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Philippines Analysis Report

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Introduction

The Economy of the Philippines is the world's 31st largest economy by nominal GDP according to the 2017 estimate of the International Monetary Fund`s statistics, it is the 13th largest economy in Asia, and the 3rd largest economy in the ASEAN after Indonesia and Thailand. The Philippines is one of the emerging markets and is the sixth richest in Southeast Asia by GDP per capita values, after the regional countries of Singapore, Brunei, Malaysia, Thailand and Indonesia.

The Philippines is primarily considered a newly industrialized country, which has an economy transitioning from one based on agriculture to one based more on services and manufacturing. As of 2017, GDP by Purchasing power parity was estimated to be at $878.980 billion.

Primary exports include semiconductors and electronic products, transport equipment, garments, copper products, petroleum products, coconut oil, and fruits. Major trading partners include the Japan, China, United States, Singapore, South Korea, the Netherlands, Hong Kong, Germany, Taiwan and Thailand. The Philippines has been named as one of the Tiger Cub Economies together with Indonesia, and Thailand. It is currently one of Asia's fastest growing economies. However, major problems remain, mainly having to do with alleviating the wide income and growth disparities between the country's different regions and socioeconomic classes, reducing corruption, and investing in the infrastructure necessary to ensure future growth.

The economic history of the Philippine Islands had been traced back to the pre-colonial times. The country which was then composed of different kingdoms and thalassocracies oversaw the large number of merchants coming to the islands for trade. Indian, Arab, Chinese and Japanese merchants were welcomed by these kingdoms, which were mostly located by riverbanks, coastal ports and central plains. The merchants traded for goods such as gold, rice, pots and other products. The barter system was implemented at that time and the pre-colonial people enjoyed a life filled with imported goods which reflected their fashion and lifestyle.

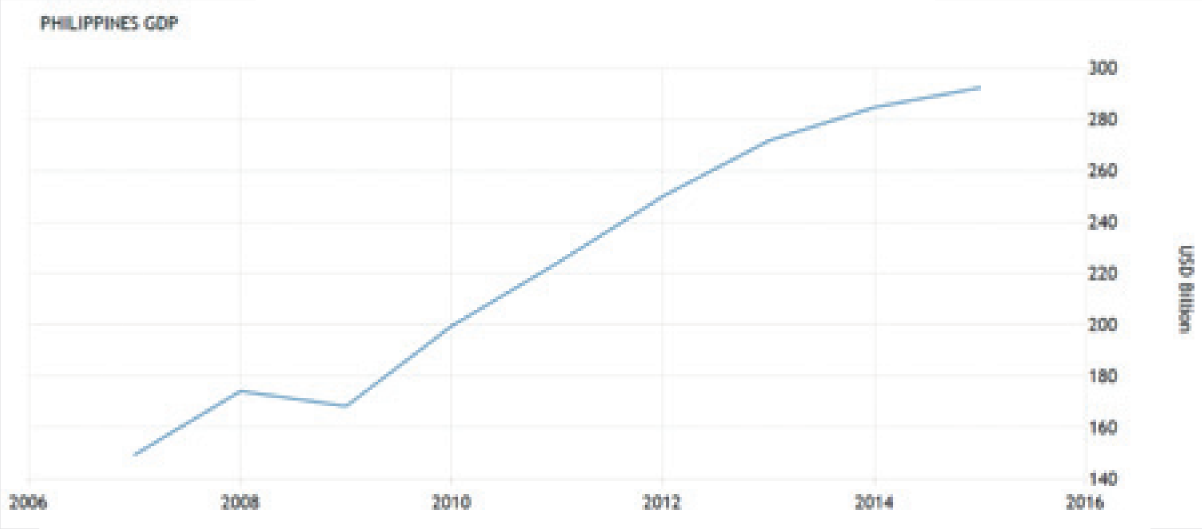
From the 12th century, a huge industry centred around the manufacture and trade of burnay clay pots, used for the storage of tea and other perishables, was set up in the northern Philippines with Japanese and Okinawan traders. These pots were known as ‘Ruson-tsukuri’ (Luzon-made) in Japanese, and were considered among the best storage vessels used for the purpose of keeping tea leaves and rice wine fresh. Hence, Ruson-Tsukuri pots became sought after in Northeast Asia. Each Philippine kiln had its own branding symbol, marked on the bottom of the Ruson-tsukuri by a single baybayin letter.

Economic View

GDP Annual Growth:

The gross domestic product (GDP) measures of national income and output for a given country's economy. The gross domestic product (GDP) is equal to the total expenditures for all final goods and services produced within the country in a stipulated period of time. This page provides - Philippines GDP - actual values, historical data, forecast, chart, statistics, economic calendar and news. Philippines GDP - actual data, historical chart and calendar of releases - was last updated on June of 2017.

The Gross Domestic Product (GDP) in Philippines was worth 292.45 billion US dollars in 2015. The GDP value of Philippines represents 0.47 percent of the world economy. GDP in Philippines averaged 69.02 USD Billion from 1960 until 2015, reaching an all time high of 292.45 USD Billion in 2015 and a record low of 4.40 USD Billion in 1962.



GDP Annual Growth from Last 10 years

The Philippines economy grew an annual 6.4 percent in the March quarter of 2017, following a 6.6 percent expansion in the previous quarter and below market consensus of a 6.8 percent growth. It was the weakest expansion since the third quarter 2015, as private consumption, investment, and government spending slowed while exports rose further. For 2017, the economy is expected to advance between 6.5 to 7.5 percent. On a quarter-on-quarter seasonally adjusted basis, the GDP expanded 1.1 percent in the first quarter 2017, compared to an upwardly revised 1.8 percent growth in the December quarter while market estimated a 1.5 percent growth. GDP Annual Growth Rate in Philippines averaged 3.68 percent from 1982 until 2017, reaching an all-time high of 12.40 percent in the fourth quarter of 1988 and a record low of -11.10 percent in the first quarter of 1985.

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In the three months to March, household consumption expanded 5.7 percent year-on-year, compared to a 6.3 percent increase in the fourth quarter. Government expenditure edged up 0.2 percent, slower than a 4.0 percent growth in the December quarter, due to a decline in maintenance and other operating expenditures of government agencies. Delays in the implementation and procurement of various government programs and higher expenses recorded during the election period in 2016 also contributed to a growth government spending.

Gross domestic capital formation increased by 7.9 percent, slowing from a 14.7 percent growth in the previous quarter, and marking for the first time one digit growth after the seven straight quarters of double-digit gains. Investment in construction grew by 9.9 percent, followed by durable equipment (12.5 percent), breeding stocks & orchard development:(3.1 percent) and intellectual property products (27.2 percent).

Exports increased by 20.3 percent, faster than a 13.4 percent rise in the fourth quarter. Sales of goods rose 22.3 percent (from 9.6 percent in the fourth quarter), those of services went up 14.3 percent (from 13.6 percent). Imports increased by 17.5 percent, following a 15.4 percent in the preceding quarter.

On the production side, the services sector advanced 6.8 percent, compared to a 7.2 percent growth in the three months to December. Growth in the sector was supported by public administration & defense; compulsory social security (5.5 percent), real estate (6.9 percent), trade and repair of motor vehicles, motorcycles, personal and household goods (7.1 percent), other services (7.6 percent), transport, storage & communication (4.9 percent) and financial intermediation (7.4 percent). The industry sector expanded 6.1 percent, following a 7.9 percent growth in the preceding quarter. Construction recorded the highest increase (8.2 percent), followed by electricity, gas and water supply (1.4 percent) and manufacturing (7.5 percent). In contrast, mining & quarrying shrank by 20 percent, following a 0.5 percent fall in the December quarter. Agriculture, hunting, forestry and fishing rebounded (4.9 percent following a 1.1 percent contraction in the previous period).

For full year 2017, the World Bank expects growth to reach 6.9 percent, well inside the Philippines government 6.5 - 7.5 percent target and faster than 6.8 percent in 2016.

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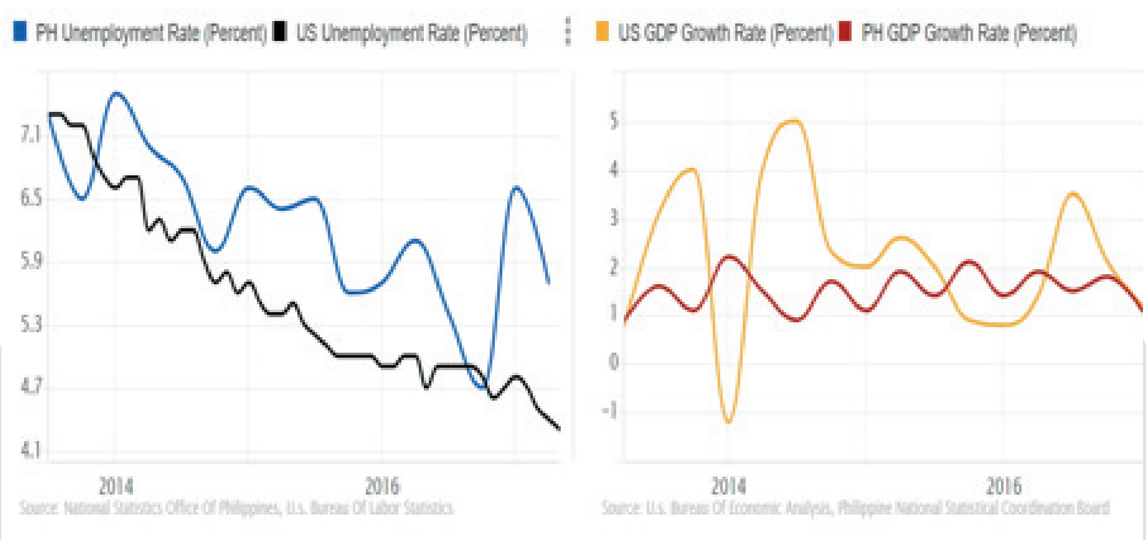
The data of last 5 year on the basis of GDP growth rate, annual growth rate, constant price, fixed capital formation, national product, per capita income, agriculture is following:

Philippines GDP	Last	Previous	Highest	Lowest	Unit
GDP Growth Rate	1.10	1.80	3.40	-2.30	percent
GDP Annual Growth Rate	6.40	6.60	12.40	-11.10	percent
GDP	292.45	284.80	292.45	4.40	USD Billion
GDP Constant Prices	2105290.00	2083369.00	2105290.00	825496.00	PHP Million
Gross National Product	2522142.00	2494692.00	2522142.00	944320.00	PHP Million
Gross Fixed Capital Formation	609964.37	623767.42	623767.42	163357.69	PHP Million
GDP per capita	2639.90	2531.90	2639.90	1059.33	USD
GDP per capita PPP	6938.21	6654.49	6938.21	3796.61	USD
GDP From Agriculture	153711.86	174555.46	175802.17	114778.44	PHP Million
GDP From Construction	179941.13	220299.31	224397.72	85502.67	PHP Million
GDP From Manufacturing	493645.75	536166.91	536166.91	252377.26	PHP Million
GDP From Mining	18842.65	16851.52	30306.94	10394.10	PHP Million
Gdp From Public Administration	73500.67	85426.35	88086.53	43289.41	PHP Million
Gdp From Services	1141072.00	1226677.13	1226677.13	675416.60	PHP Million

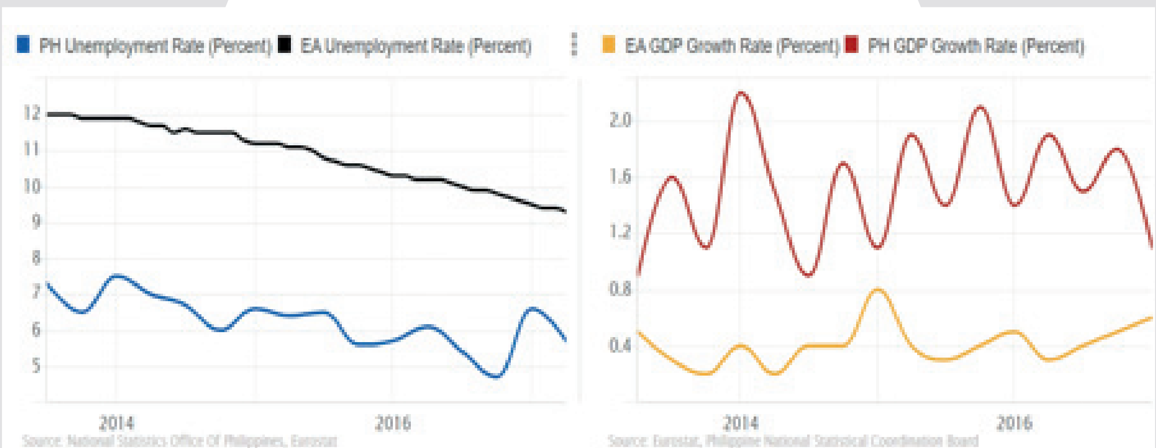
Growth & Consumer Credit Reports

To compare the growth & to understand the economic situation of Phillipines in a better way we can take a view of comparison of Phillipines with the most strong economies of the world & The results are quite surprising that scenario is almost similar hence the investment opportunities in Phillipines can be said similar to the investment in the best economies of the world. Let`s go through the comparison summary



Phillipines Vs. United States

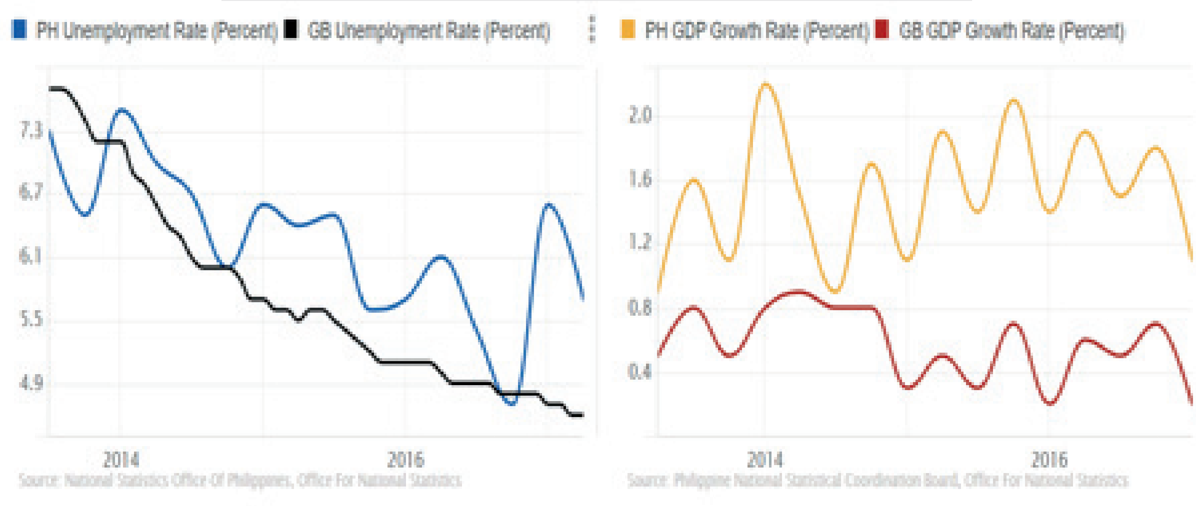
Unemployment Rate in Philippines went down to 5.70 percent in Q2 2017 from 6.60 percent in Q1 2017. United States Unemployment Rate declined to 4.30 percent in May 2017 from 4.40 percent in Apr 2017. GDP Growth Rate in the United States went down to 1.20 percent in Q1 2017 from 2.10 percent in Q4 2016. Philippines GDP Growth Rate declined to 1.10 percent in Q1 2017 from 1.80 percent in Q4 2016.



Phillipines Vs. Euro Area

Unemployment Rate in Philippines went down to 5.70 percent in Q2 2017 from 6.60 percent in Q1 2017. United Kingdom Unemployment Rate was reported at 4.60 percent in Apr 2017.

GDP Growth Rate in Philippines went down to 1.10 percent in Q1 2017 from 1.80 percent in Q4 2016. United Kingdom GDP Growth Rate declined to 0.20 percent in Q1 2017 from 0.70 percent in Q4 2016.



Phillipines Vs. United Kingdom

Unemployment Rate in Philippines went down to 5.70 percent in Q2 2017 from 6.60 percent in Q1 2017. United Kingdom Unemployment Rate was reported at 4.60 percent in Apr 2017. GDP Growth Rate in Philippines went down to 1.10 percent in Q1 2017 from 1.80 percent in Q4 2016. United Kingdom GDP Growth Rate declined to 0.20 percent in Q1 2017 from 0.70 percent in Q4 2016.

Consumer Credit:

The term consumer credit refers to all kinds of credit employed by individuals that are not collateralized by real estate or financial assets such as stocks and bonds and not used for business purposes. It includes instalment credit for automobiles, home repair and modernization, appliances, education, large recreational items, and revolving credit on credit cards. There are many ways to classify consumer credit into categories, including use, method of generation (direct and indirect closed-end credit, non-instalments credit, and open-end credit), and kind of financial institution generating the loan (depository institutions, finance companies, credit unions, others).

Consumer credit is considered a good indicator of the potential future spending levels seen in the Personal Consumption and Retail Sales reports, and shows the extent to which benchmark interest rates such as the fed funds rate and prime rate have manifested themselves at the consumer level (it can take six months to a year for macro interest rates to work their way down to consumers).

These factors are important when investors consider that consumers make up more than two-thirds of total GDP consumption. If consumers stop spending or face a credit crunch, GDP will not be able to grow much. Investors in consumer cyclical stocks should be keenly interested in consumers' ability to spend more in the future.

Consumer credit figures have a lot of seasonal and inherent volatility, so investors should always review the current report for adjustments to prior periods, paying particular attention to revisions to year-over-year growth. Long-term trends are the most studied portion of the report, both in the total outstanding balances as well as the change in overall interest rates being charged.

The Conference Board has tapped consumer credit as a lagging indicator, and uses a ratio of consumer credit to personal income as a component of its Index of Lagging Indicators. The Fed operates on the theory that consumers will not significantly increase their borrowing levels until their personal incomes increases enough to justify the higher debt load. As such, borrowing may show the largest increases when the economy is already coming out of a recession, rather than during the worst of it.

How helpful consumer credit reports are for investors can be listed out in points as follows:

Strengths:

- Contains detailed breakdown of loan figures, such as average maturity and pre vailing interest rates
- Data is provided with and without seasonal adjustments.
- Release shows comparisons against previous month, previous year, and also against results from the last five years

Weaknesses:

- Only total growth in outstanding loans is shown; there is no way of knowing if consumer payments have fallen off or if new loan growth has slowed based on a falling consumer credit number (and vice versa).
- Absence of home-equity debt provides for an incomplete picture.
- Because it comes out after the consumer confidence report and retail sales reports for the month, some analysts will not look as intently at the consumer credit figures month to month, instead reviewing multi-period trends once or twice a year.

Consumer Credit in Philippines decreased to 247.46 PHP Billion in the first quarter of 2017 from 248.10 PHP Billion in the fourth quarter of 2016. Consumer Credit in Philippines averaged 158.32 PHP Billion from 2006 until 2017, reaching an all time high of 248.10 PHP Billion in the fourth quarter of 2016 and a record low of 76 PHP Billion in the first quarter of 2006.

The consumer spending in last previous years has been increasing immensely which is an indicator that the consumer credit segment would be coming as a boom. When we analysis the consumer credit scenario of Philippines of last few years..

Philippines Consumer	Last	Previous	Highest	Lowest	Unit
Consumer Confidence	13.10	8.70	13.10	-52.80	
Retail Sales Yoy	3.90	4.40	79.50	-3.13	percent
Consumer Spending	1455678.00	1435521.00	1455678.00	581662.00	PHP Million
Personal Savings	4044437.77	4083678.06	4091513.61	1124351.04	Million PHP
Bank Lending Rate	5.77	5.20	39.73	5.09	percent
Retail Sales Mom	0.10	-0.20	14.43	-2.51	percent
Consumer Credit	247.46	248.10	248.10	76.00	PHP Billion
Gasoline Prices	0.87	0.92	1.29	0.34	USD/Liter

Opportunities

Despite slower-than-expected first quarter GDP growth, the Philippines' economy is expected to advance 6.5 - 6.8 percent this year, amid a recovery in external trade, strong consumer spending, and investment. Also, government spending is estimated to rise, supported by the implementation of big infrastructure projects. Furthermore, overseas remittances will remain resilient, with an improved global economic outlook. Inflation is forecasted to stay within the Central bank's target range of 3 percent ± 1 percent for 2017-2018. Meanwhile, inflation risks remain elevated due to the proposed tax reform program and possible adjustments in transportation fares and electricity rates. The unemployment rate is expected to be higher this year, mainly due to typhoons that affected the agriculture sector and to the temporary nature of election-related jobs which increased last year. This page has economic forecasts for Philippines including a long-term outlook for the next decades, plus medium-term expectations for the next four quarters and short-term market predictions for the next release affecting the Philippines economy.

The economy is firing on all cylinders, underpinned by buoyant private consumption and robust external demand. After the strong expansion in household spending highlighted in Q1's national accounts, consumers have continued to sustain the economy in Q2 amid a tight labor market, rising wages and upbeat sentiment, which is benefiting from the government's security-focused policies. Moreover, the impact on the economy of the recent upsurge in ISIS-linked terrorist military operations in Marawi City should be contained, as the conflict is limited to a specific area. Rising exports on the back of stronger demand from Asian countries are also supporting growth, as are robust FDI inflows as investors have been reassured by Duterte's decision to name insider Nestor Espenilla as next Central Bank governor. In late May, the Lower House approved Duterte's tax reform, which will take effect at the beginning of 2018. The reform eases the tax burden on personal income earners while increasing revenues by slapping new taxes on consumption to boost infrastructure spending.

Consumer credit scenario of the country cannot be predicted for the coming years but if we analysis the last trends and see for the coming terms from March 2017 to T+2 and T+3 (which is 2 month & 3 Month term onwards) the following coming trends can be predicted:

Economic	Latest	Unit	T+1	T+2	T+3
Philippines Consumer Spending	1455678.00	PHP Million	1459563.8975	1478331.9836	1499982.3939
Philippines Consumer Credit	247.46	PHP Billion	243.9888	250.579	247.8567
Philippines Consumer Price Index (CPI)	147.90	Index Points	148.1201	148.1604	148.4554
Philippines Core Consumer Prices	143.80	Index Points	144.0625	144.1136	144.4283
Philippines Government Spending	207409.12	PHP Million	216302.9408	250084.4834	203688.1973
Philippines Consumer Confidence	13.10		7.5685	12.0532	9.5621

Conclusion

The Philippines' growth outlook remains positive. The World Bank projects that real GDP will grow at a rate of 6.9 percent in 2017 and 2018. Supported by sound domestic macroeconomic fundamentals and an accelerating recovery among other emerging markets and developing economies, the Philippines is expected to remain one of East Asia's top growth performers. The government's commitment to further increasing public infrastructure investment is expected to sustain the country's growth momentum through 2018 and reinforce business and consumer confidence. Strong and inclusive economic growth is projected to further increase household consumption and speed the pace of poverty reduction.

The country's growth prospects are subject to several important downside risks. On the external front, rising global interest rates could weaken the peso, adversely affecting capital flows to the Philippines and driving up domestic inflation. Commodity prices, specifically global crude oil prices, are projected to rise in 2017, which could also increase inflationary pressures. On the domestic front, strong macroeconomic fundamentals have opened some fiscal space for the government to implement its public investment and social spending agenda, but the success and timeliness of the administration's planned tax reforms will be vital to preserve fiscal sustainability. Moreover, planning and implementation bottlenecks could diminish the government's ability to implement its planned infrastructure investment program.

Over the medium term, the Philippines can leverage several emerging trends to accelerate its growth and development, including the potential of its very young and growing population and capitalizing on its growing services sector to accelerate its structural economic transformation. Sustaining the inclusive pattern of recent growth and taking advantage of the potential of its young population offers a brief window of opportunity which will require an enduring commitment to structural reforms that facilitate, on one hand, private investment, and, on the other hand, helps young workers to develop the appropriate skills to succeed in a dynamic labour market.