

Emerging Insight

Philippines: Consumption to carry the growth burden despite challenges

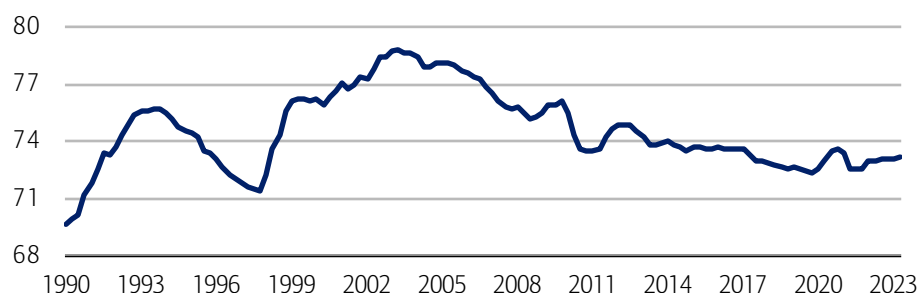
Key takeaways

- Consumption to carry the brunt of growth in Philippines. Job growth, wage hikes, tax cuts are supportive. Inflation is not.
- Overall consumption in 1H23 now slightly above pre-COVID levels with spending on communications and housing visibly higher.
- Consumer credit has been supportive, especially credit card usage. Mortgage demand likely softened by higher rates.

By Jojo Gonzales

Exhibit 1: Share of consumption to GDP likely to climb

Tends to rise post-shocks, crisis, or periods of slow growth



Source: CEIC data, PEP estimates

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Philippines in Focus

Our 2023E GDP growth expectation in the Philippines is below consensus, at 4.8%. This follows a weak 2Q23 GDP print (4.3%) that stemmed mainly from the lack of government spending and investment growth. Indeed, private consumption was the sole driver of domestic demand in 2Q23 – a situation we think may mostly persist through 2024E and underpin our 2024E GDP growth estimate of 5.0%.

We look at the components, drivers and trends of consumption spending, and why we think it can still power GDP despite challenges posed by resurgent inflation and higher interest rates. We may see some catch-up with government spending in 2H23 but the need to reign in the fiscal deficit is likely to constrain government spending from being a major growth driver, unlike in 2020-22.

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Mixed consumption drivers

Consumption in the Philippines is centered on Food, Housing and Transport. These three categories comprise nearly 60% of total household expenditures. Key determinants would be employment, wages, inflation, consumer confidence, and occasionally taxation.

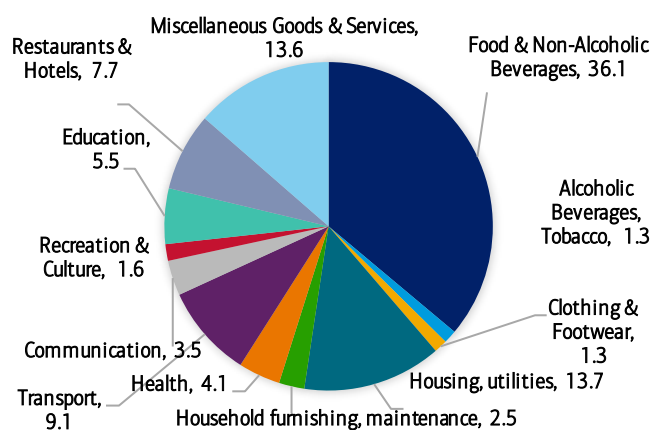
In 2023, we saw mixed trends for these determinants. The government cut middle-income taxes at the start of 2023 and increased minimum wages in July-2023, for the second time in a little over a year.

Unemployment too fell to its lowest levels since early 2020 while underemployment rates subsided, but both unemployment and underemployment inched up in early 3Q23.

The gains from tax cuts, wage hikes, and job growth were partly offset by sharply higher inflation centered on food and transport. Inflation also eroded consumer confidence, which was only starting to recover from the COVID-induced downturn.

Exhibit 2: Composition of consumption (% share in 1H23)

Food, housing, transport combine for nearly 60% of consumption

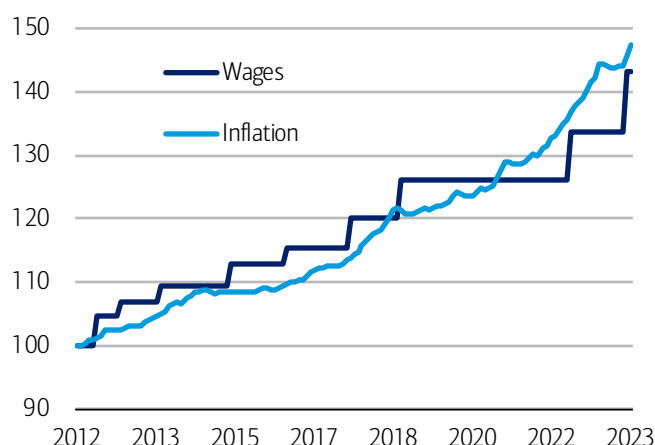


Source: CEIC data, PEP estimates

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Exhibit 3: Minimum wages may not have caught up with inflation yet

Minimum wages were increased in 2022 and 2023 after a long freeze

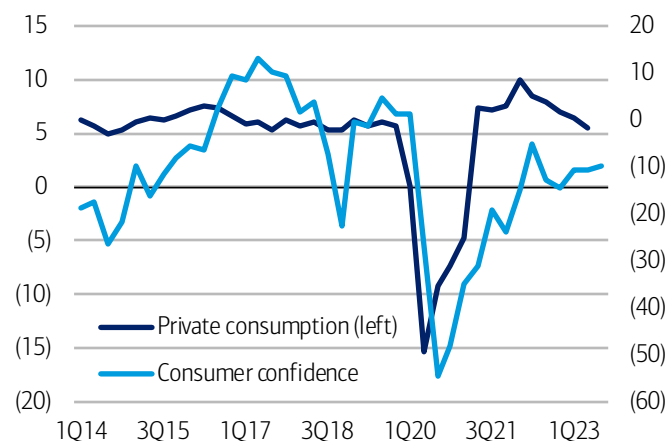


Source: CEIC data, PEP estimates

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Exhibit 4: Consumer confidence remains in shallow negative territory

Confidence has not fully recovered from the pandemic-induced downturn

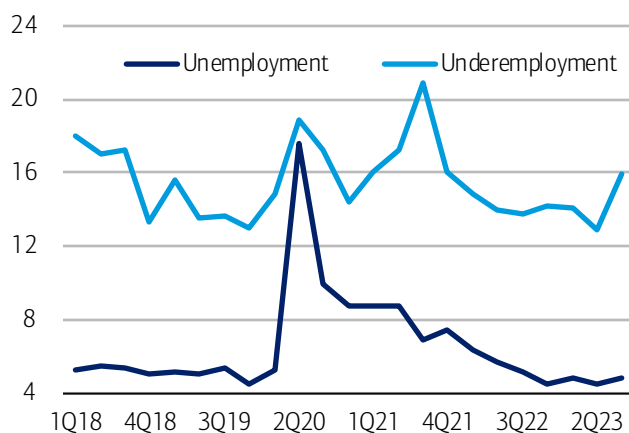


Source: CEIC data, PEP estimates

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Exhibit 5: Unemployment and underemployment inched up in 3Q

Though well below COVID-era peaks



Source: CEIC data, PEP estimates

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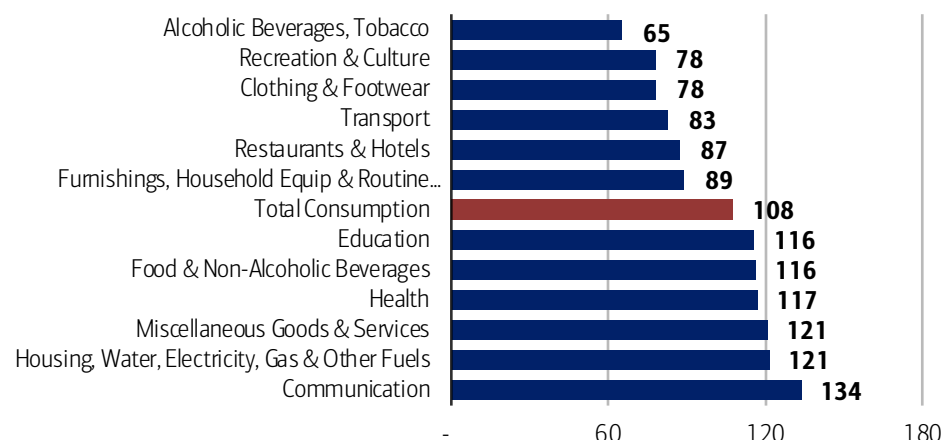
Mixed consumption trends

While overall consumption levels through 1H23 already exceeded pre-COVID levels, many consumption categories have yet to fully recover. Discretionary spending on alcohol, tobacco, recreation, clothing were still between 22 to 28% below pre-COVID levels through 1H23. The largest growth item in the consumer basket is spending on communications, which in 1H23 was 1.34x that of pre-COVID levels. This may be largely explained by rise of work-from-home and the need to improve home broadband and mobile access. Indeed, spending on communications continued to grow through 1H23 though at more normalized rates – a sign that return-to-work has not caused an unwinding of the spend on communications.

Inflation centered on food and transport will likely squeeze discretionary spending further. This is evident on flat beer and declining tobacco sales in 1H23 reported by the publicly listed companies engaged in these areas. Spending on healthcare and education are also immovable components of the consumer basket – which leaves spending on recreation, restaurants, clothing dispensable should inflation persist.

Exhibit 6: Consumption levels in 1H23 versus pre-COVID (note: 1H19 = 100)

Total consumption in 1H23 is slightly above pre-COVID but many key categories remain below

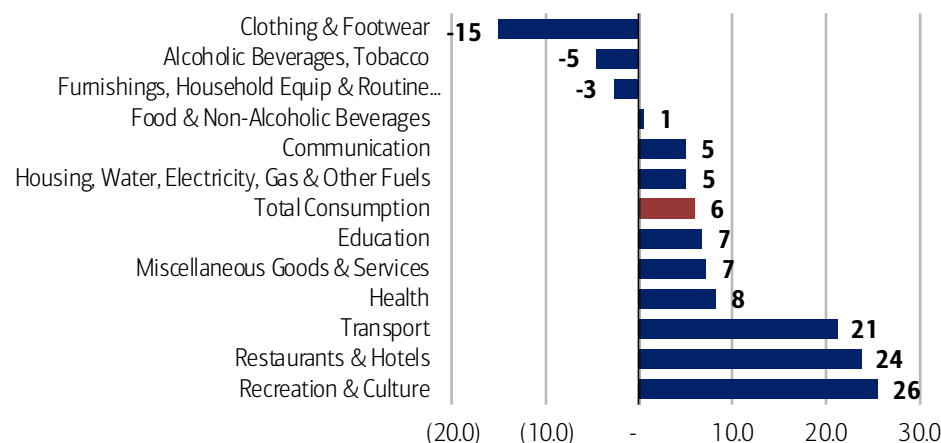


Source: CEIC data, PEP estimates

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Exhibit 7: Consumption growth by category in 1H23

Strong rebound in recreation, restaurants off a low base; Spending on clothing, beverages stay weak



Source: CEIC data, PEP estimates

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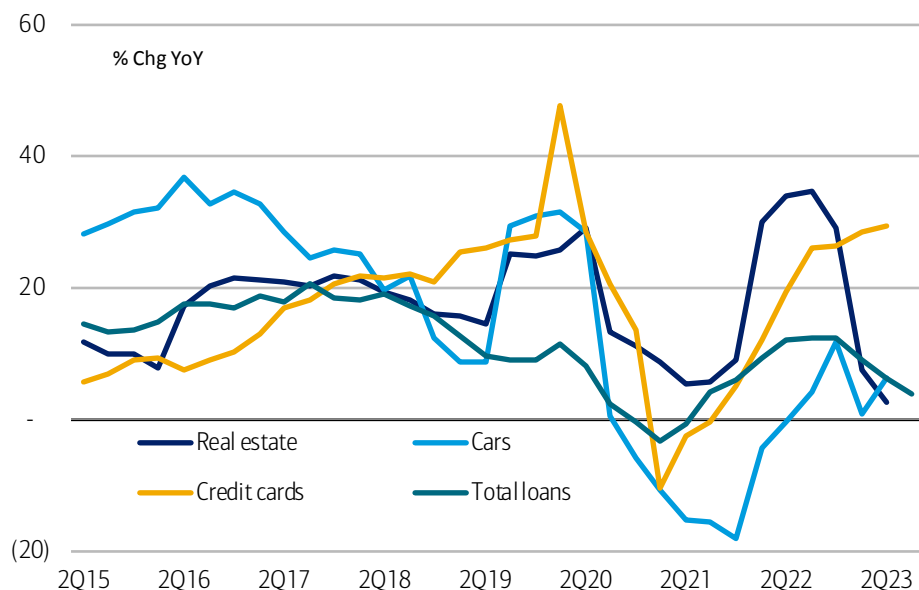
Credit card usage in support of consumption

Bank sector loan growth has slowed to around 7-8% in early 3Q23. This is mostly reflective of easing capex among large corporates. Consumer loans comprise nearly one-fifth of bank loans and have so far grown at a better pace than total loans.

Nonetheless, rising interest rates may have also blunted consumer loan demand – especially mortgage demand, which in 2Q23 was up only 6% YoY. In contrast, credit card usage is up 29% in 2Q23 – likely as a means of supplementing incomes eroded by inflation in the near term. Unlike real estate lending which is softened by rising rates, car loans dipped more because of lack of supply of cars in 2021-22, as supply chains for the auto sector were disrupted. Now that the auto supply chain is normalizing, car financing is bouncing back. Overall, we see banks remaining supportive of consumer credit against a backdrop of only moderate medium term corporate loan demand.

Exhibit 8: Credit card usage is up sharply, while mortgage demand slows

Demand for car loans improved as supply chains in the sector normalized



Source: CEIC data, PEP estimates

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