

6.3% Q2 GDP 2024

No green light but BSP to proceed with caution at next week's meeting

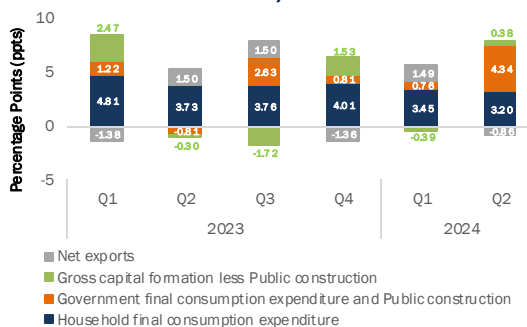
Expenditure Share: Government spending does the heavy lifting

- Consumption remains the main contributor to economic growth. Household consumption (C), delivered 3.2 percentage points (ppts) to the GDP but actual growth remained modest (4.6% YoY) as elevated inflation and the high interest rates weighed on overall spending in 2Q. Meanwhile, government spending (G) rebounded sharply, up 10.7% YoY compared to 1.7% last quarter. Overall, government spending contributed 1.7 ppts to GDP, which was helped along by improved government procurement policies.
- Investment spending (I), which is up 11.5% YoY as the government rolls out infrastructure projects, is experiencing a post-pandemic recovery. Public construction also surged by 21.8% YoY from 12.1% in the previous quarter. However, private investment has yet to fully recover as weak business sentiment persists because of the El Niño phenomenon last quarter. Lastly, net exports (NX) growth this quarter disappointed as it weighed economic growth by 0.9 ppts given slow exports (X) growth at 4.2% YoY, down from 8.4% last quarter. Meanwhile, imports (M) rose at a faster clip of 5.2% YoY from 2.2% last quarter.

Sectoral Share: Agricultural sector could rebound post-El Niño

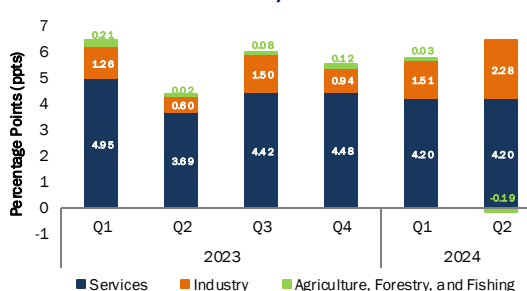
- The services sector continued to post the highest YoY contribution to growth at 4.2 ppts out of the total 6.3%. The sector expanded by 6.8% relative to the same period last year. Services were led by wholesale and retail trade activities which expanded by 5.8% YoY, transportation and storage activities which grew by 14.8%, and accommodation and food service activities which expanded by 10.4%.
- The industry sector also posted robust growth at 7.7%, led by the construction industry which registered a 16.0% growth YoY, followed by the manufacturing industry (up 3.6%), and the electricity, steam, water, and waste management industry which posted a 9.1% growth.
- Meanwhile, the agriculture, forestry, and fishing sector slightly weighed down on the overall economic growth in the second quarter as it contracted by 2.3% YoY, contributing -0.2 ppts out of the total 6.3% GDP growth.

GDP Growth Contribution by Sector



Source: Philippine Statistics Authority (PSA)

GDP Growth Contribution by Sector



Source: Philippine Statistics Authority (PSA)

METROBANK'S TAKE

BSP policy rate cut next week less likely but still on the table

- Given the inflation print at 4.4%, which is a breach of the 2.0-4.0% target of the Bangko Sentral ng Pilipinas (BSP), expectations for the BSP to start cutting at its August 15 monetary board (MB) meeting next week have been tamed. Following this "slightly worse than expected" July inflation print, Governor Eli Remolona Jr. turned less dovish, although he did mention the possibility of an off-cycle move in September.
- A potential trigger point for a cut in the August 15 monetary board meeting (MB) is evidence of a weak economic growth in Q2 2024. And while the headline GDP print points to a more optimistic outlook, it is worth noting that government spending was responsible for the heavy lifting while softer growth was reported for household consumption and private investments have yet to recover.
- In his recent statements, Department of Finance (DOF) Secretary and MB member Ralph Recto signaled that the BSP may cut next week or during an off-cycle meeting in September, aligned with expectations of the US Federal Reserve starting its monetary easing next month.

Sustained robust economic growth

- With the 6.3% GDP growth in Q2 2024, the Philippines remains as one of the fastest-growing emerging economies in Asia, lagging only behind Vietnam (6.9%) and outperforming Malaysia (5.8%), Indonesia (5.0%), and China (4.7%).
- Despite the higher-than-expected GDP growth, private consumption remains constrained as household spending on essential items are still flat at less than 1% growth for the sixth consecutive quarter. However, both consumer and investment spending are expected to recover and pick up their pace in the second half of the year, supported by improved liquidity and credit environment, as the BSP begins its monetary easing.

Metrobank revises its GDP growth forecast to 5.8%

- Following the higher-than-expected 6.3% GDP growth in the second quarter and the upward revision in the first quarter growth to 5.8% from the previous estimate of 5.7%, Metrobank Research has nudged up its full-year growth forecast to 5.8% from the previous 5.7%.