

Philippines Watch

Gentle slowdown in 4Q23 GDP; FY24 may look similar

Mild slowdown in 4Q GDP, beating expectations

Gross Domestic Product (GDP) grew 5.6% YoY in 4Q23, beating consensus of 5.2%, slowing only mildly from the upwardly revised 3Q23 rate of 6.0% (previously 5.9%). The surprise to us was mainly from investment spending, which grew 11.2% YoY in 4Q24, after shrinking in the previous six months likely on account of increased interest rates. However, 4Q investment data showed broad-based growth in construction, durable equipment and inventory accumulation. Government spending shrunk anew in 4Q, which was no surprise after the 3Q spending surge left little of the 2023 budget. Private consumption growth improved alongside receding inflation, a 3Q minimum wage adjustment, and reduced unemployment.

GDP forecast tweaks

Given these 4Q23 results, full-year 2023 GDP rose 5.6% YoY, compared to our forecast of 5.4%. For 2024 however, our GDP growth forecast remains unchanged, at 5.4% although the composition shows marginally better growth in private consumption and services, when compared to previous estimates. We are unconvinced that the 4Q strength in private investment is sustained into 1H24 as the Bangko Sentral may not reduce policy rates sooner than May, in our view.

Why cut rates if the economy is strong?

The stronger 4Q GDP print may be a positive indicator for the 4Q23 earnings season that unfolds in Feb-2024. However, the stronger-than-expected GDP may also mean more price pressure and hence, restrain the Bangko Sentral from cutting sooner. Indeed, the BSP indicated it expects Jan-2024 inflation between 2.8-3.6%, the mid-point of which implies a rather hot MoM inflation rate of 1.0%. Jan inflation is reported on Feb 6.

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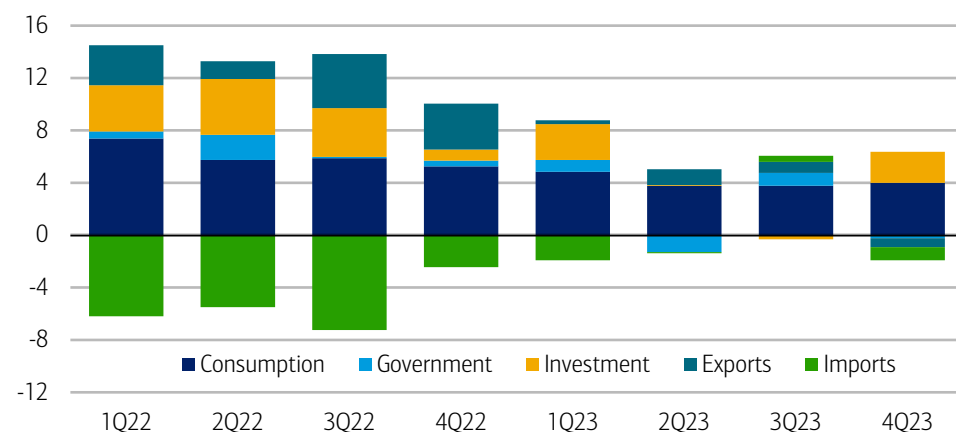
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Key exhibits

Exhibit 1: Investment were a surprise growth driver in 4Q23

Government spending did not contribute to 4Q growth, as in 2Q



Source: CEIC data, PEP estimates

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Exhibit 2: Quarterly and annual National Income Accounts (% Chg YoY, in real terms)

Investment spending growth in 4Q surprised; government spending decline did not

	Quarterly								Full year	
	4Q23	3Q23	2Q23	1Q23	4Q22	3Q22	2Q22	1Q22	2023	2022
GDP	5.6	6.0	4.3	6.4	7.1	7.7	7.5	8.0	5.6	7.6
Demand side										
Private consumption	5.3	5.1	5.5	6.4	7.0	8.0	8.5	10.0	5.6	8.3
Government	(1.8)	6.7	(7.1)	6.2	3.3	0.7	10.9	3.5	0.4	4.9
Investments	11.2	(1.4)	0.3	12.6	3.8	18.2	17.2	17.7	5.4	13.8
Exports	(2.6)	2.6	4.4	1.0	14.6	13.6	4.9	10.6	1.3	10.9
Imports	2.9	(1.1)	0.2	4.7	7.0	18.5	14.5	16.2	1.6	13.9
Supply side										
Agriculture	1.4	0.9	0.2	2.2	(0.3)	2.1	0.2	0.2	1.2	0.5
Industry	3.2	5.6	2.1	4.0	4.6	5.8	6.3	10.0	3.6	6.5
Services	7.4	6.8	6.1	8.4	9.8	9.3	9.2	8.4	7.2	9.2

Source: CEIC data, PEP estimates

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Exhibit 3: 2024E GDP growth forecast still at 5.4%

2023 updated for 4Q results; minor changes to 2024E

	Revised		Previous	
	2023E	2024E	2023E	2024E
GDP	5.6	5.4	5.4	5.4
Demand side				
Private consumption	5.6	6.0	5.6	5.9
Government	0.4	6.0	2.0	6.0
Investment spending	5.4	2.4	1.2	2.3
Exports	1.3	4.0	3.0	4.0
Imports	1.6	3.5	1.3	3.5
Supply side				
Agriculture	1.2	0.6	1.0	0.6
Industry	3.6	4.7	3.8	5.4
Services	7.2	6.4	6.8	6.1
Other items				
Inflation (% , yr-avg)	6.0	3.3	6.1	3.3
Budget balance (% of GDP)	(6.1)	(5.3)	(6.1)	(5.3)
BSP policy rate (% , yr-end)	6.50	5.50	6.50	5.50
Current account (% of GDP)	(3.40)	(3.40)	(3.40)	(3.40)

Source: CEIC data, PEP estimates

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