

Country Market Profile: Philippines

Market Overview

Euromonitor reports that the Philippines' economy expanded in 2022, exceeding both regional and previous year growth rates, mainly driven by the services sector, specifically wholesale and retail trade. However, in 2023 rising inflation put a strain on purchasing power, leading to the country's central bank tightening monetary policy. In 2022, the Philippines had seen increased foreign direct investment (FDI) and business confidence, leading to a surge in capital expenditure.

- Following real growth of 7.5% in 2022, the economy of the Philippines gross domestic product (GDP) is expected to expand at a slower pace of 5.2% in 2023 and rise to 5.6% in 2024.
- Inflation in the Philippines is forecast to slow down to 4.5% in 2023 from 5.8% in 2022.
- While the country's merchandise exports increased by 4.1% and imports rose by 17.8% during 2022, the Philippines remained a net importer of goods.
- Gross fixed capital formation (GFCF) continued to increase over 2022, accounting for 23.8% of GDP.
- The public debt-to-GDP ratio in the Philippines rose to 58.5% in 2022, standing below the regional average of 96.6%

The Philippines' economy exceeded expectations in 2022, with growth surpassing the Asia Pacific average and the previous year's expansion. The growth was driven by an influx of new tourists and the easing of supply chain linkages after the lifting of strict COVID-19 restrictions in China, as well as high continuing remittance inflows, mainly from the U.S. The optimism of the post-pandemic domestic environment, coupled with greater domestic mobility, also contributed to the recovery of social activities and services such as transportation, restaurants, and wholesale and retail trade.

USDA's Office of Agricultural Affairs (OAA) in Manila, hereinafter referred to as FAS Post Manila, reports that the Philippines has a young, growing, and working-age population, with the fifth largest English-speaking population in the world at 64 million. Half of its 113 million people are connected to the internet, and its users spend some of the longest hours online in the world. 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 demographic group will account for a larger portion of discretionary expenditure over the next 10 years.

The Philippines is the 13th largest country in the world by population. Growing faster than its neighboring countries, its young working population is expected to reach 78 million in 2025. The country comprises large households averaging four members, higher than most Asian countries. Twenty percent of the population belongs to the upper class

and the growing middle-income consumers. Both groups purchase imported food and beverages.

The Philippines is by far the largest U.S. processed food export market in ASEAN and as of 2023, the fifth largest overall. In 2023, U.S. processed food exports grew 3% and totaled well over US\$1.9 billion, an all-time record high.

Top 2023 U.S. processed food exports to Philippines included:

- Food Preparations & Ingredients – up 49%.
- Processed/Prepared Dairy Products – down 37%.
- Processed Vegetables & Pulses – up 4%.
- Snack Foods – down 24%.
- Chocolate & Confectionery – down 8%.
- Prepared/Preserved Meats – down 55%.
- Syrups & Sweeteners – down 26%.

FAS Post Manila reports that the Philippines is poised to achieve upper-middle income status by 2025. An emerging market fueled by strong local demand and government spending, the country's gross domestic product (GDP) was expected to reach a growth rate higher than Thailand, Malaysia, and Indonesia. Key economic indicators point towards a resilient economy amidst local and global headwinds.

Philippines provides preferential access to its market through a number of 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 Most Favored Nation (MFN) rates applicable below its World Trade Organization (WTO) bound rates.

Market Opportunities and Key Issues for U.S. Processed Food Exporters in Philippines

Market Opportunities:

- The Philippines has remained the top Southeast Asian destination for U.S. consumer-oriented products since 2006.
- Filipinos seek U.S. products for quality, food safety standards, and health-driven and sustainable practices.
- Filipinos purchase familiar U.S. brands seen in movies and seen during travel to the U.S.
- Buyers of retail chains frequently visit regional and U.S. trade shows to import new products or specific U.S. brands.
- U.S. trade associations, state and regional trade groups, and the State Departments of Agriculture extend support to U.S. exporters and Philippine importers.
- The U.S. launched the Indo-Pacific Economic Framework for Prosperity (IPEF) to stimulate sustainable economic growth and investment in 14 countries, including the Philippines.

- Interviews showed more consumers in key cities have accepted frozen products as having high- quality standards, especially imported brands.

Key Issues:

- Despite being the top consumer-oriented market in Southeast Asia, Philippine retailers still rely on U.S. consolidators for container load shipments.
- U.S. products compete with Asian export products having more affordable prices and shorter delivery lead times.
- Food and beverage retailers took time to deplete inventory during the first half of the year.
- U.S. exporters may think U.S. products are disadvantaged by the Regional Comprehensive Economic Partnership, though it has no impact on U.S. exports to the Philippines.
- The government sought to regulate imported products by increasing the number of regulations in the food industry, e.g., pre-inspection requirement, banning of trans-fatty acids, and single-use plastics.

Retail Sector Highlights:

According to Euromonitor, retail sales in the packaged food market in the Philippines had been estimated to reach nearly US\$17.5 billion in 2023, continuing as the second largest packaged food market in ASEAN after Indonesia. That also represents a growth rate of 36.8% or over US\$4.7 billion since 2019. The forecast for growth in this market is also quite promising. By the year 2028, the retail sales in the packaged food market in the Philippines is expected to reach US\$25 billion, a growth rate of 32.9% or US\$6.1 billion from 2024.

High growth products in the forecast include:

- Sweet Biscuits, Snack Bars & Fruit Snacks
- Cheese
- Savory Snacks
- Dairy Products (Ex. Cheese)
- Soup
- Processed Fruit and Vegetables
- Baked Goods
- Confectionery

FAS Post Manila estimates continued sales growth in supermarkets, hypermarkets, convenience stores, and warehouse clubs as elevated food inflation further contributes to the increase in retail prices. Retail stores continue introducing new products, opening new branches, improving online selling platforms, further contributing to retail sales growth. They also estimate more conservative food retail sales growth in 2024 compared to 2023 due to less home cooking as more consumers rely on food deliveries and dines in restaurants. Due to rising prices of basic commodities and fuel costs, low-income households spend less, while the affluent remain unaffected.

Retail chains were less affected by supply and logistical challenges during the pandemic. While some stores run U.S. food and beverage promotions, other supermarket chains allot areas for Japanese, Korean, and Australian foods, to name a few. On the other hand, Robinsons Supermarket supplies Fast Moving Consumer Goods (FMCG) to mom-and-pop stores through a mobile application, Growsari. Food sales contribute approximately 60% of total sales, an estimated US\$12 billion in 2023.

Most convenience retailers order products from Philippine manufacturers and importers. Rapid opening of new stores portends sales growth. In 2022, Alfamart opened almost one store per day and offered various frozen meat products and cuts. While 7-Eleven started featuring meals and products from Japan and Korea, All Day offered imported cheese and deli platters. Ministop, now owned by Robinsons, renamed its stores Uncle John's. Food sales, forming two-thirds of total sales, are expected to reach US\$1.5 billion in 2023.

Warehouse clubs offer the largest selection of imported brands, especially U.S. products, with food and beverages representing 70% of total store sales. While S&R enjoys most of the market share, Landers opened more stores last year. Stores sell larger stock keeping units (SKUs) for restaurants and hotels, while large households buy products in packs of 12 or 24. Warehouse clubs frequently offer product tastings, discounts, and incentives to members. Retailers tap online platforms for additional sales, given their limited number of stores. FAS Post Manila expected warehouse club sales to reach more than US\$1 billion in 2023, with half attributed to food and beverage sales.

Retailers owning supermarkets and convenience stores purchase large volumes of local products but are keen on increasing their imported section. Many mom-and-pop stores, large and institutional households, and small groceries purchase from hypermarket chains for lower prices. Though hypermarket stores offer more non-food items than supermarkets, retail sales are estimated to reach US\$3.5 billion in 2023, with half belonging to food and beverages.

Best Prospects:

FAS Post Manila reports that consumer-oriented products remain the best prospects for future export growth fueled by consumer confidence in the quality of American products and the steady expansion of the country's retail, foodservice and food processing sectors. Based on interviews with traders, the top consumer-oriented food and beverage product prospects are processed products: cheese, milk and cream, sausages and ham, food preparations, sauces and condiments, fresh and dried fruits and vegetables, dog and cat food, biscuits, cookies and baked products, mixes and doughs, peanuts and nuts, chocolate and other cocoa preps, and non-alcoholic and other beverages.

Foodservice Sector Highlights:

FAS Post Manila projects consumer foodservice sales to increase by 10% in 2024, reaching above pre-pandemic levels as tourism recovers and more consumers dine in restaurants, explore new restaurant concepts, and attend events. As restaurant franchises open stores to comply with franchise agreements, more hotels open as the tourism

industry improves, further boosting consumer foodservice sales, especially imported ingredients.

Some restaurants experience queues of customers dining in, and event bookings are starting to fill up hotel venues. While most food establishments are launching new restaurant concepts, some restaurant chains fast-tracked store openings to meet local and international franchise agreements. Though not as frequent as during the pandemic, use of online delivery platforms, drive-throughs, and curbside pickups will continue to appeal to customers. Elevated food inflation and higher fuel costs contributed to higher restaurant menu prices.

Based on research, FAS Post Manila sees full-service restaurant sales experiencing more robust growth compared to limited-service restaurants in 2023. In 2022, pizza stores contributed the most, with a 24% sales increase, followed by Asian restaurants. Philippine food establishments such as Max's form the majority of Asian restaurants.

American restaurants like Shakey's, Kenny Rogers, and Pizza Hut, which form most of full-service restaurant sales, prioritize sourcing some U.S. ingredients to meet the quality standards of their brands. Max's Restaurant and Pancake House are famous for serving chicken.

Known for delivery, pick-up, and drive-through formats, limited-service restaurants utilized e-commerce companies (i.e., Lazada and Shopee) and continued using community resellers in villages (i.e., Chooks to Go). While food establishments continue to innovate through touchscreen ordering stations and robot servers, other food establishments like McDonald's showcased sustainable practices in stores.

Jollibee Foods Corporation, Inc., representing half of the industry, announced it planned to open 600 stores in 2023, a record-high expansion. Aside from opening owned and franchise stores locally, Jollibee Food Corporation, Inc. also intensified store expansions abroad. The company acquired and managed international brands such as Burger King, Yoshinoya, and Panda Express. Three out of five of the top limited-service restaurants belong to Jollibee Food Corporation.

Starbucks continues to lead cafe sales with a 56% share in 2022, offering more coffee options with Starbucks Reserve stores. As cafes open more stand-alone stores with drive-throughs, Bo's Coffee opened its first drive-through store in 2022. More cafe kiosks opened in malls like The Coffee Bean & Tea Leaf and Mary Grace. Others opened stores in office building lobbies, i.e., Dot Coffee. Store chains like Dunkin' Donuts opened drive-through stores in gas stations for customers traveling to work or group riders on motorbikes or bicycles while Krispy Kreme provides 24/7 drive-through services. To add, more international brands such as Elephant Grounds, Greyhound Cafe, The Coffee Academics, Omotesando, and Cafe Kitsune opened stores in the Philippines.

The Philippines ranked as the seventh-largest U.S. consumer-oriented agricultural export destination in the world and the highest in Southeast Asia. The U.S., however, and

Europe face pricing, high tariffs, and market access challenges. ASEAN countries, China, New Zealand, and Australia benefit from lower shipping costs and preferential market access.

Best Product Prospects:

FAS Post 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, mandarins' chocolate and sugar confectionery, sauces, condiments, seasonings, nonalcoholic beverages, and wines.

Food Processing Sector Highlights:

FAS Post Manila reports that surpassing pre-COVID-19 production levels but dealing with still-elevated inflation, FAS Post Manila sees the food and beverage manufacturing sector reaching 7% growth in 2024, with strong opportunities for wheat, soybeans, soybean meal, dairy products, meat products, poultry products, food preparations, and processed vegetables. Food manufacturers' capacity utilization surpasses pre-pandemic levels as companies address local demand and continue to minimize costs caused by inflation. Efforts to reduce ingredient costs remain challenging, sometimes resulting in manufacturers looking for alternative sources.

Philippine manufacturers prefer U.S. ingredients due to high quality standards. Companies choose U.S. companies for their expertise and technology knowledge. Exporters can introduce premium or new ingredients, new flavors, and superfoods. U.S. food exports have opportunities in wheat, soybean meal, dairy ingredients, and mechanically deboned meat.

Meanwhile, to address the still growing number of middle- to high-income households, manufacturers continue to explore premium ingredients to innovate new product lines. Recent trends include immunity boosters and foods to address popular dietary choices, i.e., plant-based, non-dairy products, to capture an increasing number of health-conscious consumers. However, this consciousness has not extended to marketing products as whole grain, gluten-free, low-sugar, low-sodium, or low-fat.

With 60% of the Philippines' food produced locally, the country imports to secure supply and provide variety of products. ASEAN, China, India, New Zealand, and Australia benefit from preferential market access and proximity to the Philippines. Canada and Europe compete for premium products but face similar constraints as the U.S.

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, 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. 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. The top opportunities for food ingredients include wheat, dairy, beef, pork, chicken, fish, vegetable, fruit, soy, and starch products.