Philippines plunges into recession as economy shrinks 16.5% in Q2

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Jeepney drivers who lost livelihoods amid the coronavirus outbreak look for financial help along a Metro Manila roadside on July 30. © Reuters

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MANILA -- The Philippine economy shrank a record 16.5% in the second quarter, the country's statistics agency said on Thursday, throwing the nation into a technical recession.

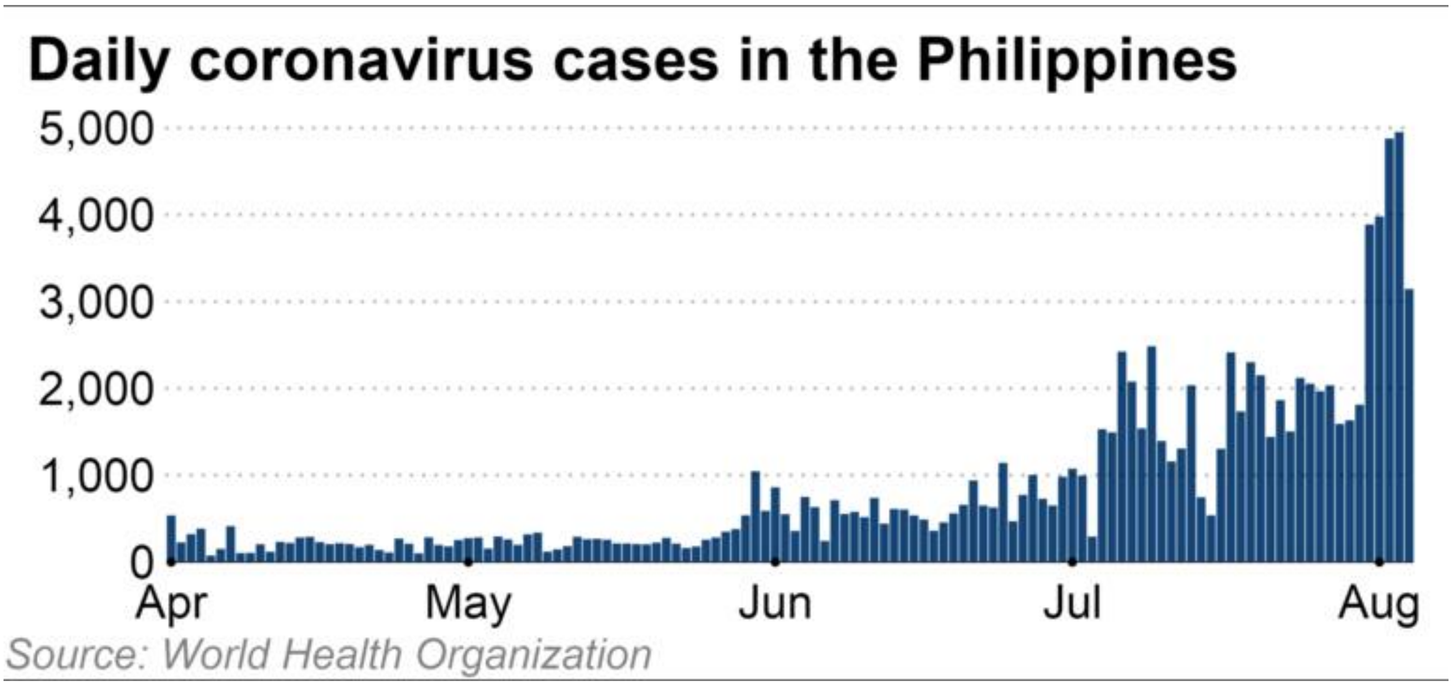
The April-June gross domestic product figure covers economic activity during the peak of the initial lockdown to combat the spread of coronavirus, which was imposed in mid-March before being eased in June. It is much worse than the 9.0% contraction forecast in a Reuters poll.

The economy contracted 0.7% in the quarter ended March, the first negative growth in two decades, putting the first-half contraction at 9% and pulling the plug on what was one of Southeast Asia's fastest-growing economies before the pandemic.

Hopes for a strong rebound in the third quarter have been dampened by the latest lockdown imposed on Tuesday in Metro Manila and nearby provinces -- home to around a quarter of the population -- amid a spike in infections.

The government's economic team now projects the economy to shrink 5.5% for the entire year, Socioeconomic Planning Acting Secretary Karl Chua said in an online press conference, well off the 2.0% to 3.4% contraction projected in May.

"Without a doubt, the pandemic and its adverse effects are testing the economy like never been before," Chua said. "But unlike past crises, the Philippines is now in a much stronger position to address the [current] crisis."



As the lockdown shuttered businesses and left millions jobless, household consumption, a major driver of the economy, fell 10.7%.

The Philippines -- despite its longer and stricter lockdown compared with its neighbors -- is still grappling with surging infections, which totaled 115,980 on Wednesday, the second-highest in Southeast Asia after Indonesia.

This has forced President Rodrigo Duterte to reimpose stricter lockdown measures in Metro Manila and outlying provinces from Aug. 4 to Aug. 18, tempering hopes for a strong recovery in the third quarter.

Strict community quarantine restrictions crippled business and trade. April's jobless rate ballooned to a record 17.7%, equivalent to 7.3 million people, according to the Philippine Statistics Authority.

"With record-high unemployment expected to climb in the coming months, we do not expect a quick turnaround in consumption behavior, all the more with COVID-19 cases still on the rise," said Nicholas Antonio Mapa, senior economist at ING Bank Manila. "With consumption cratering ... investor sentiment will likely go into free fall with the recent investment boom snuffed out by the pandemic."

The economic fallout from the virus in the second quarter is much deeper than that of neighboring countries.

Indonesia's economy contracted by 5.3%, while Singapore and Hong Kong's economies shrank 12.6% and 9%, respectively, according to Philippine National Statistician Dennis Mapa. Vietnam managed to grow by 0.4%.

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