

REPORT ON NATIONAL INCOME ACCOUNTS (Q1- Q3 2020)

Table 1. Q1-Q3 2020 Economic Performance
 (% growth rate, at constant 2018 prices)

PARTICULARS	2020			Q1-Q3 2020	Q1-Q3 2019
	Q1	Q2	Q3		
GROSS DOMESTIC PRODUCT	-0.7	-16.9	-11.5	-10.0	5.8
GROSS NATIONAL INCOME	-1.2	-17.3	-13.0	-10.8	5.0
Net Primary Income	-5.9	-21.7	-28.2	-18.4	-2.0
<u>By Industrial Origin</u>					
Agriculture, Fishery and Forestry	-0.3	1.6	1.2	0.8	1.4
Industry	-3.4	-21.8	-17.2	-14.3	4.2
<i>of which: Manufacturing</i>	-3.8	-20.7	-9.7	-11.5	2.8
Services	0.6	-17.0	-10.6	-9.5	7.3
<u>By Expenditure</u>					
Household Final Consumption Expenditure	0.2	-15.3	-9.3	-8.2	5.9
Gov't Final Consumption Expenditure	7.0	21.8	5.8	12.4	7.3
Capital Formation	-17.4	-53.7	-41.6	-38.3	2.5
<i>of which: Fixed Capital Formation</i>	-4.4	-36.5	-37.1	-27.1	3.2
Exports	-4.4	-35.8	-14.7	-18.7	3.0
Imports	-8.7	-37.9	-21.7	-23.0	2.7

Source: Philippine Statistics Authority (PSA)

A. GDP and GNI

1. For the first three quarters of 2020, the economy declined by 10 percent due to the contraction in economic activities in all three quarters. Growth went from -0.7 percent in Q1 to -16.9 percent in Q2, before slightly improving to -11.5 percent in Q3. Among major emerging market economies in the region that have already released their first to third quarter real gross domestic product (GDP) growth, Vietnam (2.1 percent) and China (1.6 percent) registered expansion while Indonesia posted a 2 percent contraction during the period.
2. Similarly, gross national income growth for the first nine months of 2020 fell by 10.8 percent. Net primary income likewise declined by 18.4 percent mainly due to the significant reduction in inflow of compensation (-20.4 percent) and property income (-19.4 percent).
3. On the demand side, the Taal volcano eruption in January 2020 and the adverse economic impact of the COVID-19 pandemic heightened market uncertainty, and dampened consumer and investor sentiment. Both household consumption (-8.2 percent) and investments (-38.3 percent) significantly dropped in the first three quarters of the year. These two outweighed the increase in government consumption (12.4 percent), reducing domestic demand by 12.9 percent. External demand also weakened, with exports declining by 18.7 percent. This, however, is offset by the 23 percent decline in imports, resulting in an improvement for net exports (35.6 percent) in the first three quarters of 2020.
4. On the supply side, several industries were affected by the varying levels of community quarantine (CQ) restrictions imposed across the country since mid-March 2020 in an effort to control the spread of COVID-19. For instance, the services sector declined by 9.5 percent in Q1-Q3 2020 as most of its subsectors posted contractions. Moreover, growth in the industry sector slid by 14.3 percent largely driven by the decline in manufacturing (-11.5 percent) and construction (-26.4 percent). Among the major groupings, only the agriculture sector recorded an expansion in the first three quarters of the year (0.8 percent) as the sector was allowed to fully operate even during the CQ period.

B. Expenditure (demand side)

5. **Household final consumption expenditure.** Private consumption posted softer declines in growth for Q3 2020 at -9.3 percent from -15.3 percent in Q2 2020, albeit still a significant contraction from a relatively flat 0.2 percent growth in Q1. This brings year-to-date (YTD) 2020 growth to -8.2 percent. Most of household commodities recorded contractions in the first nine months of the year except essential items such as food, housing and utilities, communication, and miscellaneous goods and services. The decline in household spending in Q1-Q3 is attributed to subdued consumer sentiments, unprecedented increase in unemployment, and loss of income sources, especially in Q2 when the government continued to impose strict lockdown measures.
6. **Government final consumption expenditure.** Government spending grew by 5.8 percent in Q3 2020, slower than the 21.8 percent in Q2 and 7.0 percent in Q1, bringing YTD growth to 12.4 percent. This is higher than the 7.3 percent YTD growth posted the previous year. The increase in government disbursements during the period was mainly on account of the continuing implementation of various COVID-19 emergency measures pursuant to the *Bayanihan to Heal as One Act* (R.A. 11469) which includes health measures and assistance programs to alleviate the adverse impact of COVID-19 on the economy.
7. **Capital formation.** The contraction in capital formation slightly moderated to -41.6 percent in Q3 2020 from -53.7 percent in Q2, although still deeper than the -17.4 percent drop in Q1. For the first nine months of 2020, total investments fell by 38.3 percent. This was largely due to the decline in fixed capital investments (-27.1 percent in Q1- Q3 2020), particularly private construction (-34.5 percent), and investments in durable equipment (-33.5 percent). The substantial drawdown in inventories, resulting from a halt in production due to lockdown restrictions also contributed to weaker capital formation during the period.
8. **Net exports.** Growth in net exports slightly weakened to 43.5 percent in Q3 from 44.3 percent in Q2. This is more than double the 20 percent growth in Q1 and brings the YTD 2020 growth of net exports to 35.6 percent. This is attributed to the steeper decline in imports relative to exports in the reference period.

- a. **Exports.** Growth in total exports posted a softer decline of 14.7 in Q3 (-35.8 percent in Q2; -4.4 percent in Q1), with YTD 2020 growth settling at -18.7 percent. The contraction in exports could be attributed to the double-digit reduction in exports of services (-26.3 percent in Q1-Q3 2020), mainly driven by the substantial decrease in travel services (-62.7 percent) due to the drop in international passenger arrivals.¹ Meanwhile, merchandise exports (-12.2 percent) also recorded a lackluster performance during the reference period as the COVID-19 pandemic disrupted production and dampened global trade.
- b. **Imports.** Total imports decreased by 21.7 percent in Q3, less than the 37.9 percent decline in Q2 but worse than the 8.7 percent contraction in Q1. This brings YTD performance to -23.0 percent as merchandise imports (-23.9 percent in Q1-Q3) and imports of services (-18.8 percent) registered double-digit declines.

C. Production (supply side)

9. **Agriculture, fishery and forestry.** Growth in the agriculture sector weakened to 1.2 percent in Q3 2020 from 1.6 percent in Q2 2020, albeit higher than the 0.3 percent contraction in Q1 2020. This brings the sector's YTD 2020 growth to 0.8 percent, which was driven mainly by the expansion in *palay* (5.8 percent in Q1-Q3), support activities to agriculture, forestry and fishing (5.4 percent), sugarcane (25.2 percent), and corn (3.0 percent). Relatively favorable weather conditions as well as the implementation of the Plant, Plant, Plant Program and the Rice Competitiveness Enhancement Fund (RCEF)² of the Department of Agriculture (DA) partly supported the growth in agriculture during the period.
10. **Industry.** The industry sector contracted by 17.2 percent in Q3 2020 from a contraction of 21.8 percent in Q2 2020 and a contraction of 3.4 percent in Q1 2020. This brings the YTD 2020 growth of the sector to -14.3 percent. All subsectors declined in the first three quarters: manufacturing (-11.5 percent in Q1-Q3), construction (26.4 percent), mining and quarrying (-20.6 percent), and electricity, steam, water and waste management (-0.7 percent).

¹ <https://businessmirror.com.ph/2020/10/14/bi-chief-only-3-5-million-incoming-travelers-from-january-to-september/>

² <https://www.da.gov.ph/rcef-see-recipients-attain-higher-rice-yield-more-income/>

- a. **Manufacturing**. The manufacturing sector performance deteriorated to -11.5 percent in the first three quarters of the year as output fell by 9.7 percent in Q3, from a decline of 20.7 percent in Q2 and 3.8 percent in Q1. Almost all of the subsectors posted contractions during the period, except basic pharmaceutical products, which registered a double-digit growth of 10.8 percent in Q1-Q3. Key industry players have indicated that the lockdown restrictions affected their production. However, the gradual easing of quarantine measures in Q3 helped improve mobility and consumer confidence, which in turn translated to better sales performance.³
- b. **Mining and quarrying**. Mining and quarrying output continued to decline for the fifth consecutive quarter, albeit at a softer rate of -15.6 percent in Q3 2020 from -22.8 percent in Q2 2020 and -21.0 in Q1 2020. This brings the sector's YTD contraction to 20.6 percent. The significant decline in mining and quarrying in Q1-Q3 can be attributed to the reduction in output of all subsectors during the reference period such as coal (-20.6 percent on Q1-Q3) and stone quarrying and other mining and quarrying (-26.2 percent).
- c. **Electricity, steam, water and waste management**. Growth in the sector edged up to 0.2 percent in Q3 2020 from a 6.4 percent decline in Q2, although still lower than the 4.9 percent expansion in Q1. For the first three quarters of 2020, the sector's growth fell by 0.7 percent driven by a decline in electricity (-1.7 percent in Q1-Q3). On the upside, energy sales picked up starting September as some classes resumed, work-from-home arrangements continued, and restrictions in business operations were gradually lifted.
- d. **Construction**. Construction output dipped by 26.4 percent for January-September 2020, with growth declining by 39.8 percent in Q3 from a decline of 30.4 percent in Q2 and a decline of 2.9 percent in Q1. The YTD growth was dragged down by the contraction in private construction projects from both households (-51.7 percent in Q1-Q3) and firms (-22.5 percent). Government construction growth also contracted (-7.6 percent) as some infrastructure projects were delayed by various issues around

³ Based on various reports of select companies.

- e. COVID-19 and reprioritization of the budget to support urgent COVID-19 measures.⁴

11. Services. The services sector growth deteriorated in the first three quarters of the year (-9.5 percent in Q1-Q3) largely on the back of falling output in trade (-6.3 percent), transport & storage (-33.8 percent), real estate and ownership of dwellings (-18.6 percent), accommodation and food service activities (-44.9 percent), and other services (-41.5 percent). Among services, only three subsectors posted positive growth during the period: finance (6.8 percent), information and communication (5.3 percent), and public administration (5.8 percent).

- a. **Trade and repair of motor vehicles, motorcycles, personal and household goods.** The growth of the sector remained negative at -5.4 percent in Q3 2020 from -13.9 in Q2 2020, reversing the 1.9 percent growth in Q1 2020. This brought YTD 2020 growth to -6.3 percent. All subsectors contracted during the reporting period, led by retail trade (-3.9 percent in Q1-Q3), wholesale trade (-10.0 percent), and sale and repair of motor vehicles (-42.2 percent). Except during Enhanced Community Quarantine (ECQ), non-leisure wholesale and retail business establishments were mostly allowed to operate at 50 percent capacity in modified ECQ and General Community Quarantine (GCQ) areas and 100 percent capacity in MGCQ areas.
- b. **Transport and storage.** For the first nine months of the year, growth in the transport sector declined by 33.8 percent. All subsectors contracted, led by land transport (-34.3 percent in Q1-Q3), air transport (-66.3 percent), warehousing & storage (-12.9 percent), water transport (-39.9 percent), and postal & courier activities (-4.4 percent). The imposition of CQs during the period significantly affected the performance of the sector especially in areas under ECQ and MECQ.
- c. **Accommodation and food service activities.** The sector sustained its double-digit decline in Q3 2020 at -52.7 percent from -67.2 percent in Q2 2020 and -16.4 percent in Q1 2020. The recent outturn brings the sector's YTD 2020 growth to -44.9 percent, driven largely by the substantial contraction in food

⁴ https://www.dbm.gov.ph/wp-content/uploads/DBCC/2020/NG_Disbursements_September_2020_for_posting.pdf

and beverage service activities (-38.6 percent in Q1-Q3) and accommodation (-55.7 percent).

The imposition of CQ measures since March significantly limited the operational capacity of food and beverage establishments. Meanwhile, the contraction in accommodation can be attributed to the limited services provided by hotels and other accommodation establishments, which only catered to service frontliners, stranded Filipinos and foreign nationals, returning overseas Filipino workers (OFWs), non-OFWs, and locally stranded individuals under mandated quarantine⁵.

- d. **Information and communication.** Growth of the information and communication sector decelerated to 0.8 percent in Q3 2020 from 9.4 percent in Q2 2020 and 5.1 percent in Q1 2020. This brings the YTD 2020 growth to 5.3 percent. The sector's growth was tempered by the decline in publishing & information (-20.8 percent in Q1-Q3), which partly offset the gains in communication (8.1 percent).
- e. **Financial and insurance activities.** Financial and insurance activities picked up to 6.2 percent in Q3 from 5.4 percent in Q2, although still lower than the 9.1 percent growth in Q1, bringing YTD 2020 growth to 6.8 percent. All activities in the financial sector posted positive growth rates in Q1-Q3, except insurance and pension funding (-9.9 percent in Q1-Q3). The decline in insurance activities could be attributed to the disruption in selling opportunities during the lockdown period and the extension of grace period for late premium payments.⁶ Meanwhile, banking institutions (15.2 percent) recorded a double-digit expansion primarily as the central bank's accommodative monetary policy stance⁷ as well as its support for digital channels such as online banking facilities and electronic money platforms enabled continuous access to basic financial services.⁸
- f. **Real estate and ownership of dwellings.** Real estate and ownership of dwellings posted softer declines of 22.5 percent in Q3 2020 from a decline of

⁵ <https://www.officialgazette.gov.ph/downloads/2020/07jul/20200716-omnibus-guidelines-on-the-implementation-of-community-quarantine-in-the-philippines.pdf>

⁶ https://www.insurance.gov.ph/wp-content/uploads/2020/03/CL2020_18-final.pdf

⁷ <https://www.bsp.gov.ph/SitePages/PriceStability/MonetaryPolicyDecision.aspx>

⁸ <https://www.bsp.gov.ph/SitePages/MediaAndResearch/MediaDisp.aspx?ItemId=5253>

29.7 percent in Q2 2020 and a decline of 2.3 percent in Q1 2020, bringing the YTD 2020 growth to -18.6 percent. The significant contraction in real estate (-34.9 percent in Q1-Q3) tempered the gains in ownership of dwellings (2.1 percent) and dragged down the overall performance of the sector. The real estate segment was affected by mall closures, rent concessions, and lower foot traffic in business establishments.⁹

- g. **Professional and business service activities.** The professional and business service activities sector recorded a less negative growth in Q3 2020 at -9.4 percent from -15.9 percent in Q2 2020, and a turnaround from the positive 0.2 percent growth in Q1 2020. The latest outturn brings the sector's Q1-Q3 growth to -9.1 percent, which can be attributed to the CQ measures implemented since March, particularly in major economic hubs such as Metro Manila, CALABARZON, and Cebu city.
- h. **Public administration and defense.** Growth in public administration & defense & compulsory social activities moderated to 4.5 percent in Q3 from 7.1 percent in Q2 and 5.5 percent in Q1. This brings YTD 2020 growth to 5.8 percent, on account of the sustained increase in disbursements for personnel services.
- i. **Education.** Growth in the education sector dipped further to -21.4 percent in Q3 2020 from -15.0 percent in Q2 2020, reversing the 1.1 percent growth in Q1 2020. This pulled the sector's Q1-Q3 growth down to -12.0 percent. The subdued performance of the sector can be attributed to the contraction in both private (-31.6 percent in Q1-Q3) and public education (-0.8 percent).

The postponement of class openings to October 2020¹⁰ partly dragged down the growth in education in the last two quarters. Lower enrollment also pushed 865 out of the 14,435 private schools in the country to put off operations this year.¹¹ Moreover, loss of livelihood and concerns over safety

⁹ Various quarterly reports of industry players as of Q3 2020.

¹⁰ Official Statement on the Opening of Classes, <https://www.deped.gov.ph/2020/08/14/official-statement-on-the-opening-of-classes/>

¹¹ As stated by Secretary Briones during the DepEd online press conference, 14 September 2020: <https://www.facebook.com/depedayo/videos/643710136257437>

amid the ongoing pandemic were cited as the main reasons behind parents' decision to delay enrollment.¹²

- j. **Human health and social work activities.** The contraction in health and social work sector eased to -4.0 percent in Q3 2020 from -15.1 percent in Q2 2020 and 4.7 percent in Q1 2020, bringing YTD growth to -5.2 percent. The decline in YTD growth was largely due to the reduction in private health (-18.9 percent in Q1-Q3) as many private patients decided to postpone elective procedures for fear of hospital-acquired COVID infection. This has offset the gains in social work (15.5 percent) and public health (43.0 percent).
- k. **Other services.** Other services recorded double-digit contractions for three consecutive quarters (-53.4 percent in Q3, -63.0 percent in Q2, -10.6 percent in Q1), bringing the YTD 2020 growth to -41.5 percent. The sector's negative growth in Q1-Q3 was driven mainly by the significant reduction in arts, entertainment and recreation (-50.3 percent in Q1-Q3) and other service activities (-26.5 percent). The implementation of CQ measures during the reference period limited the operations of most establishments while mass gatherings remained restricted.

¹² In a statement by Usec. Revsee Escobedo during the "Laging Handa" online briefing, 15 July 2020.