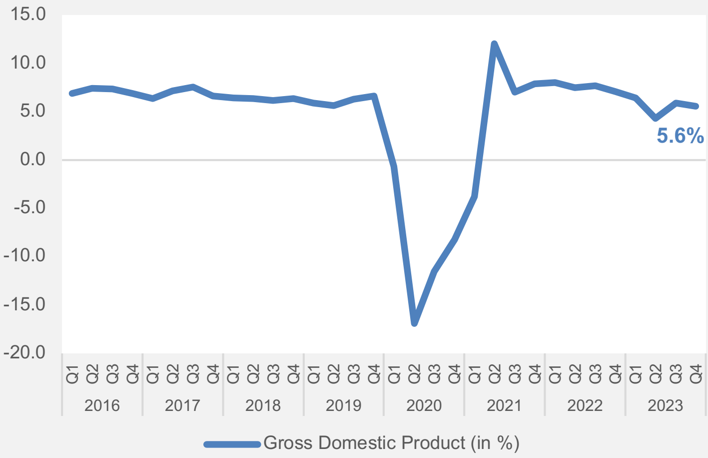
Metrobank

31 JANUARY 2024

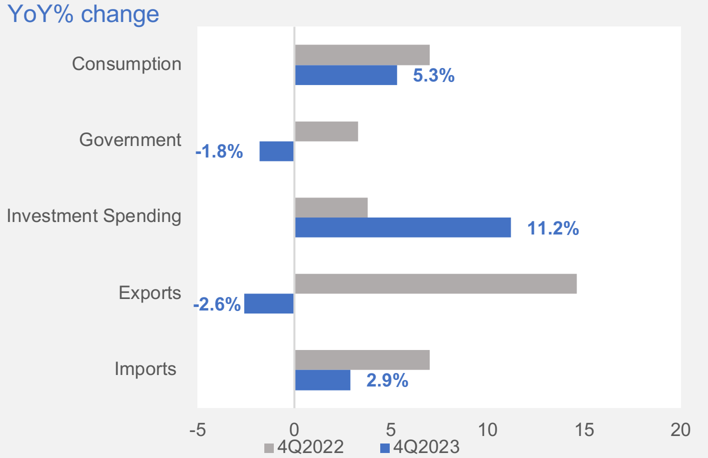
Metro Research

Philippines’ 4Q & Full-Year 2023 GDP Growth

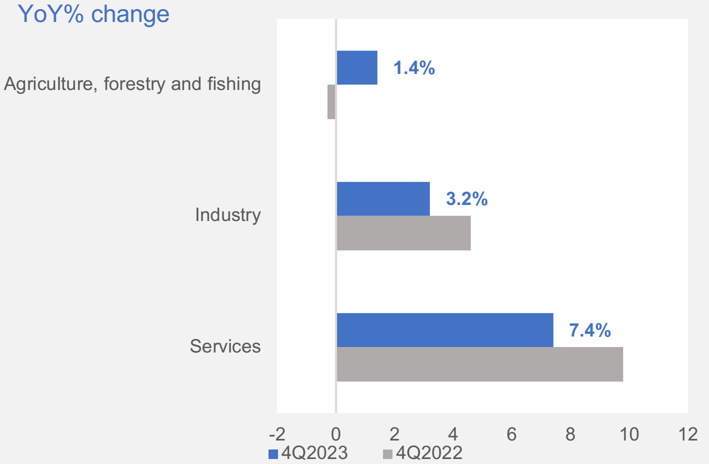
Real GDP (2018=100)
YOY % Change



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



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



FY 2023 PH GDP SETTLES BELOW GOVERNMENT TARGET

The Philippines’ Gross Domestic Product (GDP) for the fourth quarter expanded at a moderate pace of 5.6% year-on-year versus last quarter’s 6.0% growth. This brings the full year 2023 GDP average to 5.6% (versus the 5.5% Metrobank Research forecast). The latest quarterly GDP print also came out higher than the 5.2% Bloomberg consensus estimate, driven by the recovery in investment spending and surprisingly strong consumer spending.

On the demand side, Consumption (C) grew moderately by 5.3% y-o-y, faster than the 5.1% growth recorded last quarter but slower than the 7.0% recorded in the same period in 2022, such slowdown mainly due to base effects as Q4 2022 had a high base due to “revenge spending” after the lockdowns were lifted. On the other hand, Government spending (G) declined by -1.8% from the 6.7% growth seen in the third quarter and the 3.3% a growth seen in the same period last year, attributable to government’s advancing its spending to Q3 rather than in Q4 in 2023. Additionally, Investment spending (I) recorded a high year-on-year growth of 11.2% in the fourth quarter of 2023, coming from a decline of -1.4% in the last quarter and a growth of 3.8% in the same period last year. Imports grew moderately by 2.9% this quarter from a -1.1% decline last quarter. However, exports contracted by 2.6% this quarter from a 2.6% growth last quarter.

On the supply side, the services sector posted the highest growth at 7.4% in Q4 2023, driven by still-strong growth from 1) Accommodation and Food service activities and 2) Financial and Insurance Activities. Meanwhile, the industry sector posted 3.2% year-on-year growth versus 5.6% in Q3 2023. Slower growth is primarily attributed to lower growth in manufacturing and construction, which had decreased to 0.6% and 8.5% from 1.8% and 14.2% in Q3 2023 respectively. Mining contributed to the highest growth in the industry sector, which had increased to 10.3% from 5.1% in Q3 2023. Lastly, agriculture, fisheries, and forestry sector grew by 1.4% year-on-year, a recovery from 0.9% in the third quarter driven a by 10.5% annual increase in the production of sugar cane.

Outlook

The Philippine economy fell below the government target of 6% to 7% as above target inflation and the lagged effects of interest rate hikes continued to dampen domestic consumption. While the country faced multiple hurdles last year including soaring food prices and persistent supply chain bottlenecks, the government responded with price caps on rice, while the Bangko Sentral ng Pilipinas (BSP) tightened monetary policy to contain inflation.

On a nominal basis, Consumer spending appears to be picking up despite high inflation, while both Investment spending and Imports have picked up as well, indicating that business activity appears to be stirring up already. However, tailwinds will continue to beset the local economy due to the El Nino weather condition and emerging geopolitical conflicts. Some upside is expected as the BSP may cut rates in the second half of the year on the back of lower inflation expectations, giving room for more domestic business activity.

Metrobank Research is retaining its 2024 full-year average GDP forecast at 6.0% on the back of decelerating inflation and interest rate cuts. NEDA Secretary Arsenio Balisacan Secretary Arsenio Balisacan also cited liberalization reforms to attract more foreign investments and improve the quality of employment. Meanwhile, the fiscal consolidation is also expected to speed up the implementation of government programs, while prioritizing tax collection efficiency.

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, OFW remittances and BPO revenues.

For comments and suggestions, please contact:

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