

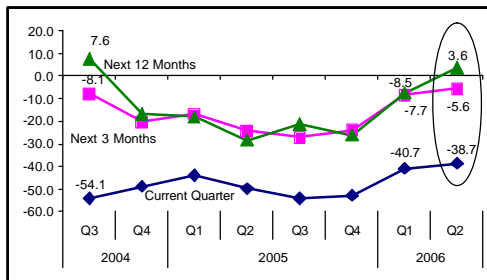
CONSUMERS' OUTLOOK IMPROVES IN THE SECOND QUARTER OF 2006 AND ONE YEAR AHEAD

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Overall Consumer Outlook

Consumer outlook improves on expectations of better business conditions, higher employment, lower inflation, and family savings.

Overall Consumer Expectations Diffusion Index: Q3 2004 – Q2 2006

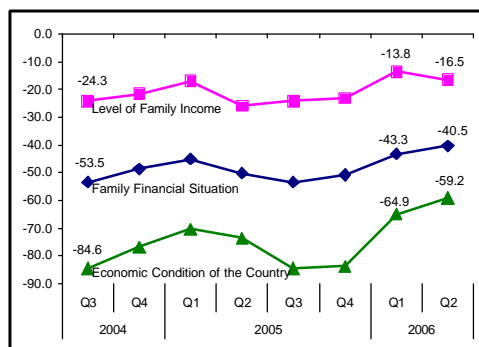


The second quarter 2006 Consumer Expectations Survey (CES) showed improving consumer outlook in the current quarter, next quarter and one year ahead as the corresponding CES diffusion indices (DIs) for all periods increased.¹ Compared to the previous survey, the current quarter DI increased by 2.0 index points to -38.7 percent, the next quarter DI improved by 2.9 index points to -5.6 percent, and the one-year-ahead DI by 11.3 index points to 3.6 percent. For the current and next quarter DIs, these were the third straight quarterly rise beginning in the fourth quarter of 2005 and their best results since the start of the CES in the third quarter of 2004. However, since the DIs have remained negative, the increasing trend indicates that the edge of the pessimists over the optimists has been narrowing. This is reinforced by the rising trend in the one-year-ahead consumer outlook which registered a positive DI (Table 1).

Consumer outlook on the economic condition of the country and family financial condition are the main drivers in the second quarter of 2006.

Respondents attributed their better economic and financial outlook to the following: 1) expected increase in income arising from better business condition; 2) expectations of more family members working; 3) savings in the family; and 4) expected decrease in prices of goods.

Consumer Expectations Index by Component: Q3 2004 – Q2 2006



By component, the increase in the consumer expectations diffusion index for the second quarter was driven by the improvement in respondents' outlook on the economic conditions of the country and family financial condition.² On the other hand, respondents outlook on the level of family income declined (Table 1).

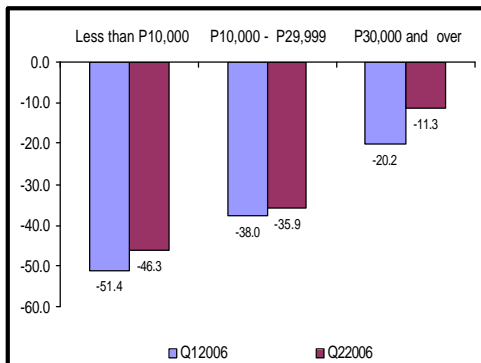
¹ The diffusion index (DI) is computed as the percentage share of respondents answered in the affirmative less the percentage share of respondents that answered negative in a given indicator. A negative DI indicates that respondents with unfavorable view outnumber those with favorable view, except for unemployment and interest rate for borrowing money, where a negative DI indicates the opposite.

² Family financial condition refers to the level of family income in cash and in kind, savings, outstanding debt, investments and assets.



Consumer outlook improves across all income groups in the second quarter of 2006.

Consumer Expectations Indices by Income Level : Q1 2006 - Q2 2006

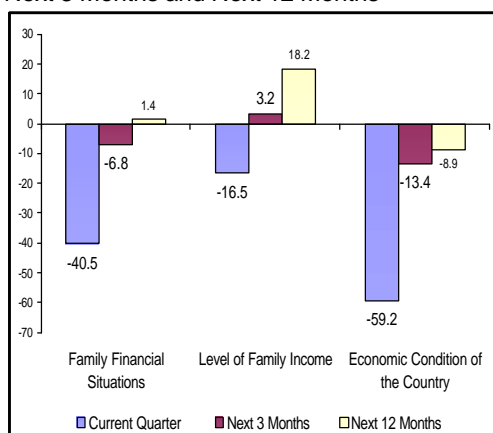


By income class, consumer sentiment in the second quarter improved among low, middle and high income groups. The biggest improvement was observed in the outlook index of the high income group (monthly income of ₱30, 000 and over) which improved by 8.9 index points to -11.3 percent compared to the level in the previous quarter. Similarly, the index for respondents from the lowest income level (less than ₱10,000) improved by 5.1 index points to -46.3 percent while the middle-income group (₱10,000 – 29,999) by 2.1 index points to -35.9 percent for the same period (Table 2).

Consumers expect family income, family financial condition and the country's economy will continue to improve in the third quarter and in the next 12 months.

More respondents expected that their family income and financial situation, as well as the economic condition of the country would improve over the next 12 months.

Consumer Expectations Index by Component Next 3 Months and Next 12 Months



The family income DI reversed to 3.2 percent for the third quarter from -16.5 percent in the current quarter and further improved to 18.2 percent for the next 12 months. This indicates that respondents are looking at better or more income opportunities next quarter and for the rest of the year.

With their optimistic income expectations, respondents anticipated the family financial situation would likewise improve as the DI for family financial condition climbed from – 40.5 percent to -6.8 percent in the third quarter and further to 1.4 percent one year ahead.

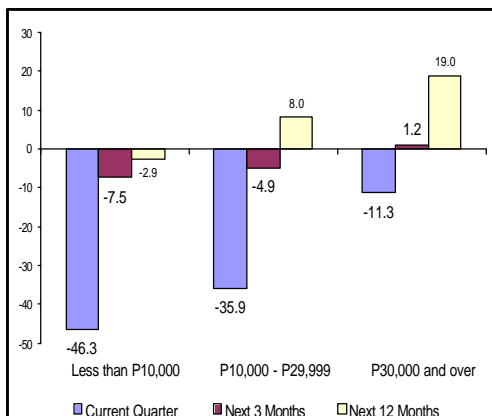
Respondents' optimistic prospects on family income and financial conditions were in line with their expectations that the economic condition of the country in the third quarter and in the next 12 months will improve significantly as the DIs went up from -59.2 percent in the second quarter to -13.4 percent in the third quarter and further to -8.9 percent in the next 12 months (Table 1).

Consumer outlook continues to improve across all income classes in the third quarter and the next 12 months.

For all income classes, consumer outlook improved further for the third quarter and in the next twelve months. The highest income class was most optimistic as the consumer outlook DI increased and became positive at 1.2 percent for the third quarter and rose further to 19.0 percent in the next 12 months from -11.3 percent in the second quarter of 2006. The



Consumer Outlook by Income Level for Next 3 Months and Next 12 Months

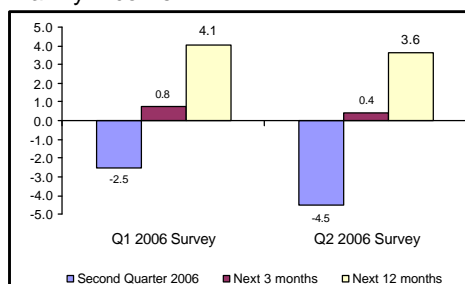


middle income class followed the same trend with the DI in the next twelve months reaching 8.0 percent. Finally, the consumer outlook of the lowest income group also improved with a DI of -7.5 percent in the third quarter and further to -2.9 percent in the next 12 months from a low of -46.3 percent in the current quarter (Table 2).

Changes in Family Income and Expenditures

Average family income is expected to increase in the third quarter and in the next 12 months.

Average Percentage Change in Family Income

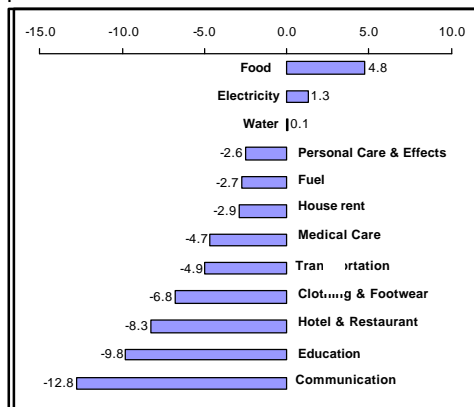


Survey results indicated that average family income in the second quarter would decrease by 4.5 percent compared to their income last year. The expected decline in family income could be due to seasonal factors like the rainy season and summer vacation. By the third quarter however, respondents expected their average family income to increase by 0.4 percent and further rise by 3.6 percent over the next 12 months (Table 3).



Respondents expect reductions in expenditures on basic commodities except on food and utilities in the third quarter 2006.

Percent Change in the Amount of Expenditures: Q3 2006

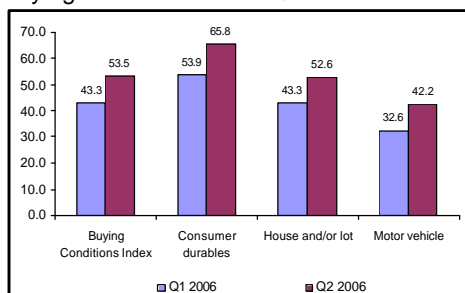


Following the expected decline in family income in the second quarter of the year and a minimal income increase in the third quarter, respondents anticipated that their family expenditures for basic commodities in the third quarter of 2006 would decrease slightly by an average of 0.8 percent.³ Contributing to this decline is the reduction in family purchases of the following products and services: communication, education, hotel and restaurant, clothing and footwear, transportation, medical care, house rent, fuel, and personal care and effects. Respondents, however, still expected their expenditures on food and electric bills to increase in the next quarter (Tables 4-5).

Changes in Buying Conditions and Buying Intentions

Consumers are upbeat on buying conditions in the second quarter of 2006.

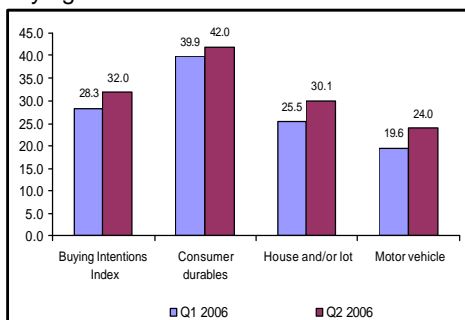
Buying Conditions Index Q2 2006



While respondents expected a decline in their basic expenditures, consumer sentiments on buying conditions for assets became more favorable during the current quarter compared to the previous quarter. The composite buying conditions index increased to 53.5 percent from 43.3 percent in the previous quarter. Among the three components of the index, consumer durables continued to be on top at 65.8 percent (Table 6).

More consumers intend to buy assets in the next 12 months.

Buying Intentions Index in Next 12 Months



Consistent with the improving consumer outlook and the anticipated increase in family income in the next 12 months, respondents are more keen on buying assets in the next 12 months. The buying intention index in the next 12 months went up by 3.7 points to 32.0 percent in the second quarter survey. This expected increase in purchases was noted primarily for consumer durables (Table 7).

Households cited the needs of the family, easy installment terms, form of investment (in the case of housing), usefulness in business and convenience to family members (in the case of motor vehicle) as factors that would encourage them to buy assets. On the other hand, majority of the respondents who indicated no

³ This is computed using the weighted average of expenditures in the consumer basket.



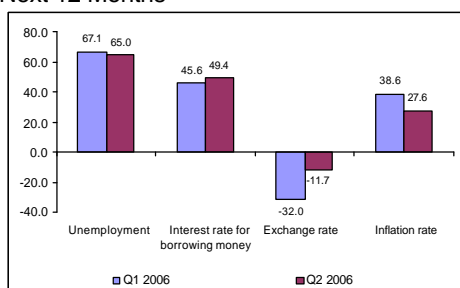
interest to buy in the next 12 months cited high prices, low/insufficient income and higher priority for food and other basic needs.

Expectations on Selected Economic Indicators

Respondents anticipate improvements in unemployment, inflation, and exchange rate in the next twelve months.

Respondents expected employment conditions would improve; interest rate would increase, the peso would depreciate and inflation rate would slow down over the next 12 months (Table 8).

Indices on Selected Economic indicators in Next 12 Months



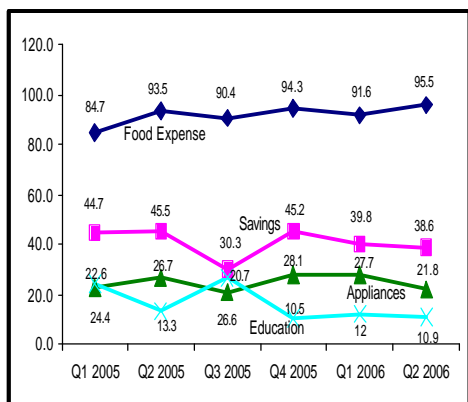
Respondents projected that inflation rate for the next 12 months would slow down to 4.2 percent compared to 6.5 percent in the previous quarter's survey (Tables 9-10). Households anticipated that the highest price increases would be in utilities, transportation, fuel and food.

Focus on Overseas Filipino Workers

OFW remittances are used primarily on food, bank savings, purchase of appliances, children's education, and investment.

Among the 2411 respondents, 241 or 10 percent have indicated at least one OFW in their households (Table 11). Over 91 percent of these respondents received remittances during the last 12 months (Table 12).

Household Utilization of OFW Remittances: Q1 2005-Q2 2006



Remittances of OFWs were primarily spent on food and other household needs. For the second quarter 2006 survey, 95.5 percent of households indicated that remittances were spent for these needs. About 39 percent of these households expressed that they allot part of remittances for savings. Other uses of OFW remittances were for the purchase of appliances (21.8% of relevant households), education (10.9%), investment (10.9%), buying a house (7.7%), buying a motor vehicle (4.1%) and the rest went to various types of expenses. (Table 13).



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 second quarter 2006 CES conducted in 1-7 April 2006 has a sample size of 2,590 households in the National Capital Region (NCR). The household interviewed were drawn from National Statistics Office's (NSO) Master Sample List of Households considered as representative samples of households in all districts of NCR. The said master sample was generated using a stratified multi-stage probability sampling scheme. The survey response rate for the second quarter of 2006 is 93.09 percent or 2411 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	51.4
₱10,000 – ₱29,999	38.2
₱10,000 - ₱19,999	28.6
₱20,000 - ₱29,999	9.6
₱30,000 – and over	10.4
₱30,000 – ₱39,999	4.5
₱40,000 – ₱49,999	2.5
₱50,000 – ₱69,999	1.7
₱70,000 and over	1.7

The CES has 13 output tables consisting of the following:

Tables 1-2. 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 3. Expectations on the average percent change in family income compared to previous year, next three months, and twelve months from now;

Tables 4. and 5. Diffusion indices and percent changes in the amount of family expenditures for basic goods and services in the next three months;

Tables 6. and 7. Indices on buying conditions and intentions of households in the current quarter and in the next twelve months;

Table 8. Indices on selected economic indicators: unemployment, interest rate for borrowing money, exchange rate, and inflation rate in the next twelve months;

Tables 9 and 10. Diffusion Indices and percent changes on the prices of commodities in the next twelve months;

Tables 11-13. Proportion of respondents with an OFW in their household and uses of OFW remittances.

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Table 1. Consumer expectation indices for current quarter, next 3 months, and next 12 months First and Second Quarter 2006										
Components (1)	Q1 Survey			Q2 Survey			Differences			
	Current Quarter (2)	Next 3 Months (3)	Next 12 Months (4)	Current Quarter (6)	Next 3 Months (7)	Next 12 Months (8)	Q2 CQ vs Q1 CQ (9)=(6)-(2)	Q2 CQ vs Q1 NQ (10)=(6)-(3)	Q2 CQ vs Q2 NQ (11)=(7)-(6)	Q2 CQ vs Q2 NY (12)=(8)-(6)
Consumer Expectations	-40.7	-8.5	-7.7	-38.7	-5.6	3.6	2.0	-30.2	33.1	42.3
Family Financial Situations	-43.3	-11.1	-9.7	-40.5	-6.8	1.4	2.8	-29.4	33.7	41.9
Level of Family Income	-13.8	2.6	16.2	-16.5	3.2	18.2	-2.7	-19.1	19.7	34.7
Economic Condition of the Country	-64.9	-17.2	-29.5	-59.2	-13.4	-8.9	5.7	-42.0	45.8	50.3

Table 2. Consumer expectations indices for current quarter, next 3 months, and next 12 months by household income level First and Second Quarter 2006										
Income Group (1)	Q1 Survey			Q2 Survey			Differences			
	Current Quarter (2)	Next 3 Months (3)	Next 12 Months (4)	Current Quarter (6)	Next 3 Months (7)	Next 12 Months (8)	Q2 CQ vs Q1 CQ (9)=(6)-(2)	Q2 CQ vs Q1 NQ (10)=(6)-(3)	Q2 CQ vs Q2 NQ (11)=(7)-(6)	Q2 CQ vs Q2 NY (12)=(8)-(6)
Less than ₱10,000	-51.4	-12.9	-19.1	-46.3	-7.5	-2.9	5.1	-33.4	38.8	43.4
₱10,000 - ₱29,999	-38.0	-7.2	-3.4	-35.9	-4.9	8.0	2.1	-28.7	31.0	44.0
₱10,000 - ₱19,999	-40.9	-7.5	-4.9	-36.7	-5.5	5.2	4.3	-29.2	31.2	41.9
₱20,000 - ₱29,999	-29.0	-6.4	1.1	-33.8	-3.3	17.1	-4.8	-27.4	30.4	50.8
₱30,000 and over	-20.2	-3.6	9.8	-11.3	1.2	19.0	8.9	-7.7	12.5	30.3
₱30,000 - ₱39,999	-19.9	-10.3	11.4	-14.1	-1.9	11.6	5.8	-3.7	12.2	25.7
₱40,000 - ₱49,999	-19.2	3.2	9.6	-12.0	2.7	34.4	7.2	-15.2	14.7	46.5
₱50,000 - ₱69,999	-34.1	-5.7	5.3	-17.9	-0.8	17.9	16.2	-12.2	17.1	35.8
₱70,000 and over	-6.0	10.3	10.5	4.2	9.2	16.7	10.2	-6.1	5.0	12.5

Legend: CQ = Current Quarter NQ = Next Quarter NY = Next Year

Table 3. Expectations on the Average Percentage Change in Family Income In Percent				
Reference Period	Better	Same	Worse	Average*
Second Quarter 2006	17.6	0.0	22.8	-4.5 (-2.5)
Third Quarter 2006	16.8	0.0	18.3	0.4 (0.8)
One year from now (Second Quarter 2007)	20.1	0.0	20.2	3.6 (4.1)

* Figures in parenthesis refer to the Q1 2006 CES average income percent change

Table 4. Diffusion Index on the Amount of Expenditures for Basic Goods and Services Next 3 Months Second Quarter 2006 - Third Quarter 2006 In Percent				
Item	Up	No Change	Down	Diffusion Index*
Average	37.6	1.5	54.6	-17.0 (-9.3)
Food	62.7	1.7	35.6	27.2 (49.6)
Clothing and Footwear	27.3	3.2	69.5	-42.2 (-56.4)
Fuel	44.5	7.1	48.4	-3.9 (36.0)
Electricity	55.0	2.8	42.2	12.7 (37.2)
Water	43.3	2.5	54.3	-11.0 (9.8)
House rent	10.7	0.5	88.8	-78.0 (-86.5)
Transportation	34.8	2.0	63.2	-28.4 (-4.8)
Communication	19.5	2.0	78.5	-59.0 (-69.5)
Education	30.2	1.9	67.9	-37.8 (-69.8)
Medical Care	29.3	1.5	69.2	-39.9 (-31.2)
Personal Care & Effects	32.0	2.7	65.4	-33.4 (-19.7)
Hotel & restaurant**	22.2	3.0	74.9	-52.7 (-61.7)

* Figures in parenthesis refer to the Q1 2006 CES diffusion indices

** included beginning Q1 2005

Table 5. Percent Change in the Amount of Expenditures for Basic Goods and Services Next 3 Months Second Quarter 2006 - Third Quarter 2006 In Percent	
Item	Percent change*
Average	-0.8 (1.5)
Food	4.8 (17.5)
Clothing and Footwear	-6.8 (-12.9)
Fuel	-2.7 (0.8)
Electricity	1.3 (2.6)
Water	0.1 (2.0)
House rent	-2.9 (-9.6)
Transportation	-4.9 (-2.3)
Communication	-12.8 (-17.9)
Education	-9.8 (-25.8)
Medical Care	-4.7 (-5.1)
Personal Care & Effects	-2.6 (-5.3)
Hotel & restaurant**	-8.3 (-14.5)

* Figures in parenthesis refer to the Q1 2006 CES percent changes

** included beginning Q1 2005

Table 6. Buying Conditions at this Time Second Quarter 2006 In Percent				
Buying Condition	Good Time	Fair Time	Bad Time	Index (100 - % Bad Time)*
Buying Conditions Index	7.7	45.9	46.5	53.5 (43.3)
Buying consumer durables	8.3	57.5	34.2	65.8 (53.9)
Buying a motor vehicle	5.8	36.5	57.8	42.2 (32.6)
Buying a house and/or lot	8.9	43.6	47.5	52.6 (43.3)

* Figures in parenthesis refer to the Q1 2006 CES result

Table 7. Buying Intentions in the Next 12 Months (Second Quarter 2006 - Second Quarter 2007) In Percent				
Buying Intention	Yes	Not Sure	No	Index (100 - % No)
Buying Intentions Index	7.6	24.5	68.0	32.0 (28.3)
Buying consumer durables	11.2	30.8	58.0	42.0 (39.9)
Buying a motor vehicle	5.3	18.7	76.0	24.0 (19.6)
Buying a house and/or lot	6.2	23.9	69.9	30.1 (25.5)

* Figures in parenthesis refer to the Q1 2006 CES result

Table 8. Indices on Selected Economic Indicators in the Next 12 Months Second Quarter 2006 - Second Quarter 2007 In Percent				
Economic Indicators	Increase	Same as this period	Decrease	Diffusion Index*
Unemployment	75.2	14.6	10.2	65.0 (67.1)
Interest rate for borrowing money	53.0	43.5	3.5	49.4 (45.6)
Exchange rate <i>(Increase means appreciation while decrease means depreciation of the peso)</i>	30.7	27.0	42.4	-11.7 (-32.0)
Inflation rate	63.0	1.6	35.4	27.6 (38.6)

* Figures in parenthesis refer to the Q1 2006 CES result

Table 9. Indices of Change in Prices of Basic Goods and Services in the Next 12 Months Second Quarter 2006 - Second Quarter 2007 In Percent					
Item	Up	No Change	Down	Diffusion Index*	
Average	63.0	1.6	35.4	27.6	(38.6)
Rice	85.2	1.7	13.2	72.0	(83.6)
Meat	79.9	2.0	18.1	61.9	(80.4)
Fish and seafood	74.0	2.2	23.8	50.3	(69.3)
Fruits and vegetables	62.8	2.5	34.7	28.1	(46.8)
Clothing	46.4	3.4	50.2	-3.8	(1.7)
House rent	45.5	0.4	54.1	-8.7	(-9.0)
Fuel	76.2	8.1	15.7	60.5	(84.6)
Electricity	82.5	2.2	15.4	67.1	(84.0)
Water	70.6	1.8	27.6	42.9	(65.8)
Education	54.9	1.0	44.1	10.7	(8.5)
Medical care	54.9	1.3	43.8	11.0	(26.7)
Transportation	72.1	1.1	26.8	45.3	(70.4)
Communication	41.2	1.9	57.0	-15.8	(-16.7)
Personal care	59.2	1.2	39.7	19.5	(35.8)

* Figures in parenthesis refer to the Q1 2006 CES diffusion indices

Table 10. Percent Change In Prices of Basic Goods and Services in the Next 12 Months (Second Quarter 2006 - Second Quarter 2007)		
Item	Percent Change*	
Average	4.2	(6.5)
Rice	7.1	(10.1)
Meat	6.6	(9.8)
Fish and Seafood	7.8	(12.6)
Fruits and vegetables	5.7	(12.5)
Clothing	-0.8	(2.2)
House rent	-2.4	(-1.3)
Fuel	6.6	(10.4)
Electricity	12.5	(18.2)
Water	9.5	(15.7)
Education	4.4	(-2.3)
Medical Care	6.5	(6.4)
Transportation	9.6	(17.3)
Communication	1.1	(-5.4)
Personal Care	5.0	(6.7)

* Figures in parenthesis refer to the Q1 2006 CES diffusion indices

Table 11. Distribution of Household Respondents by Number of OFWS (Overseas Filipino Workers)

Number of OFW	Number of respondents
0	2,170
1	204
2	30
3 and over	7
Total	2,411

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

	Number	Percent
Received remittances	220	91.3
Did not receive remittances	21	8.7
Total	241	100.0

Table 13. Household Utilization of OFW Remittances in the last 12 months

Type of use	Number	Percent*
Buy food and/or used in other household expenditures	210	95.5
Save in banks, cooperatives and/or other depository institutions	85	38.6
Buy appliances	48	21.8
Used in others	39	17.7
Education	24	10.9
Medical expenses	6	2.7
House rental	4	1.8
Others	5	2.1
Business capital and/or invested in stocks	24	10.9
Buy a house	17	7.7
Buy car / motor vehicle	9	4.1

* Represents ratio to total household which received remittances.

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