prices. Food and non-alcoholic beverages also drove inflation higher, as supply issues led to a shortage of major agricultural products such as onions. Restaurant and accommodation services also prompted inflation to climb during said month amid surging domestic demand.
- Inflation is expected to remain elevated due to the impact of second-round effects, continued supply chain bottlenecks caused by the Russian-Ukraine conflict, and the expected demand recovery of China.
- The global energy crunch may worsen as Europe turns away from Russian gas and turns to other major sources for imports. Along with the possibility of China's demand recovery, supplies to other developing nations including the Philippines may be curbed and limited, and this may push energy prices, and thus inflation, to a higher level. However, recession concerns may lead to volatility in oil markets and may push prices down.

Interest Rates

- Further RRP rate hikes during Q1 of 2023 were signaled by the Bangko Sentral ng Pilipinas (BSP) due to rising prices. The RRP rate is expected to be at the 6.0% level by end-2023 from 5.50% as of writing.
- Interest rates in the coming months are expected to rise given consistent rate hike statements by the Fed in its February meeting, as well as the strong US jobs report for January. Markets are expecting a Fed funds terminal rate of 5.0% to 5.25% by the end of this year.

Foreign Exchange

- High global inflation and expectations of further Fed rate hikes could lend support to the USD. Moreover, China's demand recovery which may rally oil prices up in Q2 and the PH's import season in Q3 could weaken the peso towards yearend. Expect volatility as uncertainties remain.

LOCAL MACRO NEWS

PRICE WATCH: UTILITIES

Utility prices up

Housing, water, electricity, gas, and other fuels capture 21.4% of the total commodity basket, thus faster acceleration in prices of these commodities likewise drive overall inflation as recently seen in the January 2023 inflation figure.

Rentals

Rentals have started to adjust upwards starting January 2023 after being relatively stable in 2020-2022, potentially driven by rent contract renewals as noted by Usec. Mapa in the Q&A portion of the January 2023 Inflation press briefing. This upward change may be consistent in the succeeding months as renewal adjustments for typical 1-year rent contracts start to kick in.

Electricity

Meralco rates were up in January 2023 (100kWh consumption which costed P781.7 in January 2022 went up to P899.37) and are poised for a slight rollback of P0.01/kWh in February following three straight months of rate increases. Nonetheless, Malampaya is set to shutdown for two weeks in February for maintenance activity which puts upward pressure yet again to electricity prices.

Water

Maynilad and Manila Water's approved rate hikes in November 2022 started implementation in January 2023 to continue until 2027. Maynilad increased rates by P3.29 while Manila Water by P8.04 per cubic meter. These hikes are set in tranches every year until 2027.

LPG

Liquefied petroleum gas (LPG) is set to increase by more than PhP 11 per kilo in February, thus increasing the price of a whole tank by P121.

These upcoming hikes in utility prices are likely to weigh in in the succeeding months' inflation figures, keeping inflation elevated.

Source: Various news sources

DEBT NEWS

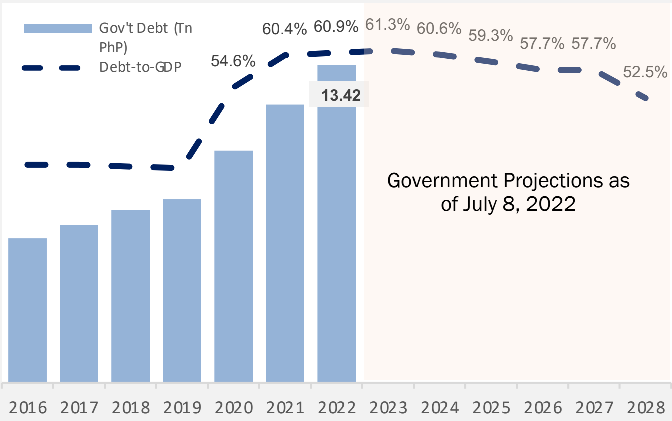
Trimmed Outstanding Debt, GDP Growth Pulled Down 2022 Debt-to-GDP Ratio

The National Government's total outstanding debt settled at P13.42 Tn as of YE 2022, declining by P225.1 Bn vs posted figure in November 2022.

The decline in total debt, coupled by the country's notable GDP growth pulled down debt-to-GDP ratio to 60.9% vs 63.7% in September 2022 and 61.8% government target in the medium-term fiscal framework.

The government targets a declining debt-to-GDP trajectory in the succeeding years which is deemed achievable granted continuous economic growth.

Debt-to-GDP (2016 - 2022)



Source: Bureau of the Treasury

GLOBAL MACRO NEWS

OTHER NEWS

Hot US labor market amid cooling inflation

US employers added 517,000 new workers in January, which was almost twice the figure in December and higher than what policymakers expected. The unemployment rate likewise dropped to 3.4% (versus 3.5% in December), the lowest rate since May 1969. Considering this, US Fed Chair Jerome Powell on Feb. 7 signaled and reiterated further Fed rate hikes, citing the better-than-expected jobs report as an indication of why the process will take a significant period. Markets this time paid attention, as US stocks fell and yields for US treasuries shot higher after data showed a tight labor market, and as Powell implied that the Fed could lift benchmark policy rates above 5.1% and keep it there for some time. However, Powell's comments were still seen as less hawkish than feared.

The USD/PHP exchange rate closed higher at P55.085 according to the Bankers' Association of the Philippines (BAP), which analysts pointed out was a result of the strong US jobs data as well as the faster than expected PH inflation in January.

This is following the February 1 rate-setting meeting of the Federal Open Market Committee (FOMC), where there seemed to be a disconnect between the Fed and the markets - the Fed raised rates by a quarter point, with Powell sounding off more rate hikes and that borrowing costs might peak higher than expected, but also said that the disinflationary process has likely begun. Markets nevertheless rallied as they were already pricing in a less hawkish Fed and rate cuts by the end of the year. The USD/PHP exchange rate then traded at the P53-P54 levels during the first week of February, with other currencies likewise strengthening versus the dollar.

Source: Bloomberg, Reuters

IMF revises global growth forecast upward

IMF GROWTH FORECAST

Country	October 2022	January 2023
World	2.7	2.9
US	1.0	1.4
China	4.4	5.3
Philippines	5.0	5.0

Source: IMF World Economic Outlook Update January 2023 Report

The International Monetary Fund (IMF) hints a bit of optimism in its upward revision of its growth forecast for the world and some advanced and emerging economies.

Based on IMF's recent World Economic Outlook update, global output growth is seen declining in 2023 from 3.4% to 2.9% - an improvement by 2% vs the earlier projection of 2.7%.

This upward revision is attributed to the remarkably resilient demand in the United States and Europe, easing energy costs and the reopening of China's economy.

IMF likewise adjusted its growth forecast for US and China, while retaining its outlook for PH.

Optimism over China's economic rebound

Demand in China, the world's biggest crude importer, appears set to rise. Following its Zero-COVID exit, oil consumption in said country has been increasing due to pent-up demand which accumulated over the pandemic. In recent weeks, oil prices were driven upward partly because of recovering demand in China. Most bullish Wall Street forecasts predict that Brent futures might reach $100 per barrel this year, from around $85/bbl as of writing.

However, China's revival can slow down the disinflation process of other countries and may prolong central banks' monetary tightening as it puts upward pressure on commodity markets.

Sources: Bloomberg, Reuters, Philstar Global