PH GDP FALLS BELOW FORECASTS, NEEDS TO GROW AT FASTER PACE TO ACHIEVE GOVERNMENT TARGETS

4.3%

Q2-2023 Growth Rate

↑ 6.4%

Q1-2023 Growth Rate
(previous quarter)

Philippine GDP growth slowed to 4.3% in the 2nd quarter of 2023 from 6.4% in the previous quarter and 7.5% from the same quarter last year. This is below the median estimate of local economists at 6% and the slowest since the first quarter of 2021. In a joint statement by economic managers, they noted that in order to achieve the government's annual target of 6-7% GDP growth, the Philippine economy needs to grow by 6.6% in the second half of 2023.

According to NEDA Secretary Arsenio Balisacan, the slow down was "tempered by high commodity prices, laggard effects of interest rate hikes, the contraction in government spending, and slower economic growth." He further attributed the slower growth to interest rate hikes done to temper inflation in the last few months: "The lag effects and uptick in interest rates last year and early this year, we are feeling it now."

On the demand side, Government Spending contracted to -7.1% from 10.9% in the same quarter last year; Investment (gross capital formation) also contracted to -0.04% from a high of 17.2% in 2022, meanwhile Household Spending grew to 5.5%. On the supply side, Services grew 6.0%, Industry 2.1%, and Agriculture 0.2%. Trade grew with exports of goods and services at 4.1% and imports of goods and services inching up 0.4%.

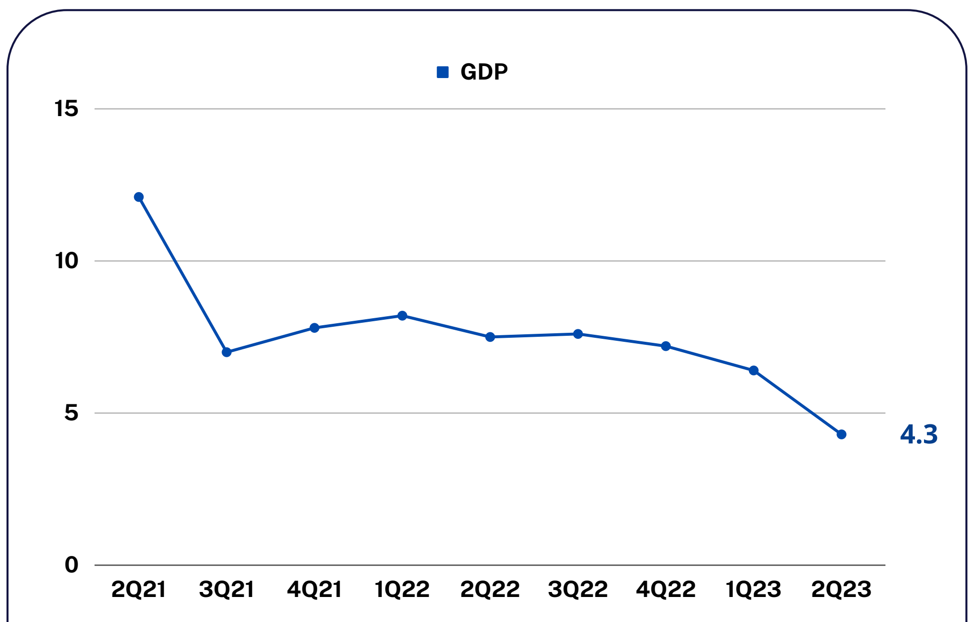
Some sub-sectors grew at a faster rate, Accommodation and Food Service activities grew at 28.3%, Other services (which includes arts, entertainment, and other service activities) at 22.2%, and Transportation and storage at 17.3%. Meanwhile, laggards during the second quarter were Mining and quarrying which further contracted at -3.5%, Public administration and defense (-2.4%), and Agriculture (0.2%).

The World Bank recently increased its 2023 growth forecast in June to 6% from 5.6% in April due to resilient domestic demand despite high inflation. This estimate, however, is at the lower end of the government's 6-7% GDP target. This is also in contrast to a CNN poll of 11 economists who warned that due to inflation, the momentum of revenge spending could be waning which has a significant effect on the consumer-driven Philippine economy. This was echoed by the ADB Development Outlook from July 2023 which noted that "domestic consumption and investment continue to underpin growth in the region". To reach government targets, Sec. Balisacan said that the government will continue its supply and demand side initiatives:

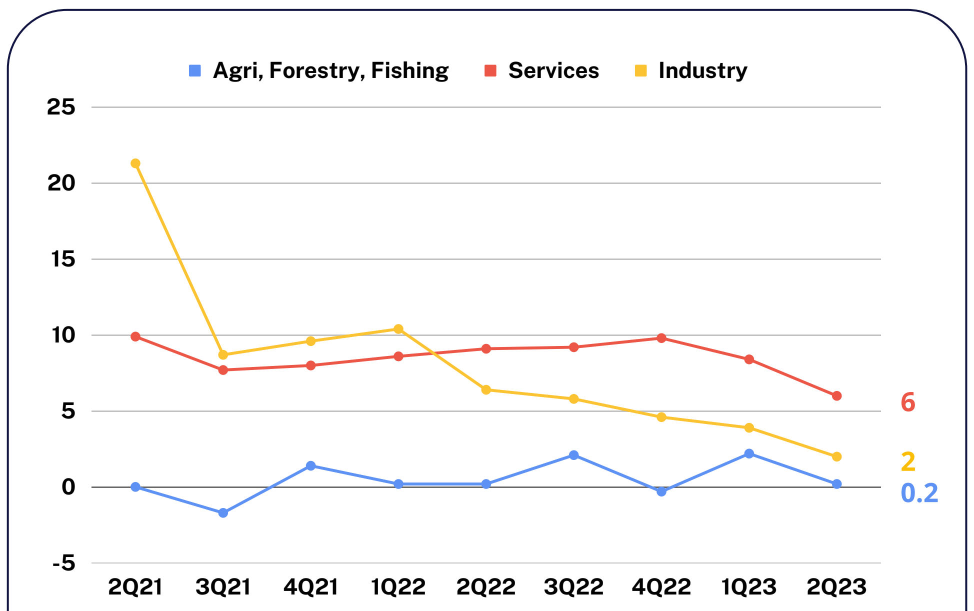
"We will continue to intensify our supply side interventions and demand side management measures to maintain overall price stability amid outside risks... Our target is to get inflation rates (down) to 2-4% especially for staples and basic commodities."

Price increases for certain key commodities are predicted in the next few months. India, the world's largest rice exporter, banned the exports of non-basmati white rice. Barclays recently pointed out that the Philippines would be the "most exposed to a rise in global rice prices", which can have further effects on domestic consumption prospectively. Balisacan assured that "If there will be a shortage, we will be in a position to bring in additional imports if necessary."

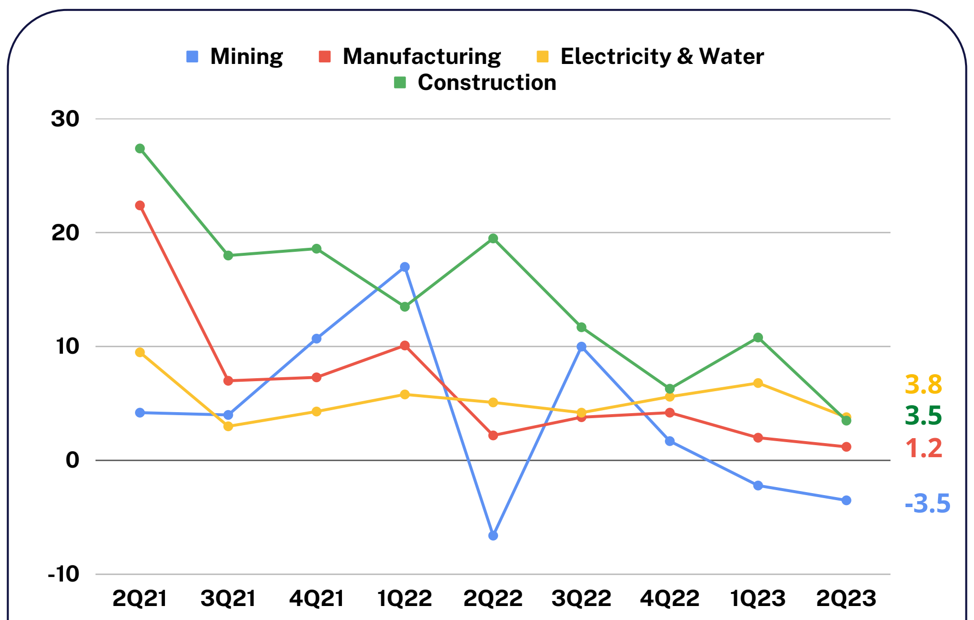
GROWTH IN %



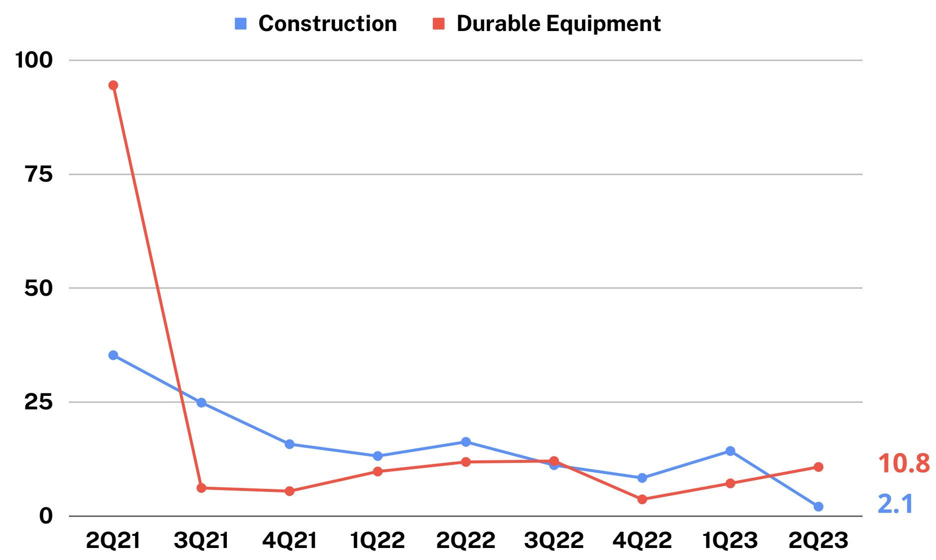
GDP



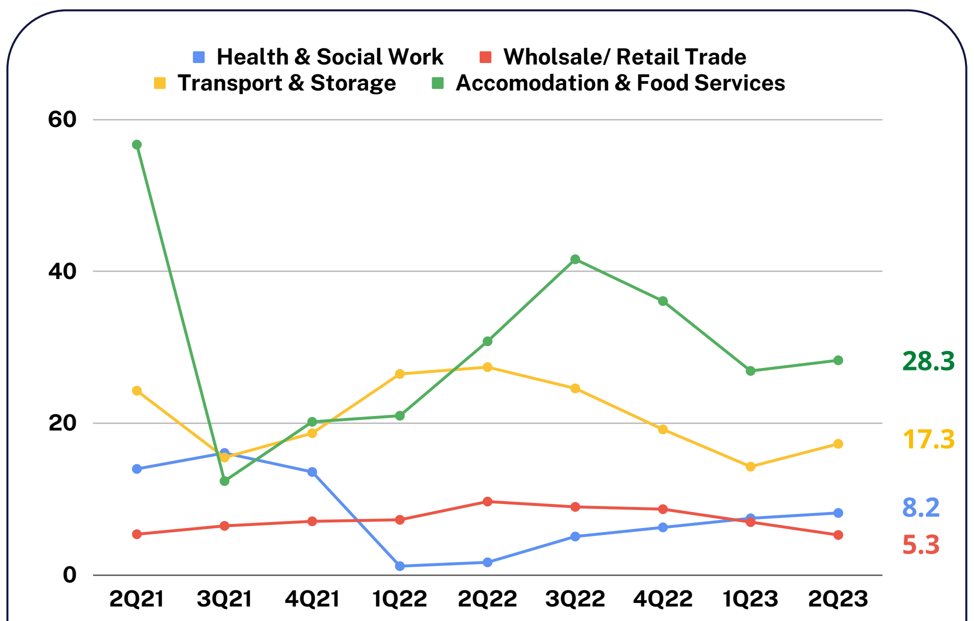
GDP By Production



Key Industry Components



Key Fixed Capital Components



Key Services Components

ARSENIO BALISACAN
Secretary
National Economic and Development Authority

"We need to accelerate the implementation of programs and projects. We are seeing some underspending in the 2nd quarter."

ROBERT DAN ROCES
Chief Economist
Security Bank

"Upsides for the rest of 2023 include steady private consumption with inflation tempering, a possible lift in government spending numbers, and a relatively "stable" business sentiment with most central banks ending rate hike cycles. The downside risks to growth include the risks to sticky inflation, elevated interest rates, and weaker global economic growth."

MICHAEL RICAFORT
Chief Economist
RCBC

"The 4.3% GDP growth in 2Q 2023, the slowest since 1Q 2021, could mathematically be the slowest for 2023....after the presidential, national, and local elections a year ago (which was a) one-time/non-recurring nature of election-related spending that is absent this year."

NICHOLAS MAPA
Senior Economist
ING Bank

"El Nino year will not be favorable to the agriculture sector (while) net exports are still projected to end the year in the red as global demand stays soft. Revenge spending could be waning as households shift to more "normal" spending and saving behavior."