

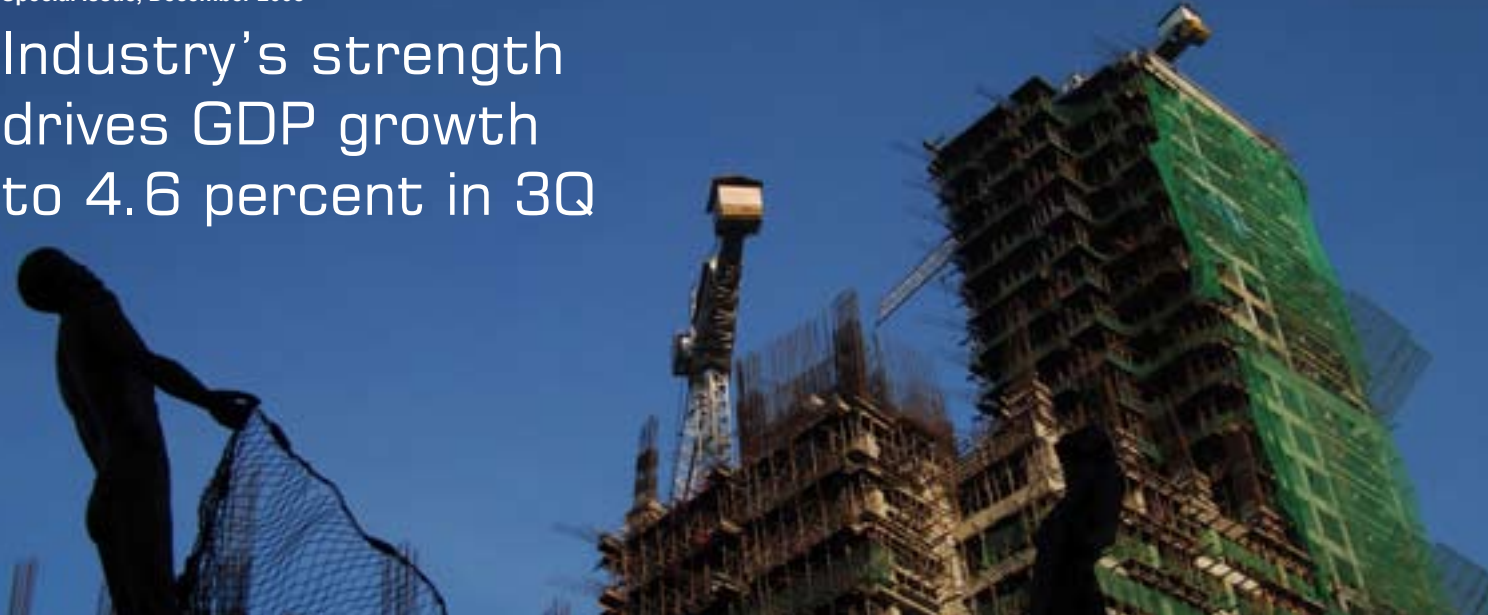
DevPulse

NEDA Development Advocacy Factsheet

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Industry's strength drives GDP growth to 4.6 percent in 3Q



Third quarter economic performance

	Third Quarter		Q1-Q3	
	2007	2008	2007	2008
GDP	7.1	4.6	7.5	4.6
GNP	9.1	6.5	8.7	5.9
NFIA	31.9	24.7	22.9	19.1

AN UNUSUAL SURGE in the Industry sector helped the economy stave off the adverse effects of high oil prices and the global financial turmoil in the third quarter of the year.

The country's economy as measured in gross domestic product (GDP) growth expanded by 4.6 percent, driven primarily by Industry's stellar 7.1 percent growth thanks to strong gains in construction at 21.3 percent, electricity and water at 9.7 percent and manufacturing at 4.7 percent. As a result, Industry made the biggest contribution to GDP growth at 2.36 percentage points, followed by Services at 1.86 and Agriculture, Fishery and Forestry at 0.44. This is the first time that Industry outperformed Services since the fourth quarter of 1997.



Food manufacturing was a major contributor to growth

Socioeconomic Planning Secretary Ralph G. Recto pointed out that while GDP growth was slower than the 7.1 percent recorded in the same period last year, the country managed to post the second highest growth rate among ASEAN's five largest economies. "All our neighboring countries also exhibited a slowdown due to high inflation, high oil prices, and an impending global financial crisis in the third quarter. However, the country managed to post the second highest growth rate among the ASEAN 5, next to Indonesia which registered 6.1 percent growth. Singapore and Taiwan contracted by 0.6 percent and 1 percent, respectively while Malaysia, Thailand, South Korea, and Hong Kong grew by 4.2 percent, 4.0 percent, 4.0 percent, and 1.7 percent, respectively," Recto said.

Industry posts strong gains despite contraction in mining and quarrying

Virtually all Industry subsectors posted significant gains except for mining and quarrying, which contracted 4.1 percent. In terms of contributions to growth, manufacturing, construction and electricity and water added 3.4, 2.8 and 1.1 percentage points, respectively, while mining and quarrying took off 0.2 percentage points.

"Food manufactures remained as the major contributor to growth, as it posted accelerated growth fueled mainly by the production of sugar, coconut, processed meat and fish. Meanwhile, export-oriented industries grew by 4.8 percent. The aggressive push of government in public construction as indicated by the 52.7 percent and 11.6 percent increases in national and local government spending on infrastructure and other outlays; and the sustained demand for real estate by the overseas Filipinos and BPO sectors, both helped pushed total construction to reach a strong 21.3 percent growth," Recto explained.

Services growth weaker than usual, but optimism remains

The Services sector, which comprises half of total output and half of total workforce, grew at a weaker than usual pace of 3.7 percent from last year's 8.0 percent due to falling demand brought about by high domestic inflation. Although overseas inflows were strong, inflation managed to temper private consumption to 4.6 percent from 5.7 percent last year.

"Consumers did spend more but could only buy less from their peso, which affected transportation and communications. Filipino consumers remained upbeat on furnishing their homes with new appliances, and on spending for household operations. The lower private consumption in the third quarter, in turn, resulted in slower growth in as mentioned, transportation and communications and trade. The growth in ownership of dwellings and real estate got slightly clipped, but still grew respectably, as some buyer-investors paused to reassess their industry," Recto said.

Ownership of dwellings and real estate posted the strongest growth in Services at 6.6 percent, followed by private services at 5.2 percent and trade at 4.2 percent. Transportation, communications and storage, meanwhile, grew by a mere 1.5 percent and finance by 1.3 percent, down from last year's 8.7 percent and 14.0 percent growth, respectively.

Despite slowdowns in key subsectors, Recto, who is also Director-General of the National Economic and Development Authority, pointed out that the sector remains a bright spot due to strong demand for residential space from OFWs and for commercial space from the outsourcing and offshoring companies.

Agriculture, Fishery and Forestry posts lackluster growth

Favorable weather and ample government intervention was not enough to soften the blow of higher input costs, particularly fertilizers, on the Agriculture, Industry and Forestry sector, which grew a disappointing 2.5 percent, lower than last year's 5.9 percent.

"Palay production registered a double-digit growth because of continuing efforts in restoring and rehabilitating irrigation facilities. Corn production suffered however, due to the



High inflation took its toll on transportation spending

damage caused by typhoons Frank, Karen and Nina and the shift of harvest time from the third to the second quarter. The fisheries sub-sector however, slowed down as both municipal and commercial fishing were hit by higher oil prices in the third quarter," Recto said.

Sugarcane posted the highest growth rate at 54.6 percent, followed by banana at 19.0 percent and palay at 10.2 percent.

Challenges ahead

Cumulative growth for the first three quarters of the year is at 4.6 percent, slower than the 7.5 percent recorded last year but is still within the Development Budget Coordination Committee's 4.1 to 4.8 percent target for 2008. Despite increasing anxiety brought about by the global economic crisis, NEDA remains optimistic because of falling oil prices, which is expected to ease inflation.

Despite this, Recto called on government to continue investing in infrastructure development to boost growth and create employment, increase the absorptive capacity of line agencies and push for policy reforms in key sectors. He said that government should also improve revenue collection to make sure that it maintains "prudent levels of deficit and debt."

He added that government should be more proactive in identifying and managing risks and providing safety nets for ordinary Filipinos. He likewise appealed to the private sector to find ways to preserve employment and consider expansion in light of a lower corporate income tax rate which will take effect next year.

"At this point, the state must continue to be active, by identifying those investments and jobs that are at risk, and putting in place the necessary contingency measures. It must also expand the social safety nets for the most vulnerable members of society, and those who are yet to be part of the labor force. The government appeals to the private sector to help find ways to preserve employment and to consider business expansion in light of the dividends obtained from a reduced corporate income tax rate next year going down from 35 percent to 30 percent," Recto said.