



Bangko Sentral ng Pilipinas

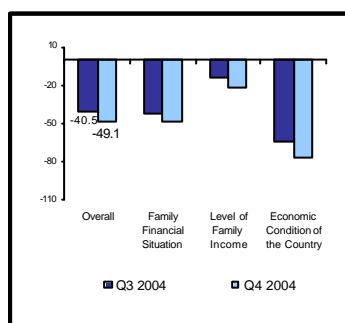
Maynila, Pilipinas

Lower Consumer Expectations In the Fourth Quarter of 2004[?]

Overall Consumer Outlook

*Decline in consumer outlook for
the fourth quarter of 2004*

Consumer Expectations
Diffusion Index: Q4 2004



In a survey of 2425 households in Metro Manila last 1-7 October 2004 consumer expectations diffusion index declined to -49.1 percent from -40.5 percent in the third quarter of 2004.¹ The 8.6-percentage point decline in consumer expectations in the fourth quarter compared to the third quarter could be attributed to the 7.1 percentage points increase in the number of households with “worse” consumer expectations coupled by the 1.5 percentage point decline in those with “better” consumer expectations. About 57 percent of sample households rated their economic situation as worse, 35 percent stable and 8.0 percent better now compared to a year ago (Table 1).

All components of the consumer expectations index declined in the fourth quarter of 2004: current family financial situation (-48.8 percent in Q4 from -42.9 percent in Q3); current level of family income (-21.7 percent in Q4 from -14.9 percent in Q3); and present economic condition of the country (-76.8 percent in Q4 from -63.8 percent in Q3). Of the three components, the respondents were least optimistic about the economic condition of the country (Table 1).

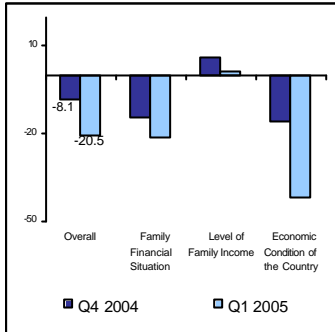
The major concerns of respondents with negative expectations were high prices of commodities, no increase in wages, no work and decrease in income. On the other hand, those with positive expectations during the quarter anticipated increases in domestic and overseas income, wages and employment.

[?] In July 2004, the BSP launched the Consumer Expectations Survey (CES), which aims to capture the economic outlook of consumers as an indication of the country's future economic conditions. The CES is envisioned to complement the Business Expectations Survey (BES) to determine both business and household economic prospects.

¹ The diffusion Index (DI) is computed as the percentage share of respondents that answered in the affirmative less the percentage share of respondents that answered negative in a given indicator. A positive DI indicates a favorable view, except for unemployment, interest rate for borrowing money, exchange rate and prices, where a positive DI indicates the opposite. Please note that all index figures are diffusion indices except for buying conditions and intentions.

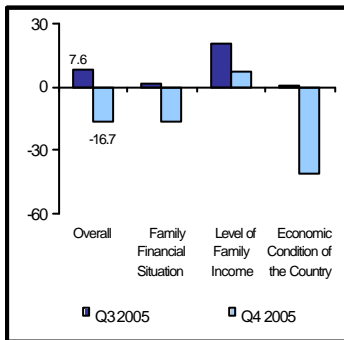
Decline in the next quarter and one-year ahead consumer outlook

Consumer Expectations
Diffusion Index: Q1 2005



Consumer expectations index for the next quarter (Q1 2005) also decreased to -20.5 percent from -8.1 percent in the previous survey. The 12.4- percentage point decline in the next quarter expectations could be due primarily to the big drop in respondents' expectations on the economic conditions of the country from -16.1 percent in the third quarter to -41.6 percent in the fourth quarter of 2004. The decline in the family financial situation index from -14.2 percent to -21.5 percent as well as the diminished expectations on the family income index from 5.9 percent to 1.6 percent also contributed to the lower consumer expectations index for the next quarter. It could be noted however, that while the level of family income expectations index declined, it remained to be positive during this quarter (Table 2).

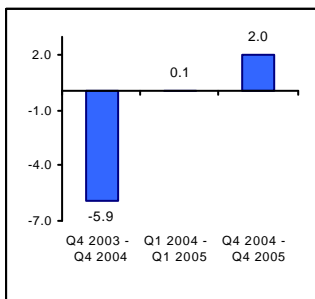
Consumer Expectations
Diffusion Index: Q4 2005



One year ahead consumer expectations turned from positive to negative with the diffusion index declining from 7.6 percent in the previous survey to -16.7 percent (Table 3). About one-fifth or 20.9 percent of respondents expected their economic situation to improve, 41.5 percent to be stable, and 37.6 percent to worsen within the next 12 months. Among the three components of consumer expectations, only the level of family income registered a positive diffusion index of 6.7 percent.

Increase in income expected starting in the first quarter of 2005

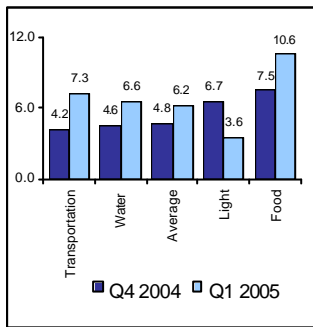
Percent Changes in Family Income



However, family income is estimated to increase for the first quarter of 2005 by an average of 0.1 percent compared to the previous quarter. The increase in income is expected to continue into the fourth quarter of 2005 as respondents estimated an average income growth of 2.0 percent one year hence. However, for the fourth quarter 2004, respondents estimated their family income to decrease by an average of 5.9 percent compared to their family income a year ago (Table 4).

Household expenditures, primarily food and electricity to increase in the fourth quarter of 2004

Percent Changes in Family Expenditures In the Next Three Months



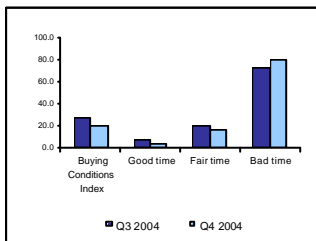
Despite the expected decline in family income in the fourth quarter, respondents expected that family expenditures for basic commodities could rise by an average of 6.2 percent in the first quarter of 2005 compared to the previous quarter. Respondents expected food and electric bills to dominate the increase in their household expenditures (Tables 5-6).

The above trends in consumer spending could indicate that the growth rate in personal consumption expenditures could increase modestly in the first quarter of 2005.

Buying conditions

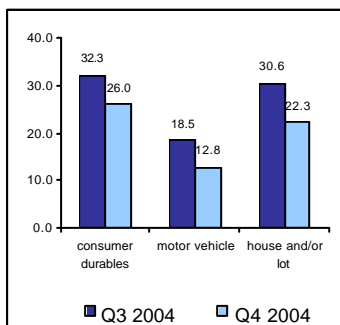
Eight out of ten consumers say now is not a good time to purchase assets

Overall Index of Buying Conditions Q3 2004 –Q4 2004



Respondents are more cautious in purchasing assets in the fourth quarter compared to the third quarter. The buying conditions index for the fourth quarter of 2004 declined to 20.4 percent from 27.1 percent in the previous survey.

Index of Buying Conditions by Asset Type Q3 2004 – Q4 2004

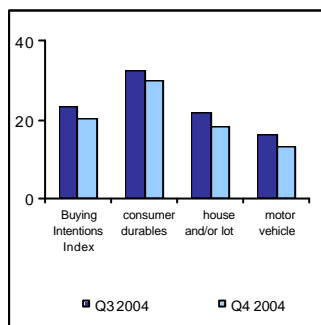


Among the three components of buying conditions, consumer durables is the most favored by respondents with an index of 26.0 percent, followed by house and/or lot at 22.3 percent, and by motor vehicles at 12.8 percent (Table 7).

Buying intentions

About two out of ten households plan to buy an asset in the next twelve months

Indices of Buying Intentions In the Next Twelve Months



With the anticipated slight increase in income in the next 12 months, respondents are more prudent in their decision to purchase assets in the next 12 months. About two out of ten households intend to buy a house and/or lot, consumer durable or motor vehicle in the next 12 months. The buying intentions index showed that 4.3 percent of households were planning to buy; 16.2 percent unsure; while 79.5 percent will not purchase any one of these assets in the next 12 months (Table 8).

Households' intentions to purchase a house and/or lot, consumer durables and motor vehicles in the next 12 months are consistent with their assessment of current buying conditions. Respondents intend to buy assets in the following order: consumer durables with an index of 30.0 percent; followed by house and/or lot at 18.3 percent; and motor vehicles at 13.3 percent.

Households with positive buying conditions and intentions within the next 12 months cited sufficient and higher income, new and more jobs, better government administration and new housing projects of the government for the poor, as the reasons for their favorable sentiments.

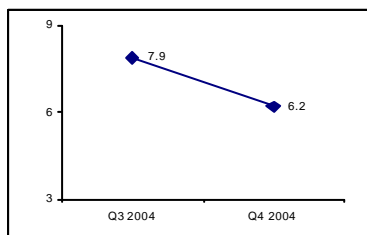
On the other hand, respondents who had no intention to buy or considered it a bad time to buy any of these assets, cited the following reasons: they had no money, prices of commodities are very high, unemployment is increasing and corruption in government remains.

The growing cautiousness in consumer spending for assets could indicate a slowdown or even a possible decline in the volume of sales of appliances, cars and residential housing.

Selected economic indicators

Households expect lower inflation, higher interest rates, higher unemployment and a weaker peso in the next twelve months

Percent Change in Prices In the Next Twelve Months



Respondents expected unemployment and interest rates to increase as well as the peso to depreciate in the next 12 months (Table 9).

Slightly lower inflation for the next twelve months is anticipated during the fourth quarter of 2004 as respondents expect an inflation rate of 6.2 percent, lower than the 7.9 percent indicated in the previous survey (Tables 10 -11). Based on the survey results, the highest price increases could come from electric bills (13.3 percent), fish and seafood (10.5 percent), meat (9.9 percent) and rice (9.3 percent).

TECHNICAL NOTES

In July 2004, the BSP launched the Consumer Expectations Survey (CES), which aims to capture the economic outlook of consumers as an indication of the country's future economic conditions. The CES is envisioned to complement the Business Expectations Survey (BES) to determine both business and household economic prospects.

The CES is a sample survey of 3039 households in the National Capital Region (NCR). Its sample households constitute half of the NSO's master sample of households in the National Capital Region, which is representative of all households in the NCR coming from the low, middle and upper income brackets. The said master sample was generated using a stratified multi-stage probability sampling scheme. The survey response rate for the fourth quarter of 2004 is 89.7 percent.

The CES has 11 output tables consisting of the following:

Tables 1-3. Consumer expectations Indices for the current quarter, next quarter and 12 months from now. The consumer expectations index is the average diffusion index of three variables: family financial situation, level of family income and economic condition of the country;

Table 4. Expectations on the average percent change in family income compared to a year ago, next three months, and twelve months from now;

Tables 5 and 6. Diffusion indices and percent changes in the amount of family expenditures for basic goods and services in the next three months;

Tables 7 and 8. Indices on buying conditions and intentions of households in the current quarter and in the next twelve months;

Table 9. Indices on selected economic indicators: unemployment, interest rate for borrowing money and exchange rate in the next twelve months;

Tables 10 and 11. Diffusion Indices and percent changes on the prices of commodities in the next twelve months.

Key Indicators and Formulas			
Table Number	Indicator	Variable Name	Formula
1, 2, 3	Family financial situation diffusion index	X1	$X1 = \% \text{ Better} - \% \text{ Worse}$
1, 2, 3	Economic condition of the country diffusion index	X2	$X2 = \% \text{ Better} - \% \text{ Worse}$
1, 2, 3	Level of family income diffusion index	X3	$X3 = \% \text{ Better} - \% \text{ Worse}$
1, 2, 3	Consumer expectations diffusion index	C1	$C1 = (X1 + X2 + X3)/3$
4	Average income percent change	C2	$C2 = w1*p1 + w2*p2 + w3*p3$ Where: $w1 = \% \text{ better}$ $w2 = \% \text{ same}$ $w3 = \% \text{ worse}$ $p1 = \text{average of the expected income percent change of those families who expect that their family income will be better}$ $p3 = \text{average of the expected income percent change of those families who expect that their family income will be worse}$ $p2 = 0$
5	Index of Change in expenditures for basic goods and services (food, clothing and footwear, fuel, light, water, house rent, transportation, communication, education, medical care, and, personal care and effects)	X4, X5, ..., X14 respectively	$Xi = \% \text{ Better} - \% \text{ Worse}$ $i = 4, 5, \dots, 14$

Table Number	Indicator	Variable Name	Formula
6	Average percent change in the amount of expenditures for basic goods and services	C3	$C3 = Y4 + Y5 + \dots + Y14$ $Y_N = w1N \cdot p1N + w2N \cdot p2N + w3N \cdot p3N$ <p>where:</p> <p>w1N = % better in variable XN w2N = % same in variable XN w3N = % worse in variable XN</p> <p>p1 = average of the expected percent change in the basic expenditures of families who expect their expenditures to increase</p> <p>p3 = average of the expected percent change in the basic expenditures of families who expect their expenditures to decrease</p> <p>p2 = 0</p> <p>N = 4, 5, ..., 14</p>
7, 8	Buying a house and/or lot Index	X15	$X15 = 100 - \% \text{ No}$
7, 8	Buying consumer durables index	X16	$X16 = 100 - \% \text{ No}$
7, 8	Buying motor vehicle index	X17	$X17 = 100 - \% \text{ No}$
7	Buying conditions index	C4	$C4 = (X15 + X16 + X17)/3$
8	Buying intentions index	C5	$C4 = (X15 + X16 + X17)/3$
9	Unemployment diffusion index	X18	$X18 = \% \text{ Better} - \% \text{ Worse}$
9	Interest rate for borrowing money index	X19	$X19 = \% \text{ Better} - \% \text{ Worse}$
9	Exchange rate	X20	$X20 = \% \text{ Better} - \% \text{ Worse}$

Table Number	Indicator	Variable Name	Formula
10	Diffusion indices of prices of basic goods and services (rice, meat, fish and seafood, fruits and vegetables, clothing, house rent, fuel, light, water, education, medical care, transportation, communication and personal care)	X21, X22, ..., X34 respectively	$X_i = \% \text{ Better} - \% \text{ Worse}$ $i = 21, 22, \dots, 34$
11	Average percent change in prices of basic goods and services	C6	$C6 = Y21 + Y22 + \dots + Y34$ $Y_N = w1N \cdot p1N + w2N \cdot p2N + w3N \cdot p3N$ <p>where:</p> <ul style="list-style-type: none"> w1N = % better in variable XN w2N = % same in variable XN w3N = % worse in variable XN p1 = average of the expected price percent change of families who expect prices to increase p3 = average of the expected price percent change of families who expect prices to decrease p2 = 0 N = 21, 22, ..., 34

Table 1. Consumer Expectations Current Quarter (Fourth Quarter 2004) In Percent				
	Better	Same	Worse	Diffusion Index
Consumer Expectations	8.0	34.9	57.1	-49.1
Family Financial Situation	9.3	32.5	58.2	-48.8
Level of Family Income	10.8	56.7	32.5	-21.7
Economic Condition of the Country	3.8	15.5	80.6	-76.8

Table 2. Consumer Expectations Next Quarter (First Quarter 2005) In Percent				
	Better	Same	Worse	Diffusion Index
Consumer Expectations	10.1	59.4	30.5	-20.5
Family Financial Situation	12.6	53.3	34.1	-21.5
Level of Family Income	12.2	77.3	10.6	1.6
Economic Condition of the Country	5.4	47.7	46.9	-41.6

Table 3. Consumer Expectations Twelve Months From Now (Fourth Quarter 2005) In Percent				
	Better	Same	Worse	Diffusion Index
Consumer Expectations	20.9	41.5	37.6	-16.7
Family Financial Situation	24.0	35.6	40.4	-16.4
Level of Family Income	22.3	62.2	15.6	6.7
Economic Condition of the Country	16.4	26.7	56.9	-40.6

Table 4. Expectations on the Average Percent Change in Family Income and Expenditure In Percent				
	Better	Same	Worse	Average
Fourth Quarter 2004 Average income percent change	19.5	0.0	-24.7	-5.9
First Quarter 2005 Average income percent change in the next three months	18.7	0.0	-21.0	0.1
One year from now (Fourth Quarter 2005) Average income percent change twelve months from now	22.7	0.0	-19.4	2.0

Table 5. Diffusion Index on the Amount of Expenditures for Basic Goods and Services in the Next Three Months
Fourth Quarter 2004 - First Quarter 2005
In Percent

	Up	No Change	Down	Diffusion Index
Average	49.94	49.22	0.84	49.10
Food	77.13	21.59	1.28	75.85
Clothing and Footwear	36.72	62.06	1.22	35.50
Fuel	61.26	37.85	0.89	60.37
Electricity	63.72	34.90	1.38	62.35
Water	47.62	51.65	0.73	46.88
House rent	15.21	84.64	0.15	15.06
Transportation	52.64	46.21	1.14	51.50
Communication	28.50	70.97	0.53	27.98
Education	29.00	70.49	0.51	28.49
Medical Care	37.93	61.36	0.71	37.22
Personal Care & Effects	44.54	54.96	0.50	44.04

Table 6. Percent Change in the Amount of Expenditures for Basic Goods and Services in the Next Three Months
Fourth Quarter 2004 - First Quarter 2005
In Percent

	Percent change
Average	6.2
Food	10.6
Electricity	3.6
Water	6.6
Transportation	7.3
Fuel	5.6
Personal Care & Effects	1.6
Medical Care	5.7
Education	2.6
Clothing and Footwear	3.3
Communication	3.7
House rent	4.2

Table 7. Buying Conditions at this Time Fourth Quarter 2004 In Percent				
	Good Time	Fair Time	Bad Time	Index
Buying Conditions Index	4.3	16.0	79.6	20.4
Buying consumer durables	4.4	21.6	74.0	26.0
Buying a motor vehicle	2.7	10.0	87.2	12.8
Buying a house and/or lot	5.8	16.5	77.7	22.3

Table 8. Buying Intentions in the Next Twelve Months (Fourth Quarter 2004 - Fourth Quarter 2005) In Percent				
	Yes	Not Sure	No	Index
Buying Intentions Index	4.3	16.2	79.5	20.5
Buying consumer durables	6.6	23.4	70.0	30.0
Buying a motor vehicle	2.7	10.6	86.7	13.3
Buying a house and/or lot	3.7	14.7	81.7	18.3

Table 9. Indices on Selected Economic Indicators in the Next Twelve Months Fourth Quarter 2004 - Fourth Quarter 2005 In Percent				
	Increase	Same as this period	Decrease	Diffusion Index
Unemployment	84.9	8.7	6.4	78.4
Interest rate for borrowing money	64.6	33.1	2.3	62.4
Exchange rate <i>(Increase means appreciation while decrease means depreciation of the peso)</i>	15.5	12.6	71.8	-56.3
Inflation rate	72.2	1.0	26.8	45.4

Table 10. Indices of Change in Prices of Basic Goods and Services in the Next Twelve Months
Fourth Quarter 2004 - Fourth Quarter 2005
In Percent

	Up	No Change	Down	Diffusion Index
Average	72.2	1.0	26.8	45.4
Rice	88.2	1.1	10.7	77.5
Meat	89.1	1.8	9.1	80.0
Fish and Seafood	85.1	1.1	13.8	71.4
Fruits and vegetables	76.5	1.3	22.2	54.2
Clothing	53.5	3.6	42.8	10.7
House rent	52.7	0.7	46.6	6.1
Fuel	91.4	1.0	7.7	83.7
Electricity	87.9	0.6	11.5	76.5
Water	73.2	1.4	25.4	47.8
Education	64.2	0.9	34.8	29.4
Medical Care	66.4	0.4	33.3	33.1
Transportation	83.4	0.4	16.3	67.1
Communication	55.8	0.5	43.7	12.0
Personal Care	70.4	0.9	28.6	41.8

Percent Change	
	Percent Change
Average	6.2
Rice	9.3
Meat	9.9
Fish and Seafood	10.5
Fruits and vegetables	7.6
Clothing	-7.4
House rent	1.3
Fuel	11.8
Electricity	13.3
Water	8.7
Education	5.7
Medical Care	2.8
Transportation	8.9
Communication	2.7
Personal Care	5.7