DLSU REPORT OF THE PHILIPPINE ECONOMY

DLSU-AKI POLICY BRIEF
2025-08-060, AUGUST 2025

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The Philippine economy recorded a year-on-year growth of 5.5% in the second quarter of this year. Compared with our July 2025 forecast (5.3%), our updated August 2025 projections show a full-year growth of 5.48%, with a notable Q4 performance of 6.35% (Table 1). This revised forecast is more closely aligned with the government's updated target range (5.5-6.5%) and indicates steady, accelerated growth. The outlook for 2026 is even more optimistic, with growth expected to reach 6.15% (Philippine potential growth).

TABLE 1: YEAR-ON-YEAR GROWTH RATES (%): ACTUAL (2024-2025 Q2) AND FORECASTS (2025 Q3-2026)

	2024a	2025 Q1a	2025 Q2a	2025 Q3	2025 Q4	2025	2026
GDP	5.7	5.4	5.5	4.9	6.35	5.48	6.15
Private Consumption	4.9	5.3	5.5	6.12	3.99	5.21	5.59
Government Expenditure	7.3	18.7	8.7	6.49	7.37	10	10.76
Gross Fixed Capital Formation	6.3	6.5	2.6	2.47	2.73	4.16	1.73
Exports	3.3	7.1	4.4	2.46	2.57	3.91	5.09
Imports	4.2	10.3	2.9	1.35	1.35	4.21	3.47
Agriculture	-1.5	2.2	7	6.81	6.94	5.4	6.68
Industry	5.6	4.6	2.1	1.18	2.01	2.36	3.31
Service	6.7	6.2	6.9	6.39	8.26	6.94	7.34

Source: Philippine Statistics Authority (actual), DLSU High-Frequency Model of the Philippine Economy (forecasts)
Notes:
(i) a — Actual values
(ii) The forecasts generated by the DLSU High-Frequency Model of the Philippine Economy are based on the Seasonally-Adjusted National Accounts.

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Our monthly model relies on indicators of the Philippine economy. For several months, these indicators showed no significant changes, and the model produced a growth forecast of 5.3%. Recently, improvements in some indicators (e.g., employment in health, manufacturing of transport equipment, and external financing) led to an upward adjustment in our model's forecasts. Q2 2025 GDP growth outperformed our earlier projection, supported by a public spending growth of 8.7%, which is expected to increase to 10% in 2025. Private household consumption is also expected to rise by 5.2% in 2025 (up from our previous estimates of 4.8%, with a significant peak in Q3 2025 (6.1%). The stronger-than-expected Q2 performance, combined with sustained public sector spending, suggests that the economy may maintain a more steady growth trajectory in the coming quarters. This is in contrast to 2024, when momentum weakened in the latter part of the year despite a strong mid-year performance.

While performance picked up in Q2, our forecasts reveal a decline in capital growth to 4.16% in 2025—lower than the 6.3% growth in 2024—and 1.73% in 2026. We also expect a significant decline in industrial sector output growth, which is expected to drop from 5.6% to just 2.36% in 2025 and 3.31% in 2026

In the trade sector, we forecast import growth to decline from 10.3% in Q1 2025 to just 1.35% in the final two quarters of the year, before settling at 4.21% in 2025. Although the impact of the US reciprocal tariffs on the Philippine economy remains blurry (see discussion below), our model projects export growth to exhibit a marginal uptick of 3.91% in 2025 from 3.3% in 2024. Trade deficit is eventually anticipated to narrow as exports grow faster (5.09%) than imports (3.47%) in 2026.

On the production side, declining growth in industrial output is expected to be offset by an accelerating growth of 6.94% in the service sector in 2025. We forecast a notable surge of 8.26% in Q4 2025, with further acceleration to 7.34% in 2026. These forecasts exceed our previous forecasts of 6% for 2025 and 5.78% for 2026. Additionally, after contracting by 1.89% in 2024, the agriculture sector is predicted to rebound strongly in 2025 with a 5.4% growth in 2025, and is expected to sustain momentum in 2026 at 6.68%.

The Philippine High Frequency Model of De La Salle University (DLSU) generates monthly and quarterly forecasts of the Quarterly National Accounts, reported by the Philippine Statistics Authority. The model uses Quarterly National Accounts and over 50 monthly indicators. The process involves pooling the indicators into factors used for predicting both the National Accounts and the indicators themselves. The predicted values of the National Accounts undergo disaggregation and benchmarking to obtain the forecasts. This report presents the actual and forecast year-on-year (y-o-y) and quarter-on-quarter (q-o-q) percentage changes of the National Accounts, and y-o-y growth rates of the indicators, based on the latest available information.

Data Source: Philippine Statistics Authority, Bangko Sentral ng Pilipinas, and other Philippine Government websites.

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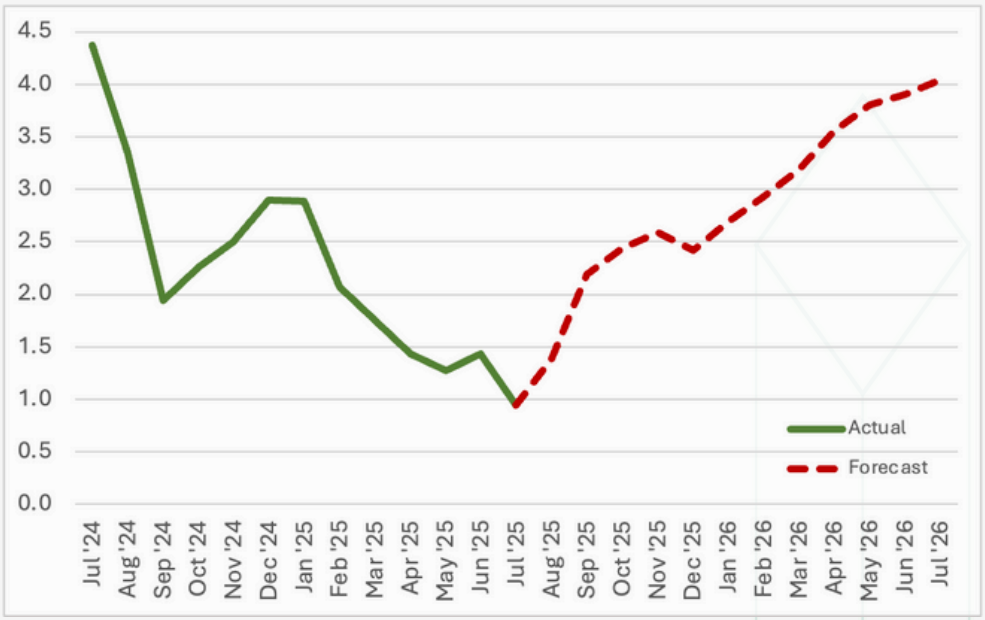
INFLATION

Consumer price changes have slowed down to 0.9% y-o-y compared to last month's 1.4%. We expect inflation to average at 1.9% for 2025.

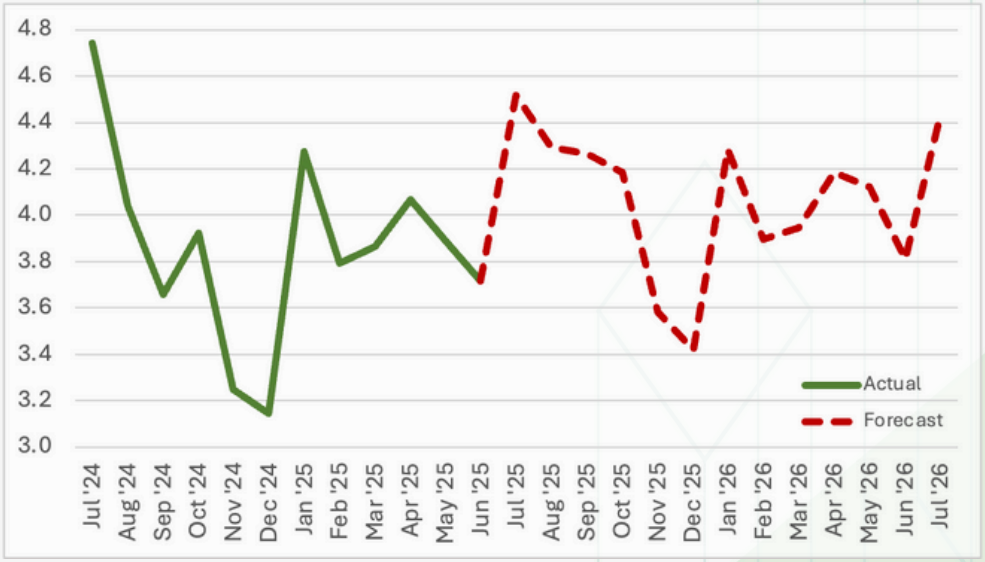
FIGURE 1. INFLATION RATE (%)



UNEMPLOYMENT

The unemployment rate fell to 3.7% in June 2025 from 3.9% in the previous month (Figure 2). We forecast an average unemployment rate of 4.0% for 2025.

FIGURE 2. UNEMPLOYMENT RATE (%)



Data Source: Philippine Statistics Authority, Bangko Sentral ng Pilipinas, and other Philippine Government websites.

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EMPLOYMENT

In June 2025, employment in the Agriculture, Forestry, and Fisheries (AFF) sector and in the Industry (IND) sector fell by 0.6% and 11.9%, respectively, year-on-year (Figure 3). Employment in the Services (SER) sector rose by 5.0% in the same month, year-on-year. We forecast the annual average employment of AFF and SER to rise by 1.8% and 3.4%, respectively. In the IND sector, we forecast the annual average employment to decrease by 1.4% (Figure 4).

FIGURE 3. Y-O-Y % CHANGE IN EMPLOYMENT, JUNE 2025 VS 2024

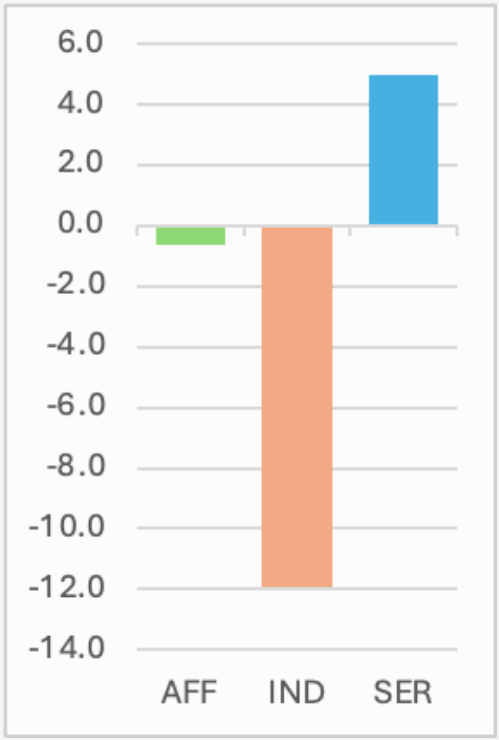
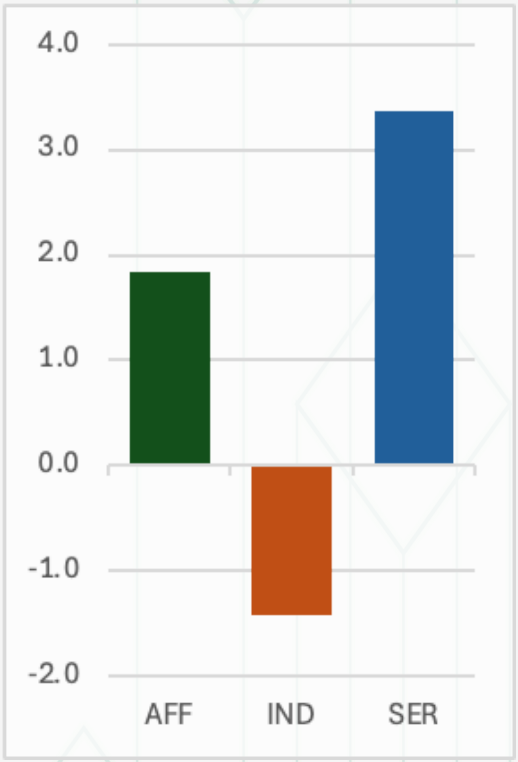


FIGURE 4. % CHANGE IN ANNUAL AVERAGE EMPLOYMENT 2025* VS. 2024



*July-December 2025 are forecasts values

Data Source: Philippine Statistics Authority, Bangko Sentral ng Pilipinas, and other Philippine Government websites.

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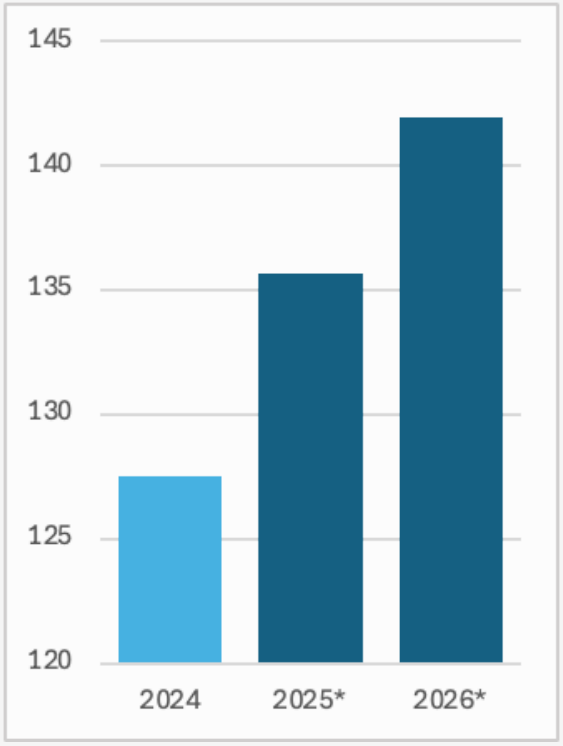
TRADE

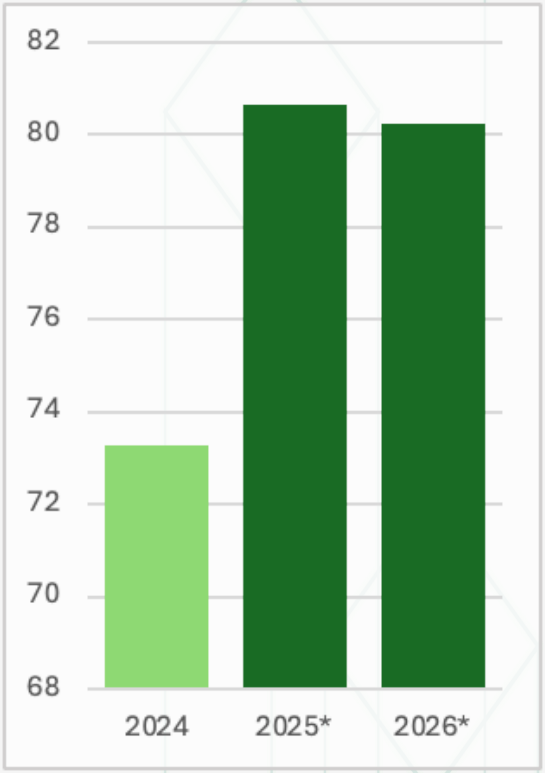
In June 2025, import flows slightly increased by 0.2% compared to the previous month, while exports decreased by 4.0%. Our forecasts indicate that total annual imports in 2025 will grow by 6.4%, and total annual exports by 10.1%.

FIGURE 5. TOTAL ANNUAL IMPORTS (IN BILLIONS USD), 2024-2026*



*July-December 2025, 2026 are forecasts

FIGURE 6. TOTAL ANNUAL EXPORTS (IN BILLIONS USD), 2024-2026*



*July-December 2025, 2026 are forecasts

It is too early to evaluate the effects of the higher American tariffs

The revised American tariffs on imports, imposed to nearly 100 countries, took effect (for most countries) on August 7. The tariff rate on Philippine exports was set at 19% **(see** The tariff war and implications for the Philippines**).** However, it is important to note that not all products will be subject to this tariff rate as there are products that have been granted exemptions. Approximately 33% of our exports to the US fall within these exempt categories.

President Trump has also flagged the idea of imposing a 100% tariff on semiconductors. This remains under discussion, adding to the existing uncertainty. US President Trump is set to make announcements in the coming weeks. Note that most semiconductors are classified under HS codes 8541 and 8542 and these two categories are currently listed among the exemptions under Annex II of the U.S. tariff schedule (last accessed 17th August 2025). It is unclear whether these exemptions will continue to hold under the ongoing negotiations.

Data Source: Philippine Statistics Authority, Bangko Sentral ng Pilipinas, and other Philippine Government websites.

Philippine exports to the US can be divided into two groups. The first group accounts for about 65% of total exports to the US, valued at roughly USD 9.5 billion, and is composed largely of electronic components (classified under only two categories HS 85 and HS 84). The second group consists of about 89 categories, with a combined value of USD 5 billion and average exports of around USD 57 million. Examples are coconut oil, articles of leather, rubber and furniture.

We will need several months of data to evaluate the impact. In any case, based on the August release of the Asia-Pacific Consensus Forecasts, growth projections for 2025 remain largely unchanged for most countries, including the Philippines. In fact, for some countries, this month's average growth forecast is higher than last month's. Examples are those of China (+0.2 percentage points), Vietnam (+0.3 percentage points) and Taiwan (+1 percentage point).

We need to emphasize that tariffs are paid by the consumers of the importing country, the US in this case. This means that they will be the first ones to feel the impact via higher prices. What happens next will depend on how sensitive American consumers are to the higher prices. If they are not, they will pay the higher price and will continue consuming the same quantity of imports.

At the other extreme, if they are very sensitive to the price increase, their consumption of imported goods subject to the tariff will decrease significantly (potentially to zero), and consequently exports will decrease. This is how the exporting countries will feel the impact.

In between, there is a myriad of possibilities. One possibility is that American importing firms do not pass the entire tariff to the American consumer. In this case, their profits will decrease (somewhat unlikely but an option).

Another option is that exporting companies lower their prices at origin. Then they will be the ones seeing their profits reduced. A variant of this option is that producers in the exporting country manage to increase productivity and this is the source of the lower prices. In this case, their profits will not decrease. This would be ideal. In the face of the current situation, the tariff increase is a great opportunity for Philippine firms to improve all areas of organization and production to increase productivity.

If the purpose of the tariffs is to reduce the American trade imbalance, the tariffs would reflect this logic: higher tariffs to the countries running the largest surpluses against the US. This is hardly the case. Two obvious examples of very high tariffs but small surpluses against the US are Brazil and India (50% on both). This is also the case for small countries like Lao PDR, or Myanmar (40% on both). Our interpretation is that the purpose of the tariffs is to reward/punish geopolitical alignment with/against the US.

With the information we have, we conclude that Philippine growth is not affected downwards by the imposition of the American tariffs. We need more data. Our assessment is that it will be the American economy that will be affected first and foremost. We have seen the results of several models that estimate the impact of the tariffs. All coincide that US will be negatively affected.

Data Source: Philippine Statistics Authority, Bangko Sentral ng Pilipinas, and other Philippine Government websites.

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FORECASTS OF SELECTED PHILIPPINE MONTHLY INDICATORS, JULY 2024 TO JULY 2026

FIGURE 7. EMPLOYMENT LEVEL BY SECTOR (IN MILLIONS)

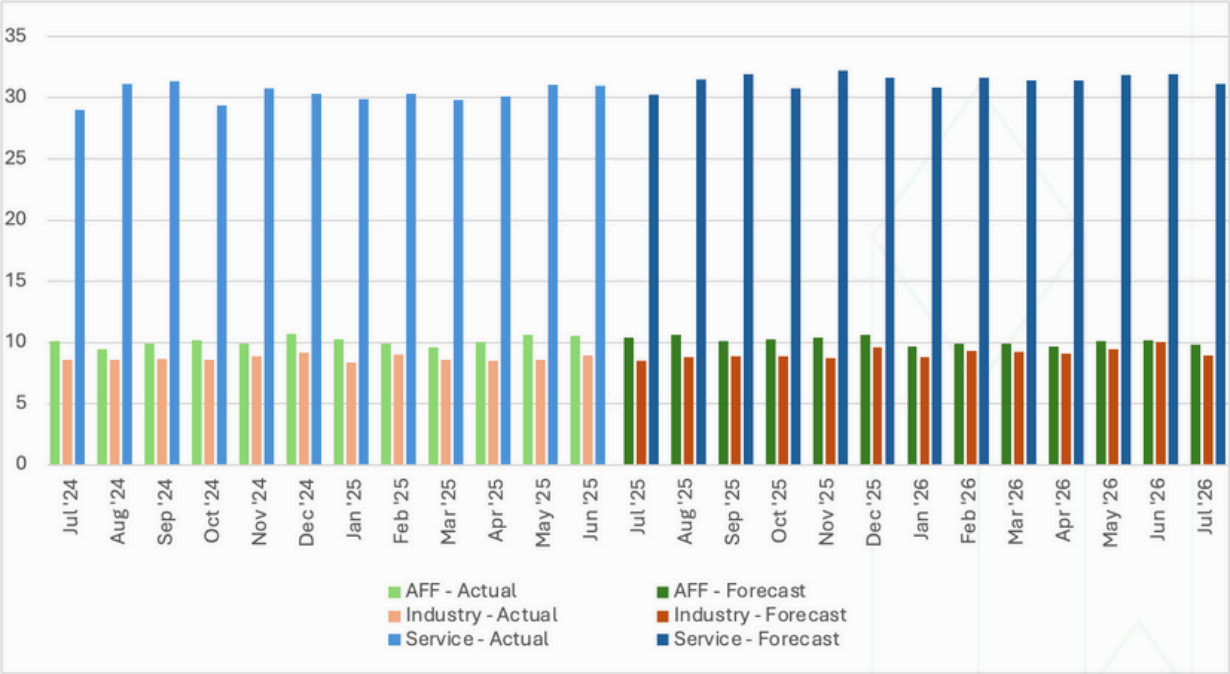

FIGURE 8. AVERAGE CAPACITY UTILIZATION RATE (%)

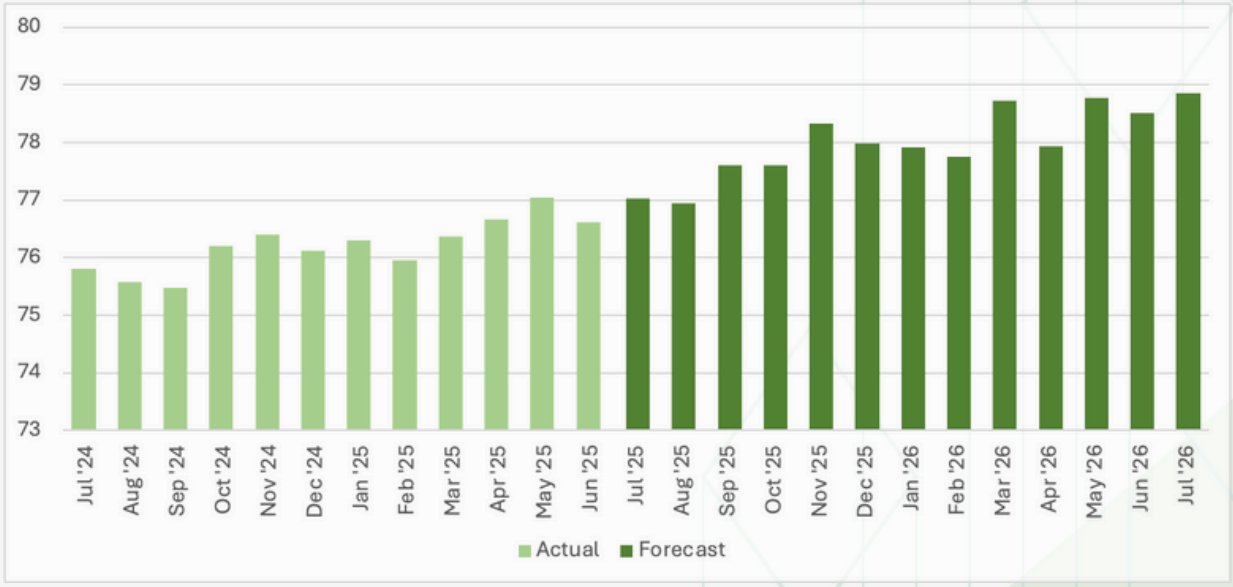

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FIGURE 9. PHP/USD EXCHANGE RATE (END-OF-PERIOD)

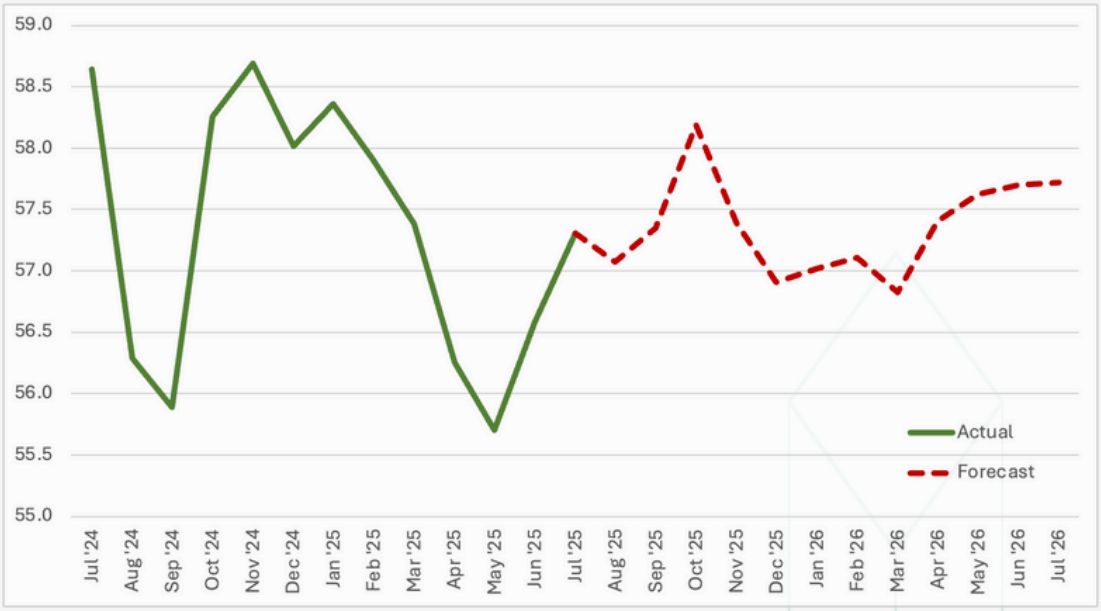
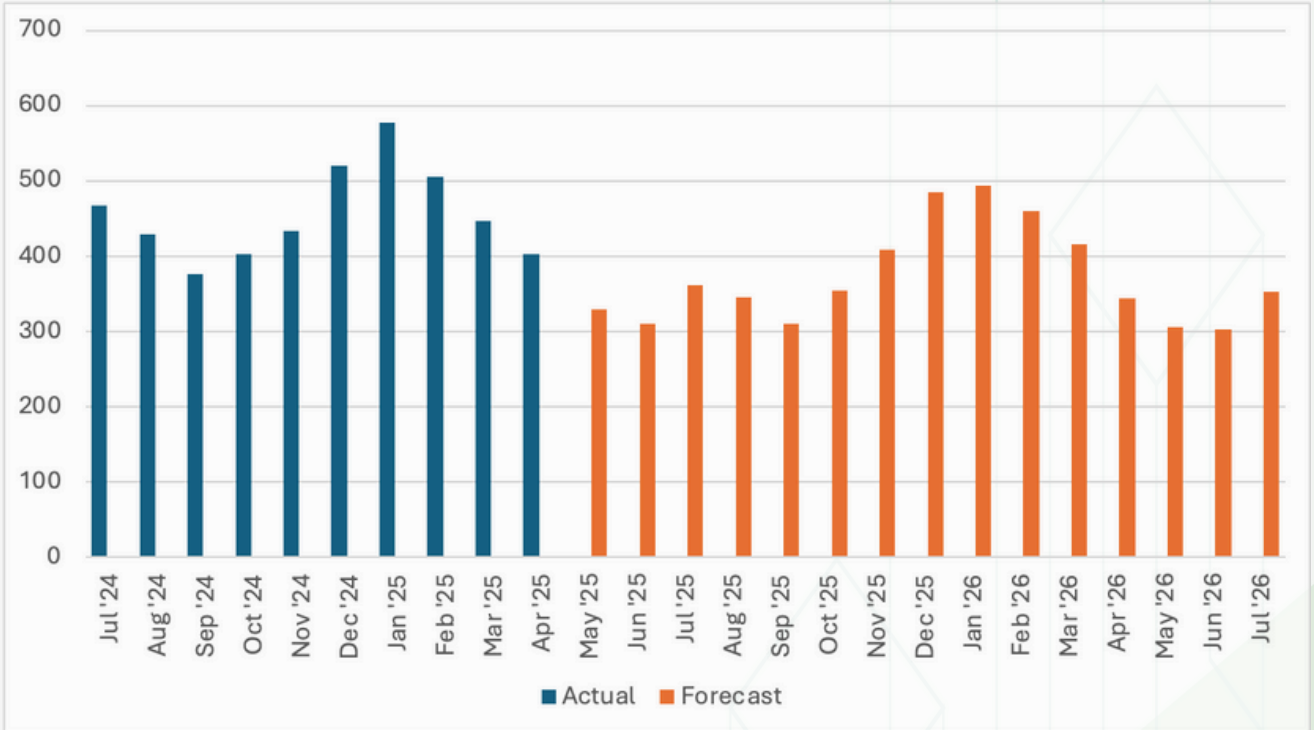


FIGURE 10. TOURIST ARRIVALS (IN THOUSANDS)



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