

DevPulse

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Inflation hits hard, cuts growth to 4.6%

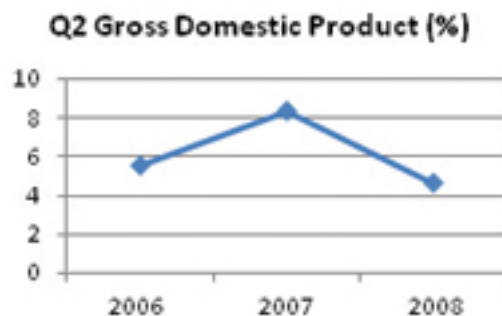
The country's gross domestic product (GDP) grew 4.6 percent in the second quarter as high inflation coupled with the base effect of last year's election-spending growth took its toll on the economy.

Secretary of Socioeconomic Planning Ralph G. Recto, however, pointed out that the Philippines is not the only country in the region adversely affected by inflation. "Economic growth in the Philippines as well as those of Asian neighbors was dragged down by high inflation and slower growth among advanced economies, which hurt consumer demand. The slowdown is more pronounced in Singapore which only posted 2.1 percent this quarter from 9.1 percent in the same period last year. Hong Kong also posted 4.2 percent growth from 6.2 percent in the same quarter last year," Recto said.

Growth drivers

Growth was driven by remittances from overseas Filipinos, agriculture, manufacturing, utilities and private construction.

Remittances grew 21.1 percent in the second quarter, with monthly remittances reaching a record high of US\$1.4 billion in June. Total remittances for the first half of the year comprised nine percent of nominal gross national product (GNP), translating to double-digit growth in net factor income from abroad (NFIA). Growth



in NFIA was also instrumental in driving GNP growth to 5.5 percent.

Meanwhile, agriculture was buoyed by favorable weather and ample government support, growing 4.9 percent compared with 4.2 percent in the same period last year. Recto, who is also Director-General of the National Economic and Development Authority, posited that growth in agriculture helped avert further slowdown. "The large investments in agriculture aimed at achieving food sufficiency and stabilizing commodity prices helped boost the sector. The sector fared well on account of significant increases in rice and corn harvests, which benefited from government's heightened efforts to expand areas planted to these grains, rehabilitate or repair more irrigation facilities and provide farmers with more fertilizer and seed subsidies," he said.

While industry slowed down as a whole, the manufacturing subsector was a bright spot, growing 6.1 percent as food manufacturing, basic metal, footwear and wearing apparel experienced hefty gains. Food manufacturing was driven by bumper sugarcane harvests and high world sugar prices, encouraging producers to export more sugar.

Utilities also posted strong gains after growing 7.9 percent. Expansion in the sector is attributed to improvements in production efficiency in power generation after some plants shifted from diesel and oil-based inputs to natural gas and other indigenous sources.

Private construction also contributed to overall growth after expanding 25.0 percent in the second quarter, much higher than the 13.7 percent it posted in the same period last year. It was able to offset the contraction in public construction.

Regarded as the backbone of the economy as it comprises almost half of total output and employs half of the total workforce, the services sector, meanwhile, grew by only 4.3 percent in the second quarter compared with the 8.4 percent growth it experienced last year. The slower growth in virtually all subsectors other than ownership of dwelling and real estate caused services to post modest growth.

The laggards

Leading the laggards list is mining and quarrying after contracting 18.5 percent compared with last year's 38.9 percent growth rate. Recto attributed the subsector's poor performance to bad weather and falling demand. "The industry's performance was dragged down by the sharp decline in mining and quarrying outputs as coal production was adversely affected by heavy rains during the quarter. Moreover, nickel and crude also largely contributed to the negative performance of the sector. Demand for nickel declined as China concluded their preparations for the Olympics and nickel prices started to ease in the world market."

Public construction was also a drag on growth after contracting 6.4 percent. The National Statistical Coordination Board said the decline was caused by lower capital outlay for public works. General government consumption also contracted 5.1 percent from an 11.9 percent growth last year.

Challenges ahead

The economy's cumulative 4.6 percent GDP growth in the first half of the year is still far from the Development Budget Coordination Committee's (DBCC) low-end target of 5.5 percent for 2008. While Recto admitted that achieving the DBCC target will be a "tough challenge," he noted that the global economic situation seems to be improving. "Oil prices were on the downtrend this month (August). Inflation is also expected to tame down in the latter months of 2008, although still at double-digit rates. The value of merchandise exports in June picked up by 8.8 percent year-on-year. Outlook for electronics remain upbeat on the back of still growing investments in electronics. As of June, additional investments of US\$500 million were reported," Recto explained.

He said that despite the positive near-term outlook, government must continue to invest in infrastructure, simplify government transactions, bring down the cost of doing business, push for reforms in key sectors and intensify investment promotion. All these are expected to "put in place a solid foundation for a higher growth trajectory." In response to higher agricultural prices in the world market, Recto called on government to vigorously implement the FIELDS (fertilizer, irrigation and infrastructure, extension and education, loans, dryers and other post-harvest facilities and seeds) program.

Another challenge is improving the capability of line agencies to effectively implement programs and deliver services. "The government is in a better position to make these investments given its improved fiscal position. But it must improve the absorptive capacity of its line agencies to effectively deliver these services to the people," Recto said.