

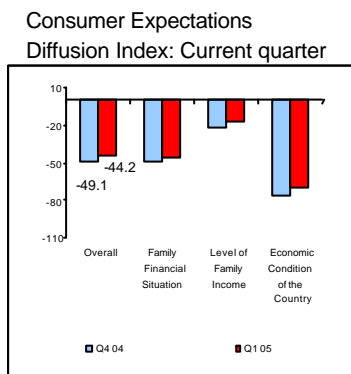


Bangko Sentral ng Pilipinas

Maynila, Pilipinas

Improving Consumer Outlook in the First Two Quarters of 2005*

Improving consumer outlook on family financial situation, family income and economic condition of the country for the first quarter of 2005

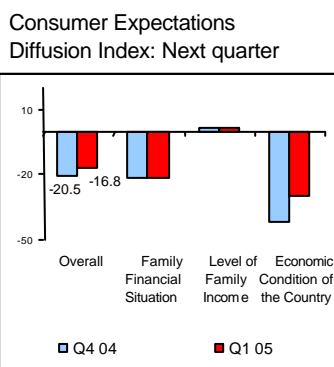


For the third time, in a survey of 2396 households in Metro Manila conducted from 27 January to 2 February 2005, the consumer expectations diffusion index (DI) remained negative but improved to -44.2 percent in the first quarter of 2005 from -49.1 percent in the fourth quarter of 2004.¹ All components of the consumer expectations index such as family financial situation, level of family income and economic condition of the country posted better prospects (Table 1).

Respondents with positive expectations during the quarter anticipated increases in domestic and overseas income, wages and employment. Meanwhile, those with negative expectations cited insufficient income and higher household expenditures as reasons.

Consumer expectations of respondents varied according to the level of their household income. Respondents with the lowest household monthly income of less than ₱10,000 had the most pessimistic consumer expectations for the first quarter of 2005 with a DI of -51.1 percent. Respondents with the highest household monthly income of ₱70,000 and over, were the most optimistic with a DI of 7.3 percent. It could also be observed that the DI improved as the household income level of respondents increased. For all income levels, however, the households were least optimistic about the economic condition of the country and most optimistic about their family income (Table 1a).

Improvement in the next quarter consumer outlook



Consumer optimism is expected to continue in the second quarter as the consumer expectations DI also improved to -16.8 percent from -20.5 percent in the previous survey. The 3.7 percentage point increase in the

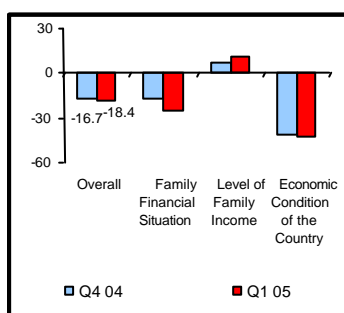
¹ The diffusion Index (DI) is computed as the percentage share of respondents that answered in the affirmative less the percentage share of respondents that answered negative in a given indicator. A positive DI indicates a favorable view, except for unemployment, interest rate for borrowing money, exchange 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.

next quarter expectations was due primarily to the significant improvement in respondents' expectations on the economic conditions of the country from -41.6 percent in the fourth quarter to -29.8 percent in the first quarter of 2005. Meanwhile, the family income and financial situation indices remained steady compared to the previous quarter (Table 2).

For all income levels, respondents were more optimistic for the second quarter of 2005 as the DI increased for all income groups compared to the corresponding DIs for the first quarter of 2005. The DIs, however, remained negative for all respondents whose monthly household incomes were below ₱50,000 and positive otherwise (Table 2a).

One year-ahead outlook is mixed but higher family income is expected in the next 12 months

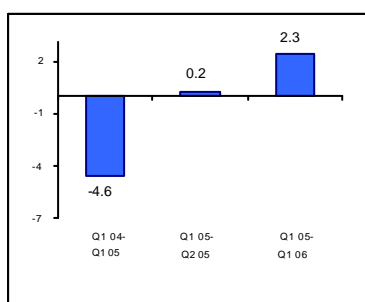
Consumer Expectations
Diffusion Index: One year ahead



One year-ahead consumer expectations showed mixed signals as the overall diffusion index declined slightly from -16.7 percent in the previous survey to -18.4 percent due to lower expectations on the family financial situation and economic condition of the country. On the other hand, the outlook on level of family income was very optimistic as it registered a positive and double-digit diffusion index of 11.7 percent, up from 6.7 percent in the previous survey (Table 3). This increased optimism could be due to respondents' expectations of increases in domestic and overseas employment as well as higher wages.

By income level, one year-ahead expectations of respondents with monthly household income below ₱10,000 remained unchanged compared to their second quarter outlook. Expectations of respondents belonging to higher income levels improved for the same period. It will be noted that the DIs for respondents whose monthly household income were ₱30,000 and above were all positive. This implied that what was causing the overall DI to be negative were the negative DIs of respondents whose monthly household income were below ₱30,000. About 91.6 percent of respondents have household income below ₱30,000 (see Technical Notes).

Percent Changes in Family Income

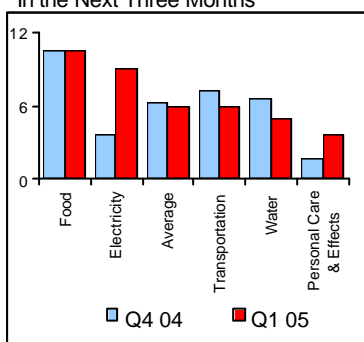


Family income is estimated to increase for the second quarter of 2005 by an average of 0.2 percent compared to the previous quarter. The average increase in income is expected to continue into the first quarter of 2006 as respondents estimated an average income growth

of 2.3 percent. For the current quarter, respondents estimated their family income to decrease by an average of 4.6 percent compared to their family income a year ago. This decline, however, is smaller than the 5.9 percent decline cited by respondents in the previous survey, which is also consistent with their improving income expectations (Table 4).

Household basic expenditures to increase moderately

Percent Changes in Family Expenditures In the Next Three Months



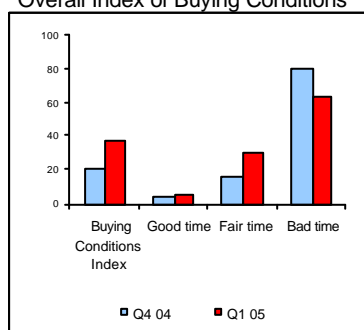
Respondents expected that their family expenditures for basic commodities could rise by an average of 5.9 percent in the second quarter of 2005. Respondents expected food and electric bills to dominate the increase in their household expenditures (Tables 5-6).

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

Buying conditions

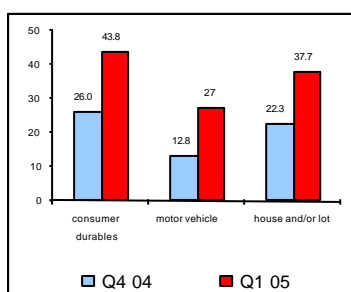
More consumers say Q1 2005 is a good time to purchase assets

Overall Index of Buying Conditions



While consumers expected a moderate increase in their basic expenditures, they became more optimistic in purchasing assets for the first quarter of 2005 compared to the fourth quarter of 2004. The buying conditions index jumped to 36.2 percent from 20.4 percent in the previous survey (Table 7). This could be due to their expectations of higher income in the next 12 months and their more favorable assessment of the prevailing economic conditions of the country for the first half of the year.

Index of Buying Conditions by Asset Type Q4 2004 – Q1 2005

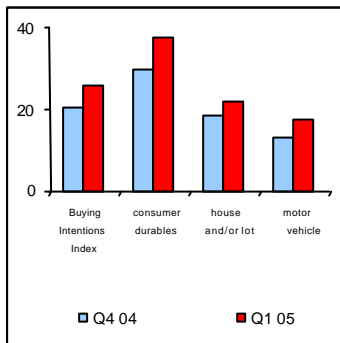


Among the three components of buying conditions, consumer durables was the most favored by respondents with an index of 43.8 percent, followed by house and/or lot at 37.7 percent, and by motor vehicles at 27.0 percent (Table 7).

Buying intentions

More households plan to buy consumer durables, house and lot or motor vehicles in the next twelve months

Indices of Buying Intentions In the Next Twelve Months



Respondents were also more confident with their decision to purchase assets for the next 12 months. About three 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 4.1 percent of households were planning to buy; 21.7 percent were unsure; while 74.3 percent would not purchase any one of these assets in the next 12 months (Table 8).

Households' more keen intentions to purchase assets in the next 12 months are consistent with their assessment of improving buying conditions. They intend to buy more assets in the following order: consumer durables followed by house and/or lot and then motor vehicles.

Households with positive buying conditions and intentions within the next 12 months cited affordability, increase in income, housing as a good investment and motor vehicles' usefulness in business as the reasons for their favorable sentiments.

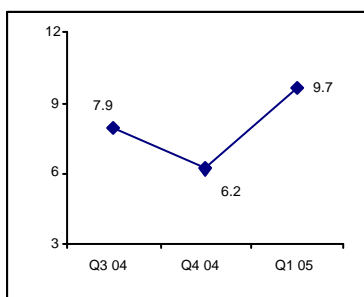
On the other hand, respondents who had no intention to buy or considered it a bad time to buy any of these assets cited the following reasons: high prices, low/insufficient income and higher priority for food and other basic needs.

The much improved buying intentions on assets indicate that higher sales of appliances, cars and residential housing could be expected in the next 12 months.

Selected economic indicators

Households expect better employment conditions, a weaker peso and higher inflation in the next twelve months

Percent Change in Prices In the Next Twelve Months



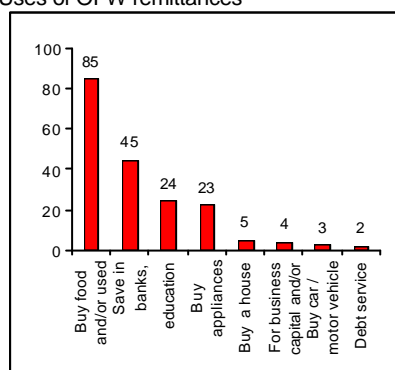
Respondents expect employment conditions to improve. Moreover, respondents believe that increases in interest rates and depreciation of the peso will slow down in the next 12 months (Table 9).

Higher Inflation for the next 12 months is expected as respondents anticipate a 9.7 percent inflation rate from 6.2 percent indicated in the previous survey (Tables 10 -

11). Based on the survey results, the highest price increases could come from electric bills, transportation, water bills, fish and seafood, fruits and vegetables, meat and rice.

Focus on Overseas Filipino Workers

Uses of OFW remittances



Among the 2396 survey respondents, 190 or 7.9 percent have at least one OFW in their household (Table 12). About 92.6 percent of the OFWs remitted money to their families during the last 12 months (Table 13).

According to survey respondents, OFW remittances are spent for: food and other household needs (85% of households); savings in banks, cooperatives and other depository institutions (45%); education (24%); appliances (23%); house (5%); investment in business/stocks (4%); motor vehicle (3%); and debt service (2%) (Table 14).

TECHNICAL NOTES

The CES is conducted using a sample of 2540 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 first quarter of 2005 is 94.3 percent. Based on the above sampling scheme, the percent distribution of the sample households by income class is:

Income class	Percent of sample
Less than ₱10,000	53.0
₱10,000 - ₱19,999	29.2
₱20,000 - ₱29,999	9.4
₱30,000 - ₱39,999	3.4
₱40,000 - ₱49,999	2.1
₱50,000 - ₱69,999	1.6
₱70,000 and over	1.3

The CES has 14 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;

Tables 12-14. Proportion of respondents with an OFW in their household and uses of OFW remittances.

Table 1. Consumer Expectations Current Quarter (First Quarter 2005)				
In Percent				
	Better	Same	Worse	Diffusion index*
Consumer Expectations	7.2	41.3	51.5	-44.2 (-49.1)
Family Financial Situation	9.0	36.7	54.2	-45.2 (-48.8)
Level of Family Income	9.3	64.4	26.3	-17.0 (-21.7)
Economic Condition of the Country	3.4	22.7	73.9	-70.5 (-76.8)

* Figures in parenthesis refer to the Q4 2004 CES diffusion indices

Table 1a. Consumer Expectations Current Quarter (First Quarter 2005) by Household Income Level				
In Percent				
	Financial condition	Level of family income	Economic condition	Diffusion index
Less than ₱10,000	-56.7	-26.4	-70.2	-51.1
₱10,000 - ₱19,999	-34.5	-9.8	-66.5	-36.9
₱20,000 - ₱29,999	-21.2	-1.4	-65.1	-29.2
₱30,000 - ₱39,999	8.4	8.7	-63.0	-15.3
₱40,000 - ₱49,999	5.8	9.8	-70.5	-18.3
₱50,000 - ₱69,999	22.8	13.1	-50.0	-4.7
₱70,000 and over	18.8	31.2	-28.1	7.3

Table 2. Consumer Expectations Next Quarter (Second Quarter 2005)				
In Percent				
	Better	Same	Worse	Diffusion index*
Consumer Expectations	6.5	70.2	23.3	-16.8 (-20.5)
Family Financial Situation	7.4	63.3	29.3	-21.9 (-21.5)
Level of Family Income	7.7	86.0	6.4	1.3 (1.6)
Economic Condition of the Country	4.5	61.2	34.3	-29.8 (-41.6)

* Figures in parenthesis refer to the Q4 2004 CES diffusion indices

Table 2a. Consumer Expectations Next Quarter (Second Quarter 2005) by Household Income Level				
In Percent				
	Financial condition	Level of family income	Economic condition	Diffusion index
Less than ₱10,000	-25.6	-1.8	-31.0	-19.5
₱10,000 - ₱19,999	-14.1	3.3	-24.7	-11.8
₱20,000 - ₱29,999	-5.4	4.4	-27.4	-9.5
₱30,000 - ₱39,999	4.9	11.1	-19.8	-1.3
₱40,000 - ₱49,999	4.9	3.9	-17.6	-2.9
₱50,000 - ₱69,999	11.8	15.8	-10.5	5.7
₱70,000 and over	3.1	25.0	-9.4	6.2

Table 3. Consumer Expectations 12 Months From Now (First Quarter 2006)				
In Percent				
	Better	Same	Worse	Diffusion index*
Consumer Expectations	20.2	41.2	38.6	-18.4 (-16.7)
Family Financial Situation	20.2	34.7	45.0	-24.8 (-16.4)
Level of Family Income	25.4	60.9	13.7	11.7 (6.7)
Economic Condition of the Country	15.0	27.9	57.0	-42.0 (-40.6)

* Figures in parenthesis refer to the Q4 2004 CES diffusion indices

Table 3a. Consumer Expectations 12 Months from Now (First Quarter 2006) by Household Income Level				
In Percent				
	Financial condition	Level of family income	Economic condition	Diffusion index
Less than ₱10,000	-26.9	9.0	-41.0	-19.6
₱10,000 - ₱19,999	-12.9	20.8	-36.3	-9.5
₱20,000 - ₱29,999	-2.7	22.1	-29.7	-3.4
₱30,000 - ₱39,999	6.1	28.4	-11.1	7.8
₱40,000 - ₱49,999	7.9	31.3	-11.7	9.2
₱50,000 - ₱69,999	18.4	39.5	2.7	20.2
₱70,000 and over	34.3	43.8	21.9	33.3

Table 4. Expectations on the Average Percent Change in Family Income				
In Percent				
	Better	Same	Worse	Average
First Quarter 2005 Average income percent change compared to a year ago	18.0	0.0	-24.0	-4.6 (-5.9)
Second Quarter 2005 Average income percent change in the next quarter	17.6	0.0	-18.1	0.2 (0.1)
One year from now (First Quarter 2006) Average income percent change twelve months from now	20.0	0.0	-20.0	2.3 (2.0)

* Figures in parenthesis refer to the Q4 2004 CES average income percent change

Table 5. Diffusion Index on the Amount of Expenditures for Basic Goods and Services Next Quarter
First Quarter 2005 - Second Quarter 2005
In Percent

	Up	No Change	Down	Diffusion Index*
Average	40.2	52.9	0.7	39.5 (49.1)
Food	69.4	29.6	1.0	68.4 (75.85)
Clothing and Footwear	20.1	78.7	1.2	18.9 (35.50)
Fuel	48.0	49.1	2.9	45.1 (60.37)
Electricity	62.0	36.9	1.1	60.9 (62.35)
Water	42.9	56.2	0.9	42.0 (46.88)
House rent	9.9	90.0	0.1	9.8 (15.06)
Transportation	40.2	59.0	0.7	39.5 (51.50)
Communication	17.3	82.1	0.5	16.8 (27.98)
Education	22.3	76.4	1.3	21.0 (28.49)
Medical Care	34.2	65.6	0.6	33.6 (37.22)
Personal Care & Effects	36.0	63.6	0.4	35.6 (44.04)
Hotel & restaurant**	19.8	79.6	0.6	19.2

* Figures in parenthesis refer to the Q4 2004 CES diffusion indices

** included beginning Q1 2005

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

	Percent change	
Average	5.9	(6.2)
Food	10.6	(10.6)
Clothing and Footwear	1.3	(3.6)
Fuel	3.3	(6.6)
Electricity	9.1	(7.3)
Water	5.0	(5.6)
House rent	0.9	(1.6)
Transportation	5.9	(5.7)
Communication	1.1	(2.6)
Education	2.3	(3.3)
Medical Care	3.2	(3.7)
Personal Care & Effects	3.6	(4.2)
Hotel & restaurant**	1.8	

* Figures in parenthesis refer to the Q4 2004 CES percent changes

** included beginning Q1 2005

Table 7. Buying Conditions Current Quarter First Quarter 2005 In Percent				
	Good Time	Fair Time	Bad Time	Index (100 -% Bad Time)*
Buying Conditions Index	5.5	30.6	63.8	36.2 (20.4)
Buying consumer durables	5.4	38.3	56.2	43.8 (26.0)
Buying a motor vehicle	4.0	23.0	73.0	27.0 (12.8)
Buying a house and/or lot	7.0	30.6	62.3	37.7 (22.3)

* Figures in parenthesis refer to the Q4 2004 CES indices

Table 8. Buying Intentions in the Next 12 Months (First Quarter 2005 - First Quarter 2006) In Percent				
	Yes	Not Sure	No	Index
Buying Intentions Index	4.1	21.7	74.3	25.7 (20.5)
Buying consumer durables	6.9	30.8	62.3	37.7 (30.0)
Buying a motor vehicle	2.2	15.2	82.6	17.4 (13.3)
Buying a house and/or lot	3.1	19.0	77.9	22.1 (18.3)

* Figures in parenthesis refer to the Q4 2004 CES indices

Table 9. Indices on Selected Economic Indicators in the Next 12 Months First Quarter 2005 - First Quarter 2006 In Percent				
	Increase	Same as this period	Decrease	Diffusion Index*
Unemployment	79.8	11.8	8.4	71.4 (78.4)
Interest rate for borrowing money	57.2	39.5	3.3	53.9 (62.4)
Exchange rate <i>(Increase means appreciation while decrease means depreciation of the peso)</i>	13.3	26.3	60.4	-47.1 (-56.3)
Inflation rate	68.1	31.1	0.9	67.2 (45.4)

* Figures in parenthesis refer to the Q4 2004 CES diffusion indices

Table 10. Indices of Change in Prices of Basic Goods and Services in the Next 12 Months First Quarter 2005 - First Quarter 2006 In Percent				
	Up	No Change	Down	Diffusion Index*
Average	68.1	31.1	0.9	67.2 (45.4)
Rice	90.0	9.1	0.8	89.2 (77.5)
Meat	90.3	8.9	0.9	89.4 (80.0)
Fish and seafood	84.6	14.5	0.9	83.7 (71.4)
Fruits and vegetables	74.4	24.0	1.7	72.7 (54.2)
Clothing	45.5	51.3	3.2	42.3 (10.7)
House rent	43.9	55.6	0.5	43.4 (6.1)
Fuel	83.1	14.5	2.4	80.7 (83.7)
Electricity	87.8	11.2	1.1	86.7 (76.5)
Water	72.6	26.3	1.1	71.5 (47.8)
Education	59.9	39.6	0.5	59.4 (29.4)
Medical care	63.1	35.7	1.2	61.9 (33.1)
Transportation	74.3	25.3	0.3	74.0 (67.1)
Communication	45.6	53.5	0.8	44.8 (12.0)
Personal care	65.5	33.7	0.8	64.7 (41.8)

* Figures in parenthesis refer to the Q4 2004 CES diffusion indices

Table (First		
	Percent Change	
Average	9.7	(6.2)
Rice	11.6	(9.3)
Meat	11.7	(9.9)
Fish and Seafood	12.6	(10.5)
Fruits and vegetables	12.4	(7.6)
Clothing	4.2	(-7.4)
House rent	5.6	(1.3)
Fuel	9.8	(11.8)
Electricity	18.3	(13.3)
Water	13.7	(8.7)
Education	8.3	(5.7)
Medical Care	7.4	(2.8)
Transportation	14.8	(8.9)
Communication	4.9	(2.7)
Personal Care	7.8	(5.7)

* Figures in parenthesis refer to the Q4 2004 CES percent changes

Table 12. Distribution of Household Respondents by Number of OFWS (Overseas Filipino Workers)	
Number of OFW	Number of respondents
0	2,206
1	169
2	15
3	5
4	1
Total	2,396

Households Who Received Remittances in the Last 12 Months		
	Number	Percent
Received remittances	176	92.6
Did not receive remittances	14	7.4
Total	190	100.0

Table 14. Household Utilization of OFW Remittances in the Last 12 Months		
Type of use	Number	Percent
Buy food and/or used in other household expenditures	161	84.7
Save in banks, cooperatives and/or other depository institutions	85	44.7
Used in others	55	28.9
Education	43	24.4
Debt payment	4	2.3
Buy appliances	43	22.6
Buy a house	10	5.3
Business capital and/or invested in stocks	8	4.2
Buy car / motor vehicle	5	2.6