

ECONOMY MAINTAINS MOMENTUM, GROWS 6.6% IN 3RD QUARTER

The Philippine economy, as measured by the gross domestic product (GDP) grew by 6.6 percent in the third quarter of the year. This brings to 7.1 percent the average GDP growth rate in the first three quarters of 2007.

The growth of the Philippine economy was boosted by higher production in all key sectors. Agriculture, fisheries and forestry (AFF) grew by 5.6 percent, services rose by 7.2 percent and industry expanded by 6.1 percent.

Favorable weather conditions, stronger domestic demand as well as government policy and program interventions helped the economy grow, according to National Economic and Development Authority (NEDA) Acting Director-General Augusto B. Santos during the Press Conference on the Economy held recently.

The third quarter growth, however, was slower than the 7.1 and 7.5 percent recorded in the first and second quarters, respectively. Santos said that this is because of the decline in export earnings brought about by the slowdown of the US economy (the Philippines biggest foreign market), slow recovery of Japan and the appreciation of the peso. A rise in the peso makes Philippine-made goods more expensive and therefore less competitive in the international market.

“As domestic demand strengthens, the Philippine economy should be able to surpass the projected 2007 full year target of 6.1 to 6.7 percent growth. Barring any sudden changes in the external environment, the economy is set for a stronger growth in the fourth quarter of this year,” Santos averred.



However, Santos said that inflationary pressures arising from the volatility in oil market must be vigilantly monitored as this may pose downward pressures on the country’s growth prospects. Besides tempering inflation, Santos said the government should also monitor the developments in the US economy.

Meanwhile, the Philippine economy is not far behind its Asian neighbors. “In terms of growth rate, we are ahead of Indonesia (6.5%), Hongkong (6.2%), and South Korea (5.2%). However, we trail behind China (11.5%), Singapore (8.9%), and Taiwan (6.9%),” Santos said.

The gross national product (GDP), on the other hand, registered a growth rate of 8.2 percent. This can be attributed to the accelerated growth in net factor income from abroad

Economic Performance

(Growth rates, in percent)

	Third Quarter		Q1 - Q3	
	2006	2007	2006	2007
GDP	5.1	6.6	5.4	7.1
GNP	5.6	8.2	6.1	8.1
NFIA	11.2	25.2	13.7	18.9

Major Industries

(Growth rates, in percent)

	Third Quarter		Q1 - Q3	
	2006	2007	2006	2007
AFF	3.6	5.6	4.7	4.7
Industry	4.9	6.1	4.9	6.8
Services	5.8	7.2	6.1	8.1

(NFIA) that includes remittances by overseas Filipino workers (OFWs) which grew by 25.2 percent, the highest since the third quarter of 2003. The NFIA growth was boosted by property income that expanded by 68.2 percent. Property income includes the increased bond placements abroad of private corporations as well as increased income receipts on deposits abroad.

KEY PLAYERS

Agriculture, Fishery & Forestry

(Growth rates, in percent)

	Third Quarter		Q1 - Q3	
	2006	2007	2006	2007
AFF	3.6	5.6	4.7	4.7
Palay	12.6	4.7	9.7	3.6
Corn	1.1	14.0	15.7	9.5
Coconut / copra	0.8	1.8	1.4	-2.1
Sugarcane	57.7	-9.6	2.9	-6.6
Banana	5.7	6.6	9.7	7.1
Other crops	-0.2	4.1	-0.1	6.1
Livestock	2.0	1.1	2.5	2.1
Poultry	2.2	0.8	-0.3	0.4
Agri. Services	2.2	4.9	4.1	4.4
Fishery	4.2	9.7	6.9	8.0
Forestry	-0.8	-3.3	-6.9	12.4

Agriculture, Fisheries and Forestry (AFF) Withstood Impact of Dry Spell. The sector's growth of 5.6 percent was due to the effective mitigation of the impact of the dry spell on crops harvest in the first semester. This include, among others, the prompt response of the Department of Agriculture (DA) through the quick-turn-around (QTA) scheme. Moreover, various programs supported by the government, also helped the sector grow. This is in the form of investments in irrigation facilities, distribution of high yielding seed varieties, area expansion, credit facilitation as well as knowledge dissemination.

Data provided by the National Statistical Coordination Board (NSCB) showed that the biggest contributors to the AFF sector's growth were corn production (14%), banana (6.6%), palay (4.7%), and fishery (9.7%). Better performance of the fishery sector can be attributed to the increased harvest by commercial and municipal fishery. Forestry, on the other hand, declined to negative 3.3 percent from negative 0.8 percent in the previous year.

Services Continued to Boost the Economy. Growing by 7.2 percent, this sector contributed 3.6 percent to GDP growth. The sector's remarkable performance can be attributed to trade ((8.2%), private services (8.5%), finance (7.9%) and ownership of dwellings and real estate or ODRE (6.9%).

Trade growth was propelled by the performance of the retail industry and the increased sales of newly opened malls. Growth in private services, on the other hand, was due to the continued expansion of business process outsourcing (BPO). Finance was propelled by higher premiums and investment income of insurance companies. Increase in sales of residential properties as well as the increased rent and lease operations of newly opened malls boosted ODRE's growth.

NSCB data revealed that transportation, communication and storage (TCS) also performed better compared to the same quarter last year, growing by 6.4 percent. Transport and

storage posted a 6.5 percent growth while communication which contributes 53 percent to the total growth of the sector, posted a 6.2 percent growth. Meanwhile, the increased number of people patronizing the light rail transit (LRT), metro rail transits (MRT) and MEGATREN as well as the vigorous fare promotions by domestic airlines and tourism-related promotion activities made the land and air transport sector grow by 7.8 and 26.9 percent, respectively.

Services

(Growth rates, in percent)

	Third Quarter		Q1 - Q3	
	2006	2007	2006	2007
Services	5.8	7.2	6.1	8.2
Transport., Comm., Stor.	6.1	6.4	6.1	8.9
Trade	5.5	8.2	5.3	8.5
Finance	5.5	7.9	9.9	11.5
O. Dwellings & Real Estate	7.6	6.9	5.4	6.3
Private Services	6.1	8.5	6.4	8.7
Government Services	4.2	2.0	4.3	2.4

Industry Remained Vibrant. Mining ((21.8%), construction (16.7%) and utilities (8.5%) performed well due to robust outputs. From its lackluster performance last year, mining and quarrying sustained its growth in the third quarter due to increased production in gold mining and other non-metallic minerals.

Manufacturing grew at a slower pace at 3.3 percent. Food manufacture was the lead contributor to this growth. Stronger consumption of commercial and residential users, on the other hand, led to the 8.5 percent growth of electricity and water. The growth in electricity can be attributed to the strong demand from the commercial sector while growth in the water sector was due to the improved operating efficiencies of the major players in this sector.

OTHER MAJOR PLAYERS

Domestic demand also played an important role in pushing the economy forward in the third quarter. For instance, private consumption expenditures (PCE) that include food, transportation and communication, fuel, light and water, among others, grew by 5.6 percent due to benign inflation, better labor market conditions as well as the generally improving household incomes.

Overall investment spending also expanded further to 7.5 percent. This is because business sentiment continues to remain high based on the latest results of the Business Expectation Survey of the *Bangko Sentral ng Pilipinas*.

Investment spending on durable equipment also managed to grow by 3.4 percent, showing signs of future productive capacity increases. "This is the third consecutive quarter of positive growth following eight quarters of contraction spanning the period 2005-2006. This improvement comes in tandem with significant increases in public and private construction expenditure, registering growths of 20.2 and 13.1 percent, respectively." Santos said.

Government consumption expenditure, on the other hand, grew by 8.3 percent from 4.5 percent in the same period last year due to the implementation of government projects which was made possible by higher revenue flows.

References:

3rd Qtr. National Income accounts (NIA) and the statement of Acting NEDA DG Augusto B. Santos on the NIA release.