Philippine Economic Outlook

Opportunities, Challenges and the Future.

Thursday, October 11, 2024

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#TGBTG

Cautious Optimism

End of the pandemic. Sticky inflation, resilient consumption improving consumer and business confidence.

Risks arising from geopolitical risks and climate change effects keeping prices elevated.

Balancing fiscal consolidation and sustaining infrastructure spending to accelerate growth and insulate the economy from global recession.

Outline

- Global Economic Developments
- Philippines: Recent Developments
    - Real Sector and Employment
    - Prices, External, Monetary and Banking
    - Fiscal Sector
- Outlook (GDP, interest Rates, FX)
- Summary

“Let imagination remind you how all the varied present does but repeat the past and rehearse the future.”

Marcus Aurelius (120 – 180 A. D.)

Economic Numbers that Matter

Market	Indicator
Economic Activity	Gross Domestic Product (GDP)
Goods Market	Inflation Rate
Funding Market	Interest Rate
External Market	Foreign Exchange Rate

A measure of wealth
Investment Portfolio Value

Price of stocks as measure of wealth of shareholders:

$$P = D/(k-g)$$

Where
P= price of stock
D= dividend/share
k= cost of equity
g= growth of dividend

How do we increase/expand wealth?

PCRG : Formula for wealth creation : for country, private companies, households

W = (P-C)/(R-G)

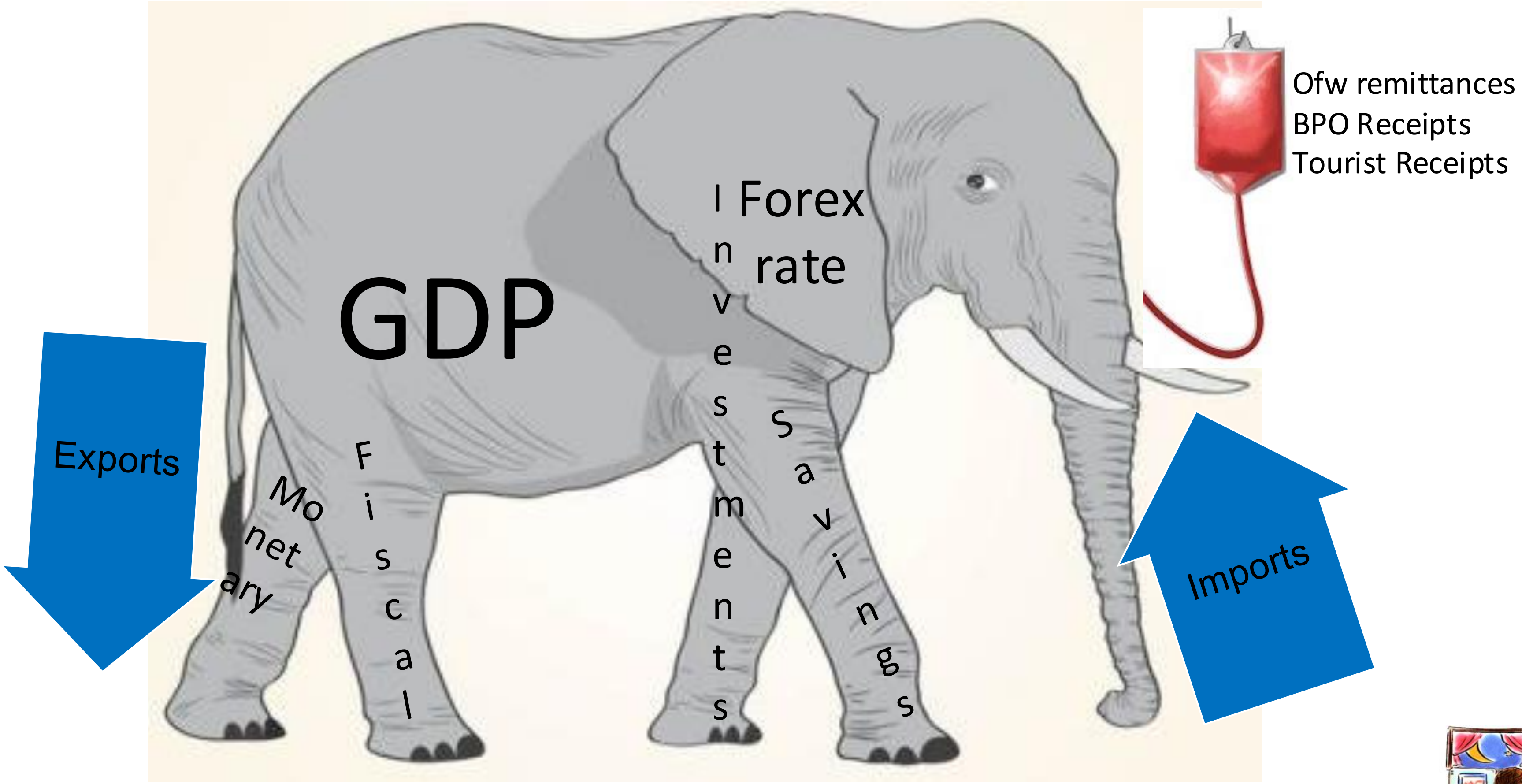
P: Productivity $\uparrow$
C: Costs $\downarrow$
R: Risks $\downarrow$
G: Growth $\uparrow$

Current Realities

W = (P-C)/(R-G)

P: Productivity	↑	**Infra Spending**
C: Costs	↓	**CPI,FX, Int. rate**
R: Risks	↓	**Global, Fed, Geo**
G: Growth	↑	**GDP, Investments**

Undestanding the Economy



This is our quest…

Our Present Challenges

1. Persistent poverty
2. High underemployment
3. Inadequate infrastructure
4. Cost of living crisis (high inflation)
5. A neglected agricultural sector
6. Educational crisis
7. Fiscal crisis
8. Energy crisis (Malampaya depletion)
9. Vulnerability to natural disasters

How to achieve inclusive growth?

1. Stable macro conditions
2. Productivity enhancing infrastructure
3. Increase agriculture productivity
4. Broadening the manufacturing base
5. Support to MSME’s
6. Optimizing social investments
7. Improving the regulatory and policy environment

Note: Green (Positive) Blue (Negative)

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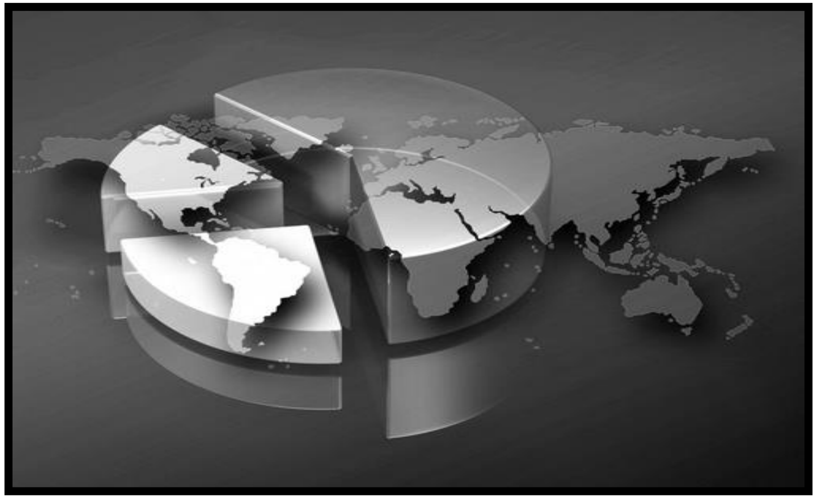
World Economy



Economic landscape
What has changed?

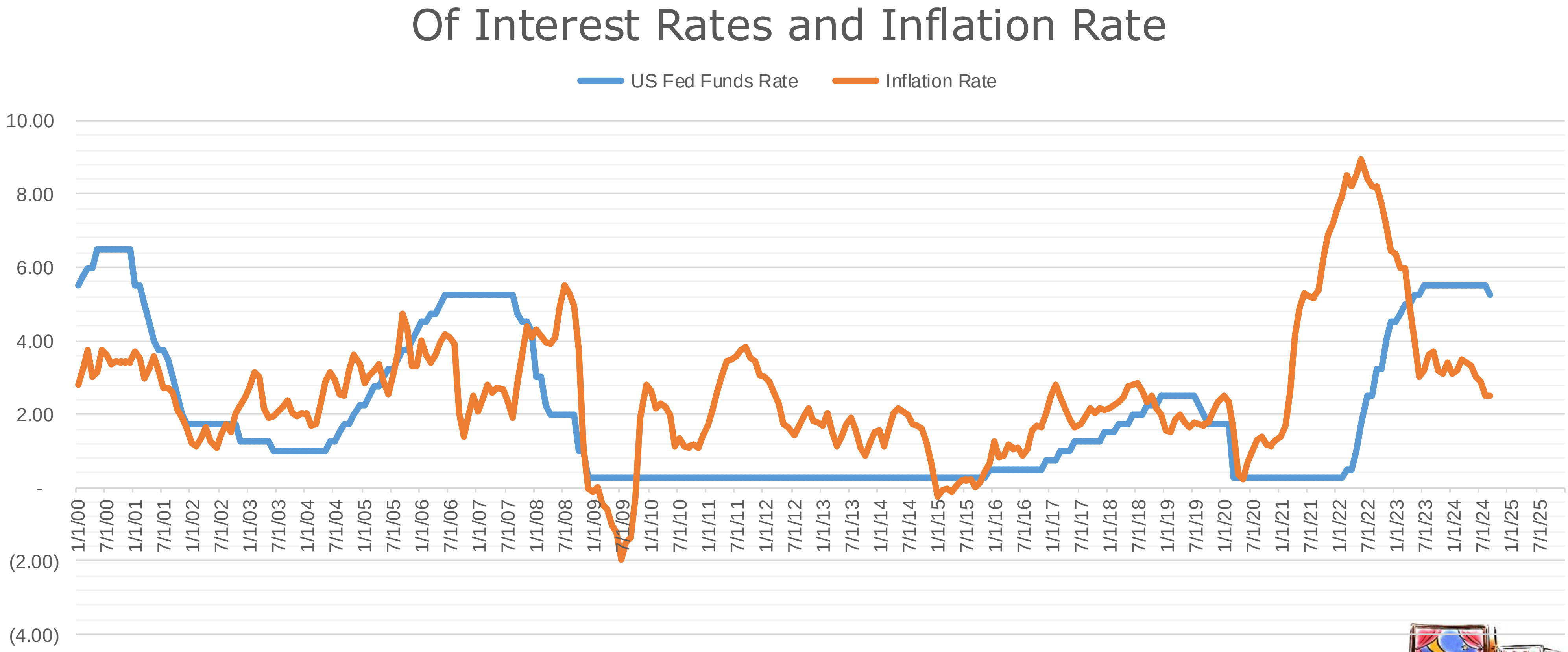
External

- US Fed signaled the start of its easing cycle.
- Geopolitical climate has become more volatile and uncertain, with increased tensions, and political instability in many regions.

Domestic

- PH economic recovery continues amid sticky inflation.
- BSP cuts ahead of the US Fed as inflation peaks.
- Upside risks to inflation remains.

US-Inflation Outlook
Fed Signal start of its easing cycle.

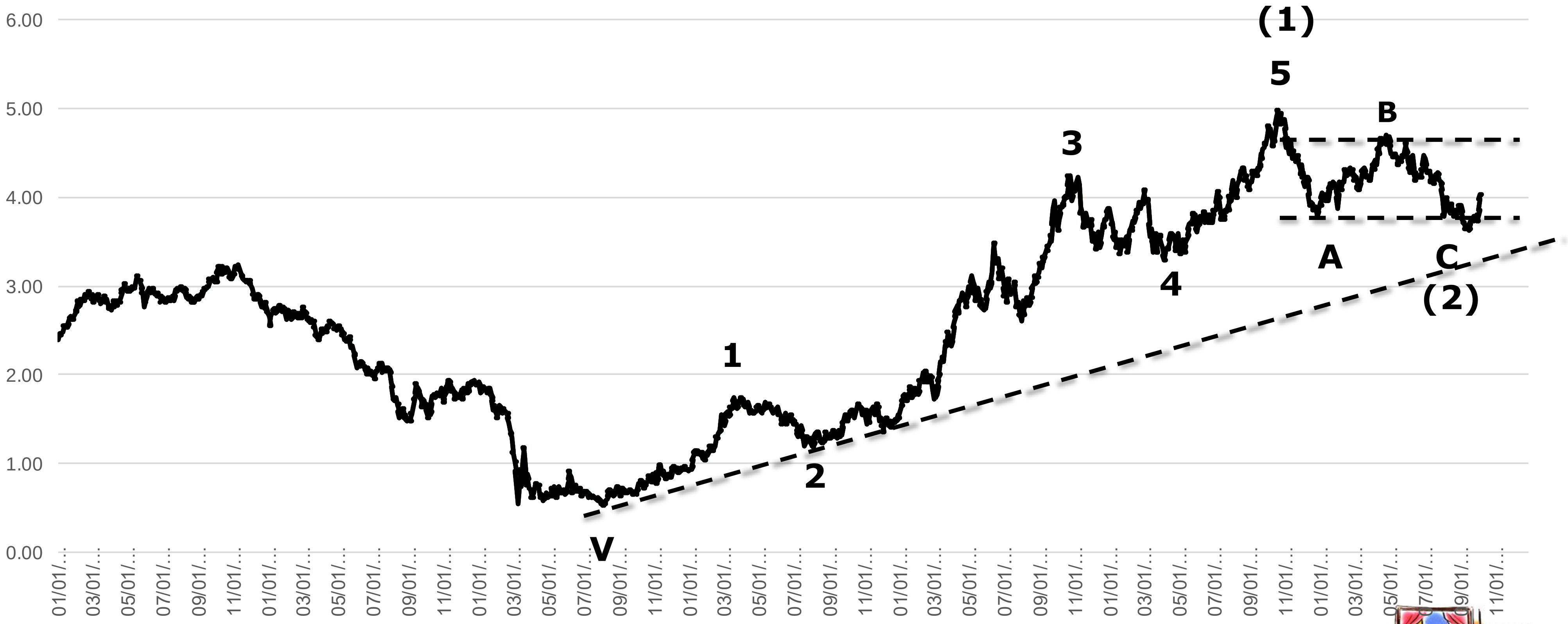


Source: US Fed and ChartPoints

We’ve only just begun..
Fed Signal start of its easing cycle.

The Fed surprised many investors with a jumbo rate cut this week. It won’t get much easier to predict the next move

US-Interest Rate Outlook (10Y-USTs)
To range within the 3.500% – 4.000% levels



Source: Bloomberg LP and ChartPoints

Scenario Analysis:2024 (USA)

	GDP	CPI	Fed Funds	10Y UST	USD/JPY
Good	2.80%	2.50%	5.00%	4.50%	145.00
Base Case	2.50%	3.20%	5.50%	5.00%	150.00
Bad	2.00%	3.80%	6.00%	5.50%	158.00

Source: FOCUSECONOMICS **and ChartPoints**

Issues to watch

1. Ramifications of heightened geopolitical tensions.

2. Potential implications of a Trump 2.0.

3. Actions U.S. Fed on sticky inflation

Disruptions

Geopolitics, Climate change and Trump 2.0

Escalation

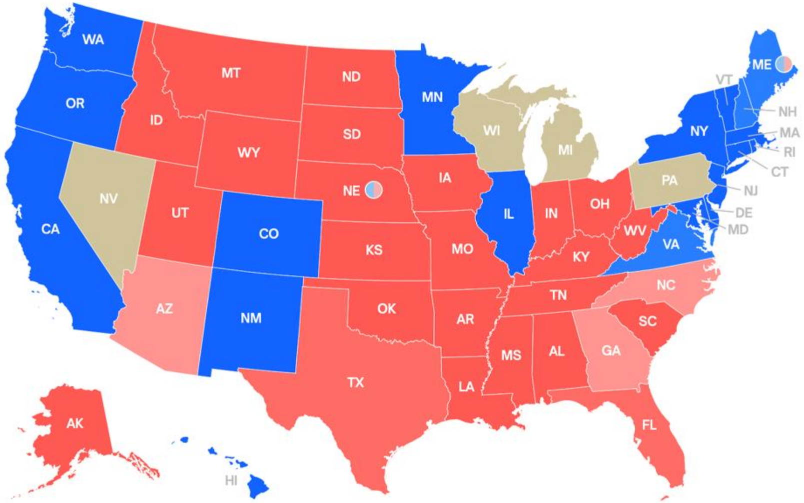
Geopolitical volatility remains a concern, with tensions affecting global economic stability.

Two Different Futures: War of Words

Policy Area	Donald Trump	Kamala Harris
Economy	• Implement a 10% tariff on all non-domestic goods. • Supports tax cuts for individuals and businesses, aiming to stimulate economic growth[1]	• Proposes higher taxes on the wealthy and corporations to fund social programs and reduce income inequality • Ban price gouging by food corporation
Immigration	• Largest domestic deportation operation in US history • Complete the border wall	• Support for comprehensive immigration • Pathway to citizenship for undocumented immigrants
Healthcare	• Repeal and replace the Affordable Care Act • Reduce prescription drug prices	• Expand access to affordable healthcare • Lower drug costs and eliminate junk fees
Foreign Policy	• End the Russia-Ukraine war within 24 hours • Tough stance on China, including tariffs	• Strengthen alliances and re-engage with international organizations • Promote human rights and democracy globally
Climate Change	• Prioritizes energy independence through fossil fuels and has been critical of international climate agreements • Roll back environmental regulations to boost energy production • Withdraw from international climate agreements	• Invest in renewable energy and green infrastructure • Rejoin the Paris Agreement and commit to net-zero emissions by 2050
Labor	• Deregulate to encourage business growth • Promote job creation through tax incentives	• Support labor unions and workers' rights • Increase minimum wage and provide paid family leave

Tight Race

Unpredictable 2024 presidential race is entering the final stretch.



Scenario Analysis:2025 (USA)

	GDP	CPI	Fed Funds	10Y UST	USD/JPY
Good	2.20%	2.20%	3.50%	3.60%	135.00
Base Case	2.00%	2.40%	4.00%	3.75%	137.00
Bad	1.70%	3.00%	4.50%	4.00%	140.00

Source: FOCUSECONOMICS **and ChartPoints**

Issues to watch

1. **Ramifications of heightened geopolitical tensions.**
2. **Potential implications of a Trump 2.0.**
3. **Gradual easing by U.S. Fed**

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ECONOMIC PICTURE

PH- At a glance
Still Shining through..

POPULATION **114 mn** **(as of 2023)**	**Underemployment Rate** **11.20%** **(as of Aug)**	**GDP** **6.30%** **(as of 2Q24)**	**GDP-SERVICES** **6.80%** **(as of 2Q24)**	**Inflation Rate** **1.90%** **(as of Sept.)**
Average Age **25.30** **(as of 2020)**	**Unemployment Rate** **4.00%** **(as of Aug)**	**GDP- 2023 FY Growth Rate** **5.60%** **(as of 2023)**	**GDP-INDUSTRIAL** **7.70%** **(as of 2Q24)**	**Policy Rate** **6.25%** **(as of Sept)**
Literacy Rate **96.50** **(as of 2019)**	**Labor Force Participation** **64.80%** **(as of Aug)**	**Per Capita** **$3,848** **(as of 2023)**	**GDP-AGRICULTURE** **-2.30%** **(as of 2Q24)**	**Forex** **57.02** **(as of 09 Oct..)**

Source: BSP, PSA and ChartPoints

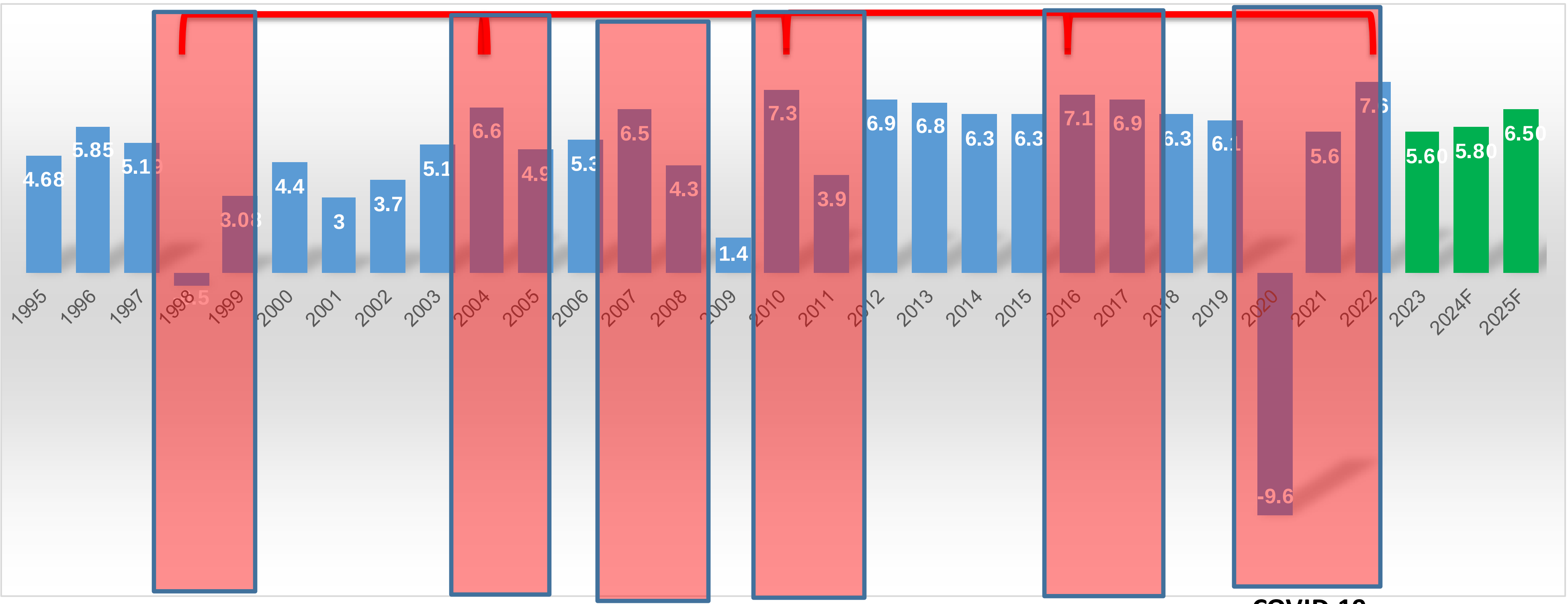
PH, still the fastest growing in the ASEAN in 2024

Indicator	2023	1Q24	2Q24	3Q24F	4Q24F	2024F	2025F
Indonesia	5.00	5.10	5.10	4.90	5.00	4.90	5.00
Malaysia	3.80	4.30	5.80	3.30	3.40	4.40	4.50
Philippines	5.50	5.80	6.30	5.70	6.10	5.80	6.50
Singapore	1.00	2.70	2.90	2.10	2.80	2.30	2.60
Thailand	1.90	1.60	2.30	1.50	3.80	3.50	3.40
Vietnam	4.90	5.70	6.90	5.50	6.70	5.90	6.40

Source: FOCUSECONOMICS, PSA **and ChartPoints**
Note: *Forecast

PH GDP Growth Rate
From 1997 – 2023 (Annual)

The last four peaks were Presidential Election years.



Asian Financial Crisis (AFC) 1997

SARS Outbreak 2003-2004

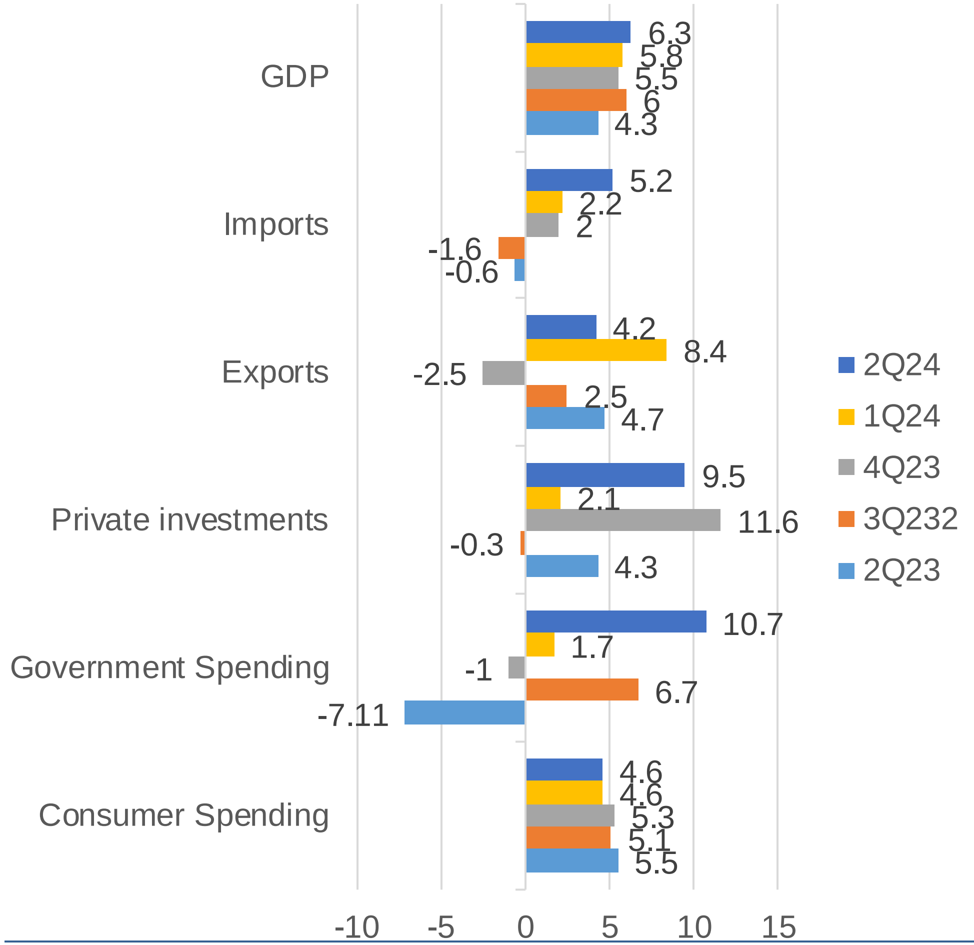
Global Financial Crisis (GFC) 2007-2008

COVID-19 Pandemic 2020

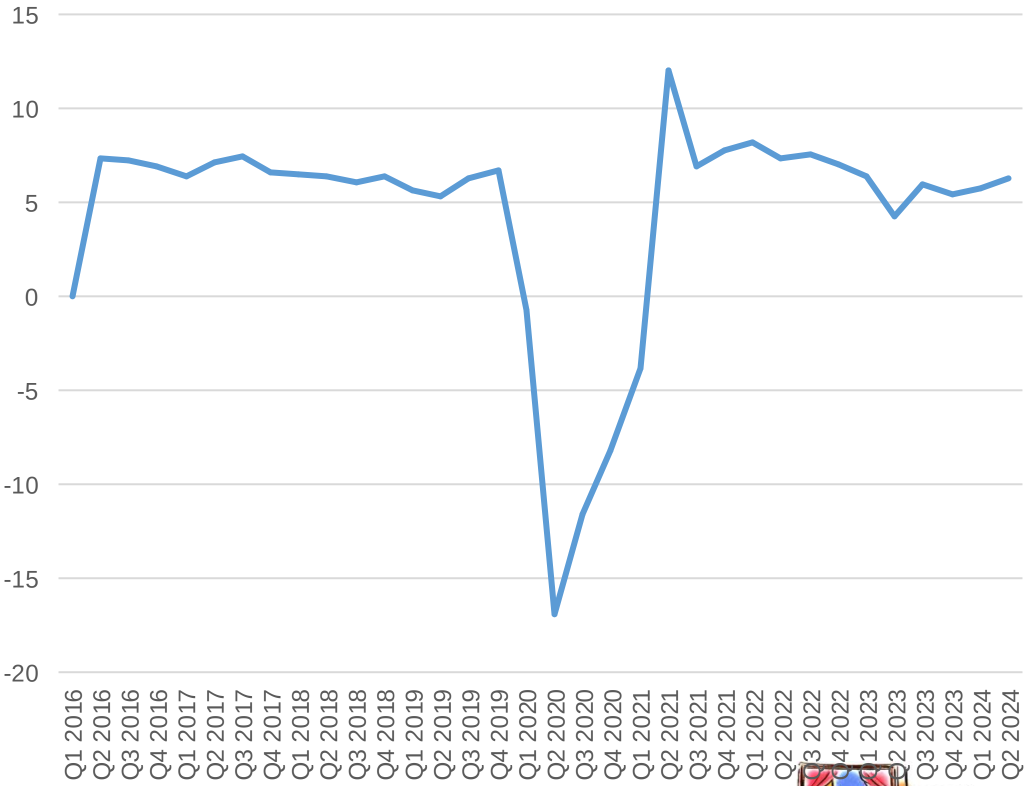
Source: PSA, FocusEconomics and ChartPoints

Slowly but surely

BSP not pressured to cut rates as economy grows.



Real GDP (% yoy)



Source: PSA

Resilient Growth

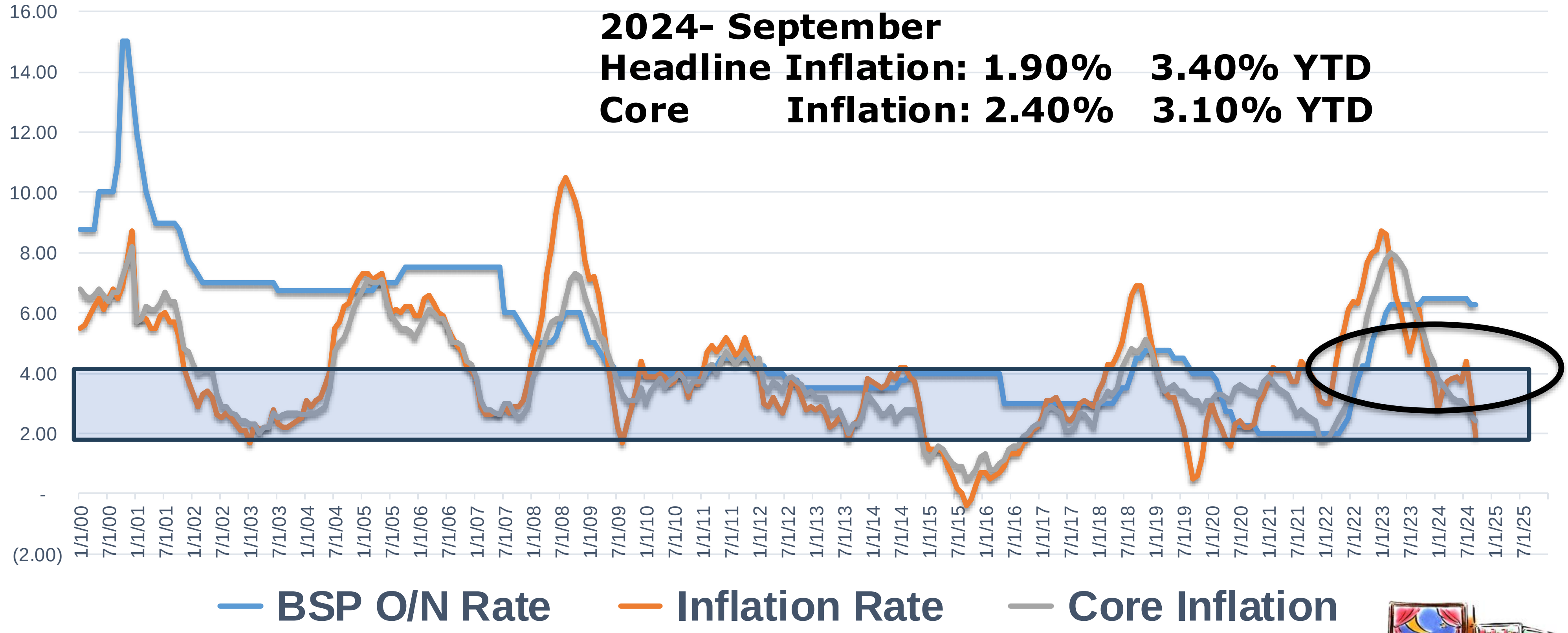
Although still need more signs full recovery underway.

	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24	2023	2024F
GDP	6.4	4.3	6.00	5.50	5.80	6.30	5.60	5.80
Demand Side								
Consumption	6.40	5.50	5.50	5.30	4.60	4.60	5.60	4.60
Government	6.20	-7.10	6.70	-1.00	1.70	10.7	0.40	3.40
Investment	12.80	0.70	-0.30	11.60	2.10	9.50	5.40	2.40
Export	1.10	4.70	2.50	-2.50	8.40	4.20	1.30	7.60
Import	4.20	-0.60	-1.60	2.00	2.20	5.20	1.60	2.30
Supply Side								
Agriculture	2.20	0.20	0.90	1.30	0.50	-2.30	1.20	1.60
Industry	4.10	4.20	5.50	3.20	5.10	7.70	3.60	3.50
Mining	-2.10	-2.80	5.00	10.30	0.40	4.80	2.00	0.50
Manufacturing	2.20	1.00	1.90	0.50	4.50	3.60	1.30	5.30
Utilities	6.90	4.60	6.30	5.50	6.30	9.10	5.80	5.70
Construction	11.00	3.50	14.50	8.40	7.00	16.0	8.80	6.50
Services	8.30	6.00	6.80	7.40	7.40	6.80	7.20	7.00

Source: FOCUSECONOMICS, PSA **and ChartPoints**

The Most Expensive Vehicle to Drive in the Philippines..

PH-Inflation Outlook
August data opens door to easing cycle.



Rice prices still high
Non-monetary measures kicking in.

Rice Inflation (8.9% CPI weight)

Month	2019	2020	2021	2022	2023	2024
January	6.20%	-9.30%	0.30%	1.00%	2.70%	22.60%
February	4.50%	-9.10%	0.70%	1.60%	2.20%	23.70%
March	2.20%	-8.40%	1.00%	1.60%	2.60%	24.40%
April	0.50%	-5.70%	-0.80%	1.60%	2.90%	23.90%
May	-1.10%	-3.90%	-1.40%	1.50%	3.40%	23.00%
June	-2.40%	-2.80%	-2.10%	2.00%	3.60%	22.50%
July	-4.20%	-1.60%	-2.20%	2.10%	4.20%	20.90%
August	-7.10%	-1.30%	-1.50%	2.20%	8.70%	14.70%
Septembe	-11.80%	-0.70%	-1.30%	2.40%	17.90%	
October	-13.30%	-0.50%	-0.40%	2.50%	13.20%	
Novembe	-11.20%	-0.30%	0.00%	3.10%	15.80%	
December	-9.60%	0.10%	-0.10%	3.40%	19.60%	
Average	-3.94%	-3.63%	-0.65%	2.08%	8.07%	

Meats Inflation (4.8% CPI weight)

Month	2019	2020	2021	2022	2023	2024
January	4.80%	5.70%	14.30%	4.70%	6.80%	-1.80%
February	3.70%	4.60%	19.50%	1.20%	6.20%	0.70%
March	3.80%	3.90%	20.20%	3.00%	3.60%	2.00%
April	3.70%	3.30%	21.20%	4.70%	3.20%	1.00%
May	3.20%	1.90%	21.70%	6.20%	2.10%	1.60%
June	3.30%	2.90%	18.70%	9.40%	-1.40%	3.10%
July	4.10%	3.30%	15.80%	11.50%	-3.70%	4.80%
August	2.80%	2.40%	15.60%	10.80%	-1.50%	4.00%
Septembe	3.10%	0.80%	15.10%	10.00%	0.20%	
October	4.20%	2.00%	9.40%	13.10%	-0.10%	
Novembe	6.00%	3.90%	9.40%	9.20%	-0.50%	
December	5.70%	6.10%	10.10%	7.50%	-0.80%	
Average	4.03%	3.40%	15.92%	7.61%	1.18%	

Fish Inflation (4.2% CPI weight)

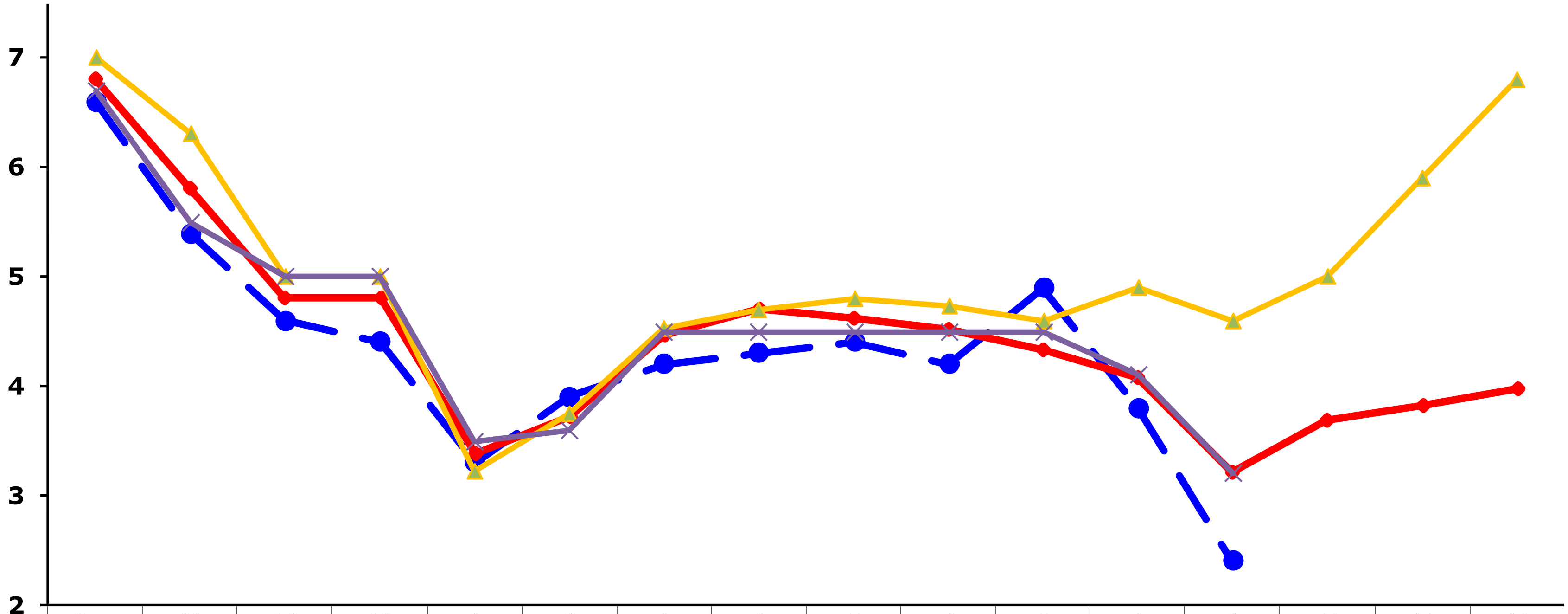
Month	2019	2020	2021	2022	2023	2024
January	7.80%	9.80%	2.50%	6.40%	6.40%	0.00%
February	7.00%	9.80%	4.30%	2.70%	10.00%	0.07%
March	3.80%	12.30%	3.60%	4.30%	9.80%	-0.90%
April	2.10%	11.30%	5.10%	4.90%	6.00%	0.40%
May	3.30%	9.40%	6.60%	6.00%	3.90%	0.00%
June	2.90%	6.90%	8.00%	6.50%	5.60%	-1.40%
July	2.60%	4.60%	8.50%	9.70%	3.30%	-0.80%
August	1.60%	2.50%	12.30%	6.60%	6.50%	-3.10%
Septembe	-0.30%	3.10%	9.80%	9.20%	5.60%	
October	-1.10%	4.40%	8.40%	9.30%	5.30%	
Novembe	1.10%	6.10%	6.90%	8.20%	4.40%	
December	7.90%	2.20%	6.50%	5.70%	4.30%	
Average	3.23%	6.87%	6.88%	6.63%	5.93%	

Source: PSA, ChartPoints

Vegetables and tubers (2.8% CPI weight)

Month	2019	2020	2021	2022	2023	2024
January	3.70%	14.90%	26.30%	-10.80%	37.80%	-20.80%
February	3.10%	14.00%	17.70%	-8.40%	33.10%	-11.00%
March	2.60%	13.40%	7.50%	-0.10%	20.00%	-2.50%
April	4.60%	16.90%	-5.20%	9.20%	10.00%	4.30%
May	11.60%	11.60%	-9.30%	15.20%	12.60%	2.70%
June	10.50%	4.40%	-3.30%	14.40%	12.70%	7.20%
July	1.80%	-0.20%	7.90%	5.60%	21.80%	6.10%
August	5.00%	-0.70%	21.10%	-2.70%	31.90%	-4.30%
Septembe	-8.50%	-2.50%	17.50%	3.50%	29.60%	
October	0.30%	1.40%	10.10%	16.00%	11.90%	
Novembe	0.40%	23.40%	-7.90%	25.80%	-2.00%	
December	12.40%	24.90%	-15.10%	32.40%	-9.20%	
Average	3.96%	10.13%	5.61%	8.34%	17.52%	

PH-Inflation Outlook
Non-Monetary measures kicking in to stabilize inflation.



	Sept	10	11	12	1	2	3	4	5	6	7	8	9	10	11	12
Actual September -Present	6.1	4.9	4.1	3.9	2.8	3.4	3.7	3.8	3.9	3.7	4.4	3.3	1.9			
Baseline	6.30	5.30	4.30	4.30	2.88	3.23	3.96	4.2	4.12	4.03	3.84	3.6	2.7	3.2	3.3	3.5
Risk-Adjusted	6.50	5.80	4.50	4.50	2.73	3.25	4.03	4.2	4.3	4.23	4.1	4.4	4.1	4.5	5.4	6.3
Consensus Forecast	6.2	5	4.5	4.5	3.00	3.10	4.00	4.00	4.00	4.00	4.00	3.60	2.70			

Source: PSA, CEIC, ChartPoints

Scenario Analysis:2024 (PH)

	GDP	CPI	BSP O/N	USD/PHP
Good	6.10%	4.50%	6.00%	54.00
Base Case	5.80%	5.60%	6.50%	55.50
Bad	5.30%	5.80%	7.00%	58.00

Source: FOCUSECONOMICS **and ChartPoints**

Issues to watch

1. Ramifications of heightened geopolitical tensions.

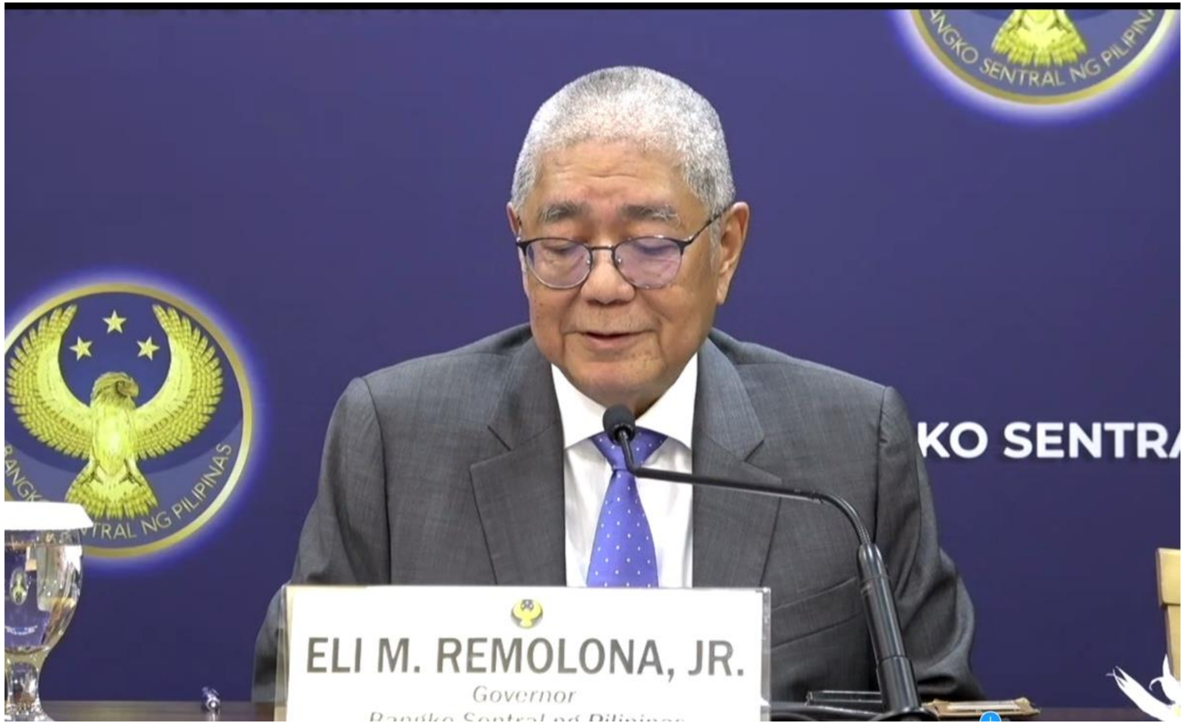
2. Potential implications of a Trump 2.0.

3. Anticipated actions by the U.S. Fed affecting our local central bank, interest rates, and currency volatility.

4. Climate Change dynamics surrounding commodities, particularly those related to food.

It’s another Cut (but RRR)

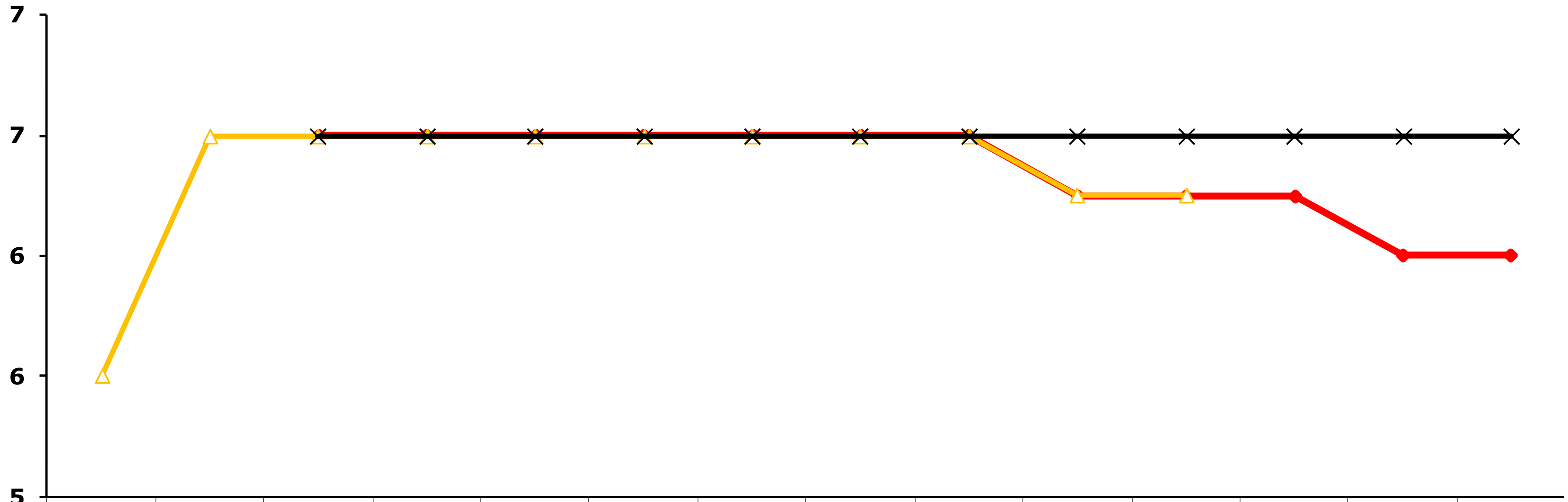
Anchored inflation, more cuts seen.



The Philippine central bank cuts its key interest rate at a 17-year high for a while after Governor Eli Remolona signaled policymakers may ease further this year. RRR cut of 250bps effective 25 October 2024.

PH-Monetary Policy Outlook

Upside risks to inflation remains.



	2022	2023	1	2	3	4	5	6	7	8	9	10	11	12
Baseline			6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.25	6.25	6.25	6.00	6.00
Actual	5.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.25	6.25			
Risk-Adjusted			6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50

Source: PSA, Bloomberg LP, ChartPoints,

Forecast Summary

Indicator	2022	2023	1Q	2Q	3QF	4QF	2024F	2025F
GDP	7.60	5.60	5.80	6.30	5.40	5.80	5.80	6.50
CPI	6.50	6.00	3.40	3.70	3.60	3.30	3.50	3.60
BSP O/N	5.50	6.50	6.50	6.50	6.25	6.00	6.00	5.00
USD/PHP	55.750	55.370	56.240	58.610	56.400	56.500	56.500	56.90
PSEi	6,556.39	6,450.04	6,903.50	6,411.91	6,500.00	7,100.00	7,100.00	8,500.00

Source: FocusEconomics, ChartPoints and EMBM

Scenario Analysis:2025 (PH)

	GDP	CPI	BSP O/N	USD/PHP
Good	6.50%	3.00%	4.50%	55.50
Base Case	6.30%	3.50%	5.00%	56.90
Bad	6.00%	3.90%	5.50%	57.50

Source: FOCUSECONOMICS **and ChartPoints**

Issues to watch

1. Ramifications of heightened geopolitical tensions.

2. Potential implications of a Trump 2.0.

3. Continued Public spending and Non-monetary measures to fight inflation.

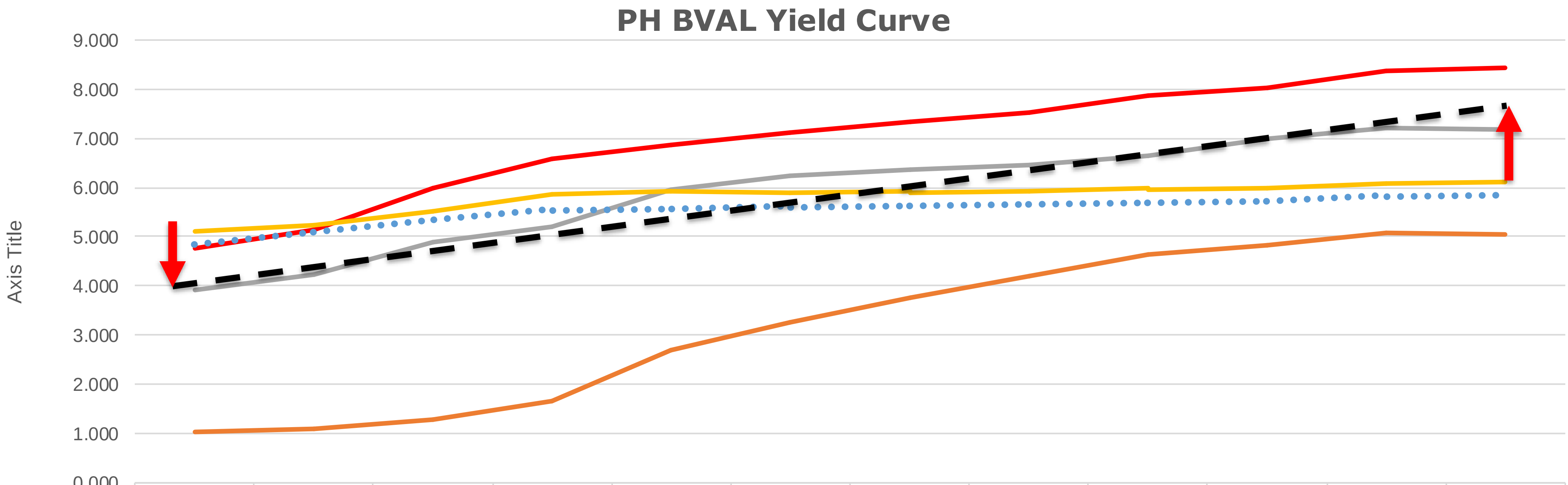
4. Climate Change dynamics surrounding commodities, particularly those related to food.

Forecast Summary

Indicator	2023	2024F	1Q	2Q	3QF	4QF	2025F	2026F
GDP	5.60	5.80	6.30	6.60	6.40	6.50	6.50	6.30
CPI	6.00	3.50	3.20	3.70	3.60	3.80	3.60	3.70
BSP O/N	6.50	6.00	5.750	5.500	5.250	5.500	5.000	4.500
USD/PHP	55.370	56.500	56.50	56.900	56.600	57.500	56.900	55.000
PSEi	6,450.04	7,100.00	7,350.00	7,500.00	7,850.00	8,500.00	8,500.00	9,500.00

Source: FocusEconomics, ChartPoints and EMBM

PH-Yield Curve - Flat
Upside risks to inflation remains

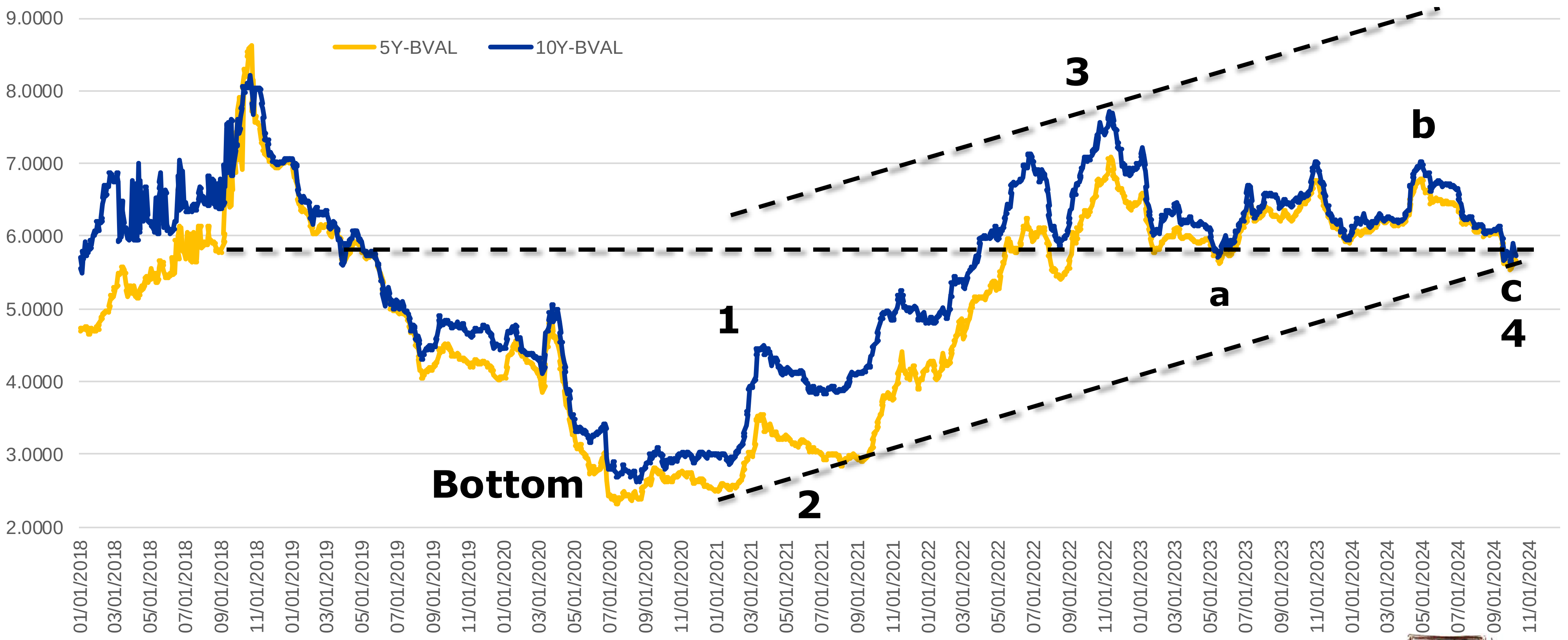


	1M	3M	6M	1Y	2Y	3Y	4Y	5Y	7Y	10Y	20Y	25Y
2018	4.779	5.154	5.974	6.574	6.860	7.109	7.329	7.538	7.879	8.044	8.364	8.445
2021	1.015	1.095	1.269	1.660	2.678	3.251	3.769	4.197	4.631	4.822	5.091	5.084
2022	3.919	4.227	4.900	5.210	5.971	6.246	6.376	6.470	6.659	6.986	7.223	7.221
2023	5.1217	5.2438	5.5178	5.8674	5.914	5.9049	5.9144	5.9386	5.9892	6.0012	6.0821	6.1241
Last	4.849	5.105	5.348	5.560	5.576	5.614	5.639	5.657	5.692	5.737	5.861	5.862

Source: Bloomberg and ChartPoints

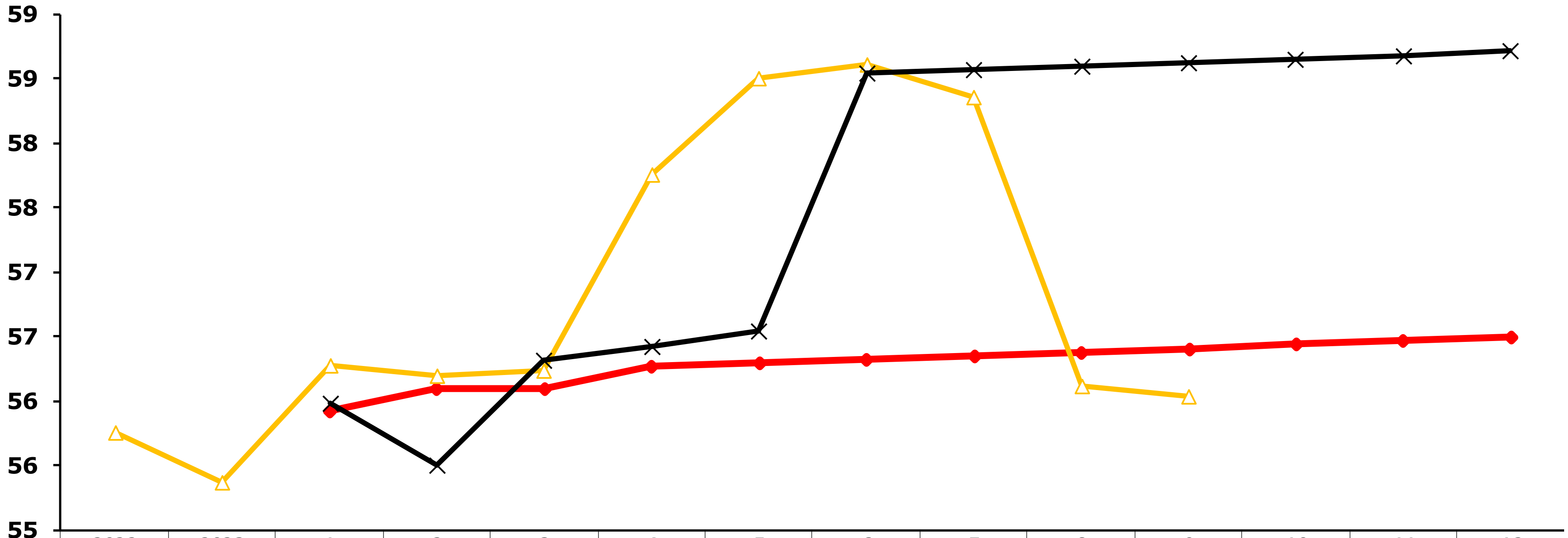
PH: Interest Rate Outlook

Domestic long-term rates to remain elevated as upside risks to inflation remains.



Source: Bloomberg LP and ChartPoints

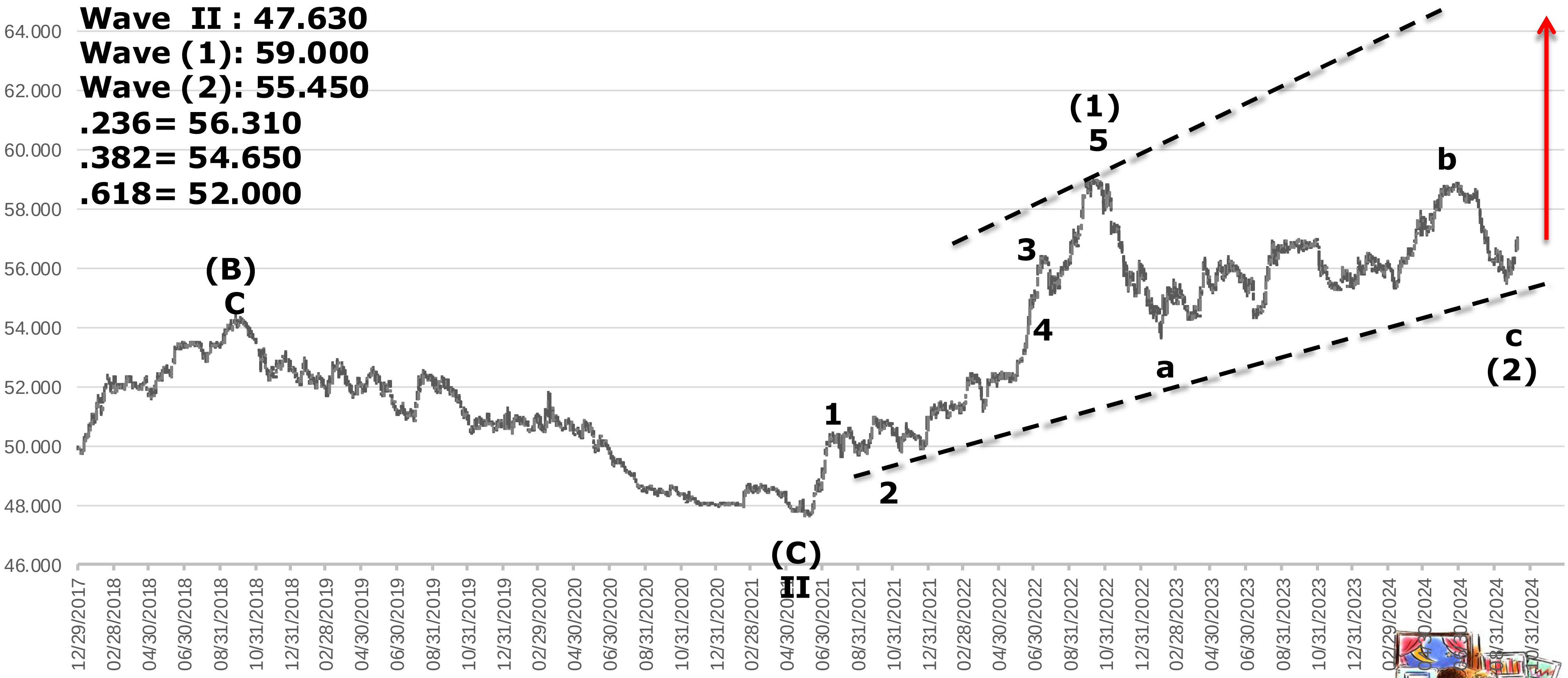
PH-Currency Outlook
Fed cut bets pushing peso stronger



	2022	2023	1	2	3	4	5	6	7	8	9	10	11	12
Baseline			55.922	56.090	56.090	56.268	56.296	56.324	56.353	56.381	56.409	56.437	56.465	56.494
2022 - Present	55.755	55.375	56.275	56.200	56.240	57.760	58.510	58.610	58.365	56.111	56.030			
Risk-Adjusted			55.978	55.500	56.312	56.425	56.538	58.539	58.569	58.598	58.627	58.656	58.686	58.715

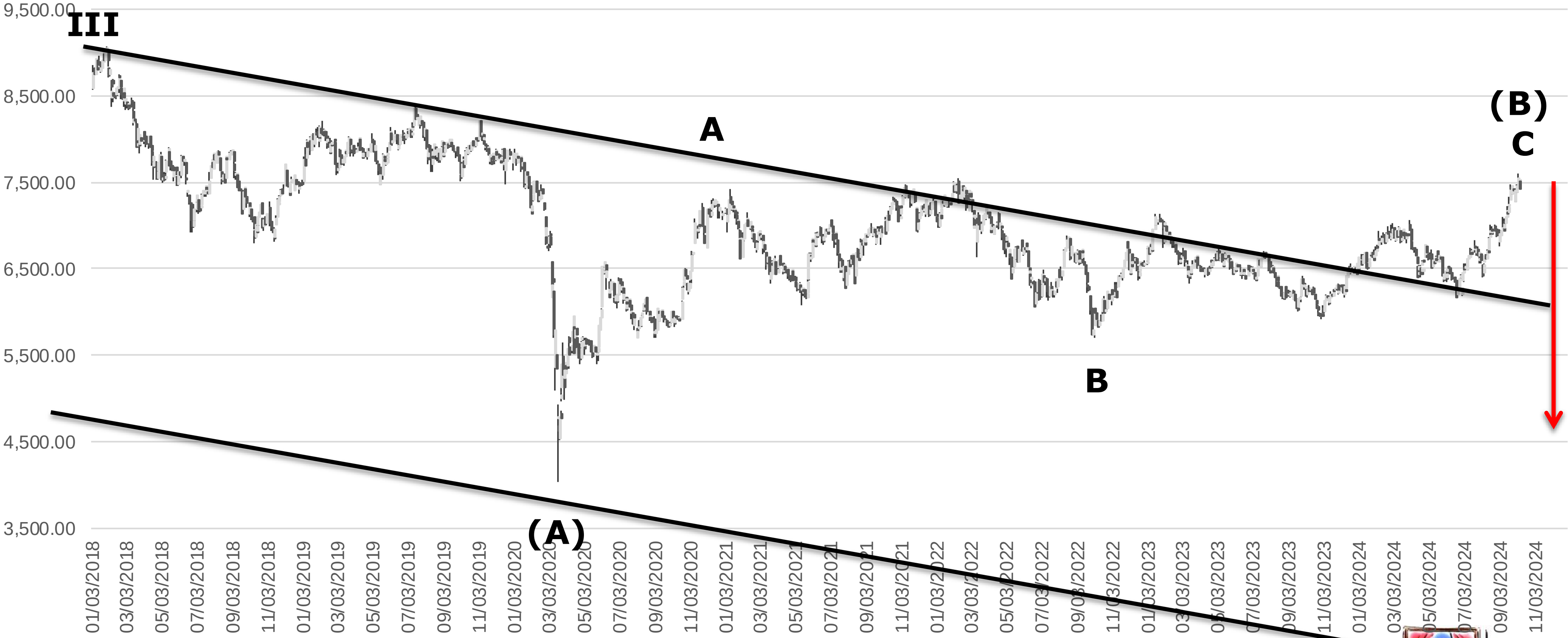
Source: Bloomberg LP, ChartPoints

PH-Currency Outlook
Greenback quite oversold.



Source: Bloomberg LP and ChartPoints

PH-Equity Outlook
Rate cut bets fueling rally, cap at 7,500.



Source: Bloomberg LP and ChartPoints

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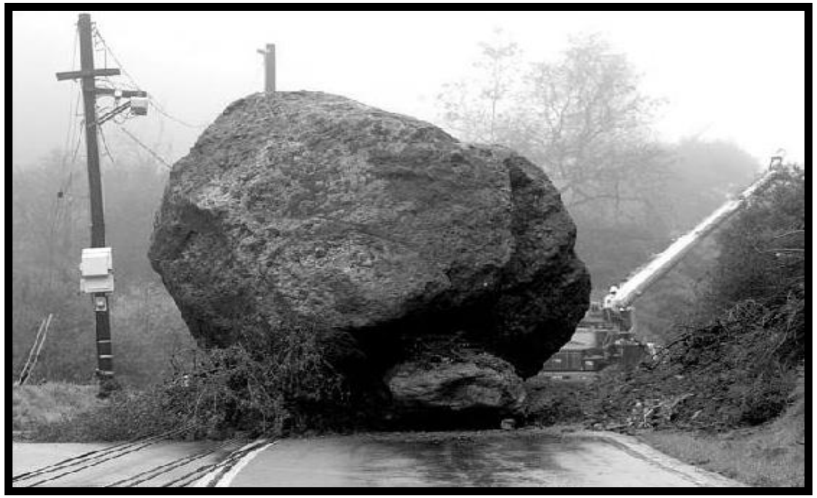
RISKS AND CHALLENGES



Cause for Concern

Companies and countries still face supply chain challenges, managing risk, control the cost side of the business and improve the value they provide.

Inflation and looming recession

Demand Volatility

Supply Disruptions

Fraud & Corruption

Geopolitical Tensions

Talent Availability & Leadership issues

Sustainability & climate hazards

Reverse globalization & wars

Reasons for optimism

Government initiatives aimed to reduce the impact of external factors.

Passage of the 2024 budget

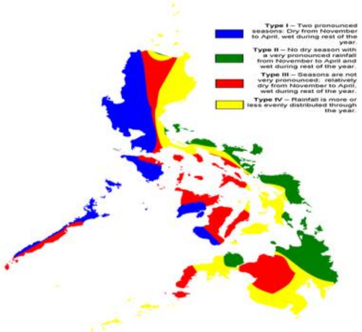
Fiscal Consolidation/ Responsibility

Favorable demographics

Ample Buffers favorable economic environment

Build, Build, More Improve infrastructure

Strong credit rating and sound financial system



Philippine Development Plan
Accelerate economic/social recovery and resilient prosperity

Summary

Global growth challenged by sticky inflation.

Philippines is in better shape to face the difficulties ahead but not immune to global risk.

Disruptions are opportunities to invest.

What now?

Ride the next wave of disruption

- Appreciate our resources…
- Know the Risks Ahead…(Bumpy ride)
- Keep Investing (look for bargains)
- Pay the Right Taxes
- Spend More (But wisely)
- Pray… Harder

The wind never blows to where the sailors want to.

The sailor adjusts himself to the winds accordingly.

Any questions?
Thank you for your time

Jonathan “Jonas” L. Ravelas, CTA
Senior Advisor at Reyes Tacandong & Co.

is a prominent private analyst in the Philippines. Known for his extensive expertise in the country’s economic landscape, he is highly sought after as a speaker and commentator in the Philippine media.

Currently, he serves as Managing Director at eManagement for Business and Marketing Services and Lead Independent director of DITO CME and PH Resorts, bringing over 30 years of experience in financial markets. His previous roles include FVP-Chief Market Strategist at BDO Unibank (2002-2022) and Equitable PCI Bank (1998-2002), where he provided critical analysis on financial markets and macroeconomic trends.

Jonas' diverse background spans roles as a strategist, analyst, equities dealer, and portfolio manager in both money management and institutional equity brokerage, with stints at DBS Securities and ACE Securities. His expertise in trading strategies, corporate governance, forecasting, and investments is widely recognized.

FocusEconomics, a Barcelona based company that provides economic forecast reports forecast reports has ranked him as the #1 Interest Rate and Fiscal Balance forecaster for the Philippines in 2023, #2 Inflation forecaster for the Philippines in 2023, #2 overall forecaster for the Philippines in 2021, and #1 Forex Forecaster in 2018. In 2015, he was the #1 Current Account forecaster for the Philippines.

Mr. Ravelas contributes to prestigious publications like the Asian Wall Street Journal, South China Morning Post and frequently comments on economic and financial markets on ANC, Bloomberg, and other online media. He is also a lecturer in Ateneo BAP’s treasury certification program and at the FINEX Acadamy. He is currently the executive director of the Society of Technical Analysts-Philippines.

Jonas holds a bachelor’s degree in Management of Financial Institutions from De La Salle University (1992) and completed the Asian Securities Executive Program at the Asian Institute of Management (1996).

At 52, Mr. Ravelas lives by the mantra, “Fortune favors the brave,” reflecting his willingness to take calculated risks and his impressive track record of achievements.

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