Philequity Corner (November 30, 2015)
By Valentino Sy

GDP – A Matter of Perspective

Last Thursday, traders and economists counted down the seconds to 10 AM – the time when the Philippines' 3Q15 GDP growth would be revealed. Coming out at 6.0%, this was a tad below consensus forecast of 6.3%, but higher than the 5% and 5.8% (adjusted) growth in 1Q15 and 2Q15, respectively.

Much ado about growth

While a below forecast number is hardly something to celebrate, investors breathed a sigh of relief as our country's growth rate returned to the 6% level. This single economic figure is so important to market participants such that disappointment over the 1Q15 GDP figure, which was way below forecast, caused the Philippine stock market's first major correction this year (see *Disappointment*, 1 June 2015).

Behind the numbers

Given that GDP is quantifiable, it is easy to get behind the numbers and figure out what makes it rise or fall. The sharp improvement in the Philippines' 3rd quarter GDP growth lies in what dragged it in the first place - government expenditure. From modest growth in the 2nd quarter of 3.9%, it accelerated to 17.4% in the 3rd quarter. According to NEDA Director-General Arsenio Balisacan, this "shows that the government is proving successful in its efforts to overcome the spending bottlenecks that hampered growth in the first semester." Domestic consumption, which accounts for 70% of our GDP, also grew by 6.3%. However, economic growth was tempered by weakness in exports and a slowdown in manufacturing. Agricultural output was also low due to the effects of El Niño.

Still among the fastest

Despite below forecast growth, Balisacan notes that the Philippines is the 3rd fastest growing Asian economy, behind only China (6.9%) and Vietnam (6.8%), with India yet to release its 3Q15 GDP growth figure. With low oil prices being a boon to us and a bane to our commodity-exporting neighbors, our country is clearly in better shape than our Asian counterparts. As for China, it is grappling with an economic slowdown while Vietnam is taking a breather from years of high inflation. Thus, even though our country is just #3, our macroeconomic environment is much more stable than even our faster growing neighbors.

Sick man to bright star

It is also important to note that the Philippines is growing at a much faster clip than it used to. In fact, from 1992-2009, from the Ramos administration to the end of GMA's term, the average annual GDP growth of the Philippines was 3.9%. Now, investors are demanding above-6% growth, a far cry from the 4% growth that we were accustomed to in the past decades. So far, average GDP growth in the current administration is 6.2%, a significant improvement over historical averages, as can be seen in the table below. Therefore, in spite of the weak growth earlier in the year, the Philippines is now growing faster. Thus, the description for the Philippines is no longer "**sick man of Asia**", but "**bright star in a dim sky**."

Average GDP growth across different administrations (1965-present)

Administration	Average GDP growth	Remarks
Marcos, pre-martial law, 1965-1972	4.9%	Roads and bridges
Marcos, martial law era, 1973-1985	3.3%	GDP contracted by more than 7% in both 1984 and 1985
Cory, 1986-1992	3.4%	EDSA Revolution, marred by coups
Ramos, 1992-1998	3.1%	Deregulation and privatization*
Erap, 1998-2000	2.3%	Political and currency crisis
GMA, 2000-2010	4.5%	Expanded VAT bill passed*
PNoy, 2010-present	6.2%	Good governance, investment grade rating, laid groundwork for PPP*

**see Chapter 5 of Opportunity of a Lifetime, Fiscal Reform in the Philippines, pages 110-126*

A table showing the Philippines' annual GDP growth starting 1965 to 2014 will be available in Philequity's website.

Bright star with a brighter tomorrow

Against a backdrop of slowing global growth, many research reports have also touted the Philippines as the bright star in Asia and emerging markets (see *Best House in a Bad Neighborhood*, 2 September 2013). Growing BPO revenues, stable OFW remittances and strong domestic consumption have insulated us from the slowdown elsewhere, while low commodity prices continue to work in our favour and keep inflation low. Balisacan echoes this optimism when he said that "the expected acceleration of growth in the last quarter of 2015 supports their optimism for continued growth in 2016." With the coming quarters expected to be better, we have a brighter tomorrow to look forward to.

A Matter of Perspective

Whenever we compare things, like GDP in this case, it is ultimately a matter of perspective as it depends on your point of comparison. For instance:

1. If you compare our GDP growth to historical averages, 6% is excellent.

2. If you compare it to government targets, it would be disappointing because it is below the previous 7-8% GDP growth target

3. If you compare it to consensus forecasts, it is also slightly negative as it missed 3Q15 expectations by 0.3%

4. If you compare it to the growth in the region, it would be the 3rd fastest, clearly among the best

5. If you compare it to global growth, it would be enviable against a backdrop of slowing global growth and even recession in some countries

Half full

Just like how one views a glass as half empty or half full, one's take on the recent GDP growth number is largely a matter of perspective. But based on our history and what is happening elsewhere in the world, it looks like the glass is more than half full. However, to maintain our upward growth trajectory, it is crucial that this current administration's good governance and pro-reform policies are continued and improved by the next government. More than being a matter of perspective, this is imperative.

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