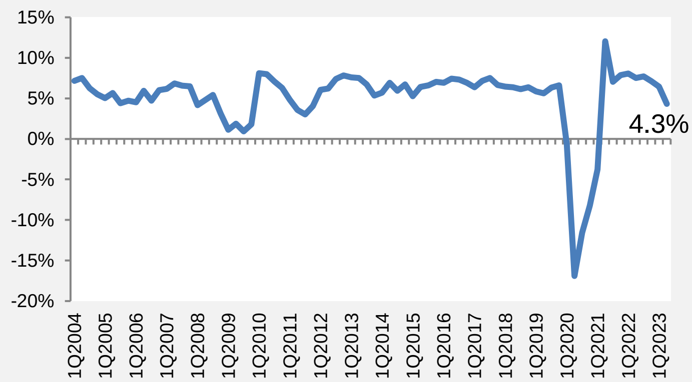
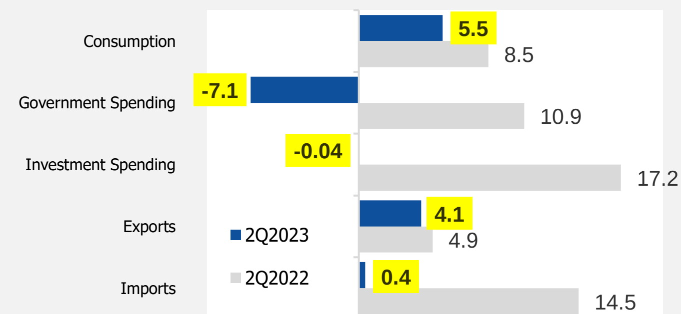
Metro Research

Philippines' Q2 2023 GDP Growth

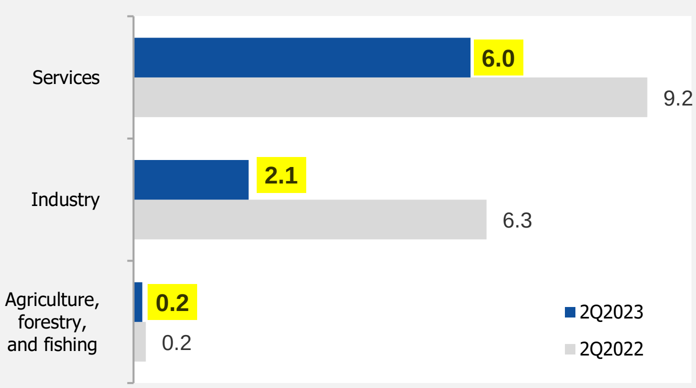
Real GDP (2018=100)
YOY % Change



Real GDP by Expenditure Shares (2018=100)
YoY % change



Real GDP by Industrial Origin (2018=100)
YoY% change



Q2 2023 GDP growth more muted vs robust expectations

The Philippine economy expanded at a more muted pace of 4.3% year-on-year in the second quarter of 2023 versus last quarter's 6.4% growth. This quarter's GDP print came out significantly lower than the 6.0% median analyst forecast from the BusinessWorld's poll and Metrobank Research's forecast of 6.1%, driven by the contraction in government and investment spending, and moderating consumption spending.

On the demand side, Consumption (C) grew moderately by 5.5% y-o-y, slower than the 8.5% recorded in Q2 2022, indication that revenge spending from last year's economic reopening has started to fade and the effects of interest rate hikes has begun to kick in. Meanwhile, Government spending (G) contracted by -7.1% in the second quarter, lower than the 10.9% recorded growth in the same period last year coming from a high base from last year's election period and slower disbursements. Additionally, investment spending (I) also contracted by -0.04% in Q2 2023, coming from an already high base where growth was at 17.2% in the same period last year. Exports continued to grow by 4.1% this quarter, but slower than last year's 4.9% as meek global demand continue to hamper growth. Import growth likewise significantly eased to 0.4% in the second quarter of this year (from 14.5% in the same quarter last year) as global prices moderated along with demand slowdown.

On the supply side, the services sector posted the highest albeit moderate growth at 6.0% in Q2 2023, driven by still-strong growth from 1) transportation and storage and 2) accommodation and food service activities. However, easing growth across industries under the services sector is also apparent particularly from the top shareholder within the sector such as wholesale and retail trade (6.0% vs 9.2%). Meanwhile, the industry sector substantially eased by 2.1% this quarter vs 6.3% in Q2 2022 driven by the significant slowdown in the construction industry (3.5% vs 18.7% in Q2 2022), continued contraction in the mining and quarrying industry, and slower manufacturing output growth. Lastly, agriculture, fisheries, and forestry sector grew meekly by 0.2%, around the same level as last year, pulled down by the output contraction in forestry and fisheries sectors.

Outlook

The Philippines' more muted growth in the second quarter of this year is indication that consumption from pent-up demand has eased and that the high-interest rate environment has already made its way through the economy as manifested in the moderate consumption and substantially slower investment growth performances. We may see this continue in the coming quarters especially as pent-up demand continue to fade and upside risks to inflation such as elevated rice prices and the impacts of El Niño loom.

Moreover, the lack of imports correlates with the muted Investment spending, showing that business sentiment is less optimistic moving forward. Although this may put less pressure on the peso and the recent peso weakness is likely based on Portfolio flows rather than the real economy.

Nonetheless, NEDA secretary Balisacan earlier noted that investment registration has picked up as of late and that government spending will accelerate in the succeeding months to catch up eventually on the government's programmed disbursements.

Given this, we maintain our FY GDP forecast for 2023 at 6.0% albeit with downward bias, as we continue to monitor data points within the economy. This quarter's growth performance also further strengthens our view that the BSP may withhold hikes and keep holding interest rates steady in its interest rate-setting next week.

For comments and suggestions, please contact:

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