

CONSUMERS' CONFIDENCE IMPROVES IN THE THIRD QUARTER OF 2006

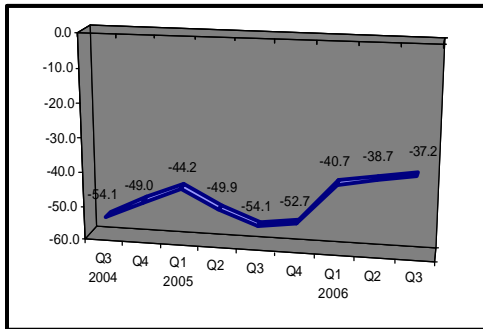
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Overall Consumer Outlook

Consumers' confidence on the economy and on their family condition improves slightly in the third quarter 2006.

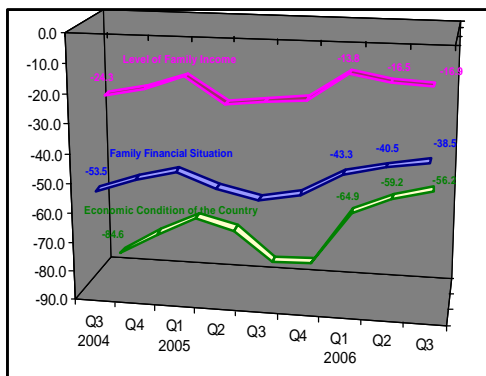
Consumer confidence improved slightly in the third quarter as the confidence index (CI) rose 1.5 points quarter-on-quarter to -37.2 percent.¹ This was the fourth straight quarterly rise after declines observed beginning in the second quarter of 2005, and the highest since the start of the Consumer Expectations Survey (CES) in the third quarter of 2004 (Table 1). While the CI has remained negative, its increase indicated that the edge of the pessimists over the optimists has been narrowing.

Overall Consumer Outlook: Q3 2006
Confidence Index



Consumers believed that the economy as well as their own family condition based on family financial situation² and family income was better in the third quarter compared to last quarter. Specifically, households' outlook on the economic condition of the country climbed by 3.0 points to -56.2 percent; the family financial situation by 2.0 points to -38.5 percent; while the level of family income was little changed.

Consumer Confidence Index by Component: Q3 2006



Respondents' attributed their improving economic and financial outlook to the following: 1) expected increase in income arising from better business condition; 2) expectations of more family members working due to availability of more jobs; and 3) savings in the family.

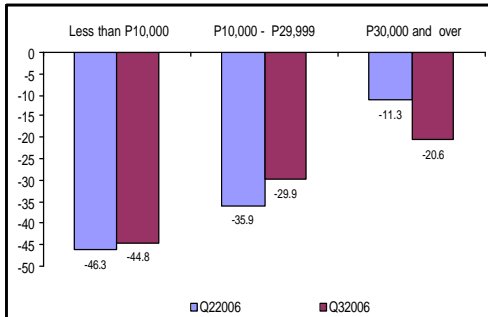
¹ The confidence index or diffusion Index is computed as the percentage share of respondents that answered in the positive less the percentage share of respondents that answered negative in a given indicator. A negative CI indicates that respondents with unfavorable view outnumber those with favorable view, except for unemployment and interest rate for borrowing money, where a negative CI indicates the opposite. Please note that all index figures are diffusion indices except for buying conditions and intentions.

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



Expectations of low and middle income groups improve in the third quarter of 2006.

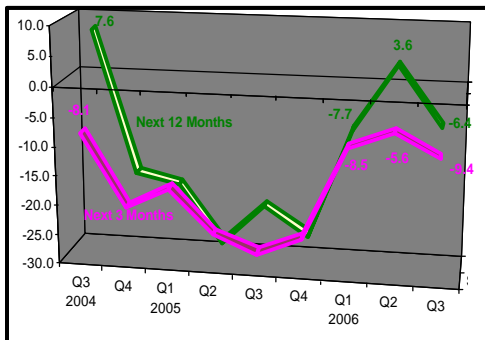
Consumer Outlook by Income Level: Q3 2006
Confidence Index



By income class, the consumer sentiment remained negative in the third quarter but the number of those who believed that conditions improved went up. The improving consumer sentiment during the quarter was shared among respondents from the low (less than ₱10,000) and middle income (₱10,000 – ₱29,999) groups with the CIs climbing by 1.5 points (to -44.8 percent) and 6.0 points (to -29.9 percent), respectively, compared to the level in the previous quarter. Meanwhile, the CI of the upper income group (monthly income of ₱30, 000 and over) which recorded the highest index among all income groups was down quarter-on-quarter by 9.3 points to -20.6 percent (Table 1).

Respondents, however, are more cautious about the conditions in the next quarter and over the next 12 months.

Consumer Confidence Index
Q4 2006 and Next Year



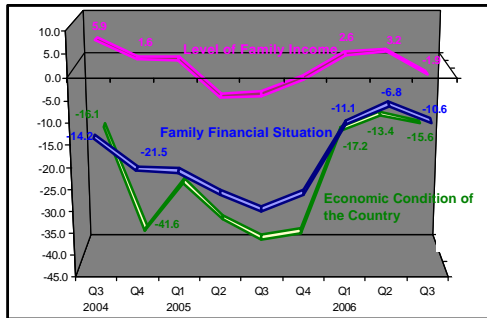
Results of the survey, however, indicated that consumers were more cautious about the conditions in the fourth quarter and over the next 12 months as their indices were down by 3.8 points (to -9.4 percent) and by 10.0 points (to -6.4 percent), respectively, compared to the levels in the survey last quarter.



Consumers' short-term and one-year view on family income, family financial condition, and the country's economy is weak.

Consumers viewed that economic condition and family financial situation would worsen over the next quarter and one-year horizon as indicated by the downtrend in the CIs. The level of family income index while remaining positive in the next 12 months dropped relative to the level in the previous quarter. (Table 1).

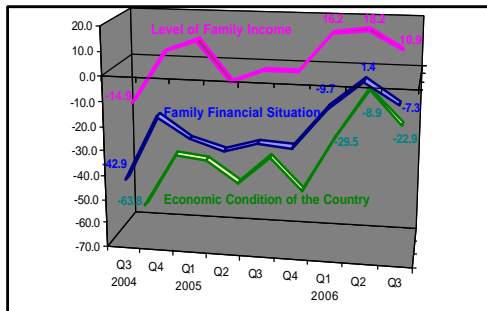
Consumer Confidence Index By Component Q4 2006



All income groups generally believed that economic conditions and their own family situation would worsen next quarter and over the next 12 months.

Respondents cited increase in prices of goods, political crisis, higher unemployment rate, and ineffective government policies as reasons behind their pessimism.

Consumer Confidence Index by Component Next Year

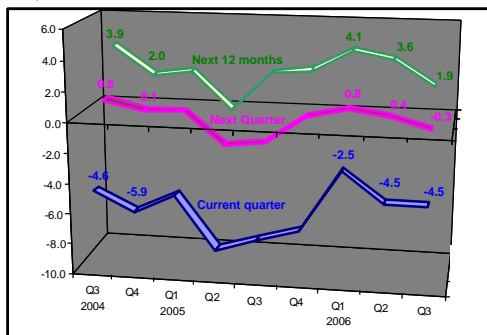


Changes in Family Income and Expenditures

Respondents expect family income to decrease in the third quarter and in the next 3 months but pick up over the next 12 months.

Respondents anticipated their average family income would contract by an average of 4.5 percent in the third quarter and further by 0.3 percent in the fourth quarter. Family income, however, is expected to improve next year with income rising by an average of 1.9 percent compared to third quarter this year. This level, however, was below compared to results last quarter (Table 2).

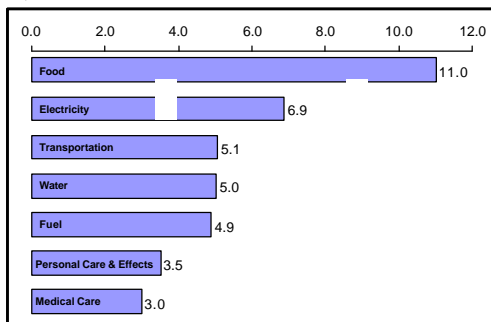
Average Percentage Change in Family Income Q3, Q4 2006 and Next Year





Respondents expect increase in expenditures on basic commodities in the fourth quarter 2006.

Percentage Increase in Expenditures Q4 2006

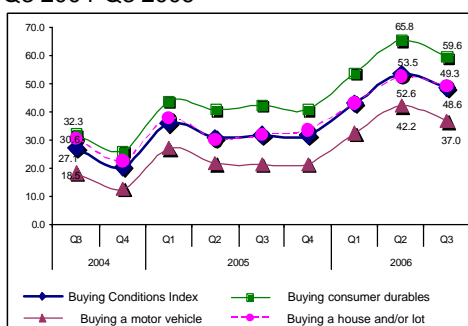


Meanwhile, household respondents anticipated that their family expenditures for basic commodities in the fourth quarter of 2006 would rise by an average of 5.9 percent.³ The highest increase in expenditures would be on food at 11.0 percent followed by utilities, transportation, fuel and medical and personal care (Tables 3-4).

Changes in Buying Conditions and Buying Intentions

Consumers buying conditions for the third quarter of 2006 are less favorable.

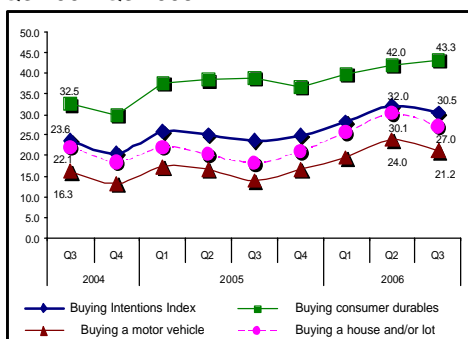
Current Quarter Buying Conditions Index: Q3 2004-Q3 2006



With the expected increase in expenditures for basic commodities next quarter, more respondents believed that the third quarter would not be a good time to purchase consumer durables, vehicle or properties. The composite buying conditions⁴ index decreased to 48.6 percent from 53.5 percent in the previous quarter. Buying condition indices for consumer durables, house and/or lot, and motor vehicles declined compared to the previous quarter (Table 5).

Consumers who intend to buy assets in the next 12 months decrease except for consumer durables.

Buying Intentions Index in Next 12 Months: Q3 2004-Q3 2006



Survey results indicated that consumers were less inclined to buy as the composite buying intentions⁵ index in the next 12 months fell from 32.0 percent in the previous quarter survey to 30.5 percent in the third quarter survey. While the buying intention indices for house and/or lot and for motor vehicles declined, buying intentions index for consumer durables went up slightly by 1.3 points quarter-on-quarter (Table 6).

Respondents who indicated no interest to buy assets in the next 12 months cited higher priority for food and other basic needs, low/insufficient income, high prices, and high cost of fuel and electricity. On the other hand, the factors that would encourage consumers to buy assets included the requirement of the family, easy

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

⁴ Buying condition refers to the assessment of consumers whether it is good time, fair time, or bad time to buy assets during the quarter.

⁵ Buying intention refers to whether or not the consumer intend to buy assets in the next 12 months



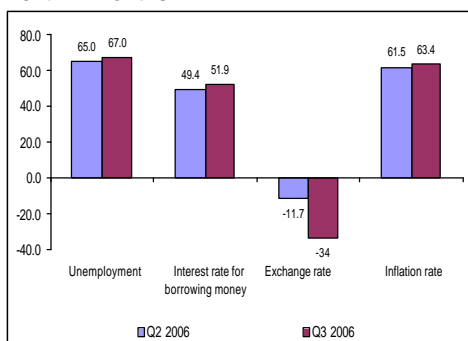
installment terms, form of investment (in the case of housing), convenience to family and usefulness in business (in the case of motor vehicle).

Expectations on Selected Economic Indicators

Respondents anticipate higher unemployment, inflation, interest rate, and peso depreciation in the next twelve months.

Respondents expected that unemployment, interest rate, and inflation rate would rise while the peso would depreciate over the next 12 months (Table 7).

Indices on Selected Economic indicators in Next 12 Months



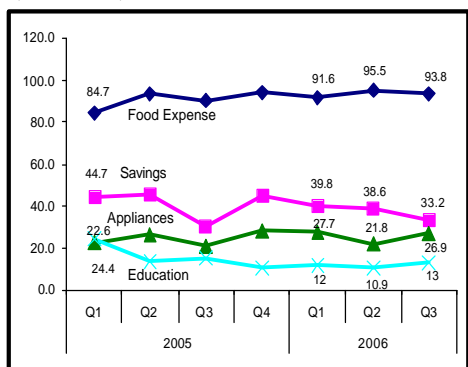
Respondents projected that prices of basic goods and services for the next 12 months would increase by an average of 11.1 percent compared to 8.9 percent in the previous quarter's survey (Tables 8-9). Household respondents attributed the price increase to utilities, transportation, food, and fuel.

Focus on Overseas Filipino Workers

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

Of the 2463 respondents, 232 or 9.4 percent have indicated at least one OFW in their households (Table 10). About 90 percent of these respondents received remittances during the last 12 months (Table 11).

Household Utilization of OFW Remittances: Q1 2005-Q3 2006



Remittances of OFWs were primarily spent on food and other household needs. For the third quarter 2006 survey, it was noted that households that spent the remittances on food decreased by 1.7 percentage points to 93.8 percent. Those which allot part of remittances for savings also decreased by 5.4 percentage points to 33.2 percent. The cut in the allotment of remittances for food and savings went to increases in allotments for education and purchase of appliances. Other uses of OFW remittances were for buying a motor vehicle (4.8% of relevant households), investment (3.8%), buying a house (3.8%), and the rest went to various types of expenses (Table 12).



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 2006 CES conducted in 1-7 July 2006 has a sample size of 2,634 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 third quarter of 2006 is 93.51 percent or 2463 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	54.0
₱10,000 – ₱29,999	37.2
₱10,000 - ₱19,999	28.6
₱20,000 - ₱29,999	8.6
₱30,000 – and over	8.8
₱30,000 – ₱39,999	3.5
₱40,000 – ₱49,999	2.0
₱50,000 – ₱69,999	1.5
₱70,000 and over	1.8

The CES has 12 output tables consisting of the following:

Tables 1. Consumer expectations Indices for the current quarter, next quarter and next 12 by average monthly household income. 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 2. Expectations on the average percent change in family income compared to previous year, next three months, and twelve months from now;

Tables 3. and 4. Confidence indices and percent changes in the amount of family expenditures for basic goods and services in the next three months;

Tables 5. and 6. Indices on buying conditions in the current quarter and buying intentions of households in the next twelve months;

Table 7. Indices on selected economic indicators: unemployment, interest rate for borrowing money, exchange rate, and inflation rate in the next twelve months;

Tables 8 and 9. Confidence Indices and percent changes on the prices of commodities in the next twelve months;

Tables 10-12. Proportion of respondents with an OFW in their household and uses of OFW remittances.

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Income Group (1)	Q2 Survey			Q3 Survey			Differences		
	Current Quarter (2)	Next 3 Months (3)	Next 12 Months (4)	Current Quarter (6)	Next 3 Months (7)	Next 12 Months (8)	Q3 CQ vs Q2 CQ (9)=(6)-(2)	Q3 NQ vs Q2 NQ (10)=(7)-(3)	Q3 NY vs Q3 NY (12)=(8)-(4)
Overall Consumer Confidence Index	-38.7	-5.6	3.6	-37.2	-9.4	-6.4	1.5	-3.8	-10.0
Less than ₱10,000	-46.3	-7.5	-2.9	-44.8	-12.9	-12.6	1.5	-5.4	-9.7
₱10,000 - ₱29,999	-35.9	-4.9	8.0	-29.9	-5.5	-0.7	6.1	-0.6	-8.7
₱30,000 and over	-11.3	1.2	19.0	-20.6	-3.4	7.3	-9.3	-4.6	-11.7
A. Economic Condition of the Country	-59.2	-13.4	-8.9	-56.2	-15.6	-22.9	3.0	-2.2	-14.0
Less than ₱10,000	-60.8	-13.7	-12.7	-58.7	-18.6	-26.6	2.1	-4.9	-13.9
₱10,000 - ₱29,999	-62.0	-13.7	-6.5	-52.2	-11.5	-18.4	9.8	2.2	-11.9
₱30,000 and over	-40.6	-10.8	0.8	-57.1	-14.4	-19.7	-16.5	-3.6	-20.5
B. Family Condition									
B.1 Family Financial Situations	-40.5	-6.8	1.4	-38.5	-10.6	-7.3	2.0	-3.8	-8.7
Less than ₱10,000	-51.1	-8.7	-5.8	-48.9	-15.5	-15.8	2.1	-6.8	-10.0
₱10,000 - ₱29,999	-35.4	-6.1	7.3	-30.6	-5.8	0.5	4.8	0.3	-6.8
₱30,000 and over	-7.2	0.8	15.5	-7.3	-0.6	12.4	-0.1	-1.4	-3.1
B.2 Level of Family Income	-16.5	3.2	18.2	-16.9	-1.9	10.9	-0.4	-5.1	-7.3
Less than ₱10,000	-27.1	-0.1	9.9	-26.9	-4.7	4.6	0.2	-4.6	-5.3
₱10,000 - ₱29,999	-10.5	5.0	23.3	-6.8	0.7	15.7	3.6	-4.3	-7.6
₱30,000 and over	13.9	13.6	40.6	2.7	4.9	29.2	-11.3	-8.7	-11.4

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

Reference Period	Percent Response			Confidence Index	Percentage Change		
	Up	Same	Down		Up	Down	Average*
Third Quarter 2006	13.9	55.3	30.8	-16.9	17.7	22.6	-4.5 (-4.5)
Fourth Quarter 2006	7.7	82.8	9.5	-1.9	16.0	15.6	-0.3 (0.4)
One year from now (Third Quarter 2007)	26.7	57.5	15.8	10.9	19.0	19.8	1.9 (3.6)

* Figures in parenthesis refer to the Q2 2006 CES average income percent change

Table 3. Confidence Index on the Amount of Expenditures for Basic Goods and Services Next 3 Months Third Quarter 2006 - Fourth Quarter 2006 In Percent				
Item	Up	No Change	Down	Confidence Index*
Average	37.3	55.6	0.8	36.5 (36.1)
Food	65.4	33.5	1.1	64.3 (61.0)
Clothing and Footwear	22.4	74.7	2.9	19.5 (24.2)
Fuel	56.4	42.2	1.4	55.0 (37.4)
Electricity	54.4	43.9	1.8	52.6 (52.1)
Water	43.7	55.2	1.0	42.7 (40.8)
House rent	6.9	92.9	0.2	6.8 (10.2)
Transportation	42.5	56.9	0.6	42.0 (32.8)
Communication	17.2	81.9	0.9	16.3 (17.5)
Education	17.5	82.0	0.5	17.0 (28.2)
Medical Care	23.9	75.2	0.9	23.1 (27.8)
Personal Care & Effects	31.6	67.2	1.2	30.4 (29.3)
Hotel & restaurant**	18.5	79.3	2.2	16.2 (19.2)

* Figures in parenthesis refer to the Q2 2006 indices

** included beginning Q1 2005

Table 4. Percent Change in the Amount of Expenditures for Basic Goods and Services Next 3 Months Third Quarter 2006 - Fourth Quarter 2006 In Percent		
Item	Percent change*	
Average	5.9	(4.9)
Food	11.0	(8.8)
Clothing and Footwear	2.4	(2.9)
Fuel	4.9	(2.2)
Electricity	6.9	(5.7)
Water	5.0	(4.6)
House rent	0.7	(0.9)
Transportation	5.1	(3.7)
Communication	1.8	(1.5)
Education	2.0	3.5)
Medical Care	3.0	(3.1)
Personal Care & Effects	3.5	(2.8)
Hotel & restaurant**	2.1	(2.1)

* Figures in parenthesis refer to the Q2 2006 percentage change in expenditures

** included beginning Q1 2005

Table 5. Buying Conditions at this Time Third Quarter 2006 In Percent				
Buying Condition	Good Time	Fair Time	Bad Time	Index (100 - % Bad Time)*
Buying Conditions Index	8.1	40.6	51.4	48.6 (53.5)
Buying consumer durables	9.3	50.3	40.4	59.6 (65.8)
Buying a motor vehicle	5.5	31.5	63.0	37.0 (42.2)
Buying a house and/or lot	9.3	40.0	50.7	49.3 (52.6)

* Figures in parenthesis refer to the Q2 2006 CES result

Table 6. Buying Intentions in the Next 12 Months (Third Quarter 2006 - Third Quarter 2007) In Percent				
Buying Intention	Yes	Not Sure	No	Index (100 - % No)
Buying Intentions Index	6.0	24.4	69.5	30.5 (32.0)
Buying consumer durables	10.6	32.6	56.7	43.3 (42.0)
Buying a motor vehicle	2.9	18.3	78.8	21.2 (24.0)
Buying a house and/or lot	4.6	22.3	73.0	27.0 (30.1)

* Figures in parenthesis refer to the Q2 2006 CES result

Table 7. Indices on Selected Economic Indicators in the Next 12 Months Third Quarter 2006 - Third Quarter 2007 In Percent				
Economic Indicators	Increase	Same as this period	Decrease	Confidence Index*
Unemployment	76.8	13.5	9.7	67.1 (65.0)
Interest rate for borrowing money	54.8	42.3	2.9	51.9 (49.4)
Exchange rate <i>(Increase means appreciation while decrease means depreciation of the peso)</i>	18.3	29.4	52.3	-34.0 (-11.7)
Inflation rate	64.2	35.1	0.7	63.5 (61.5)

* Figures in parenthesis refer to the Q2 2006 CES result

Table 8. Indices of Change in Prices of Basic Goods and Services in the Next 12 Months Third Quarter 2006 - Third Quarter 2007 In Percent					
Item	Up	No Change	Down	Confidence Index*	
Average	64.2	35.1	0.7	63.4	(61.5)
Rice	86.9	12.5	0.7	86.2	(83.5)
Meat	82.8	16.1	1.1	81.8	(77.9)
Fish and seafood	78.0	20.8	1.2	76.8	(71.8)
Fruits and vegetables	68.9	30.3	0.8	68.1	(60.4)
Clothing	46.7	51.0	2.3	44.4	(42.9)
House rent	42.8	57.0	0.2	42.7	(45.0)
Fuel	86.2	13.1	0.7	85.5	(68.2)
Electricity	84.5	13.9	1.5	83.0	(80.3)
Water	75.9	23.1	1.0	75.0	(68.7)
Education	54.5	44.8	0.6	53.9	(53.9)
Medical care	52.3	47.3	0.4	51.9	(53.6)
Transportation	76.7	23.1	0.2	76.5	(71.1)
Communication	38.6	60.4	1.0	37.6	(39.3)
Personal care	59.2	40.3	0.5	58.8	(58.0)

* Figures in parenthesis refer to the Q2 2006 CES diffusion indices

Table 9. Percent Change In Prices of Basic Goods and Services in the Next 12 Months (Third Quarter 2006 - Third Quarter 2007)		
Item	Percent Change*	
Average	11.1	(8.9)
Rice	10.2	(8.5)
Meat	11.1	(8.3)
Fish and Seafood	15.1	(10.5)
Fruits and vegetables	15.6	(11.2)
Clothing	9.1	(7.6)
House rent	7.5	(7.0)
Fuel	11.4	(7.2)
Electricity	17.9	(14.5)
Water	16.7	(12.4)
Education	10.1	(9.1)
Medical Care	10.5	(10.3)
Transportation	15.5	(12.2)
Communication	6.5	(5.7)
Personal Care	11.0	(9.2)

* Figures in parenthesis refer to the Q2 2006 CES result

Table 10. Distribution of Household Respondents by Number of OFWS (Overseas Filipino Workers)	
Number of OFW	Number of respondents
0	2,231
1	207
2	15
3 and over	10
Total	2,463

Table 11. OFW Households Who Received Remittances from any of its OFW Members in the last 12 months		
	Number	Percent*
Received remittances	208	89.7 (91.3)
Did not receive remittances	24	10.3 (8.7)
Total	232	100.0

*Figures in parenthesis refer to the Q2 2006 CES result

Table 12. Household Utilization of OFW Remittances in the last 12 months			
Type of use	Number	Percent*	
Buy food and/or used in other household expenditures	195	93.8	(95.5)
Save in banks, cooperatives and/or other depository institutions	69	33.2	(38.6)
Buy appliances	56	26.9	(21.8)
Used in others	42	20.2	(16.2)
Education	27	13.0	(10.9)
Medical expenses	4	1.9	(2.5)
Others	11	5.3	(3.7)
Business capital and/or invested in stocks	8	3.8	(10.9)
Buy a house	8	3.8	(7.7)
Buy car / motor vehicle	10	4.8	(4.1)

*Represents ratio to total household which received remittances.

Figures in parenthesis refer to the Q2 2006 CES result