

Philippines

7 November 2024

Dip in 3Q24 growth likely temporary

- GDP growth surprised to the downside, slowing to 5.2% YoY in 3Q24 versus an upwardly revised 6.4% in 2Q24.
- Despite this, we maintain our 2024 GDP growth forecast of 6.0% YoY, implying a rebound in 4Q24 growth. For 2025, we expect GDP growth of 6.0% YoY.
- We expect a 25bp cut from Bangko Sentral ng Pilipinas (BSP) at its 19 December meeting, followed by a cumulative 75bp in rate cuts in 1H25.

GDP growth slowed to 5.2% YoY in 3Q24 versus an upwardly revised 6.4% in 2Q24, undershooting expectations (Consensus and OCBC: 5.7%). On a sequential basis, the economy grew 1.7% QoQ sa from an upwardly revised 0.7% in 2Q24.

The demand side drivers were mixed. Government spending (5.0% YoY versus 11.9% in 2Q24) slowed in 3Q24 while investment spending sustained its double-digit growth (13.1% versus 11.6% in 2Q24) growth rates. However, excluding inventories, gross fixed capital spending slowed (7.5% YoY versus 9.7% in 2Q24) on account of slower construction spending even as durable equipment spending rebounded. Within construction, private construction also sustained double-digit growth (11.9% YoY from 10.3% in 2Q24), while public construction slowed down (3.7% from 21.7% in 2Q24) due to administrative delays and disruptions associated with adverse weather conditions. Meanwhile, household spending growth improved to 5.1% YoY versus 4.7% in 2Q24, reflecting improved consumer sentiment and lower inflationary pressures. Consequently, the contribution of domestic demand narrowed to 6.1 percentage points (pp) from 7.7pp in 2Q24, but remained robust.

This was reflected in higher imports growth of 6.4% YoY versus 5.3% in 2Q24. Exports growth of goods and services, by contrast, declined by 1.0% YoY versus +4.2% YoY in 2Q24. Indeed, Philippines goods export growth has underperformed so far this year, and this is likely due to the product and destination mix (see ASEAN: Gauging ASEAN-China FDI Flows, 29 May 2024). According to the National Economic and Development Authority (NEDA) Secretary Arsenio Balisacan, the drag was due to “sharper decline in electronics products, particularly semiconductors (-17.9 percent)” and he added that “the industry is undergoing inventory corrections and has yet to meet the demands for new products in the global market.” Consequently, the negative contribution of net exports widened to -2.9pp from -0.9pp in 2Q24

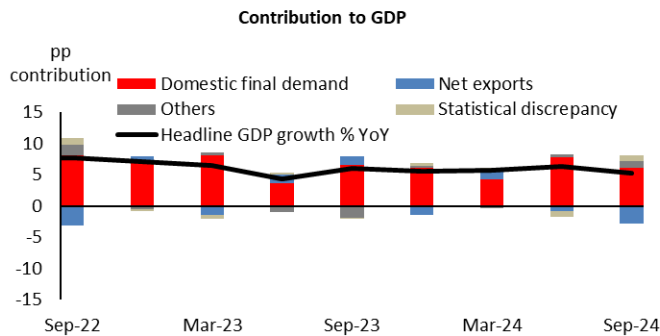
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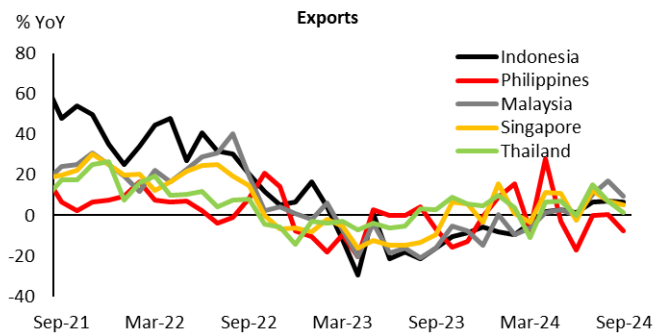
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Source: Philippine Statistics Authority, CEIC, OCBC



Source: Various government agencies, CEIC, OCBC

On the supply side, the weakness was more pronounced across key sectors. Growth in the manufacturing (2.8% YoY versus 3.9% in 2Q24), construction (9.0% versus 16.1%), services sectors (6.3% versus 6.8%) eased. Meanwhile, the contraction in the agriculture sector output widened further (-2.8% YoY versus -2.3% in 2Q24), reflecting adverse weather conditions (El Nino and typhoons) during this period. NEDA Secretary Balisacan stated that “the combined agricultural damage and losses from the six typhoons in Q3 2024 and Severe Typhoon Kristine stood at PHP15.8bn while damage to infrastructure, houses, and other assets is estimated at PHP9.6bn.”

%YoY, unless stated	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24
Real GDP growth	7.7	7.1	6.4	4.3	6.0	5.5	5.8	6.4	5.2
Demand-side									
Household Final Consumption Expenditure	8.0	7.0	6.4	5.5	5.1	5.3	4.6	4.7	5.1
Government Final Consumption Expenditure	0.9	3.6	6.2	-7.1	6.7	-1.0	1.7	11.9	5.0
Gross Fixed Capital Formation	9.5	6.2	10.9	4.3	8.2	10.2	2.1	9.7	7.5
Exports of Goods and Services	13.7	14.4	1.1	4.7	2.5	-2.5	8.4	4.2	-1.0
Goods	4.9	10.7	-14.9	-0.8	-2.3	-11.4	7.6	0.2	-3.5
Services	33.6	21.3	20.6	10.8	11.2	12.4	9.1	8.1	2.8
Imports of Goods and Services	18.6	7.2	4.2	-0.6	-1.6	2.0	2.2	5.3	6.4
Goods	12.3	-1.4	0.1	-5.8	-8.4	-3.8	-3.6	2.9	5.8
Services	57.0	49.8	22.9	30.7	27.9	21.1	23.6	15.5	8.3
Supply-side									
Agriculture, Forestry & Fishing	2.1	-0.3	2.2	0.2	0.9	1.3	0.5	-2.3	-2.8
Manufacturing	4.0	3.8	2.2	1.0	1.9	0.5	4.4	3.9	2.8
Construction	11.1	6.5	11.0	3.5	14.5	8.4	7.0	16.1	9.0
Services	9.3	9.8	8.3	6.0	6.8	7.4	6.9	6.8	6.3

Source: Philippine Statistics Authority, CEIC, OCBC

Looking ahead, we maintain our full year 2024 GDP growth forecast of 6.0% YoY. This implies a pick-up in 4Q24 GDP growth to 6.4% YoY, supported by reconstruction efforts following recent typhoons, a sustained focus on infrastructure development, improved household spending bolstered by lower inflation and the ongoing rate cutting cycle. For 2025, we forecast stable GDP growth of 6.0%.

The lower-than-expected 3Q24 GDP print taken together with lower headline inflation prints in September and October supports our view that BSP will deliver another 25bp cut at its 19 December meeting, followed by a cumulative 75bps in rate cuts in 1H25, taking the policy rate to 5.00% by end-2025.

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