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3Q GDP Bounces Back

- GDP growth picked up to 5.9% YoY in 3Q23 from 4.3% in 2Q23.
- With the average 1Q-3Q23 growth of 5.6% YoY, we marginally revise higher our 2023 GDP growth forecast to 5.7% from 5.4%, previously.
- Modest growth and easing inflation will allow Bangko Sentral ng Pilipinas (BSP) to keep its policy rate unchanged for the rest of 2023.

GDP growth picked up to 5.9% YoY in 3Q23 from 4.3% in 2Q23 (Consensus: 4.7%; OCBC 5.5%). This takes the average 1Q-3Q23 growth to 5.6% YoY from 7.6% YoY in 2022. On a seasonally adjusted basis, growth increased to 3.3% QoQ SA from an upwardly revised -0.7% in 2Q23.

On the domestic demand front, the 3Q print showed that government underspending has reversed: public spending pick up to 6.7% YoY from -7.1% in 2Q. Investment spending also rose to 7.9% YoY from 4.0% in 2Q, but private consumption growth eased to 5.0% YoY in 3Q23 from 5.5% in 2Q. This shows that the lagged impact of monetary policy tightening, a cumulative 450bp in policy rate hikes since mid-2022, is starting to weigh on private spending. As a result, the contribution of the domestic final demand rose sharply to 6.4 percentage points (pp) from 3.5pp in 2Q23.

The contribution of net exports turned more positive to 1.4pp from 1.1pp in 2Q as imports slowed more sharply than exports. Goods and services import growth worsened in 3Q23 versus 2Q23 while on the export front, goods exports contracted further to -2.6% YoY from -0.9% in 2Q23. Services export growth, however, increased to 11.7% YoY from 10.4% in 2Q, consistent with higher tourist arrivals in 3Q23.

On the supply side, the pickup in growth was broad based across agriculture, industry, and services. Within the industry bracket, growth was stronger across the mining, manufacturing, and construction sectors. The services sub-sector performance was more mixed with slowing growth in 'wholesale and retail trade' which was offset by better 'financial and insurance activities'.

%YoY, unless stated	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23
Real GDP growth	8.0	7.5	7.7	7.1	6.4	4.3	5.9
Demand side drivers							
Household Final Consumption Expenditure	10.0	8.5	8.0	7.0	6.4	5.5	5.0
Government Final Consumption Expenditure	3.5	10.9	0.7	3.3	6.2	-7.1	6.7
Gross Fixed Capital Formation	10.9	12.5	9.6	6.0	10.9	4.0	7.9
Exports of Goods and Services	10.6	4.9	13.6	14.6	1.0	4.4	2.6
Goods	5.9	-2.0	4.8	10.6	-14.9	-0.9	-2.6
Services	16.8	13.8	33.2	22.0	20.2	10.4	11.7
Imports of Goods and Services	16.2	14.5	18.5	7.0	4.7	0.2	-1.3
Goods	12.6	11.7	12.1	-1.6	0.5	-5.0	-8.1
Services	36.1	33.8	57.6	49.8	23.6	31.3	27.7
Supply-side drivers							
Agriculture, Forestry & Fishing	0.2	0.2	2.1	-0.3	2.2	0.2	0.9
Manufacturing	9.4	2.3	3.9	3.9	1.9	1.1	1.7
Construction	13.1	18.7	11.4	6.2	11.1	3.6	14.0
Services	8.4	9.2	9.3	9.8	8.4	6.1	6.8

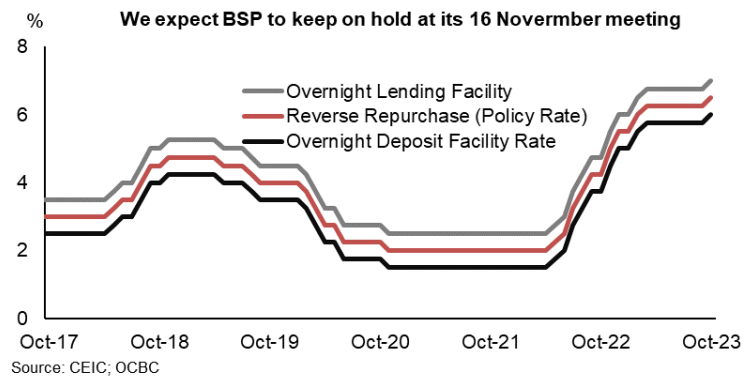
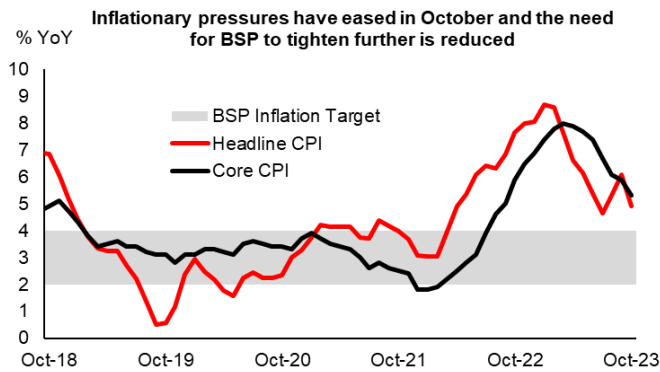
Source: CEIC, OCBC

Philippines

9 November 2023

With the average 1Q-3Q23 growth of 5.6% YoY, we marginally revise higher our 2023 GDP growth forecast to 5.7% from 5.4%, previously. Our forecast still suggests that the government will still miss its 6-7% target. Although the lagged impact of monetary policy tightening will continue to weigh on private consumption expenditures, we expect government and investment spending to improve. This will be similar for next year. We expect modestly better 2024 GDP growth of 6.0%.

The improvement in growth will allow BSP to remain hawkish. However, with October inflation easing to 4.9%YoY from 6.1% in September and inflation likely to ease further (albeit at a more moderate pace) in the coming months, the need for BSP to tighten further is not pressing, and that it is comfortable with keeping its policy settings unchanged. As such, we do not expect any further rate hikes from BSP in the current cycle.



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