

GDP Observatory

November 27th, 2009Serena Wang
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Philippines GDP Growth Below Expectations

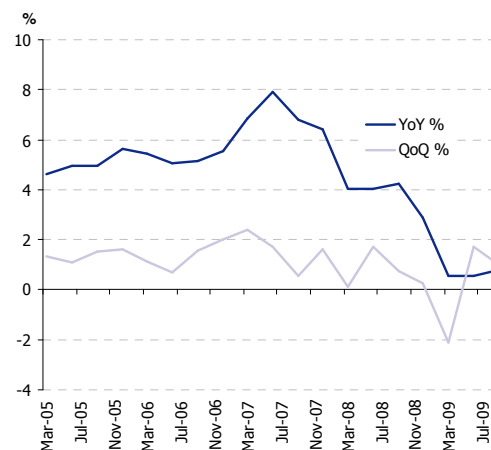
Real GDP growth unexpectedly remains at near decade low with 0.8% yoy/1 % qoq sa in July-September 2009 as exports getting stuck in double-digits plunge

- Real GDP crept upwards 0.8% yoy/1% qoq after seasonal adjustment in the September quarter from 0.5% yoy/1.7% qoq in the previous quarter, which is far below the 1.9% yoy forecast by Bloomberg as well as our own forecast of 1.3% yoy.
- Quarterly growth has remained at decade-low rates for the past three quarters.
- Growth was mainly dragged down by exports, which slumped 13.6% yoy compared to the previous quarter's -18% yoy drop, signalling the country has not yet benefited from improving global economic environment. Government consumption and private consumption are still the dual-driver propping up growth, reaching 7.9% yoy (vs. 9.7% yoy in the previous quarter) and 4% yoy increase (vs. 5.4% yoy in the June quarter) respectively. On the production side, industry sector contributed most negatively to GDP growth (-1.5%), offsetting the gains made by the business sector that contributed 2 percentage points to total growth.

GDP Growth Target Remains Unchanged

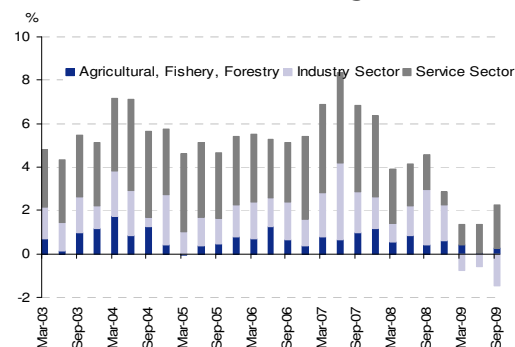
- The fact that the World Bank upgraded its Philippines GDP forecast from 1% to 1.5% just one day before the release of the third quarter and that the government has maintained its yearly growth target, hints at a possible acceleration of growth in the fourth-quarter. This could be due to the impact of the upcoming Christmas season on spending as compared to the gloomy 2008. The fact that the election campaign is officially starting can also help in terms of government spending. Meanwhile,

**GDP Growth Rate
(seasonally adjusted)**



Source: CEIC

Contribution to GDP growth



Source: CEIC

overseas remittances are keeping up, which should also fuel spending. In addition, continuing infrastructure projects and social program spending should support achieving the low-end of the government's full-year growth target.

Accommodative Monetary Policy Still Needed

- For the policy side, worse-than-expected growth rate and low inflation (0.82% in October/0.56% in the third quarter of 2009) gives the Philippine central bank ample margin to keep its accommodative monetary policy stance. Furthermore, the Government's decision of keeping to its P250 billion (USD 5 billion, 3.2% of GDP) budget deficit ceiling puts pressure on the central bank to leave interest rates 4% low as record.

GDP Growth Rate by Components

GDP Growth Rate by Components				
YoY %	Dec-08	Mar-09	Jun-09	Sep-09
GDP	2.85	0.59	0.77	0.76
Private Consumption	5.01	1.25	5.41	4.00
Government Consumption	2.55	4.53	9.65	7.87
GFCG	-13.08	-15.08	-10.29	-11.29
Exports of Goods & Services	-11.52	-14.69	-18.06	-13.65
Imports of Goods & Services	4.97	-20.57	-2.21	0.23
QoQ %	Dec-08	Mar-09	Jun-09	Sep-09
GDP	13.14	-13.90	6.33	-2.71
Private Consumption	15.53	-17.61	11.62	-2.10
Government Consumption	-11.37	15.68	20.66	-12.81
GFCG	-9.13	-0.83	14.31	-13.88
Exports of Goods & Services	-31.09	-8.74	22.62	11.99
Imports of Goods & Services	-1.23	-32.17	32.38	13.02

Source: CEIC