

Country Market Profile: Philippines

Euromonitor reports that the Philippine economy suffered its deepest contraction on record over 2020, due to the COVID-19 pandemic and strict lockdown measures. Gross domestic product (GDP) receded by 9.5%. However, the economy recorded a strong rebound in 2021, underpinned by expansionary fiscal and monetary policies, recovering external demand, and the easing of lockdown curbs. The country is expected to maintain strong growth momentum over the long term and remain among the fastest-growing economies in Asia Pacific. GDP growth was 5.7% in 2021 and is forecast for an outstanding growth of 6.9% in 2022.

- The Philippine economy is projected to recover to pre-pandemic levels by 2022 and expand by an average annual real rate of 6.5% over the medium term.
- Inflation is forecast to remain within the central bank's 2%-4% target range through to 2025.
- Exports and imports are set to increase gradually over the medium term, supported by recovering domestic activity and external demand from major trading partners, including China, Japan, South Korea and the U.S.
- The growth of the country's foreign investment inflows is likely to remain limited in upcoming years, due to high barriers of entry for foreign investment.
- Public debt soared from 37% in 2019 to 50% of GDP in 2020 and is anticipated to remain elevated over the medium term, driven by fiscal stimulus measures.

The country's demographics will drive consumer spending in the medium term. Well-educated Philippines between 25 and 34 years account for just 3% of the population but more than 20% of discretionary consumption – that is, spending on categories other than basic needs. This particular demographic group will account for a much larger portion of discretionary expenditure over the next ten years.

Total population reached 114.5 million in 2022 (CIA World Factbook Est.) – far more than double the figure for 1980. The Philippines also has a much “younger” population than most other Asian countries. The median age was just 24.1 years in 2022 – much lower than that of other countries in the region. In 2030, median age will still be only 28.7 years.

USDA's Office of Agricultural Affairs (OAA) in Manila hereinafter referred to as “FAS Manila” reports that the Philippines is the 7th largest market for U.S. agricultural exports and the largest destination for U.S. consumer-oriented products in Southeast Asia. The U.S. is the largest single-country supplier of agricultural products, although ASEAN countries benefit from lower tariffs and have more market share as a group. U.S. agricultural exports in 2021 grew 11% from the previous year to a record US\$3.5 billion, despite COVID-19 continuing to disrupt logistics, business operations, and the movement of people.

Consumer-oriented food & beverage (F&B) products remain the best prospects for future export growth fueled by consumer familiarity with American brands and the steady

expansion of the country's retail, foodservice and food processing sectors. U.S. exports of consumer ready food products to the Philippines totaled over US\$1.3 billion in 2021 a resounding 23% increase from the same period in 2020. The Philippines is the largest market for U.S. exports of consumer ready products in the region, and ranks 9th overall in the world.

The Philippines is an active importer of U.S. processed foods and now the 6th largest U.S. market. In 2021 U.S. processed food exports grew 3% and totaled over US\$1.7 billion. Top 2021 U.S. processed food exports included:

- Food Preparations & Ingredients
- Processed/Prepared Dairy Products
- Prepared/Preserved Meats
- Processed Vegetables & Pulses
- Snack Foods
- Dog & Cat Food
- Chocolate & Confectionery.

Euromonitor reports that in November 2020, the Philippines joined the Regional Comprehensive Economic Partnership (RCEP), the world's largest trade bloc, along with nine other Southeast Asian countries, China, Japan, South Korea, Australia and New Zealand, which together generate around a third of global output. The deal aims to promote transparency and harmonization of trading rules, as well as reduce tariff barriers in order to boost trade among the Asia Pacific and Australasian countries.

FAS Manila reports that Philippines provides preferential access to its market through a number of other bilateral and regional trade agreements, including those with ASEAN member countries, the European Free Trade Association, Australia, China, India, Japan, New Zealand, and South Korea. While U.S. products often face some disadvantages, the Philippines also generally maintains applied MFN rates applicable below its WTO bound rates.

Market Opportunities and Key Issues in the Philippine Food Market

Market Opportunities

- The Philippines is on track to achieve upper-middle income country status in 2022, as the economy is poised to reach pre-pandemic levels.
- Filipinos show a preference for U.S. agricultural products, highlighted by continuous sales growth.
- U.S. food processing ingredients and products are generally perceived to be of higher standard and quality.
- Growing household consumption due to continued work-from-home arrangements and online school platforms.
- Direct ordering from manufacturers due to an upward trend in online shopping, resellers' utilization, and increased delivery platforms' usage.

Key Issues

- Higher cost of shipping freight compared to Asian countries.
- Small volume requirements of importers constrain U.S. exporters.
- Lack of infrastructure for transporting products and inadequate processing storage and facilities.
- Changing government regulations restricting employees' public transportation and other logistical problems due to COVID-19 cases.

Retail Sector Highlights:

According to Euromonitor, retail sales in the packaged food market in the Philippines were estimated to reach nearly US\$17.4 billion in 2022. That represents a growth rate of 35.1% or over US\$4.5 billion since 2018. The forecast for growth in this market is also quite promising. By the year 2026, the retail sales in the packaged food market in the Philippines is expected to reach US\$21.4 billion, a growth rate of 23.2% or US\$4 billion from 2022. High growth products in the forecast include:

- Cheese
- Pet Food
- Savory Snacks
- Sweet Biscuits, Snack Bars & Fruit Snacks
- Dairy Products (Ex. Cheese)
- Ready Meals
- Ice Cream
- Breakfast Cereals
- Confectionery

FAS Manila reports that improved retail sales in convenience stores, groceries, hypermarkets, and warehouse clubs in 2022 through increased consumer mobility, spending, and higher employment rates. Enhanced online services and continued pantry-loading are expected to boost retail sales.

Philippine F&B retail sales continue to be strong with FAS Manila estimating growth in 2022. However, major market share shifts within the sector have and are continuing to develop and solidify as an ongoing consequence of longstanding COVID-19 countermeasures in the country. Specifically, FAS Manila sees hypermarkets, convenience stores, warehouse clubs, and supermarkets all growing at a double-digit pace and more than offsetting further expected declines in traditional retail.

Supermarket chains led by SM and Robinsons Retail import directly and also with exclusivity on some products. SM Supermarket and Save More gained market share while others declined. Leading supermarkets expanded stores, especially in the provinces. Food sales contribute approximately 60% of total sales, totaling an estimated ten billion dollars in 2021.

While pantry-loading declined, the recovery of sari-sari stores (traditional small neighborhood stores) contributed to hypermarket chains gaining sales. The company's head offices directly arrange purchases of import products. Puregold aggressively expanded operations opening 24 new stores. Food and beverages represent 50% of total sales, reaching more than US\$3 billion in 2021.

Warehouse clubs sell mostly imported brands representing 70% of the stores' total sales. Some consumers prefer warehouse clubs offering American brands, various imported selections, bulk purchases, and discounts. Stores can directly import products, requiring sampling and exclusivity from exporters. S&R opened new stores along with recently providing an in-house online platform. Warehouse club sales totaled an estimated one billion dollars in 2021, with half attributed to food and beverages sales

Some convenience stores directly import products in significant volumes. Usually, headquarters offices in Manila purchase for stores across the country. Food sales from two-thirds of total sales are estimated to reach US\$1 billion in 2021. While 7-Eleven leads market sales, other stores such as Alfamart gained share through expansion in rural areas.

Community stores, such as convenience stores and deli shops, continue gaining sales and customers by providing safety and convenience. AllDay offers significant discounts and 24/7 deliveries to nearby villages, while Santi's Delicatessen provides dedicated mobile numbers per store for ordering and pick-up arrangements.

FAS Manila recently reports that Deli shops present a growing opportunity for selling premium imported products, including U.S. beef, cheese, wine, and spirits. As internet sales grew during the pandemic, many deli stores boosted their online platforms. With the reopening of the Philippines economy, sales of deli shops in 2023 are expected to reach their pre-pandemic levels as bulk orders from restaurants, hotels, and event catering resume.

In the Philippines, most deli shops serve as retail stores, providing convenience and safety to households for daily consumption of imported premium products and celebrations at home. Other deli shops offer a taste of deli products through dine-in or takeaway meals. The number of deli shops increased at the onset of the pandemic as more deli shops joined the market. Others pursued online platforms to offset low foot traffic. Based on interviews, however, sales of online resellers declined in 2022 as some consumers resorted back to buying products from brick-and-mortar deli shops and retail stores. The majority of sales for most deli shops come from U.S. beef, indicating more opportunity for U.S. products.

Euromonitor reports that grocery retailers are expected to return to positive current retail value growth in 2022. Grocery items will remain essential and in-demand as people are likely to stay at home more in the early forecast period or at least until the vaccine is made more widely available. Following a return to pre-pandemic value sales in 2023, the rate of increase is anticipated to gradually slow as demand

normalizes, and sales continue to be transferred to e-commerce. In terms of selling space and number of sites/outlets, supermarkets will continue to record moderate growth as grocery retailers look to take advantage of the heightened demand for close-to-home outlets ignited by the pandemic. For example, SM Markets will likely continue expanding in rural areas to strengthen its share lead, making an important contribution to overall category growth.

Best Prospects:

FAS Manila reports that forecasts U.S. food and beverage exports to grow 8% in 2022 with strong opportunities for milk, cheese, meat, poultry, baked products, fruits, vegetables, wine, and pet food.

Foodservice Sector Highlights:

FAS Manila reports that after dramatic declines in food service sales due to COVID-related policies, they expect the sector to partially rebound in 2022 together with the easing of restrictions. Headwinds remain from the shift to home-cooking, operational and supply chain disruptions, and other issues.

FAS Manila estimates around a 20% decline in 2021 in fullservice restaurants, considering such sales dropped 56% in 2020 and the recent rise of Delta variant cases. Consumers remain hesitant to dine in restaurants, as restaurants manage the safety measures amid changing regulations and requirements. Asian stores, including Filipino restaurants, form the majority of the market, followed by pizza and American restaurants. American chains continue to flourish as Filipinos recognize U.S. brands and trust U.S. standards for food sanitation.

Local chains continue purchasing U.S. food and beverage ingredients to meet quality standards, while American dishes remain popular. Premium restaurants and hotels prefer imported ingredients. Shakey's accounts for 30% of full-service restaurant chain operations. Other major players include Max's, a local fried chicken company (15%) and Pizza Hut (12%).

Euromonitor reports that in 2021, Jollibee Foods Corp remained the leading player in consumer foodservice overall. The limited-service restaurant was able to quickly adapt to the changing social conditions during the COVID-19 pandemic. Jollibee is particularly focused on remaining relevant to Millennial and Gen Z consumers, utilizing technological innovations such as the touch-screen menu boards being installed at several outlets. The company also allowed customers to purchase products using a credit or debit card, or mobile payment. During 2021, the company focused on enhancing its delivery services both in-house and through third party operators, in addition to a drive-through channel.

In the full-service restaurants channel, Max's Group and Shakey's continued to lead in 2021. During 2021, Max's Group strengthened its delivery services, as its sales

were still mainly delivery based in the first months of the year. Shakey's, a pizza full-service restaurant, had already a delivery service in place before the pandemic. In 2021, the company introduced a guaranteed 31-minute delivery time to select areas. Shakey's also rolled out Park & Order and Park & Dine-in options for guests who preferred to remain inside the confines of their vehicles.

Consumer foodservice is forecasted to see double-digit growth in value sales in 2022 and throughout the remainder of the forecast period (2026). This will be in part due to the continuous easing of COVID-19 related restrictions and to a desire to eat out again after two years of home seclusion. As Filipinos gradually return to the office, at least for part of the time, this will also help boost value sales in consumer foodservice as people are more likely to have lunch in a restaurant when spending the day at the office.

Best Product Prospects:

FAS Manila reports that U.S. products with good potential in the Philippine HRI sector include food preparations, beef, pork and poultry, goat, turkey, potatoes, bread, pastry, cake and biscuits, onions, shallots, coffee and olives and mandarins.

Food Processing Sector Highlights:

FAS Manila reports that Philippine demand for imported high-quality food and beverage ingredients remains strong, despite supply chain disruptions, rising inflation, and logistical challenges. As the country approaches prepandemic levels in 2022, the food and beverage manufacturing sector is expected to grow by 3%, boosted by increased consumer mobility and broader economic reopening.

Based on research and interviews, FAS Manila sees the food and beverage manufacturing sector's production capacity continuously improving. Food and beverage consumption for households remains strong, although inflation will result in cautious spending by some consumers. As the Philippine food manufacturing grows, the sector will provide robust opportunities for U.S. ingredients.

Food and beverage manufacturers continue to offer premium ingredients in the market and dietary choices such as plant-based products for health-conscious consumers. Shifting consumer preferences demand products with functional, high-protein, and beautifying ingredients. Moreover, increasing interest in dairy alternatives, e.g., soy milk, almond milk, and oat milk, shows U.S. export opportunities. Meanwhile, food and beverage manufacturers continue adding large packaging to address increased family home consumption and operations in food service establishments.

Although more than 70% of the Philippines' total food is produced locally, imports play an important role in the country's food security. Food establishments import food and beverages to provide variety, quality, and healthy options. ASEAN, China, India, New Zealand, and Australia benefit from preferential market access and proximity to the

Philippines. Recent developments such as RCEP will further increase competition for U.S. products. Canada and Europe compete for premium products but face similar constraints as the United States.

About 65% of U.S. agricultural exports to the Philippines flow through the F&B processing industry. While wheat, dairy, meat, and poultry comprise the bulk of sales, other items, such as tree nuts and processed fruit and vegetables, play a vital and increasingly important role. Trade capacity building opportunities abound (e.g., cold chain facilities, food safety standards, and distribution systems) and are crucial in strengthening the ability of Philippine food processors to take part in increased trade.

Best Product Prospects:

Based on interviews with Philippine food and beverage processors, FAS Manila reports that the top prospects for U.S. agricultural raw materials and ingredients include ingredients for plant based food products, bases and seasonings, poultry cuts, mechanically deboned meat, trimmings and beef offal, milk and whey powder, and cheese and other dairy products. Imported agricultural raw materials can be combined with locally available products such as tropical fruits and vegetables, cacao, sugar, and seafood to come up with innovative product offerings. The wide acceptance food processors and consumers have for U.S. raw materials and ingredients is a tremendous advantage for U.S. exporters seeking to develop a market in the Philippines