



EAGLE WATCH

Economic Forecasts:
2015 Updates and Outlook

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Developments after 6 months

- Key Global Drivers
- GDP 1st Quarter
- GDP 2nd Quarter and full year
- Monetary Aggregates
- Fiscal Position
- Inflation and Interest Rates
- Expectations



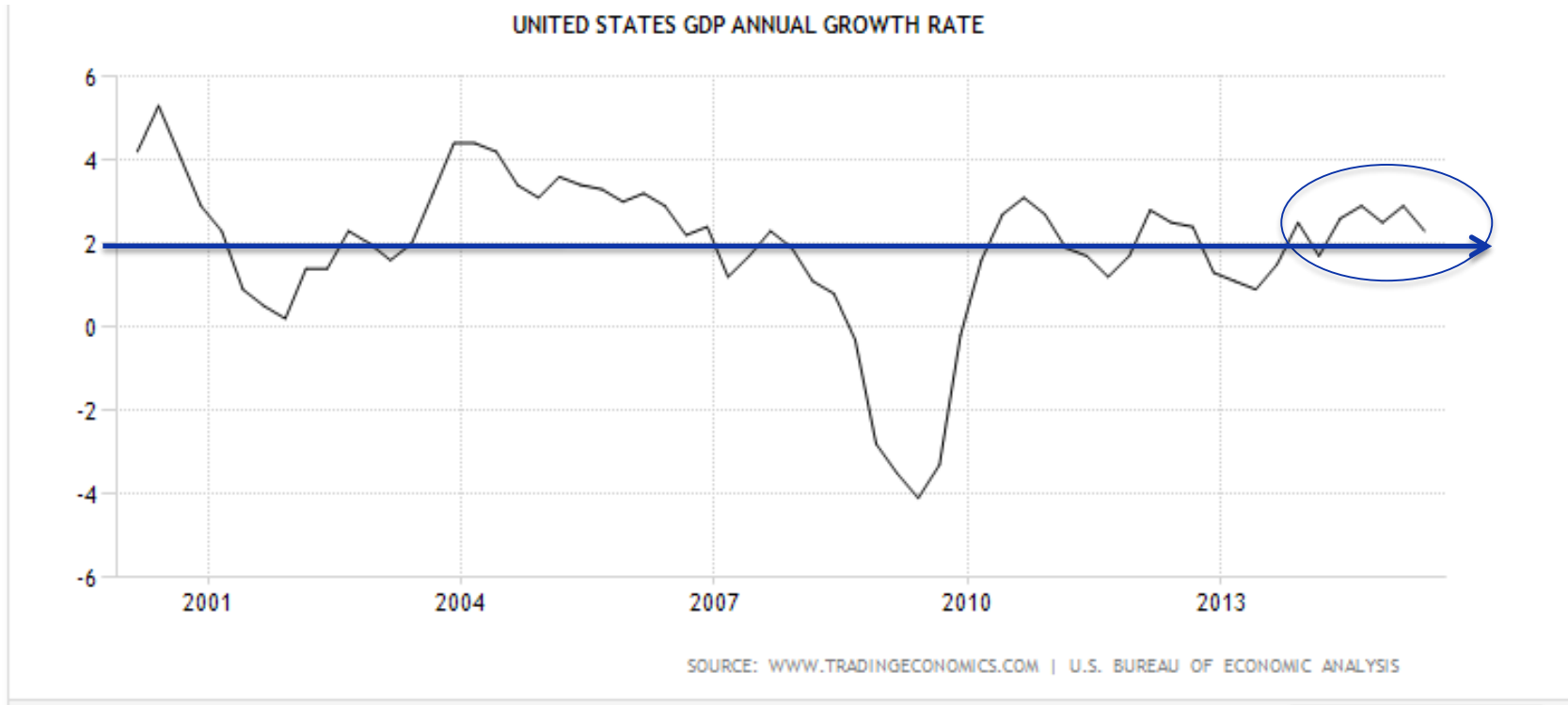
Key Markets

Equities	1 year ago	6 months ago	Current
US	+0.5%	+6.4%	+3.4%
JAPAN	-6.1%	+7.2%	+16.5%
GERMANY	-5.3%	+4.4%	+5.7%

Source: Wall Street Journal



US back to long term growth path



2Q15 completes 5 quarters of above 2% growth –
on track for a rate hike!



US rate hike?

- Likely! Fed Funds fixed at 0.25% for the last 9 years!
- Rate hike impact:
 - Commodity prices: Oil and Gold prices already reflecting downward trends
 - Currencies: depreciation expected from emerging market economies
 - BUT, secondary effect – lift US demand for external goods to counter domestic price increase



Reviewing our Forecasts...

Regular Business Cycle – NO SIGNIFICANT EFFORT FROM PUBLIC AND PRIVATE SECTOR

	2014 Q3	2014 Q4	2015 Q1	2015 Q2	2015 Q3	2015 Q4	2015
GROSS DOMESTIC PRODUCT	5.3%	6.6%	5.2%	5.4%	5.4%	5.4%	5.4%
AGRICULTURE, HUNTING, FORESTRY AND FISHING	-2.7%	4.3%	1.6%	0.0%	0.8%	1.7%	0.4%
Agriculture and forestry	-3.3%						
Fishing	-0.4%						
INDUSTRY SECTOR	7.6%	9.1%	5.5%	6.1%	5.5%	5.2%	6.1%
Mining and Quarrying	7.8%	5.9%	7.1%	8.7%	9.4%	9.7%	8.9%
Manufacturing	7.2%	7.7%	5.8%	5.5%	5.0%	4.9%	5.3%
Construction	11.9%	17.9%	4.5%	10.4%	9.5%	8.3%	9.8%
Electricity Gas and Water Supply	3.3%	5.1%	4.2%	4.0%	4.3%	4.4%	4.1%
SERVICE SECTOR	5.4%	5.6%	5.6%	5.3%	5.5%	5.7%	5.8%
Transport Communication and Storage	5.3%	4.5%	8.5%	4.7%	4.8%	5.1%	4.8%
Trade & Repair: Mot. Veh. Motorc..Pers. & HH Goods	6.1%	3.4%	5.4%	5.8%	5.7%	5.6%	5.8%
Financial Intermediation	7.7%	8.9%	4.3%	8.1%	8.4%	8.6%	8.1%
R. Estate Renting & Bus. Actvt	6.2%	9.7%	6.4%	6.0%	5.9%	6.0%	6.0%
Other Services	5.2%	11.4%	0.2%	6.1%	6.6%	6.9%	6.3%
Pub. Admin. & Defense: Compulsory Social Security	-2.9%	1.8%	5.8%	1.2%	2.2%	3.1%	1.6%



What happened to 1Q GDP?

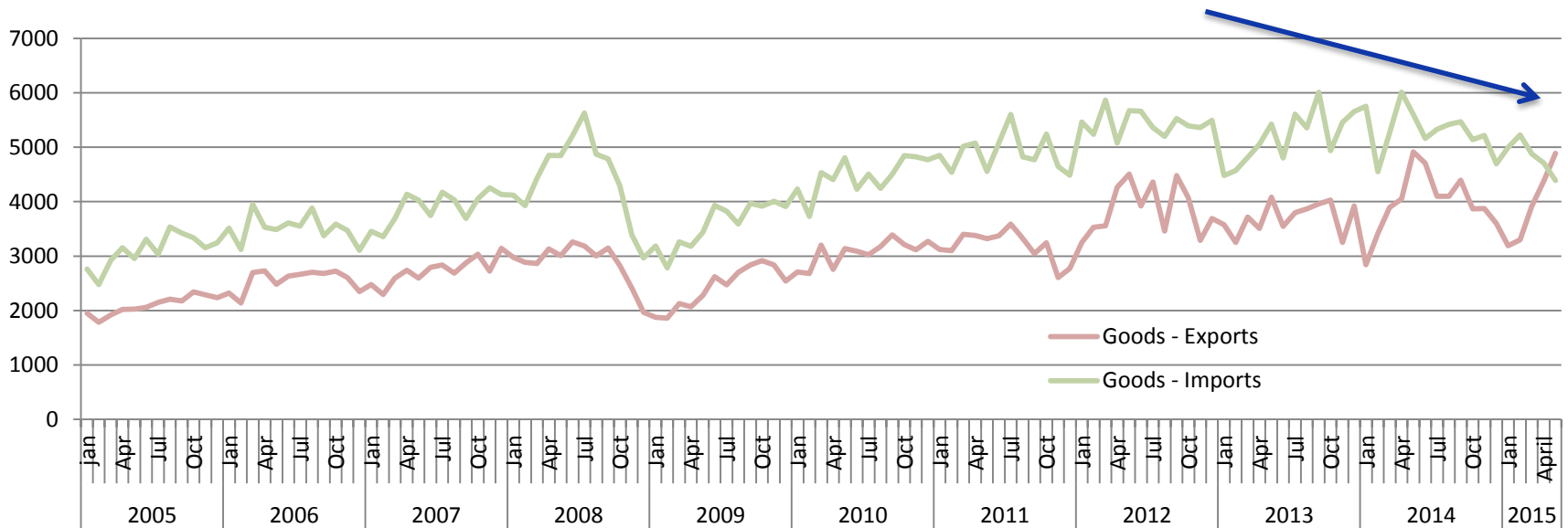
Aggregate Contribution To Growth (in Percent)	2014				2015
	Q1	Q2	Q3	Q4	Q1
1. Household Final Consumption Expenditure	4.22	3.83	3.39	3.67	3.70
2. Government Final Consumption Expenditure	0.21	0.00	(0.27)	0.73	0.52
3. Capital Formation	2.62	1.48	(0.04)	0.77	2.60
A. Fixed Capital	0.40	1.37	2.25	1.72	2.27
1. Construction	(0.09)	0.93	1.19	1.65	0.47
2. Durable Equipment	0.49	0.35	0.83	(0.01)	1.71
3. Breeding Stock And Orchard Development	(0.08)	(0.03)	0.02	0.04	0.00
4. Intellectual Property Products	0.07	0.11	0.22	0.05	0.09
B. Changes In Inventories	2.22	0.11	(2.29)	(0.95)	0.33
4. Exports	5.73	3.80	6.27	4.56	0.48
A. Exports Of Goods	5.03	4.43	4.70	4.19	0.44
B. Exports Of Services	0.70	(0.63)	1.57	0.36	0.04
5. Imports	7.46	2.16	2.60	4.20	2.30
A. Imports Of Goods	5.96	1.38	2.45	3.11	0.97
B. Imports Of Services	1.50	0.79	0.15	1.09	1.33
Gross Domestic Product	5.62	6.68	5.52	6.62	5.16

**Apart from slow conversion of government expenditures to infrastructure,
Exports and imports have fallen sharply!**



Trade Performance...

- Philippines is in the Asian electronics supply chain led by China



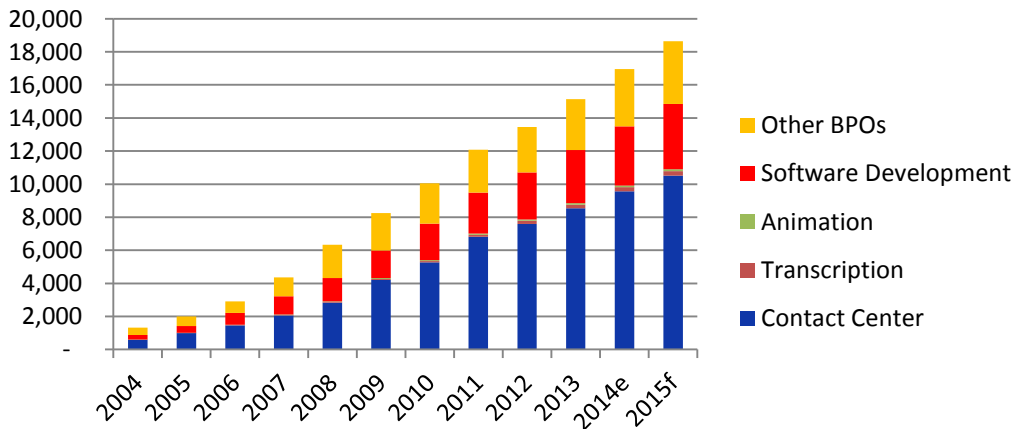
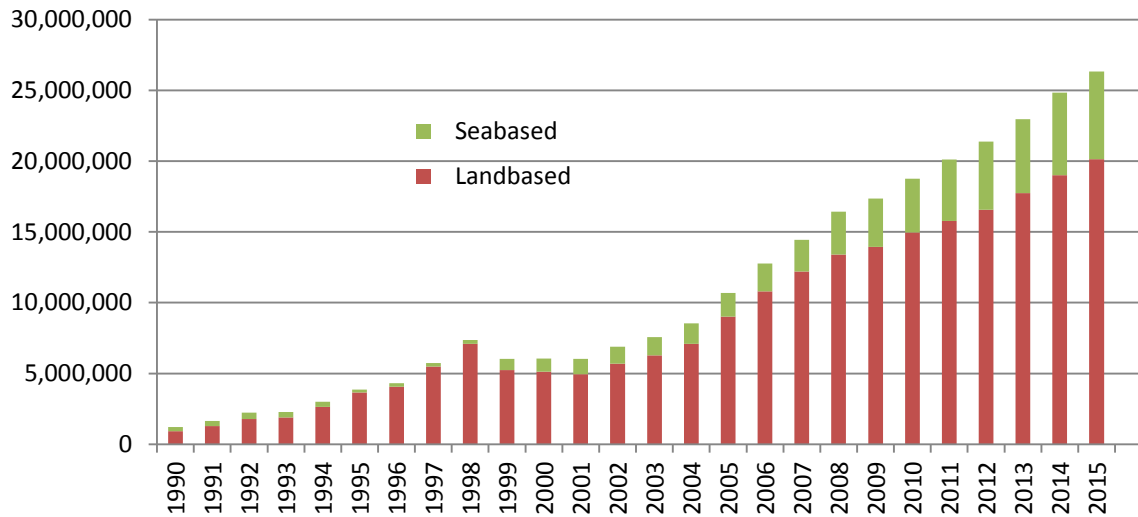


Trade Performance

- Decline in Imports – double digits in the last 4 months.
- Electronics – 27%; Raw materials and intermediate goods – 42%
- China – 16%; East Asia 41%
- Exports in decline for the year – led by electronics > **significant impact in manufacturing**



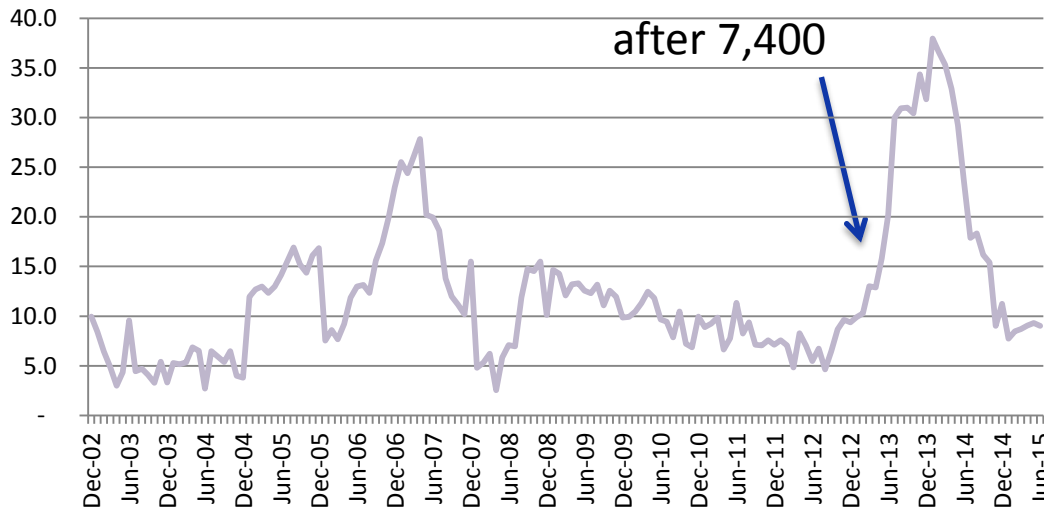
Per Capita Remittance slowing but BPO adding up



Will most likely be 2/3
Of remittances by end 2015!
Industry Target: US\$26Bn by 2016



Monetary Aggregates

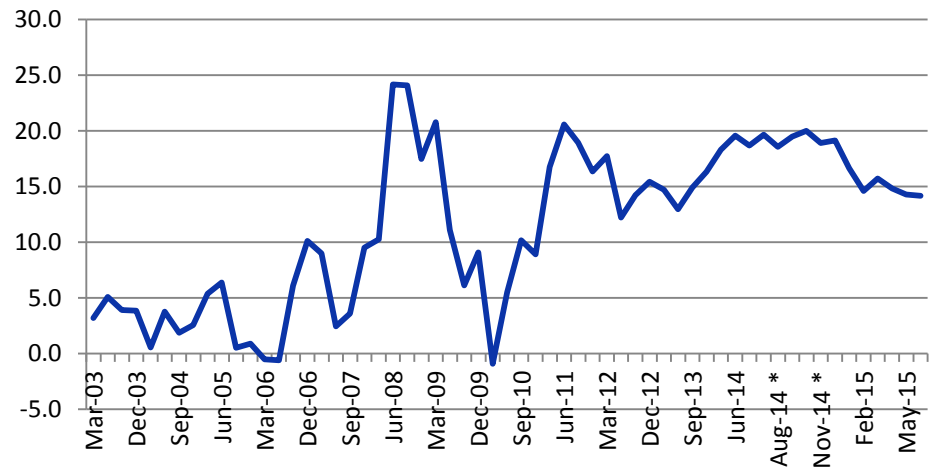


**Liquidity growth maintained
At Single digit levels**

Source: BSP

Loan growth at 15%

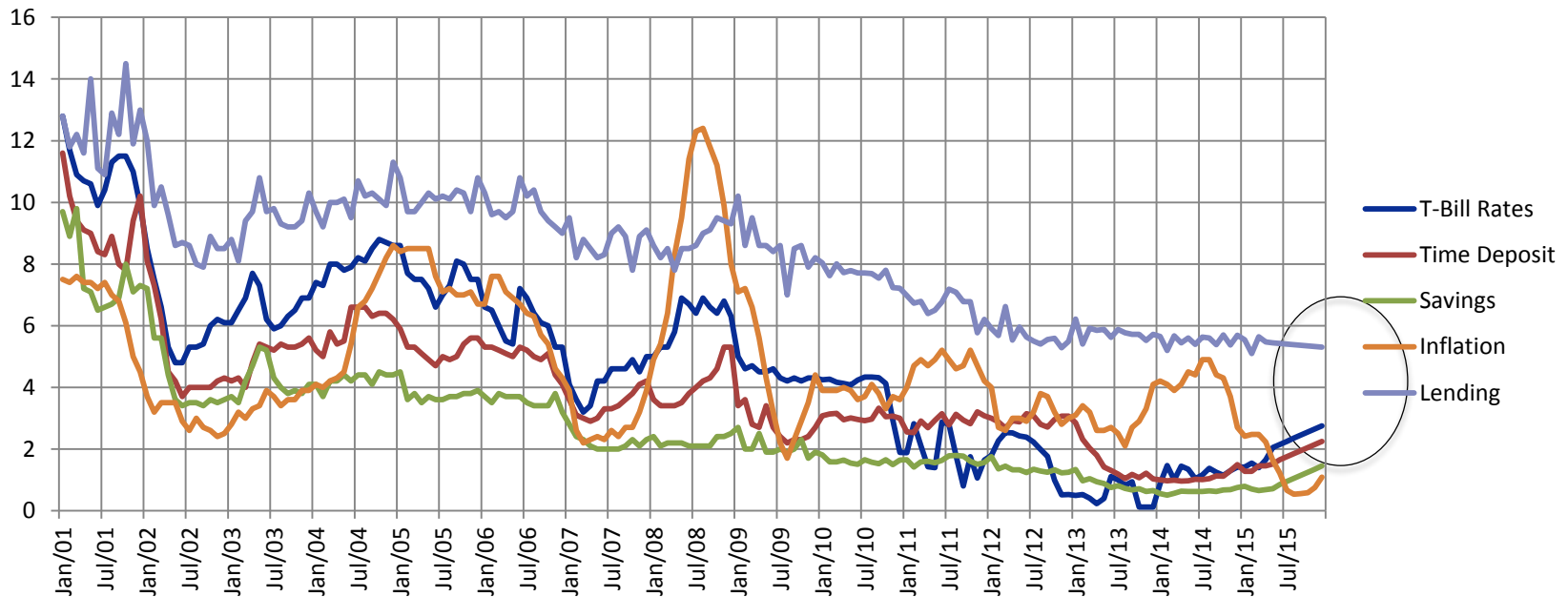
Loan Growth





Local Rates

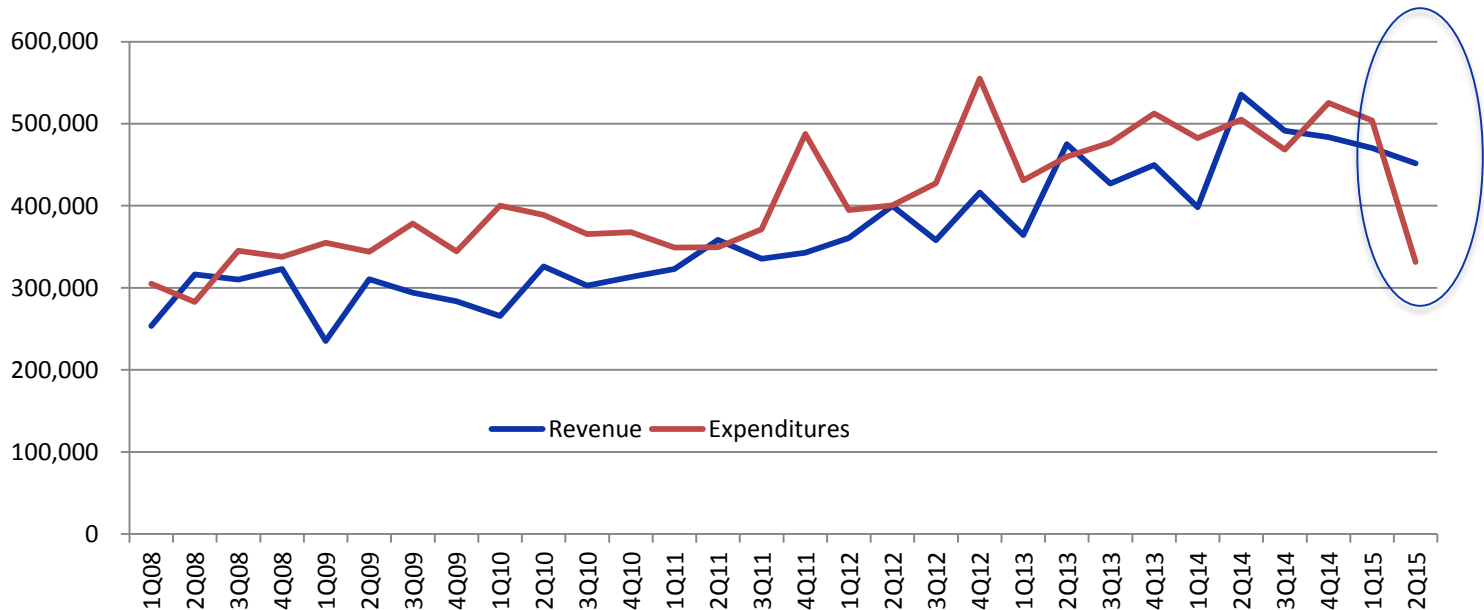
- Rates will continue to be low – with base inflation to average below 1.5% for 2015
- 0.7% this July and 0.5% in August!





Fiscal Position

Falling deficits fundamentally good, but not at the expense of falling expenditures!

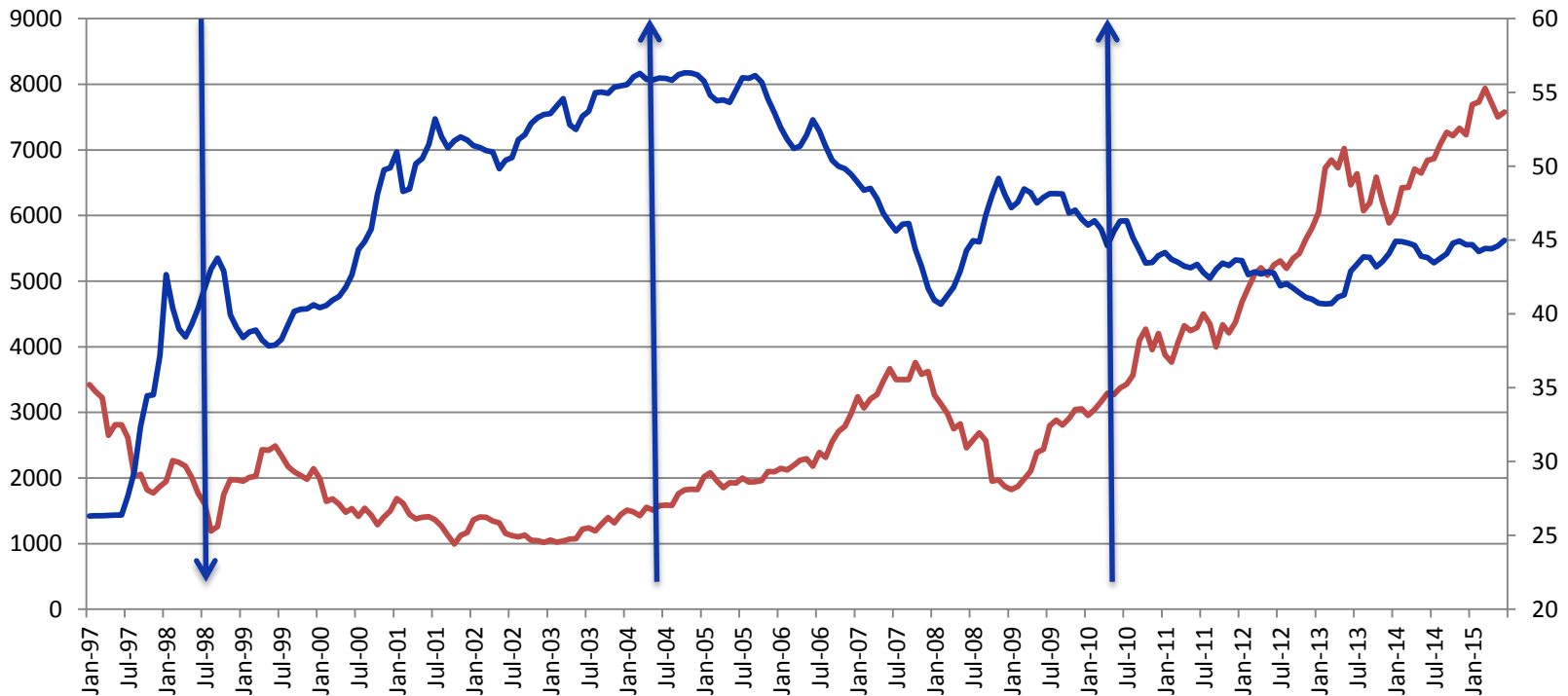


**There is inability to convert low interest regime
To productive activities in the Private Sector!**



Stocks and Peso

- Peso and stockmarket – threatened by US rate hike

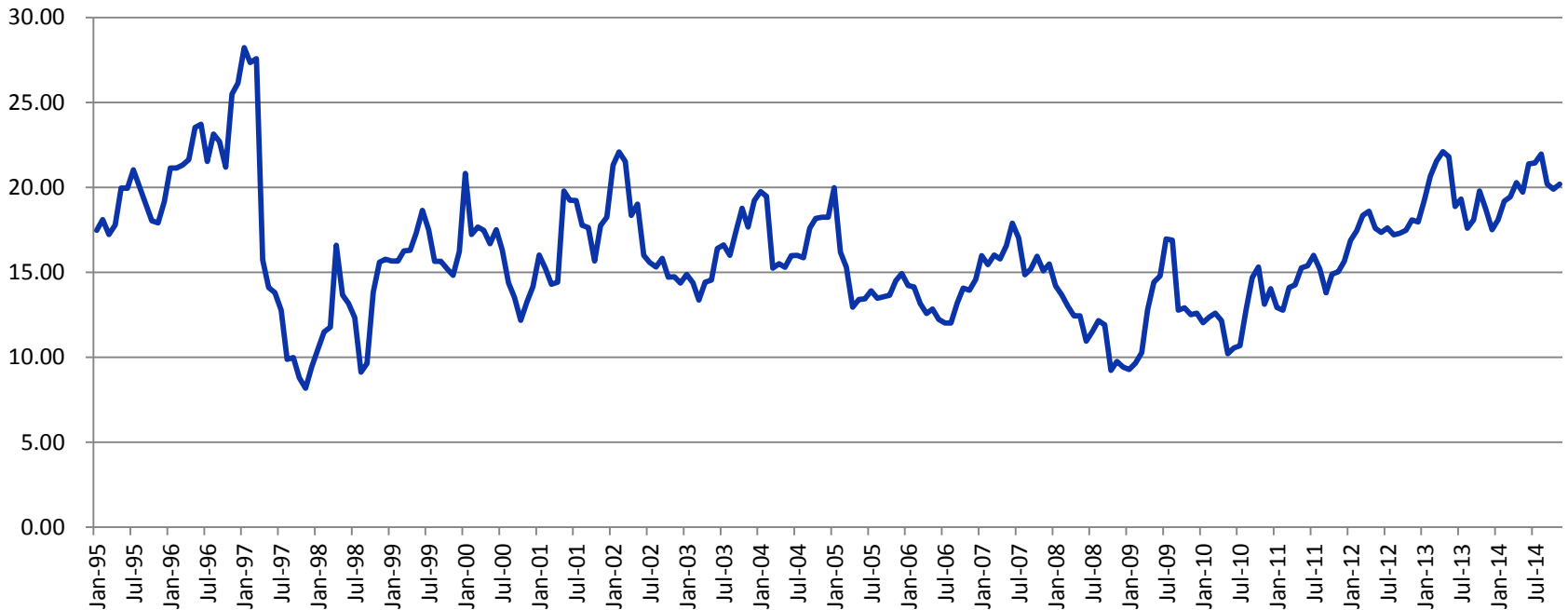


Maintain our view that peso will weaken to an average of about 45.50 for the year
And PSEi should be on track for a healthy 10% growth by yearend




PSEi On Target

- PSEi P/E now about 17% well in line with its 20 year average



**Foreign trades down from 60% in Jan 2014
To 49% in Jul 2015**



What about 2Q15 and full year?

Growth Rates (in Percent)	4Q14	1Q15	2Q15	3Q15	4Q15	2015
1. Agriculture, Hunting, Forestry & Fishing	4.25	1.62	2.65	2.60	2.62	2.38
a. Agriculture & Forestry	4.26	2.46	3.00	3.00	3.00	2.86
b. Fishing	4.22	(2.57)	1.00	1.00	1.00	0.18
2. Industry Sector	9.13	5.54	5.43	7.52	7.88	6.62
a. Mining & Quarrying	5.87	7.14	4.00	4.00	4.00	4.83
b. Manufacturing	7.70	5.88	6.00	8.00	8.00	6.99
c. Construction	17.91	4.46	5.00	9.00	10.00	7.24
d. Electricity, Gas and Water Supply	5.09	4.15	3.00	3.15	3.15	3.34
3. Service Sector	5.60	5.60	6.28	6.23	6.91	6.27
a. Transport, Storage & Communication	4.50	8.58	6.00	6.00	6.00	6.62
b. Trade and Repair of Motor Vehicles, Motorcycles, Personal and Household Goods	3.43	5.41	5.72	7.00	8.00	6.63
c. Financial Intermediation	8.89	4.33	8.14	6.00	7.50	6.54
d. Real Estate, Renting & Business Activities	9.71	6.43	7.97	7.00	8.00	7.38
e. Public Administration & Defense; Compulsory Social Security	11.39	0.22	3.38	3.38	3.38	2.64
f. Other Services	1.81	5.82	5.37	5.37	5.37	5.48
Gross Domestic Product	6.62	5.16	5.61	6.26	6.76	5.97

Assuming a strong expenditure program in the 2H15 translated into Construction, manufacturing and Consumption Growth!



What if...

- China growth recovers and Greece normalizes
- US rate hike fully factored
- PH Government Expenditures overshoot
- FDI surges (due to Competition Law and others)
- No Typhoons and El Nino weakens
- New Government continue efficiency reforms



Expectations (based on now)

INDICATOR YEAR-END	FORECAST
GDP 2015	5.5 – 6.0 %
EXCHANGE RATE (AVERAGE)	45.50 – 46
INTEREST RATE (91 DAY TBILL)	1.0 – 1.5%
INFLATION	Average 1.5-1.7%
PSEi	Year –end (Min 5% 7,600 -Max 10% 7,900)
REMITTANCES GROWTH	5-6%



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THANK YOU AND GOD BLESS!