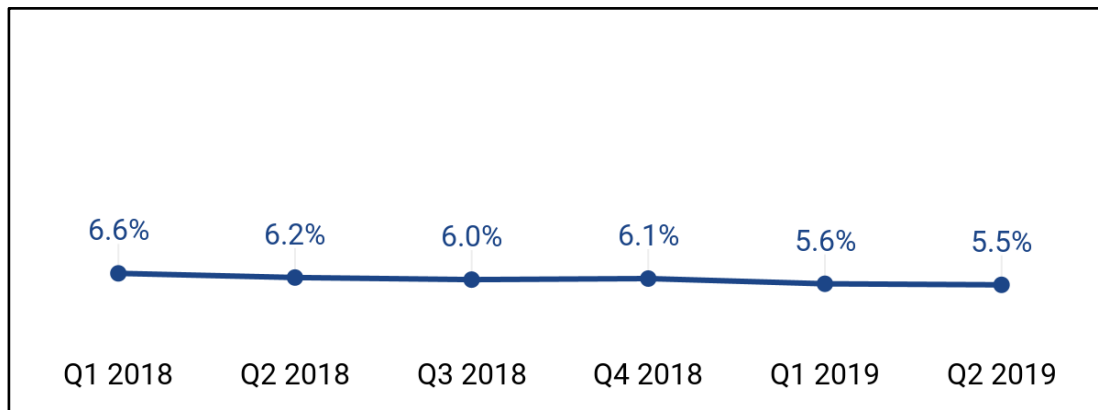


## PHILIPPINE COUNTRY REPORT Q2 2019

### 1. Philippine GDP records a 5.6% growth in Q1 2019; 5.5% in Q2 2019.

The Philippine Statistics Authority (PSA) reported that the country's Gross Domestic Product (GDP) grew by 5.6 percent in the first quarter of 2019.<sup>1</sup> This is below the government's target of 6% to 7%, with the year-to-date average standing at 5.5%.



PSA also reported that the country's GDP grew by 5.5% in the second quarter of 2019. Trade and Repair of Motor Vehicles, Motorcycles, Personal and Household Goods; Manufacturing; and Financial Intermediation were the main drivers of growth for the first and second quarter.<sup>2</sup>

Among the major economic sectors in the second quarter of 2019, Services grew the fastest at 7.1%, followed by Industry at 3.7%, and Agriculture at 0.6%.<sup>3</sup>

Socioeconomic Planning Secretary Ernesto Pernia described the recent quarters as "challenging times." GDP now needs to grow by at least 6.4% in the 2nd half of 2019 to meet the lower end of the target for the year. Aside from the budget impasse, Pernia attributed the slowdown to the weak El Niño, the global slowdown brought about by the trade war between the United States and China, and the election ban on construction activities.<sup>4</sup>

### 2. The Construction industry contracted by 0.6% in Q2 2019

The Construction industry contracted by 0.6 percent in the second quarter of 2019. This contraction was attributed to the decline in Public Construction, while Private Construction remarked growth during the quarter.<sup>5</sup>

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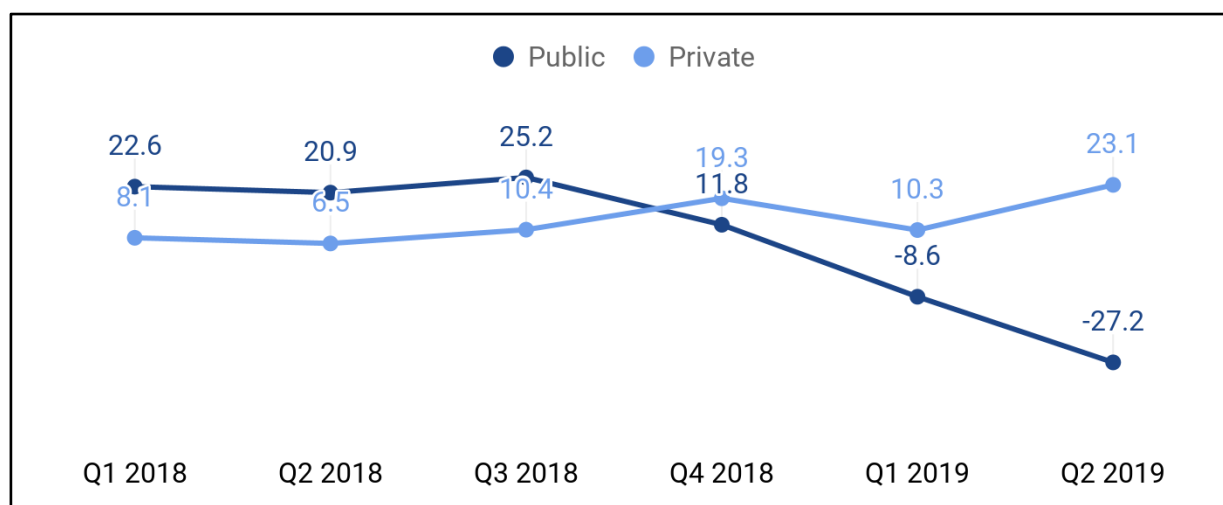
<sup>1</sup> National Economic and Development Authority (NEDA).

<sup>2</sup> Philippine Statistics Authority (PSA).

<sup>3</sup> Ibid.

<sup>4</sup> Rappler

<sup>5</sup> Ibid.



### 3. Government spending recovers in May to reflect catch-up efforts

According to data from the Department of Budget and Management (DBM), government spending grew to 41.9%

In particular, government spending in May reached PHP 314.7 billion, up by PHP 92.9 billion from the amount in April. This also translates to a 7.8 percent year-on-year increase in spending (equivalent to PHP22.8 billion) for May 2019.<sup>6</sup>

Notably, spending on Infrastructure and Other Capital Outlays (CO) grew by 117.5 percent.<sup>7</sup>

Spending growth from April to May is mainly driven by Infrastructure/Other CO spending as it hit PHP 61.5 billion in May, rebounding from the 56.9 percent contraction in April.<sup>8</sup>

Despite the upswing in government spending this May, total government spending from January to May 2019 amounted to PHP 1.314 trillion, down by PHP10.6 billion or 0.8 percent compared to the same period in 2018. The budget impasse created delays in the implementation of new and ongoing infrastructure projects and of other public social services, dampening government spending enough to weigh down the country's economic growth rate to 5.6 percent in the first quarter.<sup>9</sup>

<sup>6</sup> Department of Budget and Management (DBM).

<sup>7</sup> Ibid.

<sup>8</sup> Ibid.

<sup>9</sup> Ibid.

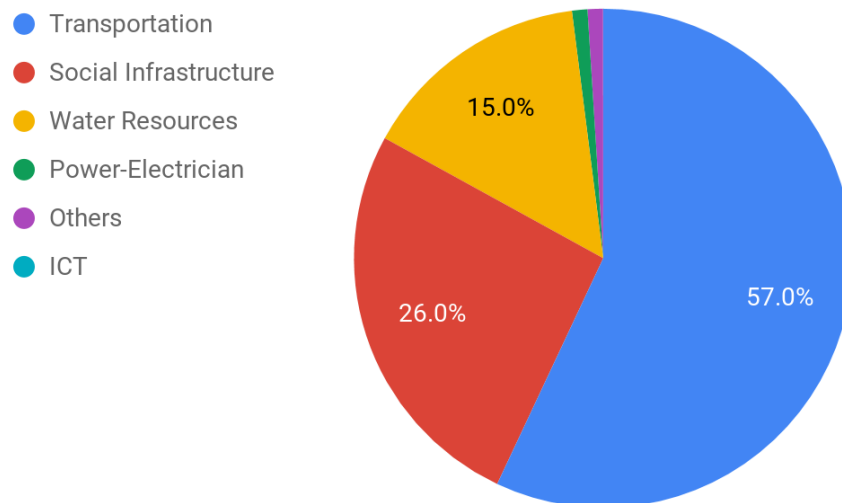
#### 4. Infra spending budget to exceed US\$ 21.1 billion next year

In August 2019, DBM proposed a PHP 4.1 trillion (USD78.8 billion) national budget for 2020. Under the proposed 2020 National Budget, the government is programmed to spend a record P1.123 trillion (USD21.1 billion) on infrastructure, which is equivalent to 5.3% of GDP.<sup>10</sup>

Of this number, about PHP 203.8 billion will come from allocations under the Department of Public Works and Highways, including its network development program, asset preservation program, and bridge program. Other funds will come from the Department of Transportation: PHP 106.7 billion (USD 2.04 billion) worth of railway projects, PHP 508 million for sea transportation, and PHP 346 million (USD 6.63 million) for air transportation.<sup>11</sup>

#### 5. Accelerating Infrastructure Development

PHP 7.4 trillion (USD 143.1 billion)  
2017-2022 Investment Requirement



Source: *The Build, Build, Build Agenda*; NEDA, 2019

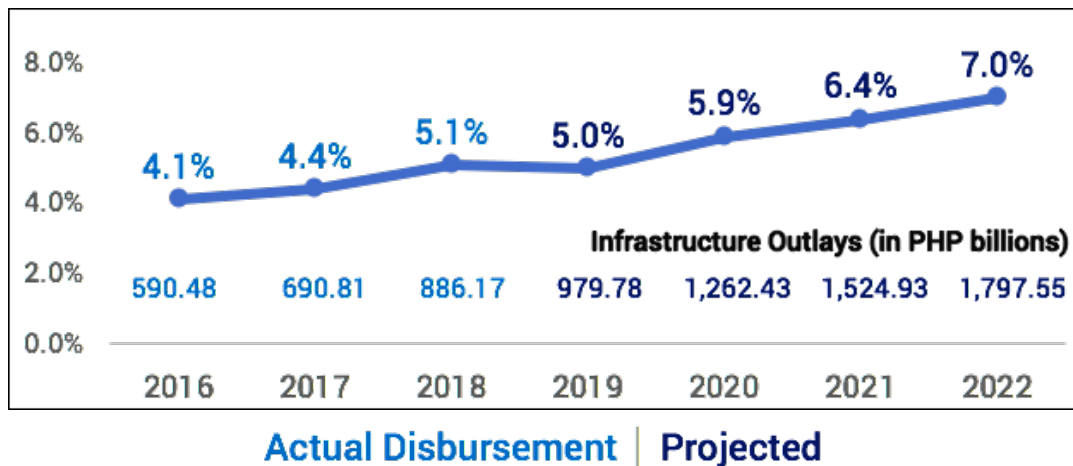
The increase in value of investments was attributed mainly to the approval of housing and construction projects with a combined investment amount of PHP 113.5 billion, followed by the energy and power sector with PHP 20.8 billion, manufacturing with PHP 15.4 billion and transportation and storage projects with PHP 2.2 billion.<sup>12</sup>

<sup>10</sup> Philippine Daily Inquirer.

<sup>11</sup> Rappler.

<sup>12</sup> Department of Trade and Industry - Philippine Board of Investments (BOI).

## 6. Increased Infrastructure Spending (as % of GDP)



Source: *The Build, Build, Build Agenda*; NEDA, 2019

According to Finance Secretary Carlos G. Dominguez III, the Philippines is on track to hit 7% economic growth in three years with the acceleration of the Build, Build, Build program, the reform of the tax system, and other economic reforms.

He said in his statement at the 2019 Pre-State of the Nation Address (SONA) Economic and Infrastructure Forum that: “First is to accelerate implementation of the Build, Build, Build infrastructure program. We have, for the first time in history, exceeded 5% of GDP (gross domestic product) in spending on infrastructure and we are on track to achieve 7% of GDP in three years time.”<sup>13</sup>

## 7. A Need for an Infrastructure Master Development Plan and ensuring the sustainability of the construction industry’s growth

The Philippine Construction Industry Roadmap 2020-2030 recommends the legislation of a long-term infrastructure master development plan to ensure the harmonization of existing and future infrastructure plans, sustain high government budget allocation for public infrastructure, and develop a clear objective criteria in determining the appropriate funding modality for each infrastructure project.

For the continuity of the programs beyond changing administration so the country can catch up on its infrastructure deficiencies and with emphasis on maintaining a budget of at least 5% of the GDP.

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<sup>13</sup> BusinessWorld.

## 8. The Philippine Construction Industry Roadmap 2020-2030

This Roadmap is a strategic formwork of the future of Philippine construction. It aims to shape the future capacity, values, and institutional integrity of the entire industry for the next ten years. It functions both as an institutional mechanism for communication and collaboration, and as a continuing testament of commitments made by the stakeholders, whether private, public, domestic, or foreign.

This serves as the guiding document in creating platforms of convergences that facilitate the sharing of plans, programs, insights, and best practices from government and the private sector in order to build on each other's strengths, address systemic weaknesses and gaps, and face the evolving challenges of the construction industry.<sup>14</sup>

## 9. Annual increase in CMWPI in the NCR pick up at slower rate in July

Item	July 2019	June 2019	July 2018	Year-to-date
Year-on-Year	3.0p	3.2	4.8	3.3
Month-on-Month	-0.3p	0.3	-0.1	

The annual increase of CMWPI in NCR slowed down to 3.0 percent in July 2019. Its annual rates were higher at 3.2 percent in June 2019 and 4.8 percent in July 2018. Annual declines were still observed in the indices of reinforcing and structural steel at 0.1 percent; and doors, jambs, and steel casement, 0.2 percent. Moreover, slower annual increments were posted in the indices of the following commodity groups during the month:

- Concrete products and cement, 4.4 percent;
- Hardware, 1.8 percent;
- Lumber, 4.7 percent;
- G.I. sheet, 3.7 percent;
- Tileworks, 0.9 percent;
- Electrical works, 3.9 percent; and
- Plumbing fixtures and accessories/waterworks, 4.4 percent.

Meanwhile, the indices of the following commodity groups exhibited higher annual gains during the month:

- Sand and gravel, 10.3 percent;
- Plywood, 2.2 percent;
- Painting works, 0.3 percent; and
- PVC pipes, 4.1 percent.<sup>15</sup>

## 10. Increase of CMRPI in NCR slows down in June 2019

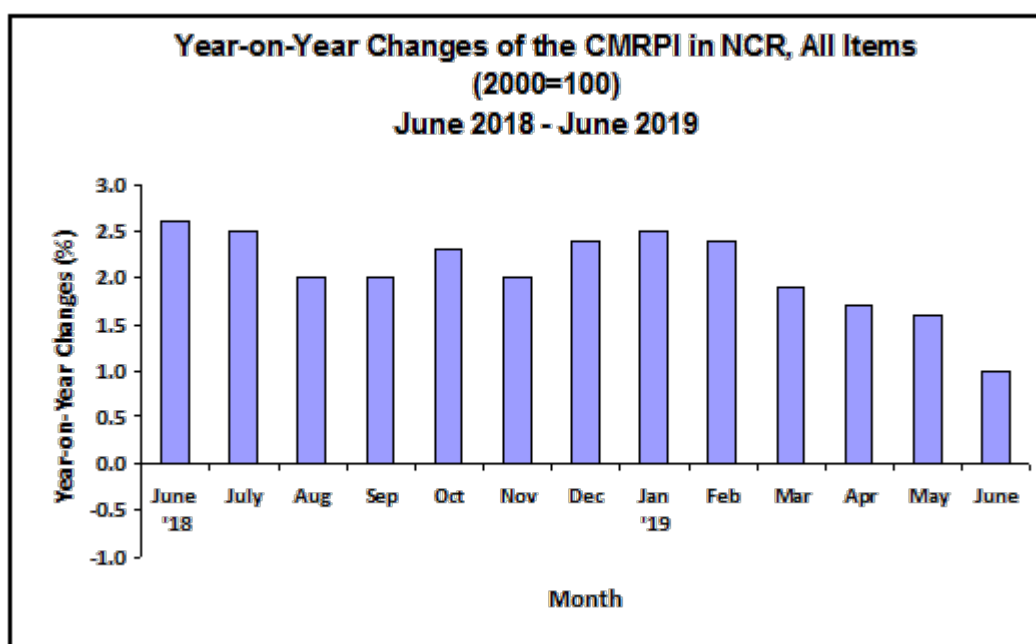
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<sup>14</sup> REID Foundation.

<sup>15</sup> Ibid.

Item	June 2019	May 2019	June 2018	Year-to-date
Year-on-Year	1.0	1.6	2.6	1.8
Month-on-Month	-0.5	0.0	0.1	

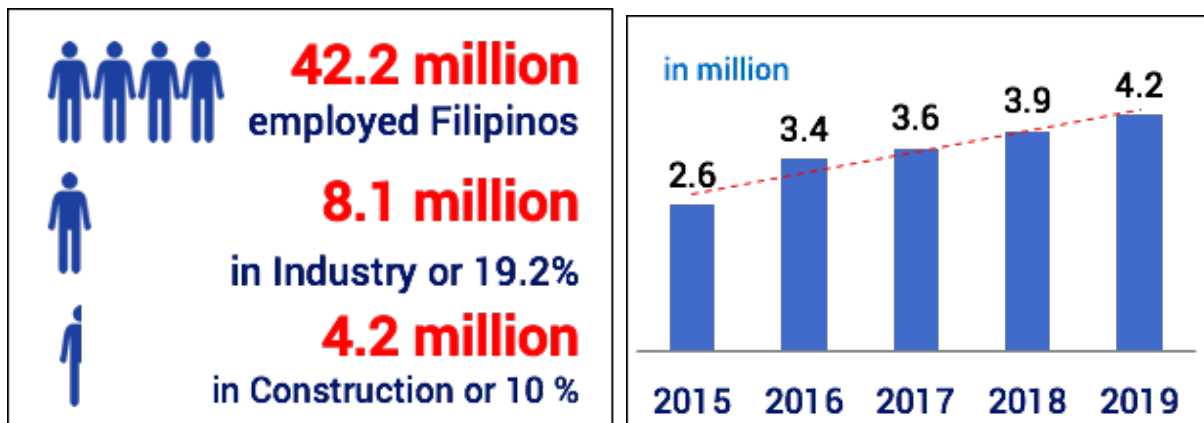
The annual increment of Construction Materials Retail Price Index (CMRPI) in the National Capital Region (NCR) eased to 1.0 percent in June 2019. Higher annual rates were recorded in May 2019 at 1.6 percent and in June 2018, 2.6 percent. Slower annual mark-ups were registered in the indices of carpentry materials at 1.0 percent; electrical materials, 0.8 percent; masonry materials, 1.6 percent; painting materials and related compounds, 0.9 percent; tinsmithry materials, 1.1 percent; and miscellaneous construction materials, 1.3 percent. On the other hand, plumbing materials index retained its previous month's annual rate at 0.6 percent.<sup>16</sup>



*Source: Data from Philippine Statistics Authority*

<sup>16</sup> Ibid.

## 11. Construction employs 10.0% of 42.2 million employed Filipinos



Source: Data from Philippine Statistics Authority, *Philippine Construction Industry Roadmap 2020-2030*

The April 2019 LFS results also showed that in the industry sector, workers in the construction and manufacturing subsectors made up the largest groups, accounting for 52.1 percent and 43.7 percent of the workers in these subsectors, respectively.<sup>17</sup>

The Construction industry currently provides direct employment to nearly 4 million workers, including roughly 84,000 workers employed in architectural and engineering services. This translates to 9.6% of total employment and 9.1% of the country's total labor force.<sup>18</sup>

However, due to the increasing demand for modern skills in this fast-changing world of work, there is a need for a new framework connecting education and employment, and adapt to a changing uncertainty of work.<sup>19</sup>

The Philippine construction industry is expecting an increase in jobs by more than 80%, from current 3.9 million to 7.1 million workers by 2030 due to the emerging new skills along with the incorporation of technology and digitization.<sup>20</sup>

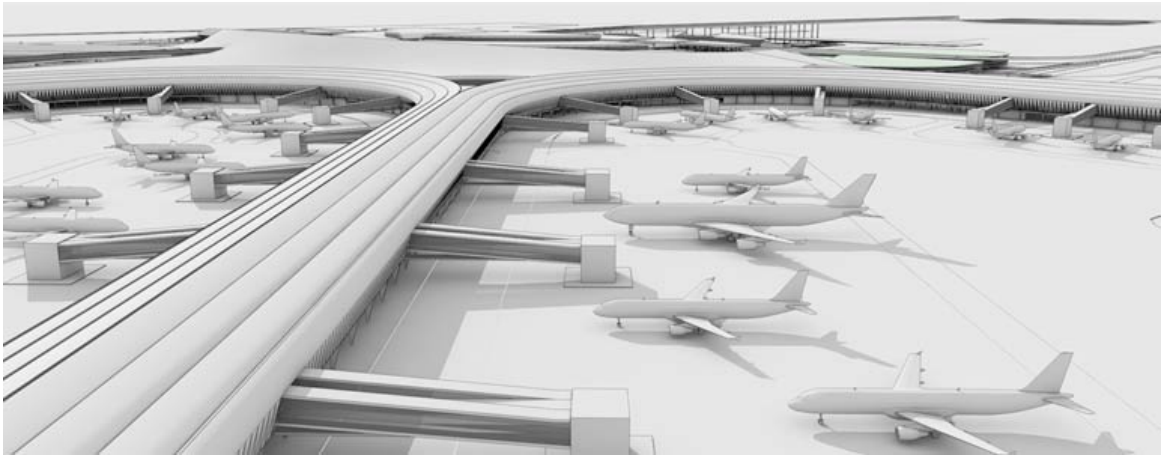
<sup>17</sup> Ibid.

<sup>18</sup> Ibid.

<sup>19</sup> Philippine Business for Education (PBE).

<sup>20</sup> Ibid.

## 12. PHP 734.0 billion (USD 14.1 billion) Bulacan airport awarded to SMC



*Source: BusinessWorld, 2019*

The Department of Transportation (DOTr) on Wednesday officially issued the notice of award to San Miguel Holdings Corp. (SMHC) for its P734 billion (USD 14.1 billion) Bulacan International Airport project.

The Bulacan International Airport, also called New Manila International Airport, is positioned as an alternative to the Ninoy Aquino International Airport in Pasay City.

It will stand on a 2,500-hectare land in Bulacan, Bulacan, with four to six parallel runways, and will have an annual capacity of 100 million passengers.

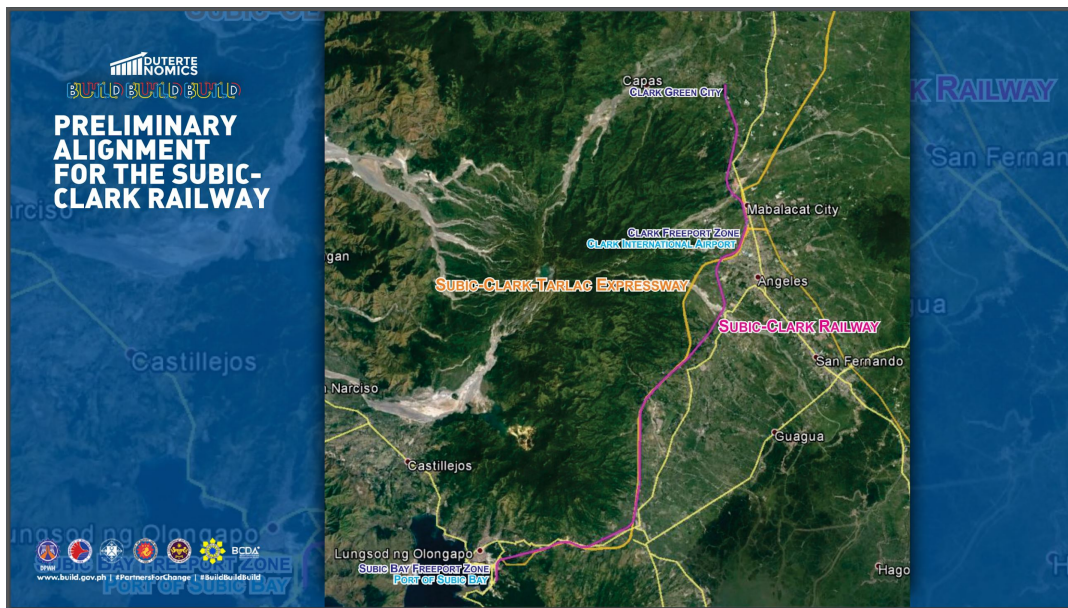
The new airport is targeted for operations within four to six years. SMHC said earlier this week it is tapping three foreign firms for the design and build of the project: Groupe ADP (Aéroports de Paris), Meinhardt Group and Jacobs Engineering Group.<sup>21</sup>

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<sup>21</sup> Ibid.



**13. PHP 50.03 billion (USD 958 million) Subic-Clark railway Subic-Clark cargo rail line construction seen starting in early 2020**



*Source: Department of Transportation*

The Department of Transportation (DOTr) wants to start building the Subic-Clark railway project by the first half of 2020, Transportation Secretary Arthur Tugade said.

The train line is part of the DOTr's plan to create a logistics hub in Central Luzon. The Subic-Clark railway will span some 71 kilometers and will be built and funded by Chinese companies.

The project is in step with the DOTr's plan to expand the current 77-km of railway lines (Metro Rail Transit Line-3, Light Rail Transit-1, LRT 2 and Philippine National Railways) to about 322 km by the end of 2022.

Including projects still under construction, that footprint will increase to 1,900 km, the department said earlier.

Big-ticket items are the 30-km Metro Manila subway and the 147-km North-South railway, which will link Calamba in Laguna to Clark, Pampanga. Both of those will be funded by the Japanese government.<sup>22</sup>

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<sup>22</sup> Ibid.