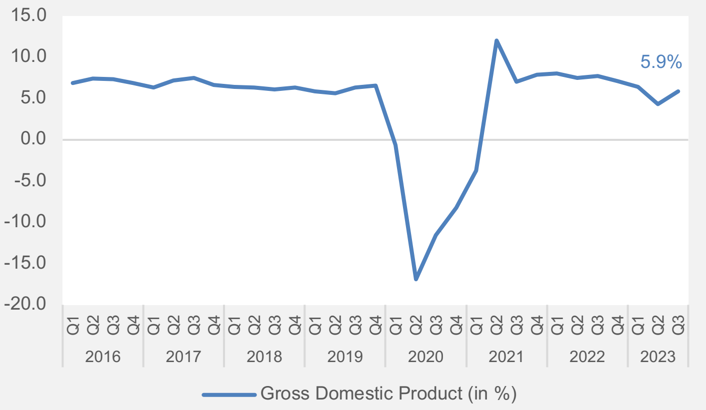
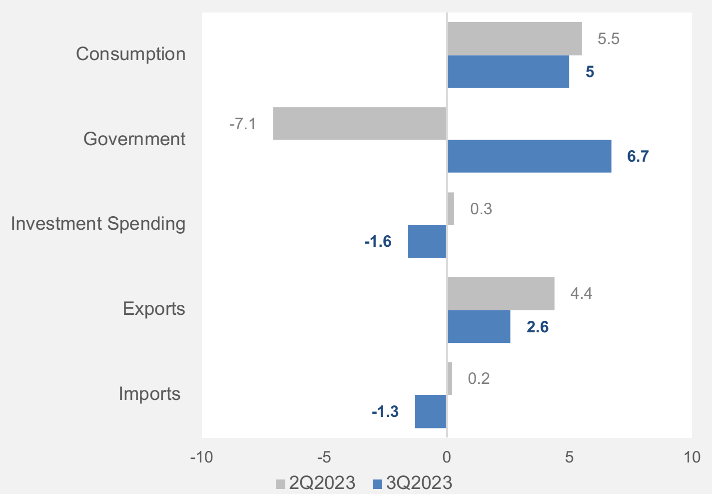
Metro Research

Philippines' Q3 2023 GDP Growth

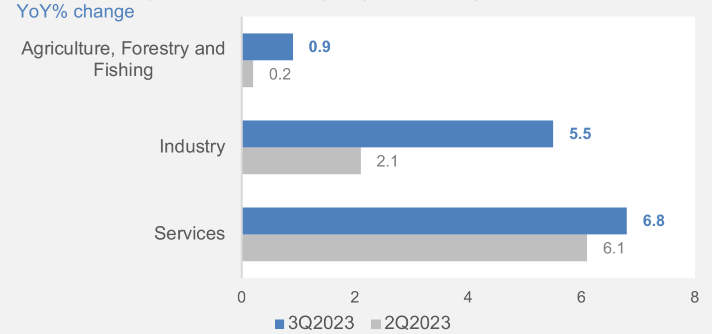
Real GDP (2018=100)
YoY % Change



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



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



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Catch-up Government Spending Boosts 3Q2023 GDP

The Philippines' Gross Domestic Product (GDP) for the third quarter expanded at **a faster pace of 5.9% year-on-year** versus last quarter's 4.3% growth. This brings year-to-date average to 5.5%. This quarter's GDP print also came out significantly higher than the 4.7% Bloomberg consensus estimate and Metrobank Research's forecast of 4.1%, driven by a recovery in government spending and positive growth on exports.

On the demand side, Consumption (C) grew moderately by 5.0% y-o-y, slower than the 5.5% recorded in Q2 2023, an indication that persistent high inflation and the lagged effects of interest rate hikes continue to affect consumption spending. Meanwhile, Government spending (G) grew by 6.7% from the -7.1% contraction seen in the second quarter as government agencies ramped up their spending on projects to address low budget utilization. Additionally, Investment spending (I) recorded a year-on-year contraction at -1.6% in Q3 2023, coming from an already high base where growth was at 18.2% in the same period last year. Exports continued to grow by 2.6% this quarter, but slower than last quarter's 4.4% as weak global demand continue to hamper growth. Import growth, however, contracted by -1.3% (from 0.6% in the second quarter), despite strong government spending as high borrowing costs took a bite on the economy.

On the supply side, the services sector posted the highest growth at 6.8% in Q3 2023, driven by still-strong growth from 1) transportation and storage and 2) accommodation and food service activities. Meanwhile, the industry sector posted a 5.5% year-on-year growth versus 2.1% in Q2 2023 as all sub-sectors grew at a faster pace during the period, led by the construction industry which increased by 14% from 3.6% in Q2 2023. Lastly, the agriculture, fisheries, and forestry sector grew by 0.9% year-on-year, a recovery from 0.2% in the second quarter despite agricultural output falling to 0.3% in the July to September period due to reductions in crops and fisheries production.

Outlook

While government spending last quarter contributed much to the 5.9% GDP growth, an already moderating domestic consumption plus contractions in imports and investment spending suggest continuing tailwinds from elevated domestic inflation and high interest rates.

The above-consensus third quarter GDP print suggests that overall economic activity has remained resilient despite a high-interest rate environment, **which gives the Bangko Sentral ng Pilipinas (BSP) room for a rate hike should inflation expectations be problematic this year.** The BSP has said that it is ready to tighten further to dislodge high inflation expectations. Recall that BSP Governor Eli Remolona previously estimated that the economy can absorb up to a peak rate of 6.8% (i.e., one more hike from the current 6.5% target RRP) — a level that is "just right" to support growth in the long run.

Metrobank Research retains its 2023 full-year average GDP forecast at 5.5%, but notes an upward bias, as domestic consumption is expected to pick up in the holiday season. NEDA Secretary Arsenio Balisacan also cited that liberalization reforms to attract more foreign investments and spur private-public partnerships are in order.

Looking ahead, a continued deceleration in local inflation through next year should improve business and consumer sentiment. The Research outlook for higher growth in 2024 at 6-7% is also hinged on the expected monetary policy easing by the BSP and other major central banks. It should be noted that the Philippines appears relatively insulated from external shocks, i.e., geopolitical risks, as the sources of growth continue to be largely from domestic consumption and services as well as the bright spots seen in the recovery of tourism, remittances, and BPO revenues.