Senate Economic Planning Office

Economic Report

December 2006 ER-05-06

Slower Economy in Q3 2006;
Jobless Growth Continues

The country's gross domestic product (GDP) grew by 4.8 percent in the third quarter of the year, lower than projections. Government and even other economists were expecting that the economy would grow between 5.2 percent to 5.8 percent in the quarter to attain the full-year target growth rate of 5.5 percent to 6.1 percent.[1] However, only agriculture, fisheries and forestry posted higher growth rates compared to the same period last year. The services sector grew at the same pace while the industry sector slowed down. The growth of the whole economy nonetheless was more buoyant as gross national product grew by 5.8 percent, driven largely by overseas Filipino workers' remittances.

Table 1. The Economy, Supply Side (at constant prices, growth rates in %)

Particulars	Q3 2006		Q1-Q3	
	2006	2005	2006	2005
Agriculture, fishery & forestry	4.1	1.7	4.9	1.0
Palay	12.6	-7.1	9.7	-2.3
Corn	1.1	13.6	15.7	-2.3
Coconut/copra	1.4	4.1	1.7	4.1
Sugarcane	57.7	-14.1	2.9	-10.9
Banana	5.5	15.2	9.6	10.5
Other crops	-0.5	2.0	-1.5	0.6
Livestock	2.4	3.6	2.7	1.8
Poultry	2.2	-4.1	-0.3	1.7
Agricultural activities & services	4.3	1.0	7.0	1.5
Fishery	4.2	5.9	6.9	5.3
Forestry	93.4	-61.1	50.6	-44.0
Industry	4.0	5.3	5.1	4.9
Mining & quarrying	-2.8	3.1	1.2	4.3
Manufacturing	4.8	5.7	5.6	5.5
Construction	1.0	6.0	3.7	3.5
Electricity, gas & water	4.3	1.8	4.6	2.4
Service	5.6	5.6	5.9	6.3
Transportation, communication & storage	6.3	4.0	6.1	7.2
Trade	5.9	5.0	5.4	5.5
Finance	5.1	19.0	9.8	14.3
Ownership of dwellings & real estate	7.6	4.0	5.5	4.8
Private services	5.1	4.8	5.7	5.5
Government services	2.9	-0.1	3.4	2.1
Gross domestic product	**4.8**	**4.8**	**5.4**	**4.8**
Gross national product	**5.8**	**4.8**	**6.3**	**5.2**
Net factor income from abroad	**17.1**	**4.9**	**16.2**	**9.0**

Source: National Statistical Coordination Board (NSCB)

[1] *The National Economic and Development Authority had earlier forecast the economy to grow by 5.2 percent to 5.8 percent. Economists polled by Reuters and Xinhua Financial News–Asia have likewise estimated the domestic economy to expand by 5.4 percent in the third quarter of the year.*

Sectoral Performance

Sluggish industry sector. This sector posted lower growth in the third quarter at 4.0 percent compared to 5.3 percent in the same period last year. This sector was the major drag to the economy's growth for the third quarter as it accounts for 30 percent of the whole economy. Among its subsectors, only electricity, gas and water posted a higher growth rate of 4.3 percent compared to last year's 1.8 percent.

Manufacturing, the sector's biggest industry, slowed down in the third quarter as it posted a growth rate of 4.8 percent compared to 5.9 percent in the third quarter of last year. Manufacturing of food slowed down, while negative growth rates were posted by textile, wood and cork products, leather products, machinery except electrical, and publishing and printing. It is notable that there was a slowdown in food manufactures despite the rise in food consumption by 6.4 percent. One reason propounded for this is the proliferation of cheap imported products in the domestic market causing a shift in consumers' preference from locally produced products to imported goods. On the other hand, recovery was posted in the basic metal, beverage, tobacco, footwear, and paper and paper products. The higher growth of the electrical machinery manufactures was mainly driven by better export performance.

Table 2. Top 10 Manufactures
(at constant prices, growth rates in %)

Particulars	Q3	
	2006	2005
Basic metal industries	41.4	-1.2
Miscellaneous manufactures	29.1	6.7
Furniture and fixtures	16.7	24.1
Metal industries	12.7	16.2
Electrical machinery	12.7	4.5
Beverage industries	6.5	-8.3
Transport equipment	6.5	1.2
Footwear wearing apparel	5.5	-26.5
Tobacco manufactures	3.9	-2.2
Paper and paper products	3.2	-3.0

Source: NSCB

Mining contracted by 2.8 percent from a 3.1percent growth rate during the third quarter of last year, as gold mining and copper mining posted negative growth rates of 26.1 percent and 9.9 percent, respectively, compared to the same period last year. Construction, while still growing positively, only posted a one-percent growth rate in the third quarter compared to a 6 percent growth rate in the same period last year. Public construction grew by a measly 1.7 percent mainly because of the tight budget. Private construction continued to contract by 1.3 percent in the third quarter. Since the last quarter of 2005, private construction had been posting negative growth rates. The negative performance of the construction industry is a reflection of the poor investment picture in the country.

Continued recovery of agriculture. The agriculture, fishery and forestry sector (AFF) grew by 4.1 percent in the third quarter. The farm subsector grew by 3.6 percent in the third quarter of the year, from 1.4 percent in the same period last year, with palay rebounding to a 12.6 percent growth during the quarter from a slump of negative 7.1 percent last year. The increase in palay production was a result of more harvest areas, early rainfall, continued use and adoption of hybrid and quality inbred seeds, sufficient irrigation, and increased fertilizer application (Department of Agriculture). Total harvest area in the country increased from 790,534 hectares in the third quarter of 2005 to 842,624 hectares this year (Bureau of Agriculture Statistics).

In addition, sugarcane recovered, posting a 57.7 percent growth rate from a negative 14.1 percent, compared to the same period in 2005 due to higher sugar prices and increased export quota to the US.

Forestry likewise contributed to the sector's growth as it posted a turnaround growth of 93.4 percent in the third quarter from a negative growth rate of 61.1 percent in the same period last year.

Fishery, which contributed 21.8 percent to the AFF sector, grew by 4.2 percent during the quarter, from 5.9 percent in the third quarter of 2005. Aquaculture led the sector's growth at 13.4 percent with the increased global demand for seaweeds. Municipal fisheries also increased because of

Table 3. Breakdown of Agriculture Growth (at constant prices, growth rates in %)

Particulars	Q3		Q1-Q3	
	2006	2005	2006	2005
Agriculture	**3.6**	**1.4**	**4.1**	**0.3**
Palay	12.6	-7.1	9.7	-2.3
Corn	1.1	13.6	15.7	-2.3
Coconut/copra	1.4	4.1	1.7	4.1
Sugarcane	57.7	-14.1	2.9	-10.9
Banana	5.5	15.2	9.6	10.5
Other crops	-0.5	2.0	-1.5	0.6
Livestock	2.4	3.6	2.7	1.8
Poultry	2.2	-4.1	-0.3	1.7
Fishery	4.2	5.9	6.9	5.3
Forestry	93.4	-61.1	50.6	-44.0

Source: NSCB

abundant catch from the Bohol and Visayan Seas. Commercial fisheries, on the other hand, went down by 5.2 percent in the third quarter of the year due to the bad weather condition, which resulted in decreased fishing operations (National Statistical Coordination Board).

Meanwhile, the impact of the recent typhoons is expected to be felt in the last quarter of the year. The National Disaster Coordinating Council estimated the damages to reach P12.6 billion, P7.9 billion of which is on agriculture while P4.6 billion is on infrastructure.

Table 4. Cost of Damages on Agriculture & September to December (in B PhP)

	Milenyo	Paeng	Reming	Seniang
Total	**6.5**	**0.5**	**5.1**	**0.4**
Infrastructure (roads, bridges and school buildings)	2.6	0.2	1.6	0.3
Agriculture (crops, rice, corn, fisheries and livestock)	4.0	0.4	3.5	0.1

Source: NDCC

** There was no official estimate on the damage caused by Quennie since it is just negligible according to NDCC.*

Note: Numbers does not add up due to roundingoff.

Steady services. The services sector posted a 5.6 percent growth in the third quarter, which is the same growth posted in the third quarter of 2005 and in the second quarter of this year. Trade propelled the sector's growth, from 5.0 percent in the third quarter of 2005 to 5.9 percent this year (Table 1). Trade was buoyed up by the brisk sales of newly-opened malls.

On the other hand, finance that usually posts double-digit growth rates registered a much slower growth of 5.1 percent in the third quarter of the year, from last year's 19.0 percent. The banking sector's growth decelerated to 7.7 percent in the third quarter of the year, a big downtrend from last year's 27.3 percent because of lower gains from interest and non-interest income. Non banks, which were the source of growth in the second quarter, posted a negative growth rate of 5.4 percent in the third quarter of this year.

Table 5. Breakdown of Finance (at constant prices, growth rates in %)

Particulars	Q3		Q1-Q3	
	2006	2005	2006	2005
Finance	5.1	19.0	9.8	14.3
Banks	7.7	27.3	9.8	19.6
Non-banks	-5.4	12.3	26.6	8.3
Insurance	-0.1	-5.1	0.8	-0.8

Source: NSCB

Vibrant real estate industry. Ownership of dwelling and real estate is on an upward trend since the first quarter of 2006. It posted a 7.6-percent growth rate in the third quarter compared to 4.0 percent in the same period last year, the highest growth rate posted by the industry since 1982. Residential projects purchased by overseas Filipino workers (OFWs), the strong demand for business offices for BPO companies and higher income from rental and leasing operations of newly-opened malls propped real estate's growth to 26.2 percent during the quarter from 8.3 percent a year ago.

Table 6. Breakdown of Ownership of Dwelling and Real Estate (at constant prices, growth rates in %)

Particulars	Q3		Q1-Q3	
	2006	2005	2006	2005
Ownership of dwelling and real estate	**7.6**	**4.0**	**5.5**	**4.8**
Real Estate	26.2	8.3	15.2	13.1
Ownership of dwelling	2.4	2.9	2.9	2.8

Source: NSCB

Expenditure Side

Personal consumption remains to be the source of growth on the expenditure side supported by the recovery of the export sector.

Table 7. Breakdown of GDP growth, by expenditure share (at constant prices, growth rates in %)

Particulars	Q3		Q1-Q3	
	2006	2005	2006	2005
Personal consumption	**5.3**	**4.9**	**5.4**	**4.9**
Government consumption	**0.4**	**-0.2**	**3.5**	**4.9**
Capital formation	4.4	-0.8	1.2	-4.9
Fixed capital	-1.1	0.0	-0.3	-3.7
Construction	-0.3	4.5	1.9	1.4
Public	1.7	7.6	10.6	-2.2
Private	-1.3	3.1	-3.0	3.6
Durable equipment	-2.1	-4.1	-2.3	8.4
Breeding stock & orchard dev't	1.4	-0.4	-0.7	0.7
Exports	**9.1**	**6.7**	**13.7**	**3.5**
Merchandise exports	10.3	6.0	14.1	3.9
Non-factor services	1.3	12.0	10.8	1.3
Imports	**1.2**	**7.5**	**2.0**	**2.7**
Merchandise imports	0.9	8.0	1.8	2.3
Non-factor services	8.6	-2.7	7.3	10.2

Source: NSCB

Improved gross capital formation. It is notable that capital formation has recovered after quarters of decline. It rebounded by 4.4 percent in the third quarter of this year because of increases in stocks. Fixed capital continued to contract by 1.1 percent. Companies are not investing in machinery, as durable equipment continued to post a negative growth rate of 2.1 percent. Socioeconomic Planning Secretary Romulo Neri cited the uncompetitive business climate such as poor infrastructure, high cost of doing business and red tape in the government as the cause for lower investments and therefore, fewer jobs.

Table 8. Breakdown of Gross Capital Formation, (at constant prices, growth rates in %)

Particulars	Q3		Q1-Q3	
	2006	2005	2006	2005
Gross Capital Formation	4.4	-0.8	1.2	-4.9
Fixed capital formation	-1.1	0	-0.3	-3.7
Construction	-0.3	4.5	1.9	1.4
Durable equipment	-2.1	-4.1	-2.3	-8.4
Breeding stocks	1.4	-0.4	-0.7	0.7

Source: NSCB

Hefty exports. Merchandise exports were up by 10.3 percent in the third quarter of the year, from last year's 6.0 percent. Growth for the first 10 months was likewise up by 16.4 percent, surpassing the government's full-year target of 10 percent. However, exports of non-factor services did not expand as much, decelerating to 1.3 percent during the period compared to 12 percent last year. There is still a problem of accounting for IT-enabled services such as contact centers, medical transcription, and software development in the

Table 9. Top 10 Merchandise Exports, (at constant prices growth rates, in %)

Particulars	Q3	
	2006	2005
Gold from copper ores	546.7	-47.3
Transmission apparatus	240.2	-55.1
Prepared tuna	178.8	-58.9
Cathodes & cathodes section of refined copper	97.3	-48.7
Iron agglomerates	92.0	0.3
Other prods. manufactured	67.6	-3.5
Copra oil, cake & meal	26.8	-26.7
Banana and plantains	20.0	9.9
Garments	17.4	7.1
Desiccated coconut	12.4	9.0

Source: NSCB

national accounts despite the bright prospects of the industry.

Merchandise exports' growth was largely attributed to the significant performances of gold from copper ores, transmission apparatus, prepared tuna and cathodes and cathodes section of refined copper (Table 9).

Overseas income propelling consumption. OFW remittances have been a steady source of growth driving private consumption. Remittances from OFWs continued to rise, with cumulative remittances amounting to US10.3 billion in the first ten months of the year. This is a 16.6 percent increase from 2005. With the holidays approaching and with the influx of OFW remittances, consumers have started to spend more on food, beverage, and transportation and communications.

Table 10. Breakdown of Personal Consumption Expenditure (at constant prices, growth rates in %)

Particulars	Q3		Q1-Q3	
	2006	2005	2006	2005
PCE	**5.3**	**4.9**	**5.4**	**4.9**
Food	6.4	5.8	6.4	5.3
Beverage	6.5	-2.2	2.5	-0.6
Tobacco	-1.1	4.9	1.8	2.7
Clothing & footwear	-3.8	-4.7	-2.3	-1.0
Fuel, light, water	-2.3	0.2	-1.1	-0.9
Household furnishings	-1.9	-2.2	-1.3	0.9
Household operations	2.4	2.9	2.9	2.8
Transport & comm.	13.7	12.6	14.3	14.6
Miscellaneous	4.2	5.1	4.2	4.9

Source: NSCB

Fourth Quarter Scenario

Despite the slower growth in the third quarter, the government is secure it will reach its forecast for the year of 5.5 percent to 6.1 percent. This means that the economy should expand by 5.7 in the fourth quarter of the year. The following are some reasons to be hopeful:

Exports. Merchandise exports' growth at 16.4 percent during the first 10 months has already outpaced the government's target of 10 percent for the year. It is likely that the growth will be sustained in the last quarter. Growing demand for wireless communication and Internet-enabled gadgets is likewise expected to fuel the growth of the Philippine electronics industry for the next three years.

It should be noted though that the US economy weakened by 2.2 percent in the third quarter of this year, with the slump in housing demand and in consumption. As such, Asia's export sector — that includes the Philippines' – as suppliers of consumer goods to the United States, is expected to be adversely affected by this particular economic downturn.

Holiday consumer splurge. More money usually goes around during the holiday season. As OFWs send more remittances from abroad and employees receive their Christmas bonuses, consumer increase their spending on food, beverage, clothing and footwear and other consumables.

Higher government spending. With the recent enactment into law of the P46.4-billion supplemental budget, the good fiscal performance as well as the savings from debt servicing, higher government spending in the fourth quarter is expected.

Public expenditures are seen to increase because of election-related spending. Public construction and government repair, in particular, are expected to rise in the fourth quarter. Spending by the local governments will likely shoot up as the supplemental budget provides for the increase in the internal revenue allotments.

Moreover, the managed fiscal deficit of the government will propel higher government expenditures. The national government incurred a cumulative deficit of P56.25 billion as of end October 2006. This is only 45 percent of the full-year deficit target. This gives the government enough elbow room to spend — as much as P68.63 billion— for the remaining months of the year before it reaches the programmed P125 billion deficit for the year.

Easing inflation, stable peso and manageable prices of oil. Inflation, which was at 7.6 percent last March, dropped to 4.7 percent this November. The average-to-date of 6.5 percent is well below the full-year 2006 target of between 6.9 percent and 7.0 percent. This easing may be attributed to the moderation of oil prices and stronger peso.

Oil prices have softened since July 2006, when the price was at an all time high of US$72.29 per barrel. For the month of November, Asian Dubai crude oil averaged US$56.72 per barrel.

Meanwhile, the peso appreciated by 6.6 percent against the dollar from January to October of this year. The Bangko Sentral ng Pilipinas (BSP) attributed the strong peso to the improved fiscal position, the credit rating upgrade by Moody's Investors, the positive outlook on inflation, and bigger dollar remittances with the onset of the holiday season. It is expected that the peso will stay within the 2006 target of P51 to P53. The peso averaged P51.65 from January to October.

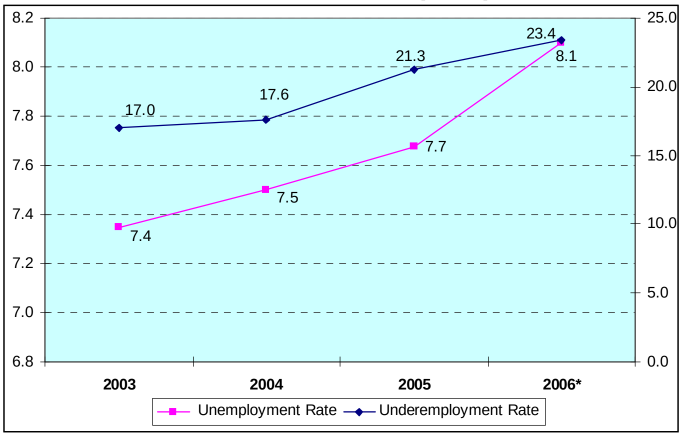
All-time high business confidence and upbeat leading economic indicator. In the latest Business Expectations Survey (BES), the business outlook for the fourth quarter of 2006 is at its all time high. Overall confidence index[2] (CI) registered a high 49.4 percent, the highest since the start of the BES in the second quarter of 2001. Respondents attributed the improvement in business conditions to: 1) the continued appreciation of the peso against the US dollar, 2) rollback on oil and petroleum prices, 3) increased remittances from OFWs, and 4) approaching holiday season (Bangko Sentral ng Pilipinas).

Meanwhile, the latest composite leading economic indicator (LEI), a basis for forecasting the country's short-term macroeconomic performance, rose to 0.120 in the fourth quarter, from 0.065 in the third quarter. Of the 11 indicators that make up the composite LEI, five contributed positively — stock price index, exchange rate, money supply, merchandise imports and new businesses.

Jobless Growth

While the economy is posting impressive growth figures in its production sectors, it has failed to do the same when it comes to employment. Since 2003, the number of unemployed has been continuously rising. In particular, when the GDP growth rate was at a high of 6.1 percent in 2004, increases in both unemployment and underemployment rates have also been noted. As of July this year, the unemployment rate is at 8.0 percent, translating to 2.9 million Filipinos without jobs. The underemployment rate is even more disturbing. Shooting up to 23.4 percent from just 17 percent in 2003, it is now nearly three times the rate of the unemployed.

Figure 1. Unemployment and Underemployment Rates, 2004-2006, (in %)



Source: National Statistics Office
Note: Using the new definition of unemployment rate
** Average: Jan, April and July Rounds of the 2006 LFS*

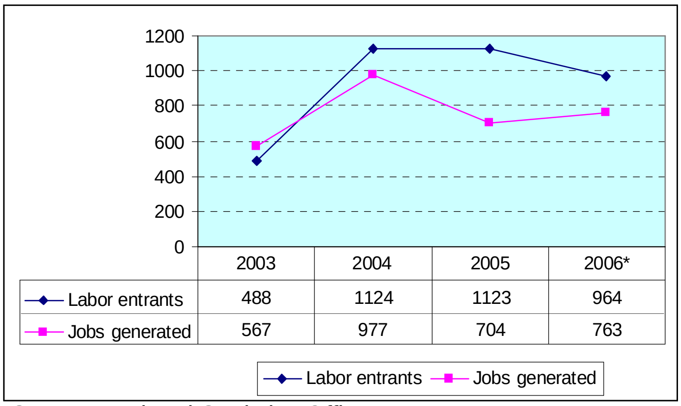
Various reasons have been put forward to explain why the Philippines is experiencing a *jobless* growth:

One is the rapid increase in the labor force, such that the number of jobs generated, already insufficient as they are, are simply dissipated by the new entrants to the labor market. The growth of the labor force is a function of the country's rapid population growth, which analysts say, has not been seriously addressed by the government.

[2] The CI is computed as the percentage of firms that answered in the affirmative less percentage of firms that answered in the negative in a given indicator. A positive CI indicates a favorable view.

From 2003 to 2006, the number of labor entrants grew more rapidly than the number of jobs created by the economy. During the said period, the country's labor force grew by an average of 2.7 percent, or an additional 925,000 workers every year. The number of jobs created, on the other hand, averaged only 752,750. This means that every year, 172,000 people are added to the already swollen ranks of the unemployed.

Figure 2. Labor entrants and Jobs generated, 2003-2006, (in thousands)



Source: National Statistics Office
Note: Using the new definition of labor force
** Average: Jan, April and July Rounds of the 2006*

For his part, former National Economic and Development Authority (NEDA) secretary Cielito Habito (2006), attributes the jobless growth phenomenon to the sources of growth and their labor intensity. He points out that in 2005, the fastest growing sectors were finance and mining, which grew by 13.6 percent and 9.3 percent respectively. However, these industries employ only a fraction of what the agricultural sector is absorbing. Agriculture, next to services, is the biggest absorber of labor, employing nearly 12 million. However, it only grew by 2 percent in 2005. Construction, another labor-intensive industry, only managed to grow by one percent.

The agricultural sector, however, has grown remarkably in the first three quarters of this year, yet the number of jobs it has been able to generate was very minimal. In the second quarter, when agriculture grew by 7 percent, it even lost 149,000 jobs. Habito further said that this growth can be hardly attributed to farm mechanization as investments data on farm machinery, are still on a decline.

Table 12. Capital Formation in Durable Equipment (constant prices, in million pesos)

Particulars	Q1 to Q3 2004	Q1 to Q3 2005	Q1 to Q3 2006
Durable Equipment	86,774	79,493	77,699
Agricultural machineries	33,056	33,622	33,517
Tractor, other than steam	496	341	266

Source: NSCB

This only points to the possibility that the favorable weather and the use of higher-yielding hybrid seeds contributed considerably to agricultural growth, but in the process, has not created new jobs in the sector.

Over the years, the proportion of agriculture to total employment has been declining. Its share to total employment has gone down to 36 percent in 2005 from 37.9 percent in 1998. Those exiting agriculture were absorbed by services. Because "entry in the services sector, especially in commerce and trade was relatively easy, it has been the catch basin for those who have lost or cannot find employment elsewhere. Services' share to total employment grew

Table 11. GDP Growth Rate and Employment, Major Industry Groups, 2005 and Q1-Q3 2006

Selected Industry Groups	2005		Q1-Q3 2006	
	GDP growth (%)	Employment (in '000)	GDP growth (%)	Employment (in '000)
Agriculture, Fishery, and Forestry	1.8	11,629	4.9	11,697
Industry	5.3	5,025	5.1	5,042
Mining and Quarrying	9.3	123	1.2	143
Manufacturing	5.6	3,078	5.6	3,075
Electricity, Gas, and Water	2.5	117	4.6	131
Construction	0.9	1,708	3.7	1,694
Services	6.3	15,659	5.9	15,667
Wholesale and Retail Trade, etc.	5.6	6,147	5.4	6,298
Transport, Storage, and Communication	7.2	2,451	6.1	2,499
Financial Intermediation	13.6	341	9.8	342

Source: NSCB

from 45.0 percent in 1998 to 48.5 percent in 2005. However, employment in services, not unlike in agriculture, is primarily characterized by high underemployment rates, lower productivity and the absence of social protection. A recent study of the Bureau of Labor and Employment Statistics, for instance, shows that while employment levels in the services industry grew rapidly from 1997 to 2006, so did the underemployment rate. Nearly two out of five of the underemployed persons in the services industry were in the trade sector *(Businessworld)*.

Employment and Trade Liberalization

Lanzona (2003) points out that contrary to what is expected, trade liberalization has failed to address the stagnation of employment. He argues that globalization has favored skill-intensive industries such that in countries like the Philippines where institutions that promote the upgrading of skills are lacking and where there is the presence of "biased protectionist industrial structure," firms have found it more profitable to invest in capital, rather than in labor. As can be seen in the table below, there has been a decrease in the labor-capital ratio, implying a trend towards the increased use of capital from 1991 to 1998.

Table 13. Growth of Labor, Capital and Labor-Capital Ratio

Years	Average Labor	Average Capital	Labor-Capital Ratio
1991-1993	3.6	0.5	0.01837
1994-1998	2.7	5.7	0.01796
1997-1998	1.3	4.6	0.01755

Source: C.Cororaton and J. Cuenca (2001) as cited by Lanzona (2003)

These findings are shared by the United Nations Development Programme (UNDP). In its 2006 Asia-Pacific Human Development Report, the UNDP reveals that in East Asia, the rate of job creation fell to less than one-third during the 1990s despite the phenomenal regional growth of 10 percent. The situation is more serious in some of the most trade-intensive countries such as China and Singapore whose unemployment rates saw substantial increases.

The Report traced the jobless phenomenon largely to the changing character of manufacturing—from low-tech, labor-intensive industries such as garments, to high-tech and more capital-intensive ones such as electronics.

In the Philippines for instance, electronics now account for 77.1 percent of the total merchandise exports whereas the share of garments has been reduced to 6.2 percent in 2005 from 22.5 percent two decades ago. Because the electronics industry in the country is primarily import-dependent, it has very thin linkage to the domestic economy, and as such has not been very labor-intensive.

Table 14. Manufactured Exports, 1985-2005

	1985[a/]	1990[a/]	1995[a/]	2000[a/]	2005[b/]
Total Exports ($ Mn)	**4,629**	**7,821**	**17,447**	**38,079**	**41,255**
Manufactured exports ($ Mn)	**2,765**	**5,995**	**14,224**	**34,242**	**36,955**
Of which (%):					
Electronics	38.2	32.8	52.1	64.8	77.1
Machinery	1.1	2.5	5.2	17.3	5.0
Garments	22.5	26.3	18.1	7.5	6.2
Textile	1.4	1.5	1.5	0.7	0.7

Source: a/ Balisacan and Hill, 2003
b/ 2005 Philippine Statistical Yearbook, NSCB

The Report also noted that there has been an increase in the off-shoring of IT and business process outsourcing services in Asia, which have benefited the relatively skilled and educated people. Higher wages have been observed among those employed in these industries. However, unskilled workers who do not meet the requirements of such jobs were consequently left behind.

This trend is true for the Philippines, whose outsourcing industry has been growing rapidly over the years. In 2005, the Business Process Association of the Philippines (BPAP), Board of Investments (BOI) and the Commission on Information and Communications Technology reported that about 81,000 new outsourcing jobs were created that year. This year, 103,000 new jobs are expected to be generated or a 44-percent increase from 2005. Industry players, however, admit that the biggest challenge the industry is facing is finding quality skills to man the expanding operations in the country. In

2003, the hit rate of the call center's industry's was only around 1.6 percent to 2 percent, which means that for every 100 applicants, only two are qualified for the job.

Low-skilled laborers and unskilled workers comprise the bigger bulk of the employed in the Philippines. In recent years, there has even been an increase in their share, implying that unless their skills are upgraded, they cannot go up to the higher value, higher-income chain.

Table 15. Employment by Major Occupational Group 2001, 2003 and 2005 (in %)

Major Occupation Group	2001	2003	2005
Total	**100**	**100**	**100**
Officials of Government and Special Interest-Org	10	11.1	11.9
Professionals	4.5	4.4	4.3
Technicians and Associate Professionals	2.6	2.9	2.7
Clerks	4.5	4.4	4.6
Service Workers and Shop and Market Sales Workers	8.9	8.9	9.5
Farmers, Forestry Workers and Fishermen	21.8	20.3	18.8
Traders and Related Workers	10.5	9.6	8.8
Plant Machine Operators and Assemblers	7.8	7.7	7.5
Laborers and Unskilled Workers	28.9	30.4	31.5
Special Occupations	0.5	0.4	0.5

Source: Labor Force Survey, National Statistics Office

Employment and Its Implications to Poverty

It is widely recognized that the major transmission mechanism of income growth to poverty alleviation is through employment. Because the only productive asset of the poor is their labor, providing them employment is the best way of getting them out of poverty.

As such, the worsening trend in unemployment and underemployment may be one of the factors why the Philippines is experiencing a slow pace of poverty reduction. While the poverty incidence in the country has declined from 27.5 percent in 2000 to 24.7 percent in 2003, its poverty reduction is slower than its neighboring countries. Poverty statistics in the World Bank's November 2006 East Asia Update show that using the World Bank's $1-a-day poverty threshold, the Philippines only managed to reduce its poverty by 43.5% between 1990 and 2005 whereas almost all other countries reduced theirs faster. Vietnam's headcount index of poverty, in particular, has declined by 85 percent from 1990 to 2005.

Table 16. Headcount Index of Poverty (%) Using the World Bank's $1-a-day Poverty Threshold, 1990-2005

Country	1990	2005	% change
Cambodia	32.5	12.4	-61.8
China	31.5	8.9	-71.7
Indonesia	20.6	6	-70.9
Laos	53	20	-62.3
Malaysia	2	0.5	-75.0
Philippines	19.1	10.8	-43.5
Thailand	12.5	1.7	-86.4
Vietnam	50.8	7.8	-84.6

Source: East Asia Update, November 2006, World Bank

The Philippines is also lagging behind in achieving its Millennium Development Goals (MDG). In its MDG 2006 progress report, the UNDP grouped the Philippines among the countries that are "falling further behind" in reducing poverty and improving the people's lives. This grouping includes countries such as Bangladesh, Indonesia, Pakistan, Myanmar, Papua New Guinea, Lao PDR, and Mongolia.

The worsening unemployment and underemployment picture may also be one of the reasons why in the third quarter Self-Rated Hunger Survey of the Social Weather Station, more and more people are feeling that they are hungrier than before. In the four quarters of 2005, the SWS Hunger degree ranged from 12.0 percent to 16.7 percent of families. This has risen to a range of 13.9 percent to 16.9 percent in the first three quarters of 2006. The record high 16.9 percent translates to 2.9 million households experiencing hunger out of a projected base of 17.4 million households.

Conclusion

The increasing unemployment, underemployment, and hunger among Filipino families in the Philippines clearly show that growth by itself does not translate to improved human conditions. It is the jobs, and the quality of these jobs that matter.

Hence, the kind of growth the country should be pursuing is one which produces employment for as many people as possible. By all means, the country can continue to develop its ICT and BPO industries as they are currently the toast of the international market. The quality of education should then be improved so BPO workers meet the demands of these jobs. But it should not also be forgotten that BPOs, which require higher levels of literacy and skills, cannot directly absorb most of the country's surplus labor.

As the UNDP report recommends, there should be a restoration of focus on agriculture especially because in many countries, like in the Philippines, farming is still the primary source of income of the poor.

The government recognizes its failure to generate enough employment and claims that it is now instituting microeconomic reforms to correct the situation. Topping its list of nine programs for job generation and poverty reduction is the development of two million hectares of agribusiness lands, which is expected to create two million new jobs. This is a step in the right direction since as most Asian countries have proven, agricultural growth, fueled by rapid productivity growth, holds the key to sustained incomes and faster poverty reduction (Balisacan, 2006). It also costs much less to create one job in agriculture than in industry. It can be remembered though that this proposal has already been presented during President Arroyo's 2004 State of the Nation Address. Two years have passed and we have yet to see it happening.

Also, since employment is closely tied to investments, there is a need to further strengthen the country's investment environment. While the Philippines has been registering higher foreign direct investments in recent years, it is still the laggard in terms of FDI inflows compared to its neighboring countries.

Furthermore, the rapid growth of the labor force has compounded the inadequate number of jobs generated by the economy. Policies that would address this issue would go a long way in improving the employment picture in the country.

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