

Philippines 3Q 2023 GDP

Higher than expected growth; adjust upward 2023 growth forecast to +5.8%

Rebound in government spending and firm GFCF

Philippines' real GDP growth in 3Q 2023 expanded +5.9% YoY (2Q 2023: +4.3% YoY; MIBG: +4.8% YoY; consensus: +4.7% YoY; 9M2023: +5.5% YoY). The better than expected growth was attributed to rebound in government spending and firm gross fixed capital formation (GFCF). Adjust upward our 2023 growth forecast to +5.8% from +5.2% previously, and maintain our 2024 growth forecast at +6.5%.

Favourable domestic and net external demand

Domestic demand growth improved to +4.1% YoY in 3Q 2023 (2Q 2023: +2.8% YoY, revised from +3.0% YoY; 9M2023: +4.7% YoY) mainly due to rebound in government consumption (3Q 2023: +6.7% YoY; 2Q 2023: -7.1% YoY; 9M2023: +1.1% YoY) and firmer gross fixed capital formation (3Q 2023: +7.9% YoY; 2Q 2023: +4.0% YoY, revised from +3.9% YoY; 9M2023: +7.3% YoY). Nevertheless, private consumption posted slower expansion (3Q 2023: +5.0% YoY; 2Q 2023: +5.5% YoY; 9M2023: +5.7% YoY). Seasonally adjusted QoQ GDP rebounded +3.3% (2Q 2023: -0.7%, revised from -0.9%).

At the same time, net external demand improved (3Q 2023: +12.9% YoY; 2Q 2023: +8.5% YoY, revised from +7.2% YoY; 9M2023: +2.5% YoY) as exports of goods and services continue to expand albeit at slower pace (3Q 2023: +2.6% YoY; 2Q 2023: +4.4% YoY, revised from +4.1% YoY; 9M2023: +2.7% YoY) while imports of goods & services contracted (3Q 2023: -1.3% YoY; 2Q 2023: +0.2% YoY, revised from +0.4% YoY; 9M2023: +1.1% YoY).

All economic sectors posted improved growth

All economic sectors posted higher growth during the quarter (Fig. 1) plus the rebound in mining sector from contraction in 2Q 2023. Construction sector expanded +14.0% YoY (2Q 2023: +3.6% YoY, revised from +3.5% YoY; 9M2023: +8.9% YoY), followed by the services sector which grew +6.8% YoY (2Q 2023: +6.1% YoY, revised from +6.0% YoY; 9M2023: +7.0% YoY). Manufacturing sector picked up to +1.7% YoY growth (2Q 2023: +1.1% YoY, revised from +1.2% YoY; 9M2023: +1.5% YoY) while agriculture gradually improved to expand +0.9% YoY (2Q 2023: +0.2% YoY; 9M2023: +1.1% YoY). Mining recovers to post +4.5% YoY growth (2Q 2023: -2.9% YoY, revised from -3.5% YoY; 9M2023: -0.8% YoY).

Adjust upward our 2023 growth forecast to +5.8%

With better than expected growth in 3Q 2023, we adjusted upward our 2023 growth forecast to +5.8% from +5.2% previously. We expect government expenditure to support domestic demand growth in 4Q 2023 with the push to expedite government programs and projects, as the economy continue to face headwinds from elevated inflation and interest rates as well as sluggish external demand. While we maintain our 2024 growth forecast at +6.5%, we expect slower private consumption growth next year at +5.5% vs. +7.0% previously, as we envisage BSP to keep the policy interest rate elevated for longer than previously expected.

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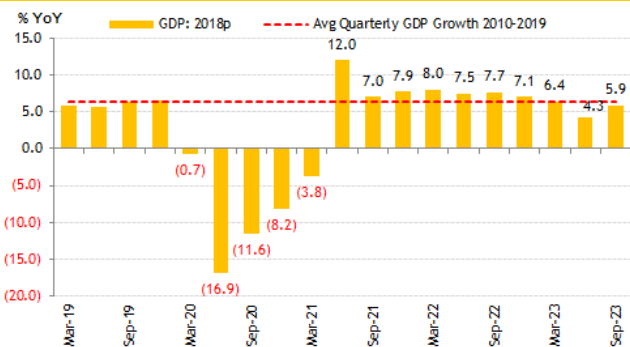
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Figure 1: Real GDP Growth (% YoY), at 2018 base year

	2019	2020	2021	2022	4Q 2022	1Q 2023	2Q 2023	3Q 2023	9M2023
Real GDP	6.1	(9.5)	5.7	7.6	7.1	6.4	4.3	5.9	5.5
Manufacturing	3.8	(9.8)	8.9	4.9	3.9	1.9	1.1 ^r	1.7	1.5
Construction	9.7	(25.5)	10.1	12.1	6.2	11.1	3.6 ^r	14.0	8.9
Services-Producing Industries	7.2	(9.1)	5.4	9.2	9.8	8.4	6.1 ^r	6.8	7.0
Agriculture, Hunting, Fishery & Forestry	1.2	(0.2)	(0.3)	0.5	(0.3)	2.2	0.2	0.9	1.1
Mining & Quarrying	3.4	(18.6)	5.1	5.3	1.8	(2.2)	(2.9) ^r	4.5	(0.8)
Domestic Demand	5.7	(12.0)	7.6	9.1	5.5	7.2	2.8 ^r	4.1	4.7
Private Consumption	5.9	(8.0)	4.2	8.3	7.0	6.4	5.5	5.0	5.7
Public Consumption	9.1	10.5	7.2	4.9	3.3	6.2	(7.1)	6.7	1.1
Gross Fixed Capital Formation	3.9	(27.3)	9.8	9.7	6.0	10.9	4.0 ^r	7.9	7.3
Net External Demand	(1.6)	54.8	(35.2)	(25.1)	10.0	(13.9)	8.5^r	12.9	2.5
Exports of Goods & Services	2.6	(16.1)	8.0	10.9	14.6	1.0	4.4 ^r	2.6	2.7
Imports of Goods & Services	2.3	(21.6)	12.8	13.9	7.0	4.7	0.2 ^r	(1.3)	1.1

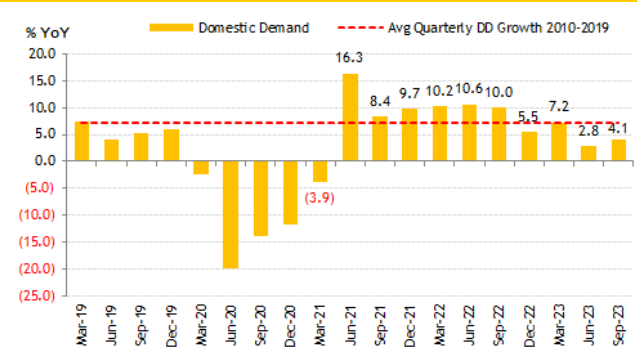
Source: PSA, CEIC, Maybank IBG Research; r-revised.

Figure 2: Improved real GDP growth in 3Q 2023 but stays below long term average of +6.4%



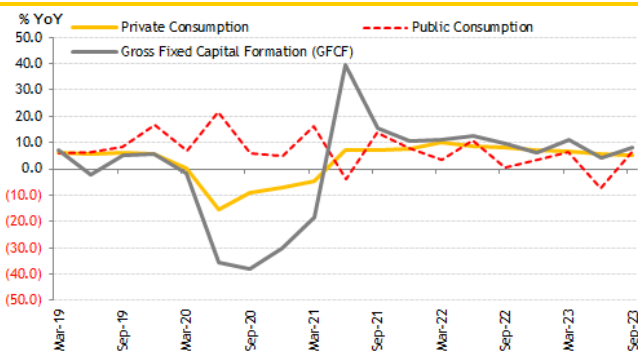
Source: PSA, CEIC

Figure 3: Improved domestic demand growth in 3Q 2023 but stays below long term average of +7.2%



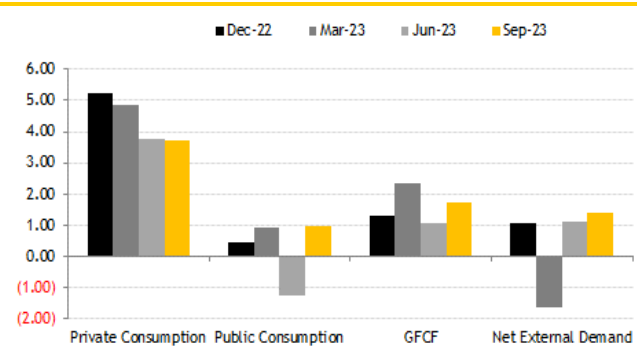
Source: PSA, CEIC

Figure 4: Domestic demand supported by bigger expansion in government consumption and GFCF



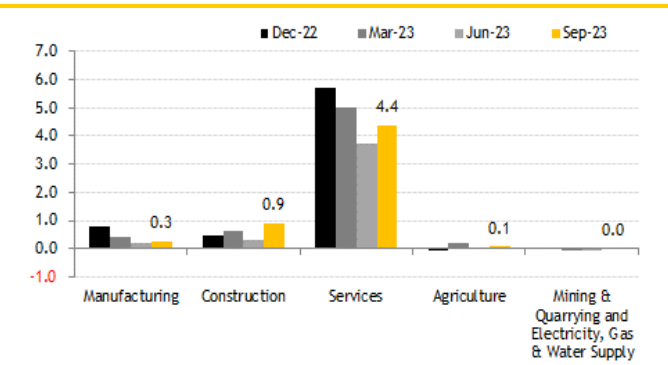
Source: PSA, CEIC

Figure 5: Demand aggregates' contributions to real GDP growth (percentage points)



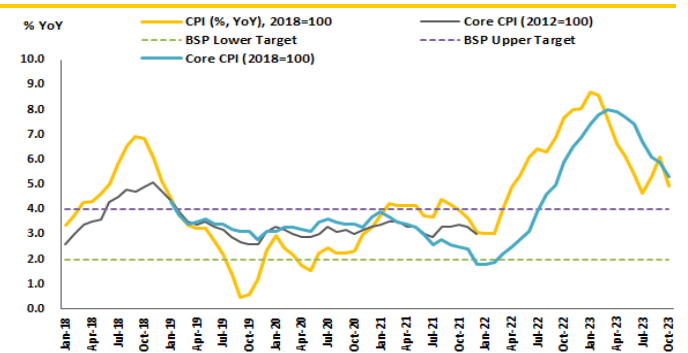
Source: PSA, CEIC, Maybank IBG Research

Figure 6: Economic sectors' contributions to real GDP growth (percentage points)



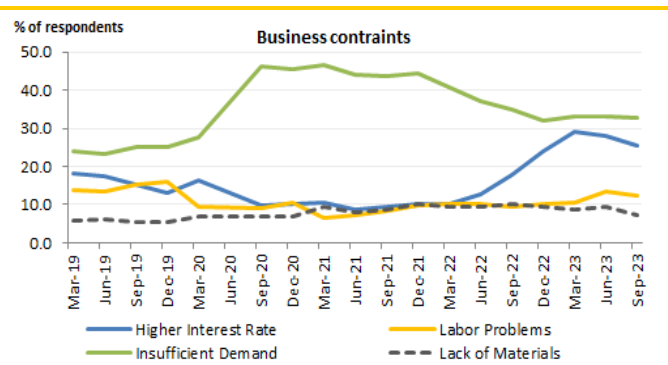
Source: PSA, CEIC, Maybank IBG Research

Figure 7: Headline inflation exceeded BSP's upper end target since Apr 2022 and peaked in Jan 2023



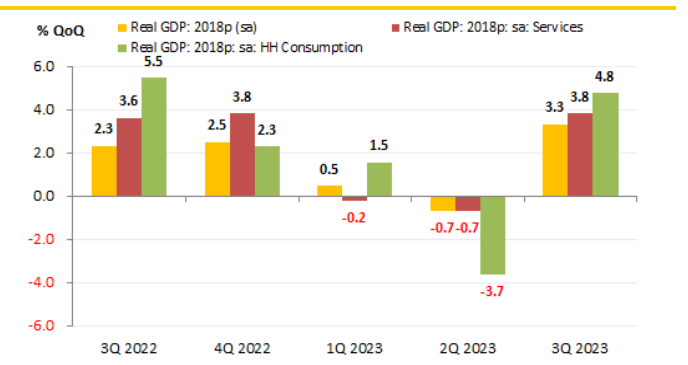
Source: PSA, CEIC

Figure 8: Business Outlook (3Q 2023): High number of respondents citing constraints due to rising interest rate



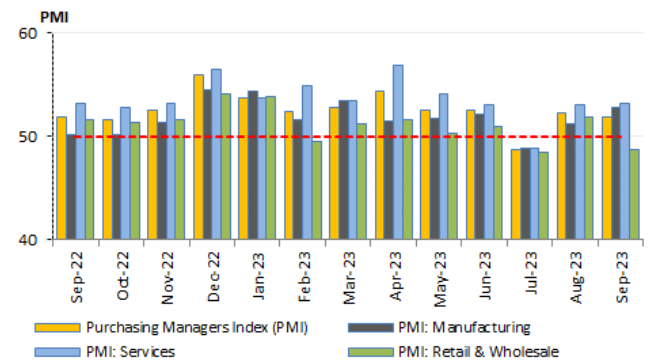
Source: BSP, CEIC

Figure 9: Rebound in QoQ growth in real GDP (sa)



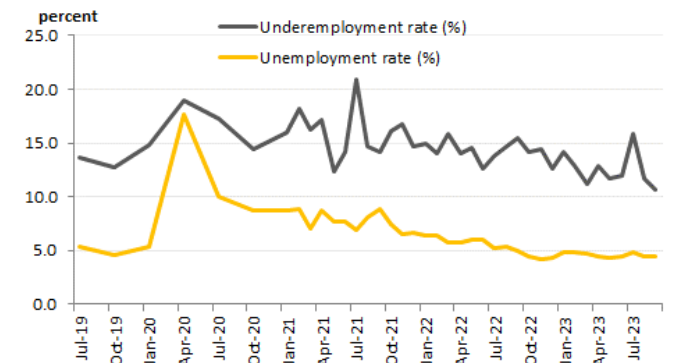
Source: BSP, CEIC

Figure 10: Philippines PMI-Retail & Wholesale is below 50 in Sep 23



Source: BSP, CEIC

Figure 11: Philippines - Stable monthly unemployment rate is positive to private consumption



Source: PSA, CEIC

Figure 12: Household Final Consumption (2019=100) performance

	2019	2Q 2022	3Q 2021	4Q 2021	1Q 2022	2Q 2022	3Q 2022	4Q 2022	1Q 2023	2Q 2023	3Q 2023
HH Final Consumption Expenditure	100	89.3	92.5	111.9	99.0	96.9	100.0	119.8	105.4	102.2	105.0
Group of HH components with value <u>above pre-pandemic level</u>, as at 3Q 2023											
1. Health	100	92.7	129.9	115.5	107.6	90.5	136.8	121.9	116.7	98.5	145.0
2. Miscellaneous goods and services	100	92.0	103.2	131.3	104.6	98.6	111.9	140.6	113.7	103.6	120.6
3. Education	100	87.0	101.9	103.7	105.1	93.5	107.4	115.7	112.0	100.0	114.6
4. Housing, water, electricity, gas and other fuels	100	120.4	107.2	109.4	105.5	128.6	108.8	114.1	109.1	136.8	113.6
5. Communication	100	121.0	95.9	130.4	123.3	132.7	102.8	137.8	129.0	138.8	108.7
6. Food and non-alcoholic beverages	100	108.2	99.1	130.8	105.8	114.4	103.3	135.9	106.4	114.7	103.5
7. Furnishings, household equipment and routine household maintenance	100	81.5	93.8	101.7	89.9	87.2	102.0	111.7	88.4	84.1	101.2
Group of HH components with value <u>below pre-pandemic level</u>, as at 3Q 2023											
1. Transport	100	50.2	72.2	73.1	82.8	62.9	86.4	79.0	94.7	82.1	98.9
2. Clothing and footwear	100	82.6	103.9	112.5	84.2	86.3	100.5	123.5	82.3	63.6	89.1
3. Restaurants and hotels	100	37.8	52.5	77.0	84.6	50.3	73.1	96.0	105.2	61.9	84.0
4. Recreation and culture	100	38.0	45.3	87.9	69.4	52.4	66.1	101.3	90.3	62.6	76.4
5. Alcoholic beverages, tobacco	100	61.5	65.0	87.6	65.8	63.1	58.1	90.6	66.1	58.2	58.3

Source: Maybank IBG Research

Note: Value above 100 indicates recovery to pre-pandemic level.

Figure 13: Philippines' Selected Key Major Events in Jul-Sep 2023

Date	Major Events/Policy
• 5 Jul	• PAGASA declared the onset of El Nino phenomenon, which forecasted to peak between 3Q23 and 1Q24 and could see agricultural production decline by 1-2ppt YoY, resulting in supply shocks that may lift the price of food ingredients.
• 7 Aug	• Japan-based debt watcher Rating and Investment Information Incorporated (R&I) affirmed the Philippines' credit rating at BBB+ and upgraded its outlook from stable to positive.
• 17 Aug	• BSP kept its policy rate unchanged at 6.25% at its fifth meeting for the year.
• 2 Aug	• The Department of Budget and Management submitted to Congress the proposed FY24E national budget amounting to PHP5.77t, which is 9.5% higher YoY and equivalent to 21.7% of GDP.
• 5 Sep	• Rice ceiling price took effect. Under Executive Order No. 39, regular milled rice may only be sold for up to PHP41/kg, while the price cap on well-milled rice is at PHP45/kg.
• 21 Sep	• BSP paused for the fourth time, keeping its policy rate at 6.25%. BSP cut RRR by 250bps to 9.50%.
• 27 Sep	• The House of Representatives approved on third and final reading the proposed 2024 National Budget amounting to PHP5.77t.

Source: BSP, Media reports

Figure 14: Philippines' Key Macroeconomic Indicators

	2019	2020	2021	2022	2023E (Revised)	2023E (Previous)	2024E (Revised)	2024E (Previous)
Real GDP (%)	6.1	(9.5)	5.7	7.6	5.8	5.2	6.5	6.5
Private Consumption (%)	5.9	(8.0)	4.2	8.3	5.5	5.6	5.5	7.0
Government Consumption (%)	9.1	10.5	7.2	4.9	3.5	4.1	6.2	6.1
Gross Fixed Capital Formation (%)	3.9	(27.3)	9.8	9.7	7.9	7.0	10.4	10.3
Exports of Goods & Services (%)	2.6	(16.1)	8.0	10.9	2.7	2.7	4.5	8.1
Imports of Goods & Services (%)	2.3	(21.6)	12.8	13.9	1.7	4.0	5.8	10.3
Current Account Balance (% of GDP)	(0.8)	3.3	(1.4)	(4.6)	(3.8)	(3.8)	(3.5)	(3.5)
Fiscal Balance (% of GDP)	(3.4)	(7.6)	(8.6)	(7.3)	(6.0)	(6.0)	(5.5)	(5.5)
Inflation Rate (% , period average)	2.5	2.6	3.9	5.8	6.0	6.3	3.5	3.5
Unemployment Rate (% , period average)	5.1	10.4	7.8	5.4	4.5	4.5	4.8	4.8
Exchange Rate (per USD, end-period)	50.7	48.0	51.0	55.6	57.0	55.0	54.5	51.5
Benchmark Interest Rate (% p.a., end-period)	4.00	2.00	2.00	5.50	6.50	6.25	5.75	5.50

Source: Bloomberg, CEIC, Maybank IBG Economic Research, Maybank FX Research

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