

PHILIPPINE ECONOMY

FIRST QUARTER GROWTH WITHIN TARGET

The Philippine economy as measured by the gross domestic product (GDP) registered at 5.5 percent in the January-March quarter, compared with 4.2 percent recorded in the same period last year.

The GDP growth is the high-end of the National Economic and Development Authority (NEDA) interagency Development Budget Coordination Committee's (DBCC) 5.0 to 5.5 percent growth forecast for the first quarter, said Socioeconomic Planning Secretary and NEDA Director-General Romulo L. Neri in a press conference on the First Quarter 2006 Report on the Economy last May 31.

The economy remained resilient despite serious challenges such as the escalating crude oil prices, still tight fiscal situation, the imposition of the 12 percent value-added tax (VAT), and the political conflict which peaked with a reported coup attempt in February, Neri added.

With the strong GDP performance, Neri is optimistic that the government will attain the full year target GDP growth of 5.5 to 6.2 percent. "Our expectation is anchored on resilient personal consumer spending growth, the



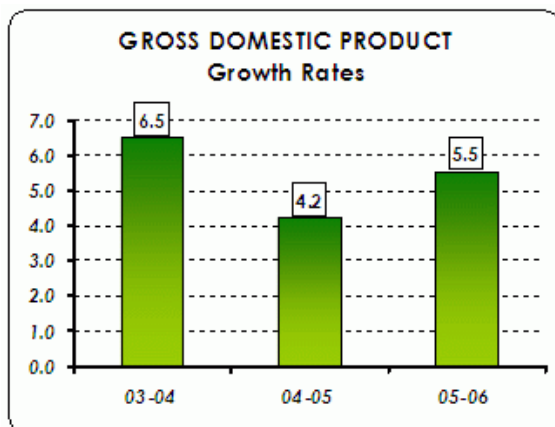
recovery of agriculture, the improving prospects of construction, and the continued brisk growth of services," he said.

According to the National Statistical Coordination Board (NSCB), the 8.8 percent growth in Net Factor Income from Abroad (NFIA) mostly from an increase in compensation income of overseas Filipino workers (OFW's) pushed the gross national product (GNP) to 5.8 percent from 4.9 percent in the same period last year.

SOURCES OF GROWTH

The NSCB data reveal how the following sectors performed:

Agriculture, fishery and forestry (AFF) performance rebounds. The AFF which comprised 20.3 percent of total GDP, contributed 0.79 percent to total GDP. Secretary Neri said that the rebound in the agriculture sector was led by corn, palay, banana, and the fishery subsectors. This rebound resulted from the sufficient amount of rainfall in the first quarter as well as the continued technical assistance and availability of improved seed stock from the government. Palay production bounced back with a



substantial growth of 6.9 percent from the negative 1.5 percent in the same period last year. Corn registered a growth of 22.1 from 18.3 percent. Coconut and banana, on the other hand, grew by 2.1 from 4.9 percent and 14.6 from 3.4 percent, respectively.

The Fishery sector grew by 4.7 percent albeit lower than 5.3 percent in the same period last year. Growth can be attributed to the strong demand for seaweeds and improved management practices in milkfish culture in Region 3. Livestock grew by 2.2 percent; poultry declined to negative 3.7 percent; and forestry production surged to 46.4 percent.

Services still the major growth driver. The services sector account for almost half (48.0%) of the total GDP and contributed 2.98 percent to total growth, thereby pushing the economy's growth by 6.2 percent. NSCB data revealed that financial services remained strong with 14.8 percent growth from 12.5 percent growth in 2005 due to the surge in interest and noninterest income from fee-based transactions and gains from sale of government securities.

Transportation, communication and storage or TCS managed to grow by 6.8 percent from 10.7 percent in the previous year. Communications remained the major contributor, with its 13.1 percent growth which is slower than last year's 18.5 percent. The continued growth of mobile communication services and the services providers' subscribers' base sustained the good performance of the telecommunications industry. However, land transport slipped to -1.2 percent from a growth of 1.2 percent, due to increases in oil prices and transport fare. Air transport grew at 5.2 percent boosted by value fare promotions of domestic airlines and tourism-related promotion activities while water transport improved slightly with a lower negative growth of 2.5 percent from negative 2.9 percent. Moreover, trade services also grew by 5.3 percent.

Ownership of dwellings and real estate (ODRE) grew at 3.5 percent, slower than the 6.6 percent in the same period last year. Private services grew by 5.5 from 4.7 percent due to the current boom in call centers and business process outsourcing (BPO). The implementation of the government's more flexible spending program boosted government services to 2.8 percent.

Industry exceeds expectations. This sector contributed 1.7 percent to total GDP growth, posting a 5.5 percent growth from 3.4 percent in the same period last year. Manufacturing sector grew by 6.0 from 4.9 percent. Secretary Neri said that these exceeded expectations. He said that significant contributions were recorded in export-related manufactures such as leather and leather products (54.8%), textiles (25.6%), petroleum products (17.9%), food manufactures (9.4%), and electronics (10.9%). Mining and quarrying grew by 1.7 percent from 4.2 percent in the previous year. Electricity and water posted a 4.2 percent growth from 2.0 percent. This can be attributed to increased demand from call center industries

and other IT-related industries, opening of new malls and light rail transit operations as well as continued expansion and rehabilitation of pipelines of Manila Water Company, Inc. and the Maynilad Water Services, Inc.

OTHERS

On the domestic front, Secretary Neri said that private consumption expenditure (PCE) grew by 5.1 percent due to improved employment and overseas Filipino workers remittances. Higher household spending on food (5.3%), transportation and communication (14.1%) was observed as consumers hiked spending on necessities amid higher prices. Consumer sentiments remained largely upbeat even as prices continued to rise. Government consumption expenditure (GCE) grew by 9.4 percent due to increased revenue collection and shift in the government's financial strategy from fiscal discipline to maximizing spending in 2006.

Exports and imports of goods both grew in the first quarter. The country's merchandise exports grew remarkably by 11.4 percent due to surging intraregional trade. Exports of services were also robust by 17.0 percent driven by government services and the continued influx of BPOs in the country. On the other hand, total merchandise imports posted a 0.2 percent growth from -3.2 percent. Growth came from merchandise imports that include cereals and cereal products, electrical machinery, apparatus and appliances, textile yarns, feeding stuff, and transport equipment.

Total exports (PhP648.7 billion) exceeded total imports (PhP636.6 billion). This resulted in a trade surplus of PhP12.2 billion.

2006 GROWTH DRIVERS

With the 5.5 percent GDP growth in the first quarter, NEDA is upbeat about the government's ability to attain the full year target GDP growth of 5.5 to 6.2 percent. This target, set by the DBCC is conservative and factors in recent developments like the unexpected escalation of oil prices, Secretary Neri said. The services, industry and AFF are also expected to perform better this year.

Services is expected to grow by 6.4 to 7.0 percent in 2006 due to flourishing call centers and BPOs, increase in tourist arrivals, growth in finance, transport sectors as well as the wholesale and retail trade.

The industry sector, on the other hand, is projected to grow by 5.4 to 6.2 percent. Among the growth drivers are the upbeat interests in the mining sector, major infrastructure projects, and expected positive growth of both domestic and export oriented manufactures, among others.

Agriculture is expected to perform better (3.5-4.0 %) with the increased planting of hybrid rice during the wet and dry seasons, better performance of the fishery sector, and strong external demand for high value commercial crops.