DLSU REPORT OF THE PHILIPPINE ECONOMY

September 2025

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Our September 2025 forecasts show that the Philippine economy will grow by 5.35% in 2025. This is a more conservative estimate than that provided in our August 2025 forecast, 5.48%, and lower than the government's updated target range of 5.5-6.5%. We also forecast that the economy will slowdown in Q3 2025 (4.75%) before closing strong in Q4 2025 (5.98%), a trend that remains consistent with our previous forecasts. Although full-year growth estimates for 2026 (5.64%) and 2027 (5.78%) indicate stable growth, such figures are lower than our last month's forecasts for 2026 and 2027.

Table 1: Year-on-Year Growth Rates (%)
Actual (2024-2025) and Forecasts (2025 Q3-2027)

	2024 [a]	2025Q1[a]	2025Q2[a]	2025Q3	2025Q4	2025	2026	2027
GDP	5.7	5.4	5.5	4.75	5.98	5.35	5.64	5.78
Private Consumption	4.9	5.3	5.5	6.70	5.06	5.63	6.49	5.81
Government Expenditure	7.3	18.7	8.7	6.37	7.31	9.95	10.98	10.03
Gross Fixed Capital Formation	6.3	6.5	2.6	3.62	2.87	4.35	1.49	2.60
Exports	3.3	7.1	4.5	2.13	1.96	3.67	4.69	5.11
Imports	4.2	10.3	2.9	2.81	4.37	5.31	6.25	5.41
Agriculture	-1.5	2.2	7.0	6.74	6.95	5.39	6.80	6.14
Industry	5.6	4.6	2.1	2.11	3.36	2.94	2.97	2.38
Service	6.7	6.2	6.9	5.72	7.05	6.46	6.70	7.20

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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Private household consumption is expected to remain robust across all quarters this year, with a notable peak in Q3 2025 at 6.7%, before eventually closing at 5.63% in 2025. This steady growth may be attributed to the low inflation rate (1.5%) in August 2025. Private consumption growth forecasts for 2026 (6.49%) and 2027 (5.81%) exhibit sustained growth in consumption, a possible scenario given the likely rate cuts by the Bangko Sentral ng Pilipinas.

Public spending growth is expected to slow during the last two quarters of 2025 (6-7% growth). We anticipate that it will support economic expansion in 2025, growing by 9.95%. This high growth will continue in 2026 and 2027, 10.98% and 10.03%, respectively.

On the other hand, our forecasts reveal deceleration in capital growth towards the end of 2025. The last two quarters show a continued decline, 3.62% in Q3 2025, and 2.87% in Q4 2025, before closing at 4.35% in 2025. The overall outlook for the next two years remain lackluster as investment spending is predicted to be weaker in 2026 (1.49%) and 2027 (2.60%). Coupled with reductions in employment within the industry sector in July 2025, we further expect the industrial sector output growth to decline from 5.51% in 2024 to 2.94% in 2025. The outlook in the next two years is not promising as this sector output growth is predicted to remain within the 2-3% range, 2.97% in 2026 and 2.38% in 2027.

In the trade sector, we forecast export growth to lose steam through 2025, with lower growth in Q3 and Q4, settling at 3.67% in 2025. This is a slightly lower export growth than in 2024 (3.84%). However, a gradual recovery may be anticipated in 2026 (4.69%) and 2027 (5.11%). Our September forecast for import growth, on the other hand, are higher than those of August (2.81% in Q3 and 4.37% in Q4) before closing at 5.31% in 2025.

On the supply side, the apparent weakness in the industry sector is expected to be offset by a resilient agricultural sector. Although our forecast last month was slightly higher (5.4% for 2025), a strong rebound in agricultural production is expected, bringing the year to a growth rate of 5.39%, with a much better outlook for 2026 (6.8%) and 2027 (6.14%). Moreover, the growth in the service sector output is anticipated to be faster at 6.46% in 2025, peaking in Q4 2025 at 7.05%. The sector also remains to be a key driver of growth in 2026 at 6.7% and 7.2% in 2027.

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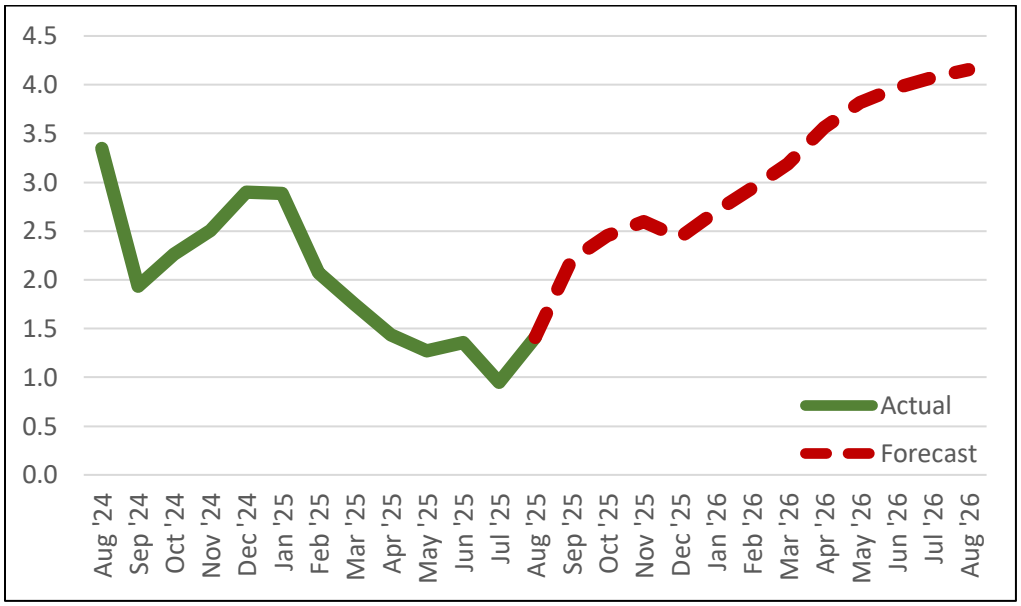
*The Philippine High Frequency Model of De La Salle University (DLSU) generates monthly and quarterly forecasts of the Quarterly National Accounts, reported by the Philippine Statistics Authority. The model uses Quarterly National Accounts and over 50 monthly indicators. The process involves pooling 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.

Inflation

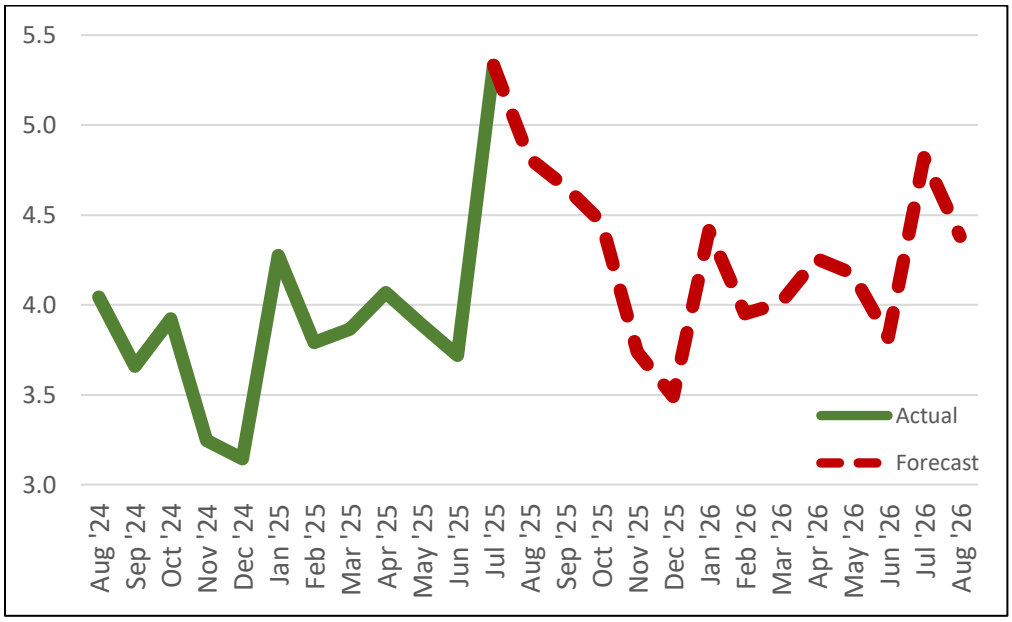
Figure 1. Inflation Rate (%, CPI 2018 = 100)



Consumer prices grew faster in August, recording a 1.5% inflation rate, higher than the previous month's 0.9%. We forecast inflation to pick up in the final quarter of this year, averaging 1.9% for 2025.

Employment

Figure 2. Unemployment Rate (%)



Unemployment was markedly higher in July 2025, hitting a three-year high of 5.3%. We forecast lower levels of unemployment for the remainder of the year, averaging at 4.2% for 2025.

Figure 3. % Change in Employment by sector, y-o-y (July 2025 vs. 2024)

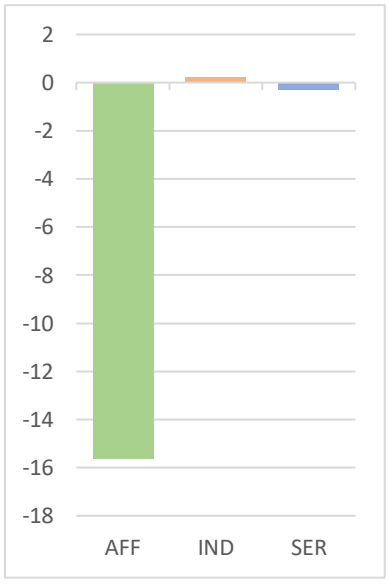
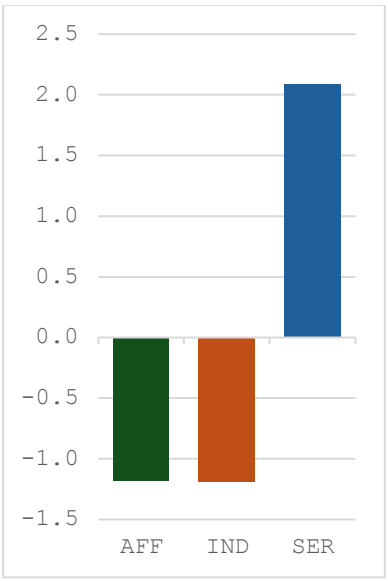


Figure 4. Change in average employment (2025 vs. 2024)*

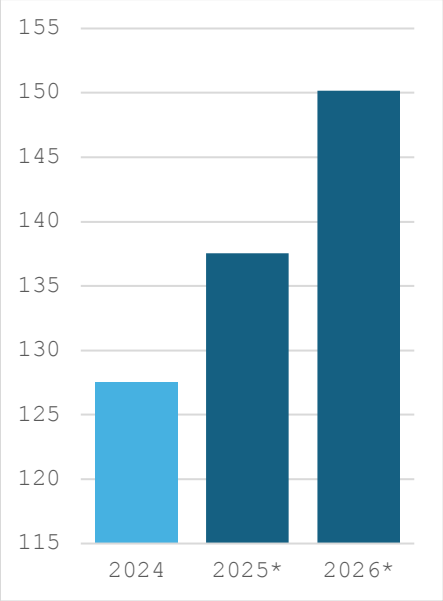


**August – December 2025 values are forecasts.*

In July 2025, the Agriculture, Forestry, and Fisheries (AFF) sector posted a large decrease in employment, compared to the same month last year, -15.6%. The Services (SER) sector saw a y-o-y decrease in employment by -0.3%, while Industry (IND) grew by 0.2%. We forecast both the AFF and the IND sectors to post a lower average employment growth for 2025, both at 1.2%, lower than the 2024 average. The 2025 average annual employment growth in services is forecasted to increase by 2.1% from its 2024 level.

Trade

*Figure 5. Total Annual Merchandise Imports**



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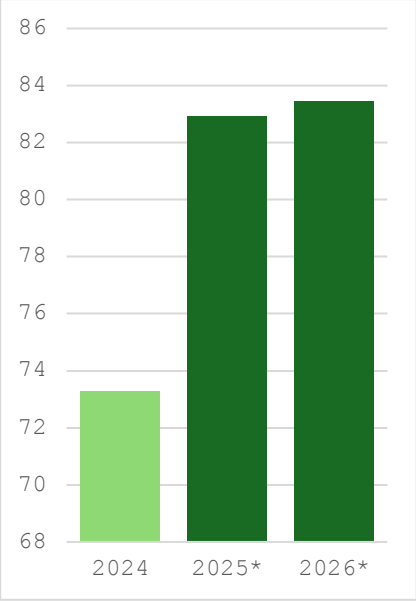
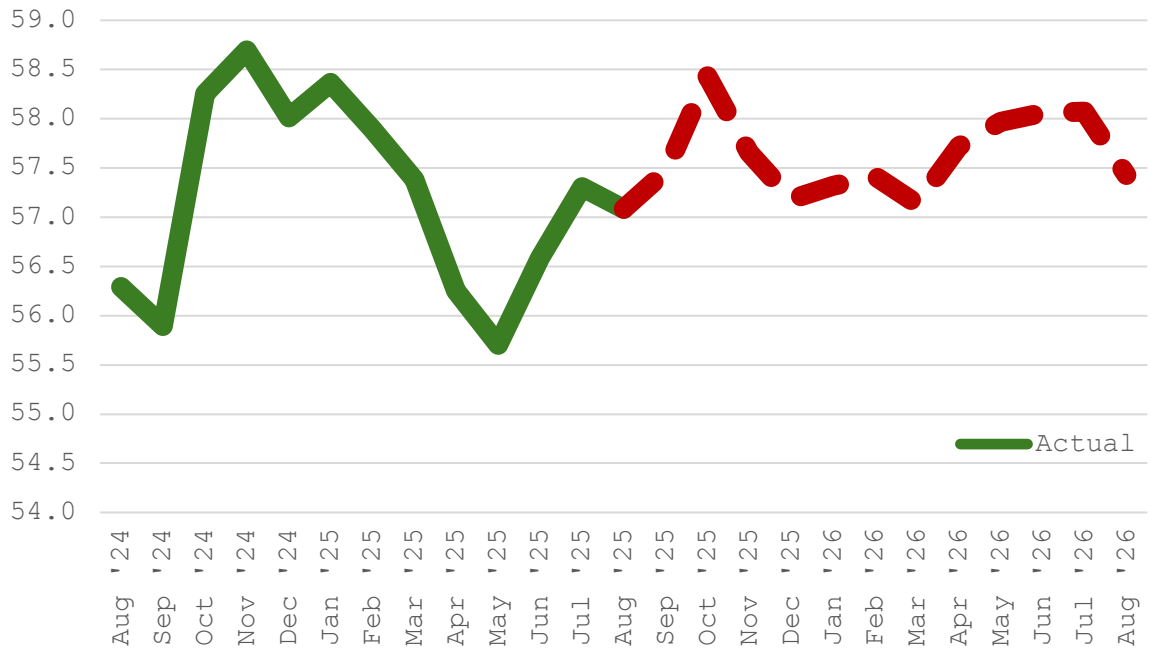


**August-December 2025, 2026 values are forecasts*

For 2025, we forecast merchandise exports to grow faster than imports at 13%. The forecasted growth of annual merchandise imports is at 7.8% this year.

Figure 6. PHP/USD Exchange Rate



The PHP/USD Exchange rate closed lower in August 2025 at PHP57.085. We forecast the dollar to close at PHP 57.17 in December, averaging at PHP57.27 in 2025.

U.S. Tariffs and Global Trade Dynamics

Global economic dynamics are increasingly influenced by the uncertainty emanating from U.S. trade policy. The tariff measures introduced during 2025 have revived tensions and uncertainties that had, at least in the commercial domain, appeared to have been mitigated. A broad set of tariffs has been applied to both strategic partners and rivals, officially justified as instruments to reduce the trade deficit, strengthen domestic industry, and revitalize the Rust Belt. However, preliminary evidence suggests that these objectives remain largely unfulfilled. Instead, the tariffs have contributed to heightened uncertainty, policy noise, and strategic repositioning, with uneven effects across countries and sectors. While the consequences are already observable, they appear to be pointing toward a gradual restructuring of global trade relations, from which no single actor is likely to emerge as the unequivocal beneficiary.

The US trade balance data for January–June 2025, released by several countries in August, provide the first significant indicator since the introduction of the tariffs. The figures reveal a dual distortionary effect. First, exports increased markedly in the first quarter, as firms accelerated shipments in anticipation of retaliatory tariffs. Second, this was followed by a slowdown in the second quarter, as uncertainty surrounding U.S. trade policy created hesitation and fostered a wait-and-see attitude among economic actors.

It is possible that the evolution of foreign trade statistics does not yet fully capture the medium- or long-term effects of the tariff measures. During the first quarter, exports to the United States rose significantly, as firms sought to strategically advance shipments in anticipation of impending restrictions. Beginning in April, however, uncertainty became the dominant feature of trade relations, discouraging commitments and reinforcing a climate of caution across international markets.

The available data corroborate this interpretation. The U.S. trade deficit reached approximately USD 465 billion between January and March 2025, compared with USD 278 billion during the same period of the previous year, largely due to a surge in front-loaded imports. Although imports from Europe and Asia declined between April and June, official figures indicate that the cumulative deficit for the first half of 2025 rose to USD 735 billion, compared with USD 577 billion in the corresponding period of 2024. On this basis, it is difficult to conclude that the United States is meeting its stated objective of reducing the trade deficit, at least according to the evidence currently available.

At present, indecision remains the prevailing condition. The most immediate consequence of the tariffs has been a marked rise in uncertainty affecting economic agents across sectors. The inconsistency of official announcements, combined with abrupt shifts in plans and threats, has led to the postponement of investment and the deferral of strategic decisions. This heightened uncertainty, reinforced by expectations of higher production and transaction costs, has prompted certain firms to suspend or scale back planned investments.

The tariffs introduced by Washington were explicitly designed to narrow the trade deficit and revitalize domestic industrial capacity. To date, however, the available evidence suggests that they have generated distortions and uncertainty rather than measurable progress toward these objectives.

Implications for the Philippine Economy

A few weeks ago, we were invited by the Economic Committee of the Philippine Senate to participate in a session on the potential effects of U.S. tariffs on the Philippine economy. The discussion revealed three main issues: (i) limited understanding of how tariffs work and their broader implications, (ii) insufficient creativity in formulating policy responses, and (iii) an overly political and nationalistic framing of the issue, exemplified by comparisons between the tariff rates applied to U.S. products in the Philippines (0%), and Philippine (19%) products in the US, as well as by comparisons of reciprocal tariffs imposed on other countries.

The Role of Tariffs

A tariff is a tax imposed on imported goods. Countries apply tariffs primarily for two reasons: to generate fiscal revenue and to protect domestic industries from foreign competition. In the case of the United States, the additional rationale articulated by the Trump administration was to reduce the trade imbalance. It is important to emphasize,

however, that tariffs are paid not by foreign producers but by the consumers of the importing country. Thus, the 19% tariff applied to Philippine exports is ultimately borne by American consumers. Previously, Philippine exports faced relatively low tariffs, typically around 2–3%. The increase is therefore significant, though it should also be noted that a substantial share of Philippine exports to the U.S.—particularly electronic semiconductors—remain exempt, as they serve as inputs for U.S.-based production.

On the other side, the Philippines has reduced tariffs on U.S. goods to 0%, down from an average of 6–7% (with certain goods, such as automobiles, facing much higher rates). This reduction implies that Philippine consumers will benefit from lower prices of U.S. products, a development that may improve consumer welfare. The Bureau of Internal Revenue may also benefit from higher tax collection. This is because even tariff collection will decline, Philippine consumers will see their disposable income to increase as a result of the 0% tariff rate. With higher disposable income, consumption, subject to 12% VAT, may increase. A blessing in disguise of BIR?

Policy Responses and Their Risks

During the Senate session, several business representatives requested government assistance in the form of subsidies for both domestic producers that face American imports, and for exporters. While such appeals are common, they pose significant risks. In the case of domestic firms, tariffs had previously shielded them from foreign competition, often at the expense of consumers, who were forced to pay higher prices for imports, and, quite often, to consume lower-quality local goods. Protecting a small number of firms (local producers) through subsidies or tariff barriers imposes costs on the country's 115 million consumers. A more sustainable policy approach is to enhance firm-level productivity, enabling companies to compete more effectively. Firms unable to improve their efficiency and quality standards may eventually have to exit the market. From a welfare perspective, the priority should be the well-being of consumers rather than the preservation of inefficient producers.

A similar logic applies to exporters. Competing successfully in global markets requires producing high-quality goods at competitive prices, which again hinges on productivity improvements rather than ongoing government support. Subsidies may be justified only under specific conditions—for example, when tied to learning processes, subject to clear time limits, and conditional on demonstrable export performance.

Moving Beyond Nationalism

Finally, framing the issue in purely nationalistic terms is counterproductive. Calls for retaliation, for example, would likely harm Filipino consumers more than they would influence U.S. policy. While the aggressive stance of the Trump administration has been widely perceived as unfair, the Philippines' most constructive response is to focus on enhancing competitiveness. Rather than relying on protectionist measures or subsidies, the situation presents an opportunity to accelerate reforms that strengthen productivity and, in turn, raise the incomes of Filipino workers.

Conclusion

The recent wave of U.S. tariffs under the Trump administration illustrates the complex and often counterproductive consequences of protectionist trade policies. While their stated objectives included reducing the U.S. trade deficit and revitalizing domestic industry, the evidence to date points instead to heightened uncertainty, trade distortions, and limited progress toward structural rebalancing. The global economy has responded unevenly, with firms accelerating exports in anticipation of restrictions and subsequently delaying investment amid persistent policy volatility. These dynamics suggest that the longer-term impact of the tariffs will be less about achieving immediate U.S. policy goals and more about triggering a reconfiguration of global trade relations, with no clear winners.

For the Philippines, the tariffs highlight the importance of understanding both the mechanics and the implications of trade policy. The debate within the Senate underscored three critical gaps: limited comprehension of how tariffs operate, a tendency to frame the issue in political-nationalistic terms, and an overreliance on traditional responses such as subsidies. A closer analysis shows that tariffs are borne by consumers in the importing country, that Philippine exports are unevenly affected due to sectoral exemptions, and that Filipino consumers may benefit from reduced tariffs on U.S. goods. These realities underscore the need for policy grounded in economic fundamentals rather than political rhetoric.

The appropriate policy response for the Philippines is not to retaliate or to shield firms indefinitely but to invest in enhancing productivity and competitiveness. This applies both to domestic producers, who must improve efficiency to compete with imports, and to exporters, who must upgrade quality to remain viable in global markets. Time-bound and conditional support may play a role in facilitating learning, but long-term reliance on protection is both costly and unsustainable. Ultimately, the priority of economic policy should be the welfare of Filipino consumers and workers, achieved through reforms that foster innovation, efficiency, and integration into global value chains.

The broader lesson is that protectionist measures, while politically appealing, rarely deliver their intended outcomes. Instead, they create uncertainty, distort incentives, and often impose greater costs on consumers than the benefits they provide to producers. For countries like the Philippines, the current context offers not only challenges but also opportunities: to rethink industrial and trade strategies, to strengthen firm-level capabilities, and to ensure that integration into global markets translates into sustainable improvements in national welfare.

Appendix

Figure 7. Employment, by sector (in millions of people)

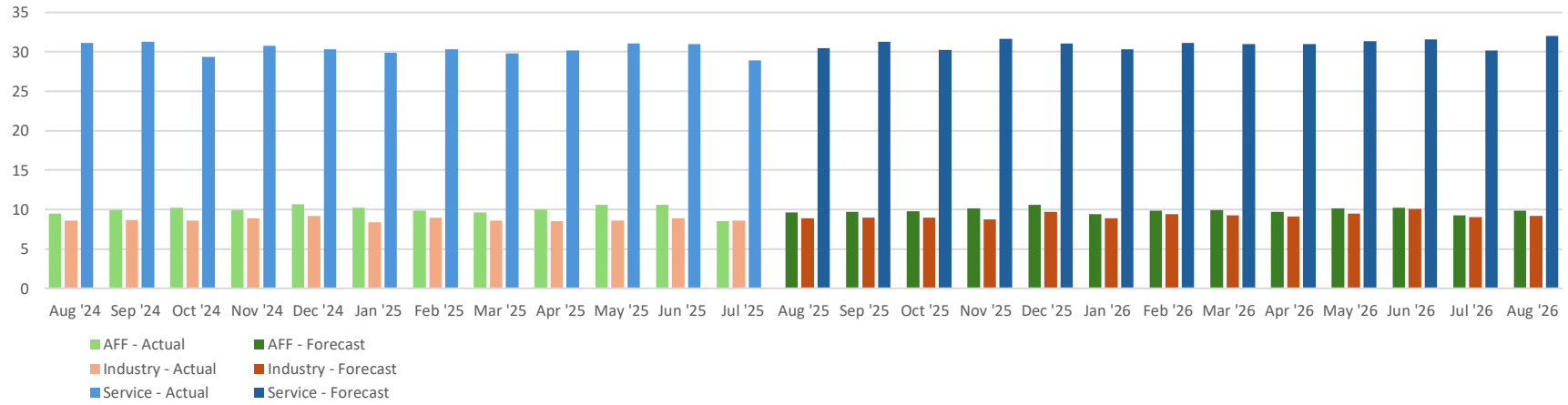


Figure 8. System Peak Demand (in thousands MW)

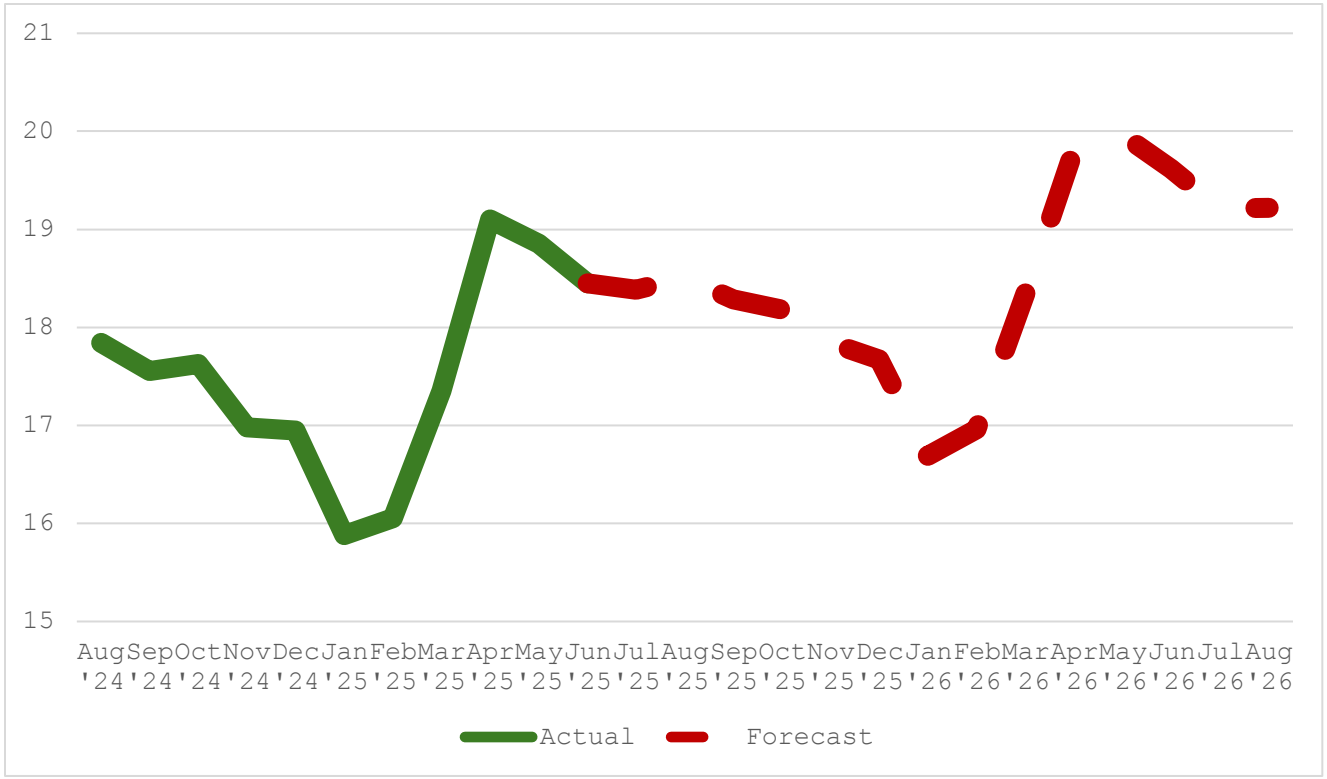


Figure 9. Tourist Visitor Arrivals (in thousands)

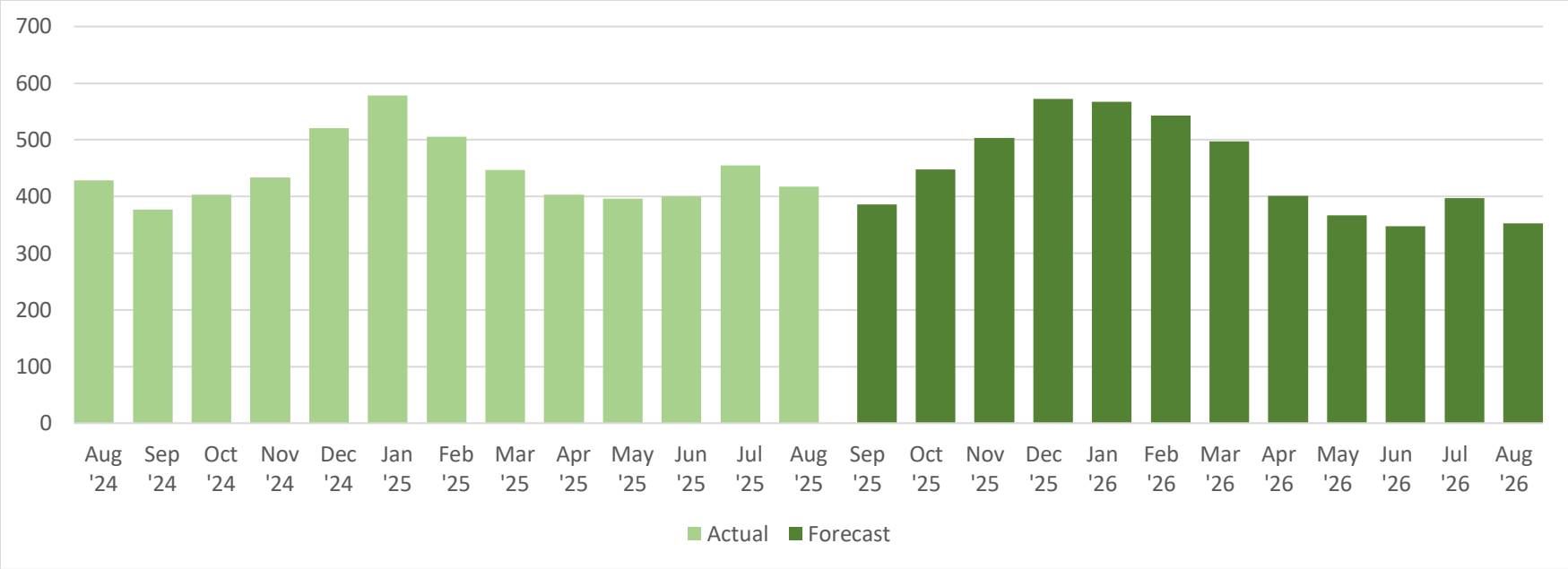
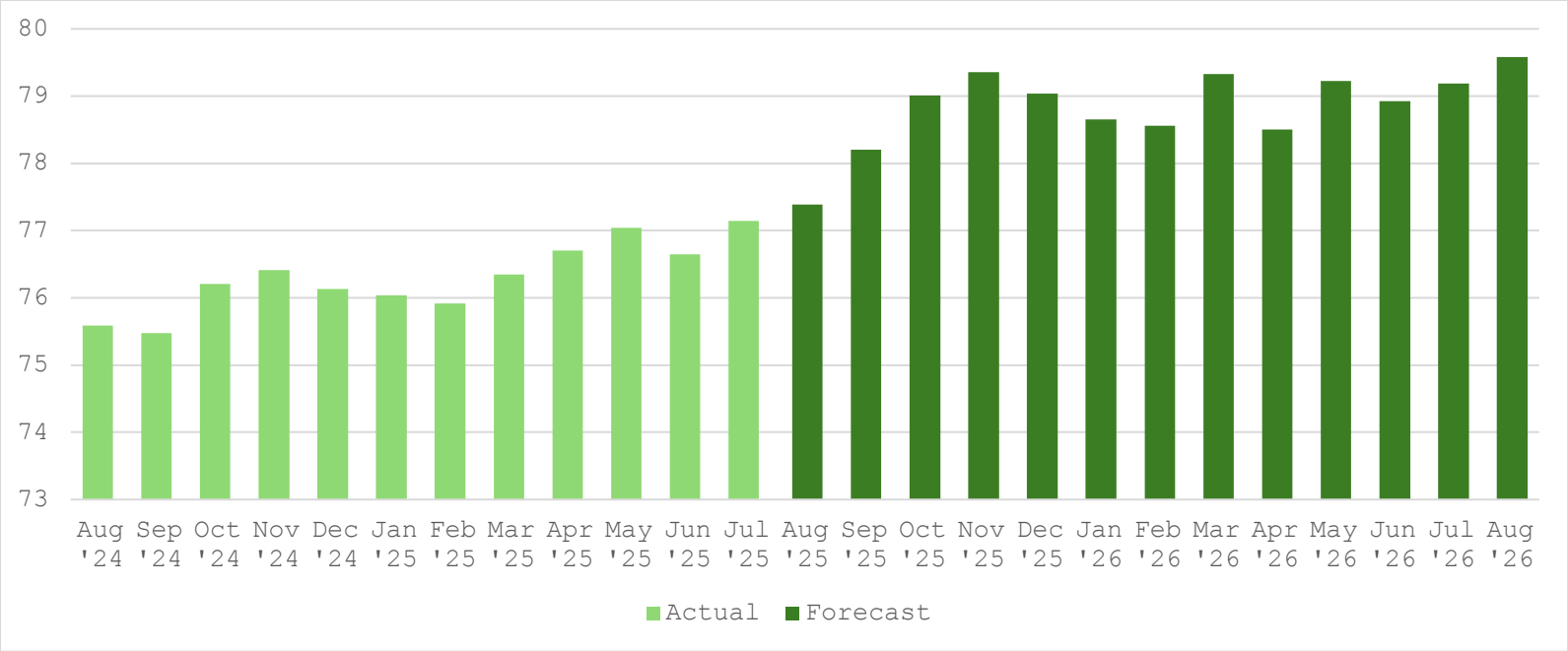


Figure 10. Average Capacity Utilization Rate (%)



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