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The Entrepreneur

Dissecting GDP: What did we miss?

WHEN the official report on the country's economic performance for the third quarter of this year came out, one thing I noticed was that the growth in terms of gross domestic product (GDP) was below expectations.

The consensus among economists and analysts both in and out of the government was higher than the 3.2-percent actual growth in the third quarter. The government was expecting a growth range of 4.8 percent to 5.8 percent, which was already revised downward from 6.8 percent to 7.8 percent, while economists were looking at 4.1 percent or higher.

For the Philippines to reach even a 4.5-percent GDP growth for the full year, the country must generate a 6.9-percent growth in the fourth quarter, according to NSCB calculations.

So, why did we fall off the mark? There must be something wrong, something that the economists and planners have been missing, which must be identified and appropriately addressed. Otherwise, we may find the situation getting far more complicated than it is now, and the economy grinding to a halt.

Another thing I noticed is that we tend to oversimplify the problem of slow economic growth. Everybody was quick to blame underspending by the government and the decline in global trade as the primary factors behind our lackluster performance.

I agree that these two were the primary factors behind the low GDP numbers, but I don't think it is that simple.

First, let's talk about our performance compared with our neighbors.

Indonesia grew by 6.5 percent in the third quarter and Bank Indonesia, the central bank, forecasts full-year growth at 6.6 percent this year and at 6.5 percent in 2012.

Malaysia's economic growth accelerated in the third quarter to 5.8 percent, supported by strong domestic demand, public spending and manufacturing activity. Singapore's GDP grew 6.1 percent in the third quarter of 2011, a significant improvement from the second quarter's growth rate of only 1 percent. For the whole of 2011, GDP is expected to grow 5 percent to 6 percent this year.

Is the decline in exports to blame for the Philippines's low GDP growth? The country's export revenues fell to a two-year low of 27.4 percent to $3.88 billion in September, dragged down by a sharp decline in the shipment of electronics.

This brought the total export receipts for the nine-month period that ended September 2011 to $38.36 billion, down 3.07 percent from $37.36 billion in the same period last year.

How about our neighbors? Indonesia, according to published reports, is expecting exports to grow by up to 20 percent this year despite concerns about the global slowdown. The optimism is based on the country's export performance in the first semester of 2011, when receipts increased by 36 percent to $98.64 billion compared with $72.52 billion a year ago.

Even Thailand posted a 38-percent export growth in July, the fastest pace in 13 months, up from 16.8-percent growth in June. The country would have been able to sustain such impressive growth up to the end of 2011 were it not for the massive floods that hit its industries.

Why are our exports performing poorly compared with our neighbors? Indonesian Trade Minister Mari Elka Pangestu said, based on published reports, that her country remained optimistic in growing its exports despite the economic slowdown in the US and Europe, which account for 12 percent and 10 percent of Indonesia’s exports, respectively.

About 70 percent of Indonesia’s exports go to the Asia-Pacific region, including China, India, South Korea, Taiwan, Japan, Asean, Australia and New Zealand, which continues to enjoy stable economic growth compared with the US and Europe. Malaysia is looking at developing and emerging markets to support its export growth. Like Indonesia, the weak demand from the US and Europe during the first half of 2011 was offset by a growing demand from the Middle East, Japan and India.

Except for the US, Europe and Japan, the major export markets of Malaysia and Indonesia are not among the top destinations for Philippine exports. Japan remains our biggest market, accounting for 17.97 percent of total exports in the first nine months of 2011 at $6.68 billion, up 16.44 in the nine-month period, but down 11.67 percent in September.

China contributed $4.62 billion for a 12.39-percent market share, up 18.09 percent to date, but down 18.54 percent in September. The US accounted for 14.66 percent of our total exports, down 6.16 percent in nine months, and down by 7.18 percent in September. Exports to Singapore (9.63-percent market share) plunged 35.55 percent to $3.58 billion in nine months, and by a wider 76.68 percent in September.

The government initially set a target of 10 percent for export growth in 2011. Given the sector’s performance in the first nine months, the Department of Trade and Industry is now looking at flat or slightly negative growth for the whole year.

We know that the drop in exports was one reason for the low GDP growth in the first nine months.

Now, I hope I have painted a clearer picture that explains the why behind the fall in exports. The next step is to adopt and implement the necessary measures—it may be too late for this year, but it should put us in a better position for next year, which is expected to be as challenging, if not worse, than this year.

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