

## The Philippines No Longer a Laggard

# ECONOMY GROWS BY 5.5% IN 2<sup>ND</sup> QUARTER

Despite the oil price hikes, the Philippine economy as measured by the gross domestic product (GDP) grew by 5.5 percent in the second quarter, bringing GDP in the first half of the year to 5.6 percent. This is within the growth forecast (5.3% to 5.8%) of the National Economic and Development Authority (NEDA).

The second-quarter growth is higher than Taiwan's 4.6 percent, South Korea's 5.3 percent, Indonesia's 5.1 percent, Hong Kong's 5.2 percent, and the projected 4.8 percent for Thailand.

"With this kind of growth, I think we are no longer among the laggards in Asia," Socioeconomic Planning Secretary and NEDA Director-General Romulo L. Neri said in a press conference on the Second Quarter 2006 Report on the Economy last August 31. "We may not be growing as fast as India and China, but I don't think we're still the sick man of Asia," he added.



The gross national product (GNP) also expanded by 6.6 percent in the second quarter this year from 5.8 percent in 2005 as compensation from overseas Filipino workers from abroad significantly improved. First semester GNP growth rate was 6.5 percent.

### Sources of Growth

According to Secretary Neri, the strong performance of the economy was led by the agriculture and services sectors.

**Agriculture, Forestry and Fisheries (AFF).** Based on the National Statistical Coordination Board (NSCB) figures, this sector grew by 6.7 percent from 2.1 percent of last year. This comprised 17.2 percent of total GDP, contributing 1.14 percent to the total GDP growth in the second quarter. Palay (10.3%), corn (49.2%), banana (9.7%), fisheries (11.0%) and the livestock production (3.6%) contributed to the growth. Secretary Neri said this sector is expected to perform better given the increase in area harvested, better irrigation, favorable weather and continued policy interventions such as technical assistance and availability of improved seed varieties.

On the other hand, poultry production slowed down to 1.6 percent from 2.5 percent in the same period last year because of the minimal growth in broiler production from commercial farms. Forestry grew by 10.0 percent due to increased log production from industrial tree plantations in CARAGA. According to Secretary Neri, the agriculture sector is expected to stabilize in the second half with the

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### Macroeconomic Performance (growth rates, in percent)

	2 <sup>nd</sup> Quarter		1 <sup>st</sup> Semester	
	2005	2006	2005	2006
<b>GDP</b>	5.4	5.5	4.8	5.6
<b>Agriculture</b>	2.1	6.7	0.7	5.2
<b>Industry</b>	5.8	4.5	4.7	5.1
<b>Services</b>	6.4	5.7	6.7	6.1
<b>GNP</b>	5.8	6.6	5.3	6.5

Source: NSCB

end of the La Niña phenomenon — characterized by more-than-usual amount of rainfall in May.

**Services.** This sector accounted for 49.0 percent of the total GDP and contributed 2.8 percent to total growth. It continued to push the economy’s growth at less rapid rate of 5.7 percent as a result of the weaker performance of finance (10.0%) and transportation, communication and storage or TCS (4.1%). Meanwhile, private services grew by 6.0 percent while real estate by 5.8 percent.

Under TCS, communications grew slower by 8.4 percent from its double digit growth of 15.9 percent last year with the growing maturity of short messaging service (SMS) and voice-over-internet protocol (VoIP) and the inability of 3G system to stimulate demand for communication services. Land transport recovered with a modest growth of 1.7 percent from negative 7.1 percent a year ago, notwithstanding the repeated spikes in crude oil prices. With the decreased number of sea-based passenger and cargo, water transport further slipped to negative 5.1 percent from negative 1.9 percent. Air transport, on the other hand, grew by 4.1 percent due to the domestic airlines’ value fare offerings and brisk promotions. Trade services, on the other hand, grew by 5.2 percent.

**Industry.** Contributing 1.6 percentage points to total GDP growth, this sector grew by 4.5 percent, slower than last year’s growth of 5.8 percent. Overall performance was pulled down by a weak construction industry which suffered from high prices of materials due to costlier imports and oil driven inflation. As a result, the construction industry posted a lower growth of 3.8 percent from 4.5 percent in the previous year.

Manufacturing (6.5%), mining and quarrying (3.5%) and electricity and water (3.4%) led the sector’s growth. In manufacturing, petroleum and coal grew by 22.2 percent, providing the biggest contribution to the sector’s growth. In mining and quarrying, coal and nickel mining boosted the performance of this sector. Secretary Neri said prospects for the mining sector remain bright with huge investments coming in as spending in durable equipment for mining and construction went up by 22.1 percent in the second quarter.

The stable growth in utilities, which grew by 3.4 percent from 3.2 percent last year amidst successive price increases in gas and electricity shows resilience in the domestic economy. This subsector’s performance was due to sustained demand of electricity from commercial and industrial sectors and increased water sales, continued expansion in water distribution network, and the effective reduction of system losses of the Manila Water Company, Inc. and the Maynilad Water Services, Inc.

### Other Sectors

**On the demand side,** increased remittances from Filipino workers abroad totalling US\$6 billion from January to June this year continued to stir consumer spending, contributing 5.2 percent to GNP growth with personal consumption expenditure growing at 5.7 percent. Meanwhile,

	MTPDP 2004- 2010	DBCC approved as of 20 September 2005	DBCC approved as of 27 March 2006	DBCC Approved As of Aug 2006
GNP	6.5-7.5	5.9-6.9	5.9-6.5	5.9-6.5
GDP	6.3-7.3	5.7-6.6	5.5-6.2	5.5-6.1
Agriculture	4.2-5.2	4.0-5.0	3.5-4.0	3.4-3.9
Industry	7.2-8.2	5.1-6.1	5.4-6.2	5.4-6.2
Services	6.5-7.5	6.7-7.7	6.4-7.0	6.3-7.0

Sources: MTPDP, DBCC

government consumption expenditure grew by 0.4 percent from 12.4 percent in the previous year. According to Secretary Neri, the reenactment of the budget has resulted in restraint on expenditures, which affected the flow of public funds into infrastructure, he added.

**Exports and imports of goods** performed better in the second quarter. Total exports registered a 22.3 percent growth from 1.6 percent last year led by merchandise exports such as: semiconductors and electric microcircuits (16.0%); finished electrical machinery (31.2%); garments (23.8%); and bars, rods of copper (30.0%). Total imports, on the other hand, grew by 4.0 percent from 2.6 percent in 2005 as electrical machinery (19.3%), textile yarns (15.9%), and artificial resins and plastic materials (13.4%) posted healthy gains.

### Prospects

Despite slower growth in the second quarter and potential risk posed by higher crude oil prices, Secretary Neri said that the full year GDP growth target of 5.5–6.1 percent remains attainable. This will be anchored on stable personal consumer spending growth, continued growth of services, recovery of agriculture, and the strong performance of exports.

Secretary Neri said that agriculture sector is expected to grow between 3.4 to 3.9 percent in 2006. Activities to make this growth attainable are the increased planting of hybrid rice, strong external demand for high value crops, and sustained expansion in the fisheries sector.

For industry, programmed spending in public construction, favorable business climate for mining and quarrying, and sustained growth in manufacturing due to strong external and internal demands will make this sector grow by 5.4 to 6.2 percent in 2006.

The services sector, on the other hand, is expected to grow by 6.3 to 7.0 percent. Factors that will lead to this growth are the increase in tourist arrivals, booming call centers and business process outsourcing, and the growth of the finance and transport sectors.