

CONSUMER OUTLOOK SOFTENS IN THE SECOND AND THIRD QUARTERS OF 2005*

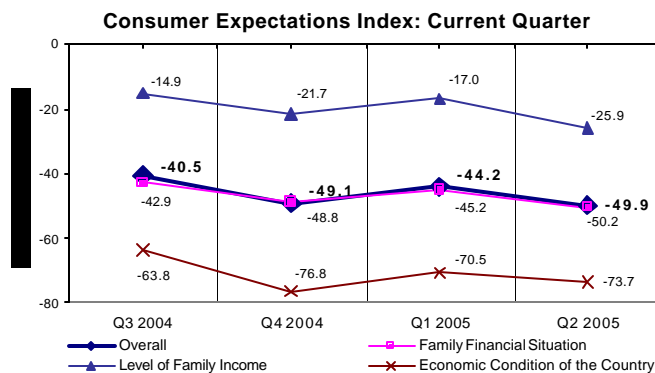
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Overall Consumer Outlook

Consumer outlook on family financial situation, family income and economic condition of the country softens in the second quarter of 2005

Consumers' economic outlook softened in the second quarter of 2005 as shown in a survey conducted among 2280 households in Metro Manila from 1-7 April 2005. Overall consumer expectations diffusion index (DI) continued to decline and remained negative at -49.9 percent in the second quarter of 2005 from -44.2 percent in the previous quarter.¹ These figures indicate that the percentage of respondents who expected the economy to worsen increased and was higher compared to the percentage of respondents who expected the economy to improve or get better. The second quarter 2005 DI was the lowest since the Consumer Expectations Survey (CES) started in the third quarter of 2004.

All of the three component indices of the overall consumer expectations declined and remained negative in the second quarter. Specifically, the family income index was lower than the previous survey by 8.9 percentage points to -25.9 percent. Likewise, the indices of family financial situation, and economic condition of the country declined by 5.0 percentage points and 3.2 percentage points, respectively, to -50.2 percent and -73.7 percent for the same period. These figures indicate that majority of respondents were not anticipating improvement in their family income and family financial conditions. Respondents were also less optimistic about economic growth in the second quarter (Table 1).



* 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 and interest rate for borrowing money, where a positive DI indicates the opposite. Please note that all index figures are diffusion indices except for buying conditions and intentions.



Of the three component indices, respondents were most pessimistic with respect to outlook on the economic condition of the country as it consistently got the lowest rating followed by the family financial situation index and finally by the family income index.

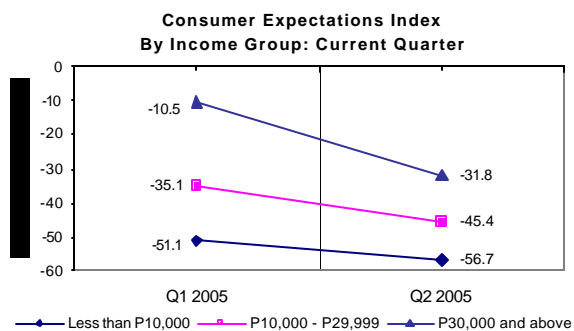
Consumer pessimism emanates from higher prices of major food items and weak family net income Respondents cited 1) high prices of food, utilities, oil and transportation; 2) insufficient income; and 3) higher household expenditures as reasons for their declining optimism.

All income groups expect decline in living condition Despite varying levels of consumer outlook by income group, respondents in all income brackets registered negative and lower economic outlook in the second quarter of 2005 compared to the previous quarter. Moreover, all income groups expected standard of living to decline in the second quarter compared to the previous quarter.

The economic outlook of respondents with a household monthly income of less than ₱10,000, comprising 51 percent of the CES sample, dipped further to -56.7 percent from -51.1 percent in the previous survey. This indicates further decline in the standard of living of households in the lowest income group (Table 1a).

While the economic outlook for respondents with a household monthly income from ₱10,000 to less than ₱30,000 remained negative and lower at -45.4 percent, they were less pessimistic than those respondents in the lowest income group. Respondents for this income group comprised 38.7% of the CES sample.

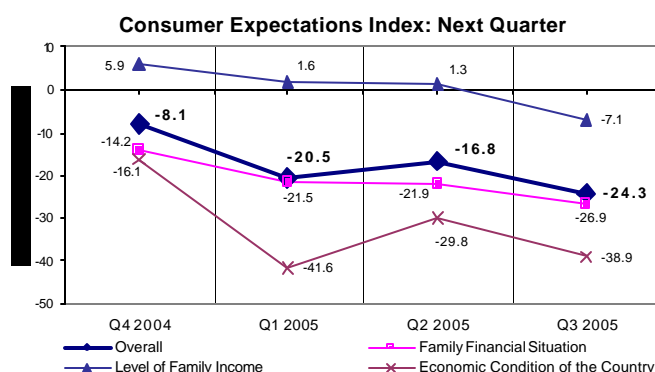
Interestingly, while respondents with the highest household monthly income of ₱30,000 and over, which comprise 10.3 percent of the CES sample, were the least pessimistic of all the income groups, the DI for this income group dropped significantly to -31.8 percent from -10.5 percent in the previous quarter.





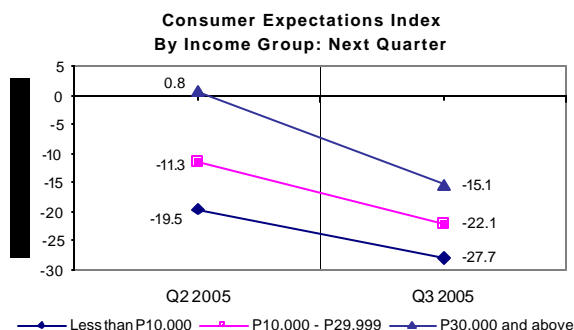
Consumer pessimism persists for the third quarter of 2005

Consumer outlook on the third quarter also weakened as the consumer expectations DI went down to -24.3 percent from -16.8 percent in the previous survey. The 7.5 percentage point decline was attributed primarily to lower respondents' expectations on the economic conditions of the country, which declined by 9.1 percentage points to -38.9 percent. Family income and financial situation indices declined by almost the same percentage points of 5.8 percent and 5.0 percent, to -7.1 percent and -26.9 percent, respectively. These figures indicate that a bigger number of respondents expected the economic situation of the country, their family's financial situation and their family income would be worse off for the next three months (Table 2).



All income groups expect economy to be weaker in the third quarter of 2005

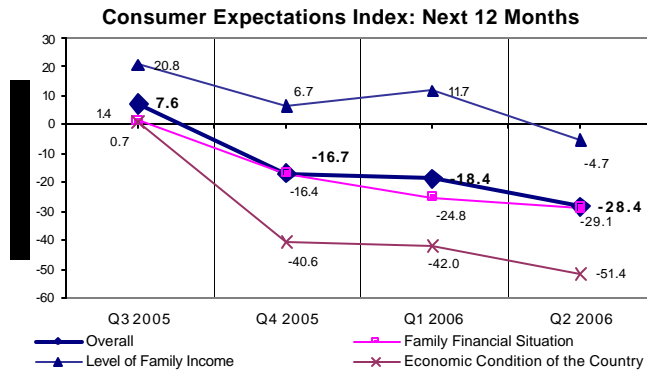
Weaker economic outlook was expected for the third quarter across all income groups. By income level, respondents under the lowest income group yielded a DI of -27.7 percent, down from -19.5 percent during the previous quarter. Likewise, DI of respondents belonging to the middle income group declined to -22.1 percent, from -11.3 percent in the previous quarter. Meanwhile, DI of respondents from the highest income group reversed to -15.1 percent, from 0.8 percent in the previous survey (Table 2a).





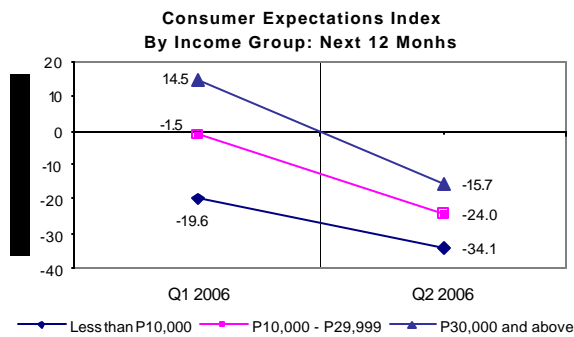
Weak consumer outlook in the next twelve months persists for the fourth consecutive quarter

Consumer expectations one year-ahead also weakened for the fourth consecutive quarter. Respondents expecting business conditions to worsen in the next 12 months increased as the overall DI declined to -28.4 percent from -18.4 percent. For the first time, since third quarter of 2004 survey, family income one year-ahead registered a negative DI of 4.7 percent from a positive 11.7 percent in the previous survey. Respondents' outlook on the economic condition of the country and family financial situation likewise declined to -51.4 percent and -29.1 percent, respectively (Table 3).



All income groups anticipate weak economic outlook one year-ahead

Respondents in all income groups anticipated declining economic conditions in the next 12 months. By income level, the DI declined from -19.6 percent to -34.1 percent for respondents in the lowest income group; from -1.5 percent to -24.0 percent for the middle income level; and from 14.5 percent to -15.7 percent for the highest income group (Table 3a).



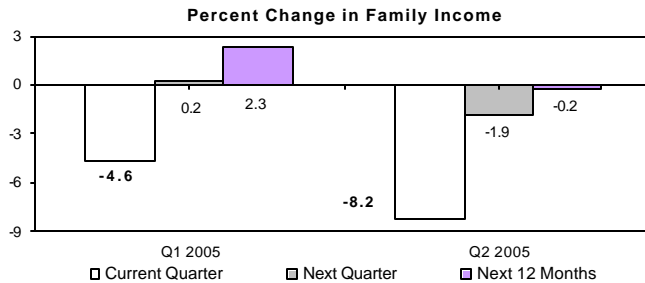
Changes in Family Income and Expenditures

Along with the weakened consumer outlook is expectations of a low average family income in the four quarters ahead

Consistent with the weaker consumer outlook, respondents anticipated a decrease in their family income for the second quarter of 2005 by an average of 8.2 percent compared to their family income a year ago. This decline was relatively higher compared to the 4.6 percent drop in expected income in the previous survey. For the third quarter of 2005, respondents expected family income to decline by an average of 1.9 percent, a turnaround from the



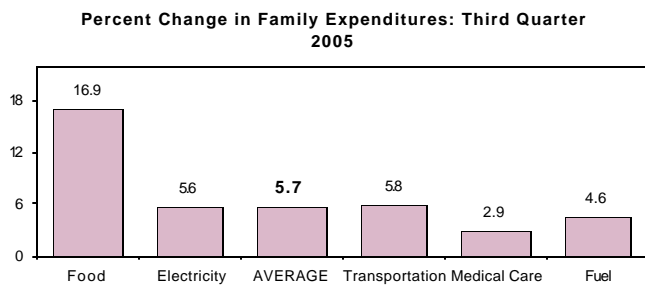
previous quarter's 0.2 percent increase. The average decrease in income is expected to continue up to the second quarter of next year as respondents estimated an average income decline of 0.2 percent. (Table 4).



Respondents expect increased expenditures on food, transportation and utilities in the third quarter

For the third quarter, respondents expected higher expenses on food, electricity, fuel, transportation and water. Respondents expected to adjust expenditures on communication, hotels and restaurants, clothing and footwear, education and personal care and effects. This was consistent with the reasons given on the relatively weak consumer expectations of households (Table 5).

Despite anticipated decline in family income, respondents expected their family expenditures on basic commodities to rise by an average of 5.7 percent in the third quarter of 2005 (Table 6). Food, transportation, electricity and fuel were the major components likely to drive up family expenditures.



Changes in Buying Conditions and Buying Intentions

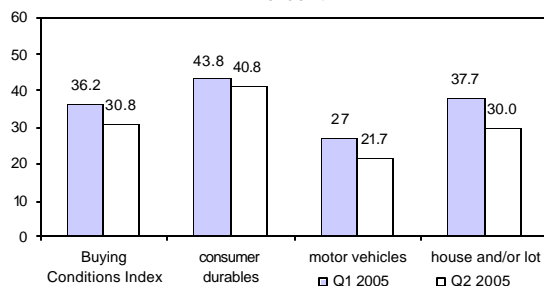
Consumer sentiment weakens

The buying conditions index declined to 30.8 percent from 36.2 percent in the previous survey indicating that consumers are more cautious of purchasing assets in the second quarter of 2005 compared to the previous survey. All the three component indices of the buying conditions index dropped compared to previous survey levels (Table 7).

About 40.8 percent of respondents indicated that the current quarter was a good time to buy consumer durables, followed by house and/or lot at 30.0 percent, and by motor vehicles at 21.7 percent (Table 7).



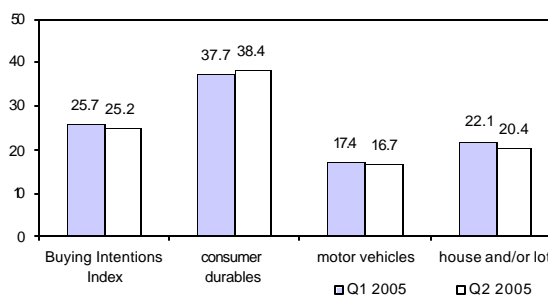
Buying Conditions Index: Next Quarter, In Percent



Buying intentions index is relatively stable in the next twelve months

Buying intentions index in the next 12 months, was slightly lower at 25.2 percent, compared to 25.7 percent in the previous quarter. By component, the buying intentions index of consumer durables rose to 38.4 percent from 37.7 percent. These helped offset the decline in the buying intentions indices for house and/or lot and motor vehicles from 22.1 percent to 20.4 percent and 17.4 percent to 16.7 percent, respectively (Table 8).

Buying Intentions Index: Next Twelve Months, In Percent



Factors behind positive buying intentions include affordability, increased income and opportunity to invest

Reasons cited by households with positive buying intentions within the next 12 months include affordability, increase in income, housing as a good investment and motor vehicle's usefulness in business. On the other hand, majority of the respondents who indicated negative buying intentions to buy any in the next 12 months cited the following reasons: high prices, low/insufficient income and higher priority for food and other basic needs.

Respondents expected higher sales of appliances in the next 12 months but lower sales of cars and residential housing.

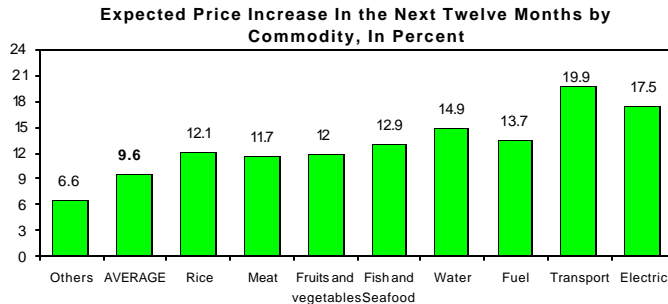
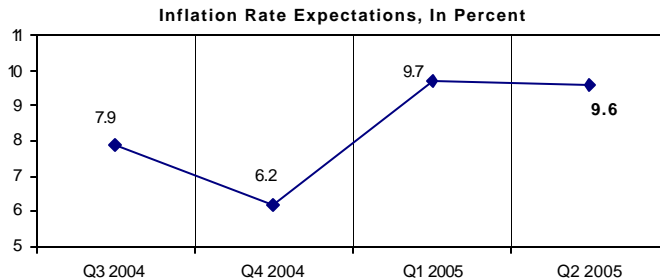


Expectations on Selected Economic Indicators

Respondents anticipate higher unemployment and interest rate but expect lower inflation rate and a slowdown in the peso depreciation in a year ahead

Respondents expected unemployment and interest rates on borrowings to increase in the next 12 months. However, respondents anticipated the inflation rates and depreciation of the peso to slow down during the same period (Table 9).

Respondents expected inflation for the next 12 months to average at 9.6 percent, slightly lower than the 9.7 percent average during the previous survey (Tables 10-11). Households anticipated the highest price increases in transportation, food and utilities.

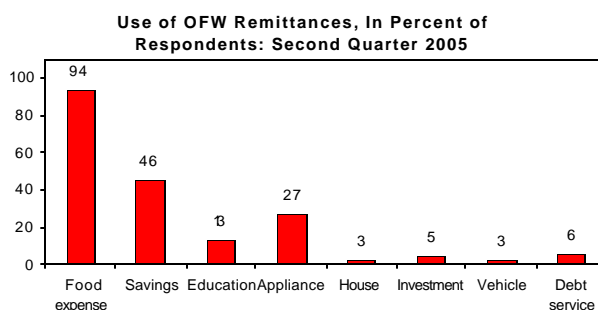


Focus on Overseas Filipino Workers

Households with OFWs show that remittances are used for food, purchase of appliances, bank savings and children's education

Among the 2280 survey respondents, 183 households or 8.0 percent have at least one OFW in their household (Table 12). About 91.2 percent of the OFWs remitted money to their families during the last 12 months (Table 13).

According to the results of the survey, uses of OFW remittances were ranked as follows: food and other household needs (94 percent of households); savings in banks, cooperatives and other depository institutions (46 percent); appliances (27 percent) and education (13 percent). A small percentage of respondents used OFW remittances for: debt payments (6 percent); investment in business/stocks (5 percent; motor vehicle (3 percent); and house and/or lot purchase (3 percent) (Table 14).



TECHNICAL NOTES

The CES is conducted using a sample of 2280 households in the National Capital Region (NCR). Its sample households constitute half of the NSO's master sample of households in the NCR, which is representative of all households 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 second quarter of 2005 is 92.53 percent. Based on the above sampling scheme, the percent distribution of the sample households by income class is as follows :

Income class	Percent of sample
Less than ₱10,000	51.0
₱10,000 - ₱19,999	29.9
₱20,000 - ₱29,999	8.8
₱30,000 - ₱39,999	3.6
₱40,000 - ₱49,999	3.3
₱50,000 - ₱69,999	2.1
₱70,000 and over	1.4

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 ahead. 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 previous year, 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.

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Table 1. Consumer Expectations Current Quarter (Second Quarter 2005)				
In Percent				
	Better	Same	Worse	Diffusion index*
Consumer Expectations	6.2	37.7	56.1	-49.9 (-44.2)
Family Financial Situation	8.0	33.8	58.2	-50.2 (-45.2)
Level of Family Income	8.3	57.5	34.2	-25.9 (-17.0)
Economic Condition of the Country	2.3	21.7	76.0	-73.7 (-70.5)

* Figures in parenthesis refer to the Q1 2005 CES diffusion indices

Table 1a. Consumer Expectations Current Quarter (Second Quarter 2005) by Household Income Level				
In Percent				
	Financial condition	Level of family income	Economic condition	Diffusion index
Less than ₱10,000	-60.8	-34.7	-74.6	-56.7
₱10,000 - ₱19,999	-49.4	-21.6	-75.8	-48.9
₱20,000 - ₱29,999	-22.0	-10.9	-67.8	-33.6
₱30,000 - ₱39,999	-22.0	-2.5	-61.3	-28.6
₱40,000 - ₱49,999	-19.3	-1.1	-70.3	-30.2
₱50,000 - ₱69,999	-26.5	-10.9	-70.3	-35.9
₱70,000 and over	-24.2	-17.5	-70.7	-37.5

Table 2. Consumer Expectations Next Quarter (Third Quarter 2005)				
In Percent				
	Better	Same	Worse	Diffusion index*
Consumer Expectations	4.5	66.7	28.8	-24.3 (-16.8)
Family Financial Situation	5.7	61.7	32.6	-26.9 (-21.9)
Level of Family Income	5.8	81.4	12.9	-7.1 (1.3)
Economic Condition of the Country	2.1	56.9	41.0	-38.9 (-29.8)

* Figures in parenthesis refer to the Q1 2005 CES diffusion indices

Table 2a. Consumer Expectations for the next 3 months by household income level				
In Percent				
	Financial condition	Level of family income	Economic condition	Diffusion index
Less than ₱10,000	-31.5	-9.1	-42.6	-27.7
₱10,000 - ₱19,999	-27.1	-7.8	-36.6	-23.8
₱20,000 - ₱29,999	-15.8	-0.6	-32.0	-16.1
₱30,000 - ₱39,999	-12.5	4.2	-26.2	-11.5
₱40,000 - ₱49,999	-19.2	1.8	-42.6	-20.0
₱50,000 - ₱69,999	-3.8	-7.4	-28.3	-13.2
₱70,000 and over	-3.9	-6.3	-36.9	-15.7

Table 3. Consumer Expectations 12 Months From Now (Second Quarter 2006)				
In Percent				
	Better	Same	Worse	Diffusion index*
Consumer Expectations	13.4	44.7	41.8	-28.4 (-18.4)
Family Financial Situation	14.3	42.3	43.4	-29.1 (-24.8)
Level of Family Income	17.1	61.1	21.8	-4.7 (11.7)
Economic Condition of the Country	8.9	30.8	60.3	-51.4 (-42.0)

* Figures in parenthesis refer to the Q1 2005 CES diffusion indices

Table 3a. Consumer Expectations for the next 12 months by household income level				
In Percent				
	Financial condition	Level of family income	Economic condition	Diffusion index
Less than ₱10,000	-36.9	-12.3	-53.2	-34.1
₱10,000 - ₱19,999	-30.3	-1.1	-55.1	-28.8
₱20,000 - ₱29,999	-1.8	16.7	-37.9	-7.7
₱30,000 - ₱39,999	0.4	1.7	-39.9	-12.6
₱40,000 - ₱49,999	-15.1	8.0	-50.0	-19.0
₱50,000 - ₱69,999	-6.9	9.0	-36.7	-11.5
₱70,000 and over	-23.6	-4.5	-37.0	-21.7

Table 4. Expectations on the Average Percent Change in Family Income and Expenditure				
In Percent				
	Better	Same	Worse	Average
Second Quarter 2005 Average income percent change compared to a year ago	8.3	0.0	-25.9	-8.2 (-4.6)
Third Quarter 2005 Average income percent change in the next quarter	5.8	0.0	-7.1	-1.9 (0.2)
One year from now (Second Quarter 2006) Average income percent change twelve months from now	17.1	0.0	-4.7	-0.2 (2.3)

* Figures in parenthesis refer to the Q1 2005 CES average income percent change

Table 5. Diffusion Index on the Amount of Expenditures for Basic Goods and Services Next 3 Months Second Quarter 2005 - Third Quarter 2005 In Percent				
	Up	No Change	Down	Diffusion Index*
Average	47.7	0.6	45.5	2.2 (39.5)
Food	73.9	0.8	25.3	48.6 (68.4)
Clothing and Footwear	32.7	1.3	66.0	-33.3 (18.9)
Fuel	68.3	0.4	31.3	37.0 (45.1)
Electricity	70.0	0.6	29.4	40.6 (60.9)
Water	55.1	0.6	44.3	10.8 (42.0)
House rent	15.2	0.3	84.5	-69.3 (9.8)
Transportation	60.7	0.4	38.9	21.8 (39.5)
Communication	29.9	0.6	69.4	-39.5 (16.8)
Education	42.6	0.5	56.9	-14.3 (21.0)
Medical Care	46.1	0.6	53.3	-7.2 (33.6)
Personal Care & Effects	44.0	0.7	55.2	-11.2 (35.6)
Hotel & restaurant**	30.2	1.1	68.7	-38.5 (19.2)

* Figures in parenthesis refer to the Q1 2005 CES diffusion indices

** included beginning Q1 2005

Table 6. Percent Change in the Amount of Expenditures for Basic Goods and Services Next 3 Months Second Quarter 2005 - Third Quarter 2005 In Percent		
	Percent change	
Average	5.7	(5.9)
Food	16.9	(10.6)
Clothing and Footwear	-6.8	(1.3)
Fuel	4.6	(3.3)
Electricity	5.6	(9.1)
Water	0.6	(5.0)
House rent	-6.5	(0.9)
Transportation	5.8	(5.9)
Communication	-2.0	(1.1)
Education	0.1	(2.3)
Medical Care	2.9	(3.2)
Personal Care & Effects	0.4	(3.6)
Hotel & restaurant**	-12.8	(1.8)

* Figures in parenthesis refer to the Q1 2005 CES percent changes

** included beginning Q1 2005

Table 7. Buying Conditions at this Time Second Quarter 2005 In Percent				
	Good Time	Fair Time	Bad Time	Index (100 - % Bad Time)*
Buying Conditions Index	4.7	26.1	69.2	30.8 (36.2)
Buying consumer durables	4.6	36.2	59.2	40.8 (43.8)
Buying a motor vehicle	3.2	18.5	78.3	21.7 (27.0)
Buying a house and/or lot	6.3	23.7	70.0	30.0 (37.7)

* Figures in parenthesis refer to the Q1 2005 CES indices

Table 8. Buying Intentions in the Next 12 Months (Second Quarter 2005 - Second Quarter 2006) In Percent				
	Yes	Not Sure	No	Index (100 - % No)
Buying Intentions Index	4.7	20.4	74.8	25.2 (25.7)
Buying consumer durables	8.2	30.1	61.6	38.4 (37.7)
Buying a motor vehicle	2.8	14.0	83.3	16.7 (17.4)
Buying a house and/or lot	3.1	17.2	79.6	20.4 (22.1)

* Figures in parenthesis refer to the Q1 2005 CES indices

Table 9. Indices on Selected Economic Indicators in the Next 12 Months Second Quarter 2005 - Second Quarter 2006 In Percent				
	Increase	Same as this period	Decrease	Diffusion Index*
Unemployment	84.2	10.5	5.3	78.9 (71.4)
Interest rate for borrowing money	58.4	38.8	2.7	55.7 (53.9)
Exchange rate <i>(Increase means appreciation while decrease means depreciation of the peso)</i>	16.7	24.1	59.2	-42.5 (-47.1)
Inflation rate	73.8	2.8	23.4	50.4 (67.2)

* Figures in parenthesis refer to the Q1 2005 CES diffusion indices

Table 10. Indices of Change in Prices of Basic Goods and Services in the Next 12 Months
 Second Quarter 2005 - Second Quarter 2006
 In Percent

	Up	No Change	Down	Diffusion Index*	
Average	73.8	2.8	23.4	50.4	(67.2)
Rice	91.7	0.9	7.4	84.3	(89.2)
Meat	91.5	0.5	8.0	83.5	(89.4)
Fish and seafood	87.0	0.8	12.2	74.8	(83.7)
Fruits and vegetables	77.9	1.1	21.0	56.9	(72.7)
Clothing	57.8	1.3	40.9	16.9	(42.3)
House rent	51.6	0.5	47.9	3.7	(43.4)
Fuel	93.4	1.1	5.4	88.0	(80.7)
Electricity	89.8	1.6	8.6	81.2	(86.7)
Water	81.2	1.2	17.6	63.6	(71.5)
Education	70.3	0.3	29.4	40.9	(59.4)
Medical care	72.4	0.9	26.7	45.7	(61.9)
Transportation	89.3	0.4	10.4	78.9	(74.0)
Communication	58.7	0.9	40.4	18.3	(44.8)
Personal care	65.5	33.7	0.8	64.7	(64.7)

* Figures in parenthesis refer to the Q1 2005 CES diffusion indices

Table 11. Percent Change In Prices of Basic Goods and Services in the Next 12 Months
 (Second Quarter 2005 - Second Quarter 2006)

	Percent Change	
Average	9.6	(9.7)
Rice	12.1	(11.6)
Meat	11.7	(11.7)
Fish and Seafood	12.9	(12.6)
Fruits and vegetables	12.0	(12.4)
Clothing	-0.1	(4.2)
House rent	4.4	(5.6)
Fuel	13.7	(9.8)
Electricity	17.5	(18.3)
Water	14.9	(13.7)
Education	7.0	(8.3)
Medical Care	9.4	(7.4)
Transportation	19.9	(14.8)
Communication	4.1	(4.9)
Personal Care	8.3	(7.8)

* Figures in parenthesis refer to the Q1 2005 CES percent changes

Table 12. Distribution of Household Respondents by Number of OFWS (Overseas Filipino Workers)	
Number of OFW	Number of respondents
0	2,213
1	183
2	19
3	2
4	1
Total	2,418

Table 13. OFW Households Who Received Remittances from any of its OFW Members in the last 12 months		
	Number	Percent
Received remittances	187	91.2
Did not receive remittances	18	8.8
Total	205	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	175	93.5
Save in banks, cooperatives and/or other depository institutions	85	45.5
Used in others	41	21.9
Education	25	13.3
Debt payment	12	6.4
Buy appliances	50	26.7
Buy a house	6	3.3
Business capital and/or invested in stocks	9	4.7
Buy car / motor vehicle	6	3.4