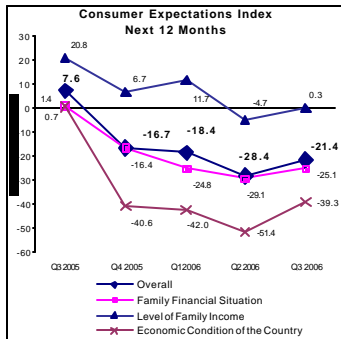


# CONSUMER OUTLOOK TO IMPROVE IN 2006 BUT WEAKER IN THE THIRD AND FOURTH QUARTERS OF 2005

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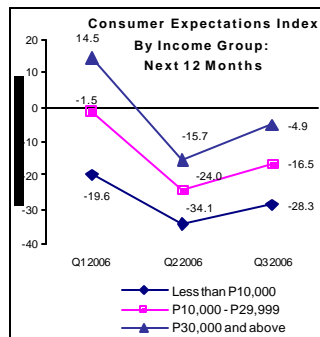
## Overall Consumer Outlook

*Consumer outlook for the next twelve months improves.*



Consumer expectations for 2006 improved slightly from the previous survey. Respondents expecting economic conditions to improve in the next 12 months increased as the overall DI went up to -21.4 percent from -28.4 percent. Family income one year-ahead registered a positive DI of 0.3 percent from -4.7 percent in the previous survey. Respondents' outlook on the economic condition of the country and on the family financial situation, likewise, improved to -39.3 percent and -25.1 percent, respectively. Respondents cited expectations of: 1) additional income; 2) more jobs; 3) sound government policies; and 4) overseas jobs as reasons for the improvement of their next year's outlook (Table 3).

*All income groups have improved economic outlook a year from now.*

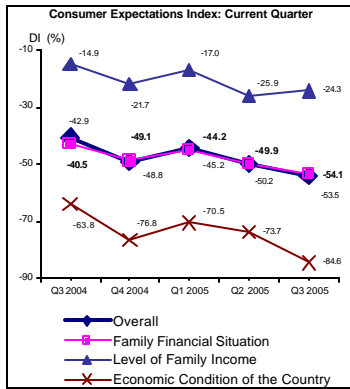


Improved outlook on economic conditions a year from now was shared by all income groups. By income level, the DI improved from -34.1 percent to -28.3 percent for respondents in the lowest income group; from -24.0 percent to -16.5 percent for the middle-income level; and from -15.7 percent to -4.9 percent for the highest income group (Table 3a).

*Consumer outlook on family financial situation and economic condition of the country declines in the third quarter of 2005 amid higher prices of basic commodities and insufficient household income.*

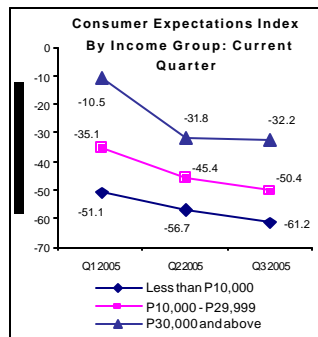
In contrast, consumers' optimism declined in the third quarter of 2005 to an average diffusion index (DI) of -54.1 percent from -49.9 percent in the previous quarter.<sup>1</sup> The third quarter 2005 DI is the lowest since the Consumer Expectations Survey (CES) started in the third quarter of 2004.

<sup>1</sup> 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 components of the DI, the indices of family financial situation, and economic condition of the country declined by 3.3 percentage points and 10.9 percentage points, respectively, to -53.5 percent and -84.6 percent during the period in review. On the other hand, the third component, the family income DI improved by 1.6 percentage points to -24.3 percent. These figures indicate that majority of respondents were anticipating no improvement in their family financial conditions, given the modest increase in the family income DI. Respondents were also less optimistic about economic growth in the third quarter. They cited 1) high prices of food, utilities, oil and transportation; 2) insufficient income; and 3) higher household expenditures, as reasons for their declining optimism (Table 1).

Consumer optimism declines in all income groups.

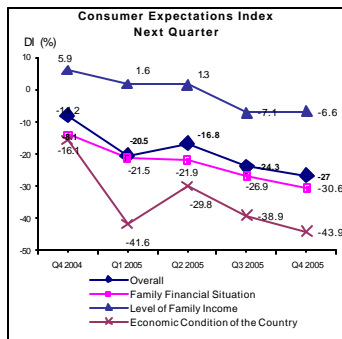


Respondents in all income groups continue to register negative DIs for the current quarter. The economic outlook of respondents with a household monthly income of less than ₦10,000 dipped further to -61.2 percent from -56.7 percent in the previous survey. This group comprised 51.3 percent of the CES sample. Result indicates a further decline in the standard of living of households in the lowest income group (Table 1a).

Likewise, the economic outlook for respondents with a household monthly income from ₦10,000 to less than ₦30,000 remained lower at -50.4 percent compared to -45.4 percent in the previous survey. Respondents for this income group comprised 39.3 percent of the CES sample.

Meanwhile, respondents with the highest household monthly income of ₦30,000 and over, which comprise 9.4 percent of the CES sample, were almost unchanged at -32.2 percent from -31.8 percent in the previous quarter.

Consumer pessimism persists for the fourth quarter of 2005.

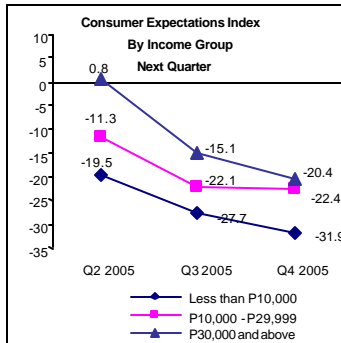


Overall consumer outlook for the fourth quarter of 2005 was also down at -27.0 percent from -24.3 percent in the previous survey even as the family income index increased by 0.5 percentage point to -6.6 percent. The 2.7 percentage point decline was due primarily to respondents' lower expectations on the economic conditions of the country- which declined by 5.0 percentage points (-43.9 percent)- and the family financial situation index- which declined by 3.7 percentage points (-30.6 percent) (Table 2).



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

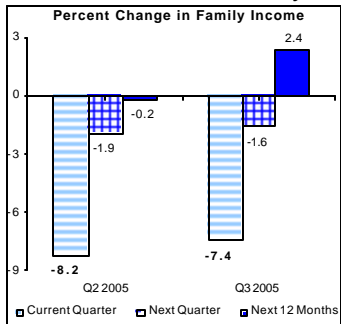
All income groups expected weaker economic outlook for the fourth quarter. By income level, respondents under the lowest income group yielded a DI of -31.9 percent (from -27.7 percent during the previous quarter); the middle-income group to -22.4 percent (from -22.1 percent); and the highest income group to -20.4 percent (from -15.1 percent) (Table 2a).



**Changes in Family Income and Expenditures**

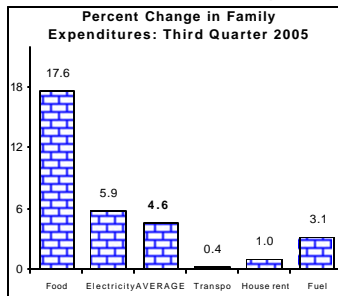
Respondents expect average family income to increase next year.

Average family income was expected to rise by next year as respondents saw an average income improvement of 2.4 percent. However, consistent with the negative family income outlook, respondents anticipated a decrease in their family income for the third quarter of 2005 by an average of 7.4 percent compared to their family income a year ago. This decline, though, was relatively lower compared to the -8.2 percent figure in the previous survey. Consumer pessimism continues in the fourth quarter as respondents expected family income to decline by an average of 1.6 percent although this is lower than the previous quarter's drop of 1.9 percent (Table 4).



Respondents expect increased expenditures on food, transportation and fuel in the fourth quarter.

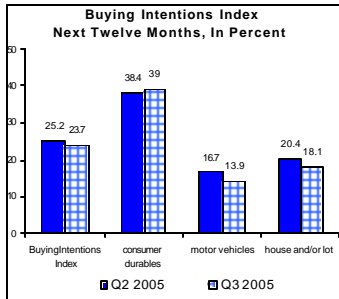
Despite an anticipated decline in family income, respondents expected their family expenditures on basic commodities to rise by an average of 4.6 percent in the fourth quarter of 2005. They expected higher expenses on basic items such as food, electricity, fuel, house rent, and transportation, and lower expenditures on communication, education, clothing and footwear, hotels and restaurants, medical care, and personal care and effects (Tables 5 & 6).





**Changes in Buying Conditions and Buying Intentions**

*Consumers' buying intentions are lower in the next twelve months*



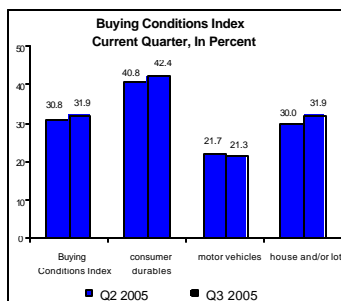
The buying intentions index in the next twelve months was lower at 23.7 percent, from 25.2 percent in the previous quarter. By component, the buying intentions index of consumer durables rose slightly to 39.0 percent from 38.4 percent. These helped offset the decline in the buying intentions indices for house and/or lot and motor vehicles (Table 8).

*High prices, low and insufficient income, and priority for food and other basic needs are factors affecting the low buying intentions for next year*

Factors cited by households that would encourage them to buy within the next 12 months included affordability, easy installment terms, investment (in the case of housing) and usefulness in business (in the case of motor vehicle). On the other hand, majority of the respondents who indicated no buying intentions in the next 12 months cited high prices, low/insufficient income and higher priority for food and other basic needs.

Consumers also expected higher sales of appliances but lower sales of cars and residential housing in the next twelve months (Table 8).

*Consumer sentiment on buying conditions improves.*



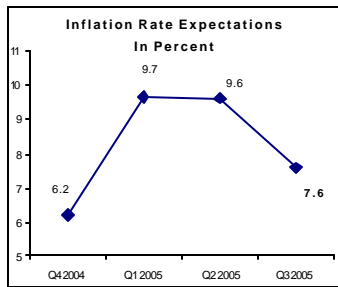
The buying conditions index during the current quarter went up slightly to 31.9 percent from 30.8 percent in the previous survey due mainly to the improvement in the buying conditions for consumer durables and house and lot. In contrast, conditions for buying motor vehicles remained steady at 21.3 percent from 21.7 percent in the previous survey despite continuing increases in oil prices (Table 7).



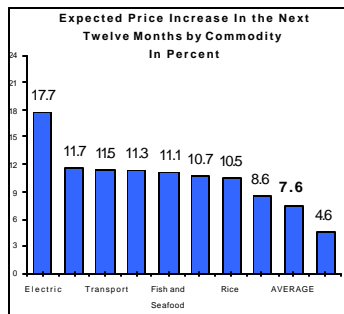
**Expectations on Selected Economic Indicators**

*Respondents anticipate lower inflation rate, higher interest rate and a weaker peso in the next twelve months.*

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



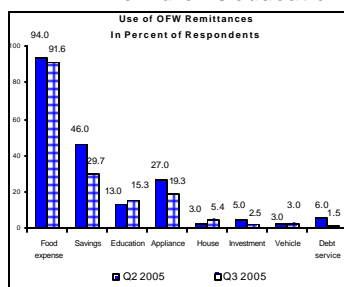
Meanwhile, inflation for the next 12 months is expected to slowdown to 7.6 percent, from 9.6 percent in the previous survey (Tables 10-11). Households anticipated the highest price increases in utilities, transportation, fuel and food.



**Focus on Overseas Filipino Workers**

*OFW remittances are used to fund food, purchase of appliances, bank savings and children's education.*

Among the 2193 survey respondents, 213 households or 9.7 percent have at least one OFW in their household (Table 12). About 88.3 percent of the OFWs remitted money to their families during the last 12 months (Table 13).



According to the results of the survey, OFW remittances were either spent on food and other household needs (90.4 percent of households), appliances (20.7 percent), and education (15.4 percent); or saved or invested in banks, cooperatives and other depository institutions (30.3 percent). A small percentage of respondents used OFW remittances for: debt payments (1.6 percent); investment in business/stocks (2.7 percent); medicine (2.7 percent), motor vehicle (3.2 percent); and house and/or lot purchase (5.9 percent) (Table 14).



## TECHNICAL NOTES

In July 2004, the BSP launched the Consumer Expectations survey (CES), which aimed to capture the economic outlook of consumers as an indication of the country's future economic conditions. The CES was envisioned to complement the Business Expectations Survey (BES) to determine both business and household economic prospects. The third quarter 2005 CES conducted in 1-7 July 2005, has a sample size of 2345 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 third quarter of 2005 is 93.52 percent or 2193 households. 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	51.3
₱10,000 - ₱19,999	29.4
₱20,000 - ₱29,999	9.8
₱30,000 - ₱39,999	3.9
₱40,000 - ₱49,999	2.3
₱50,000 - ₱69,999	1.7
₱70,000 and over	1.4

The CES has 17 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;

Tables 1a-3a. Consumer expectations Indices by income group for the current quarter, next quarter and 12 months ahead;

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, exchange rate, and inflation 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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CONSUMER EXPECTATIONS SURVEY, THIRD QUARTER 2005

Table 1. Consumer Expectations Current Quarter (Third Quarter 2005)				
In Percent				
	Better	Same	Worse	Diffusion index*
Consumer Expectations	6.8	32.3	60.9	-54.1 (-49.9)
Family Financial Situation	8.2	30.1	61.7	-53.5 (-50.2)
Level of Family Income	11.2	53.3	35.5	-24.3 (-25.9)
Economic Condition of the Country	1.0	13.4	85.6	-84.6 (-73.7)

\* Figures in parenthesis refer to the Q2 2005 CES diffusion indices

Table 1a. Consumer Expectations Current Quarter (Third Quarter 2005) by Household Income Level				
In Percent				
	Financial condition	Level of family income	Economic condition	Diffusion index
Less than ₱10,000	-65.2	-33.8	-84.6	-61.2
₱10,000 - ₱29,999	-47.2	-19.3	-84.7	-50.4
₱10,000 - ₱19,999	-48.8	-22.1	-84.0	-51.6
₱20,000 - ₱29,999	-41.8	-9.77	-87.1	-46.2
₱30,000 and over	-17.4	6.2	-85.5	-32.2
₱30,000 - ₱39,999	-18.0	-2.5	-81.9	-34.1
₱40,000 - ₱49,999	-16.6	23.7	-92.8	-28.6
₱50,000 - ₱69,999	-25.8	-6.6	-89.6	-40.7
₱70,000 and over	-5.1	6.3	-71.2	-23.3

Table 2. Consumer Expectations Next Quarter (Fourth Quarter 2005)				
In Percent				
	Better	Same	Worse	Diffusion index*
Consumer Expectations	4.8	63.3	31.9	-27.0 (-24.3)
Family Financial Situation	4.9	59.7	35.5	-30.6 (-26.9)
Level of Family Income	6.3	80.8	12.9	-6.6 (-7.1)
Economic Condition of the Country	3.3	49.4	47.2	-43.9 (-38.9)

\* Figures in parenthesis refer to the Q2 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	-37.3	-9.3	-49.2	-31.9
₱10,000 - ₱29,999	-25.9	-3.4	-38.0	-22.4
₱10,000 - ₱19,999	-26.5	-4.4	-37.2	-22.7
₱20,000 - ₱29,999	-24.0	0.1	-40.8	-21.6
₱30,000 and over	-14.8	-5.5	-40.7	-20.4
₱30,000 - ₱39,999	-11.6	-4.7	-34.8	-17.0
₱40,000 - ₱49,999	-11.7	-4.0	-44.0	-19.9
₱50,000 - ₱69,999	-25.0	-6.8	-44.2	-25.3
₱70,000 and over	-15.1	-9.5	-43.0	-22.5

Table 3. Consumer Expectations 12 Months From Now (Third Quarter 2006)				
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In Percent				
	Better	Same	Worse	Diffusion index*
Consumer Expectations	17.3	44.1	38.6	-21.4 (-28.4)
Family Financial Situation	16.9	41.1	42.0	-25.1 (-29.1)
Level of Family Income	20.6	59.0	20.3	0.3 (-4.7)
Economic Condition of the Country	14.3	32.1	53.6	-39.3 (-51.4)

\* Figures in parenthesis refer to the Q2 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	-33.9	-6.9	-44.1	-28.3
₱10,000 - ₱29,999	-20.3	6.2	-35.4	-16.5
₱10,000 - ₱19,999	-22.1	4.0	-37.3	-18.5
₱20,000 - ₱29,999	-14.1	13.6	-29.1	-9.9
₱30,000 and over	1.4	14.9	-31.0	-4.9
₱30,000 - ₱39,999	3.6	11.7	-25.0	-3.2
₱40,000 - ₱49,999	-0.5	19.4	-34.4	-5.2
₱50,000 - ₱69,999	0.1	14.2	-38.1	-7.9
₱70,000 and over	2.5	13.2	-27.5	-3.9

Table 4. Expectations on the Average Percent Change in Family Income and Expenditure				
In Percent				
	Better	Same	Worse	Average
Third Quarter 2005 Average income percent change compared to a year ago	11.2	0.0	-24.3	-7.4 (-8.2)
Fourth Quarter 2005 Average income percent change in the next quarter	6.3	0.0	-6.6	-1.6 (-1.9)
One year from now (Third Quarter 2006) Average income percent change twelve months from now	20.6	0.0	0.3	2.4 (-0.2)

\* Figures in parenthesis refer to the Q2 2005 CES average income percent change

Table 5. Diffusion Index on the Amount of Expenditures for Basic Goods and Services Next 3 Months Third Quarter 2005 - Fourth Quarter 2005 In Percent				
	Up	No Change	Down	Diffusion Index*
Average	45.6	0.5	47.8	-2.2 (2.2)
Food	78.8	0.6	20.7	58.1 (48.6)
Clothing and Footwear	27.2	1.8	70.9	-43.7 (-33.3)
Fuel	63.7	0.8	35.5	28.2 (37.0)
Electricity	71.9	1.1	27.1	44.8 (40.6)
Water	48.8	0.8	50.4	-1.6 (10.8)
House rent	9.9	0.0	90.1	-80.2 (-69.3)
Transportation	46.9	0.2	52.9	-6.0 (21.8)
Communication	20.9	1.0	78.1	-57.2 (-39.5)
Education	22.3	0.2	77.6	-55.3 (-14.3)
Medical Care	38.7	0.9	60.4	-21.7 (-7.2)
Personal Care & Effects	41.0	1.3	57.7	-16.7 (-11.2)
Hotel & restaurant**	28.0	3.5	68.5	-40.5 (-38.5)

\* Figures in parenthesis refer to the Q2 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 Third Quarter 2005 - Fourth Quarter 2005 In Percent		
	Percent change	
Average	4.6	(5.7)
Food	17.6	(16.9)
Clothing and Footwear	-12.1	(-6.8)
Fuel	3.1	(4.6)
Electricity	5.9	(5.6)
Water	-0.9	(0.6)
House rent	1.0	(-6.5)
Transportation	0.4	(5.8)
Communication	-15.3	(-2.0)
Education	-26.8	(0.1)
Medical Care	-5.7	(2.9)
Personal Care & Effects	-5.5	(0.4)
Hotel & restaurant**	-8.0	(-12.8)

\* Figures in parenthesis refer to the Q2 2005 CES percent changes

\*\* included beginning Q1 2005

Table 7. Buying Conditions at this Time Third Quarter 2005 In Percent				
	Good Time	Fair Time	Bad Time	Index (100 - % Bad Time)*
Buying Conditions Index	5.3	26.6	68.1	31.9 (30.8)
Buying consumer durables	4.3	38.1	57.6	42.4 (40.8)
Buying a motor vehicle	4.5	16.9	78.7	21.3 (21.7)
Buying a house and/or lot	7.2	24.7	68.1	31.9 (30.0)

\* Figures in parenthesis refer to the Q2 2005 CES indices

Table 8. Buying Intentions in the Next 12 Months (Third Quarter 2005 - Third Quarter 2006) In Percent				
	Yes	Not Sure	No	Index (100 - % No)
Buying Intentions Index	4.6	19.0	76.3	23.7 (25.2)
Buying consumer durables	7.9	31.0	61.0	39.0 (38.4)
Buying a motor vehicle	2.5	11.4	86.1	13.9 (16.7)
Buying a house and/or lot	3.4	14.7	81.9	18.1 (20.4)

\* Figures in parenthesis refer to the Q2 2005 CES indices

Table 9. Indices on Selected Economic Indicators in the Next 12 Months Third Quarter 2005 - Third Quarter 2006 In Percent				
	Increase	Same as this period	Decrease	Diffusion Index*
Unemployment	85.6	9.2	5.2	80.4 (78.9)
Interest rate for borrowing money	56.5	41.4	2.1	54.4 (55.7)
Exchange rate <i>(Increase means appreciation while decrease means depreciation of the peso)</i>	7.3	16.9	75.8	-68.5 (-42.5)
Inflation rate	74.7	0.4	25.0	49.7 (50.4)

\* Figures in parenthesis refer to the Q2 2005 CES diffusion indices

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

	Up	No Change	Down	Diffusion Index*	
Average	74.7	0.4	25.0	49.7	(50.4)
Rice	93.6	0.5	5.9	87.7	(84.3)
Meat	92.5	0.4	7.1	85.4	(83.5)
Fish and seafood	85.7	0.5	13.9	71.8	(74.8)
Fruits and vegetables	76.6	0.2	23.2	53.4	(56.9)
Clothing	59.1	1.5	39.4	19.7	(16.9)
House rent	54.1	0.1	45.8	8.3	(3.7)
Fuel	94.2	0.6	5.3	88.9	(88.0)
Electricity	93.2	0.3	6.5	86.7	(81.2)
Water	80.6	0.2	19.1	61.5	(63.6)
Education	69.4	0.4	30.2	39.2	(40.9)
Medical care	72.8	0.9	26.4	46.4	(45.7)
Transportation	81.3	0.2	18.5	62.8	(78.9)
Communication	55.7	0.8	43.6	12.1	(18.3)
Personal care	75.7	0.6	23.7	52.0	(64.7)

\* Figures in parenthesis refer to the Q2 2005 CES diffusion indices

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

	Percent Change	
Average	7.6	(9.6)
Rice	10.5	(12.1)
Meat	10.7	(11.7)
Fish and Seafood	11.1	(12.9)
Fruits and vegetables	8.6	(12.0)
Clothing	-0.3	(-0.1)
House rent	3.9	(4.4)
Fuel	11.3	(13.7)
Electricity	17.7	(17.5)
Water	11.7	(14.9)
Education	4.4	(7.0)
Medical Care	6.7	(9.4)
Transportation	11.5	(19.9)
Communication	0.2	(4.1)
Personal Care	5.5	(8.3)

\* Figures in parenthesis refer to the Q2 2005 CES diffusion indices

Table 12. Distribution of Household Respondents by Number of OFWS (Overseas Filipino Workers)

Number of OFW	Number of respondents
0	1,980
1	188
2	19
3 and over	6
Total	2,193

Table 13. OFW Households Who Received Remittances from any of its OFW Members in the last 12 months

	Number	Percent
Received remittances	188	88.3
Did not receive remittances	25	11.7
Total	213	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	170	90.4 (93.5)
Save in banks, cooperatives and/or other depository institutions	57	30.3 (45.5)
Used in others	50	26.6 (21.9)
Education	29	15.4 (13.3)
Debt payment	3	1.6 (6.4)
Medicine	5	2.7
Buy appliances	39	20.7 (26.7)
Buy a house	11	5.9 (3.3)
Business capital and/or invested in stocks	5	2.7 (4.7)
Buy car / motor vehicle	6	3.2 (3.4)