



# The Philippines: a consumption story

Notes from the road

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**“One mall operator told me that on average, they receive 3.3 million pedestrians daily across their complexes, whilst another mentioned that their busiest stores are Hermes and Louis Vuitton.”**

Visiting the Philippines recently, I walked through the Fort Bonifacio area of Metro Manila. It’s the equivalent of Times Square, and I could really sense the thriving consumerism in the country.

Despite the pressures of inflation and high interest rates since 2022, consumption has been remarkably resilient. With 59% of the population under 30<sup>1</sup>, unemployment at decade lows of 3.1%<sup>2</sup>, thriving Business Process Outsourcing (“BPO”) revenues and Overseas Filipino Worker (“OFW”) remittances, this can only mean one thing: getting a restaurant reservation in Manila is near impossible. On that note, it was interesting to witness the excitement around the upcoming Gordon Ramsay restaurant, due to open later this year.

My visits to various malls and real estate developments echoed this hunger to consume. According to my local contacts, OFWs love to return to their home countries and spend on aspirational goods, whether that’s fine dining, housing or even Van Cleef & Arpels jewellery. In fact, one mall operator told me that on average, they receive 3.3 million pedestrians daily across their complexes, whilst another mentioned that their busiest stores are Hermes and Louis Vuitton. The highest level of pet ownership in Asia further demonstrated the conspicuous consumer!

The country has not fallen short of challenges, however. Once a darling in EM equities, the Philippines has fallen out of favour in recent years, challenged by foreign outflows, rising twin deficits, tight lockdowns and a controversial former President, Rodrigo Duterte.

After many years under a socialist administration, the Philippines transitioned to more stability under Ferdinand “Bongbong” Marcos. Compared to his predecessor, President Marcos remains far more focused on driving FDI, repairing relationships with the West and driving infrastructure investment through public-private partnerships (“PPPs”).

<sup>1</sup> Philippines Statistics Authority, December 2022, based on 2020 census.

<sup>2</sup> [Jobless rate in the Philippines fell to two-decade low of 3.1% - Manila Standard.](#)



Visiting a colourful leading local retailer.

I managed to see one such reclamation project – a 360-hectare development in the Manila Bay area. Most recently, the Marcos administration has also awarded the privatisation and upgrade of the country’s main airport, which is a positive step towards improving the tourism sector. Judging by the immigration queues and thriving OFW demand, an upgrade is drastically needed.

During my trip, however, I saw some political uncertainty following Marcos’ push to change the constitution, driving ‘Cha-Cha plebiscite’ demonstrations in the country<sup>3</sup>. Whilst the administration argues this would further open the economy for foreign investment, the most contentious point is that any potential changes to the constitution open up the possibility of presidential term limits being amended. This isn’t ideal when the President is the son of a former dictator and kleptocrat...

Sustainable growth in FDI seems challenging, in our team’s opinion. Currently the Philippines has some of the highest electricity prices in the region. This is a considerably large hurdle to overcome in order to develop a large manufacturing sector, a key driver for most FDI in neighboring countries. Over the longer term, we remain cognisant of the fact that the rapid surge in AI and large language models (“LLMs”) could pose a significantly threat to the Philippines. The BPO industry represents approximately 8% of GDP and employs about 1.5 million Filipinos<sup>4</sup>. In the long run, the Philippines will need to upskill its BPO workers to stay competitive and drive further investment.

One noticeable characteristic of the country is its strong presence of family run conglomerates, arguably another roadblock to driving FDI. These businesses and their subsidiaries make up 67% of the market cap of the Philippine Stock Exchange (“PSE”)<sup>5</sup>. Among IPOs between 2013-2023, 50% of the value of listings was attributable to companies owned by major family groups<sup>6</sup>. Armed with strong balance sheets, these conglomerates have been able to consistently invest and expand across the country.

<sup>3</sup> Constitutional amendments, commonly referred to as ‘Cha-Cha’ for ‘charter change’.

<sup>4</sup> Philippine BPO Statistics 2023 | Magellan Solutions (magellan-solutions.com).

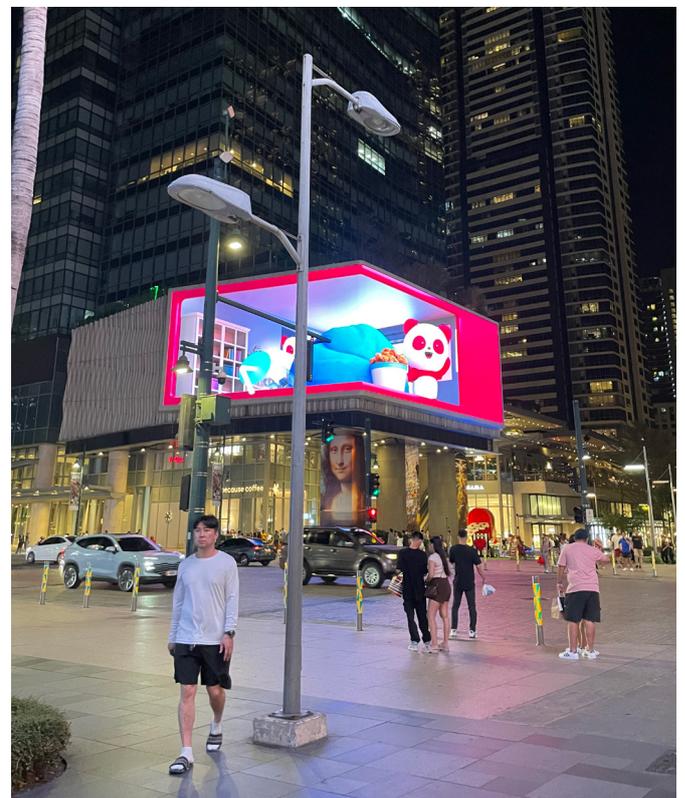
<sup>5,6</sup> Cross Connections: Philippines, UBS, February 2024.



SM Pasay reclamation project, Manila.

**“One noticeable characteristic of the country is its strong presence of family run conglomerates, arguably another roadblock to driving FDI.”**

Historically, the Philippines has been an expensive market. However, after years of de-rating, the MSCI Philippines Index now trades on 11x 1-year forward P/E, the lowest in over a decade. Looking over the long term, we think that the Philippines will continue to be an interesting country, but given its structural challenges, we would selectively invest in areas that benefit from thematic drivers, such as domestic consumption and financialisation.



Fort Bonifacio, Manila.

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Ashna is a portfolio manager on the RBC Emerging Markets Equity team at RBC GAM and is currently responsible for research in South Africa and South East Asia. Prior to joining the firm in 2017 as an emerging markets equity product specialist, she worked in equity sales at a large global financial institution, covering the Asia Pacific region. During her time there, Ashna was also a member of the content development team for the European, and Europe, Middle East and Africa (EMEA) regions. She began her career in the investment industry in 2012.

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