

Issues, Views, Action

Philippine Industry and Employment: A Snapshot

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Southeasth Asia Monitor for Action

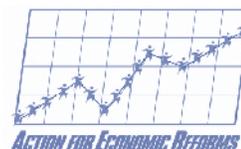
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The Philippine economy posted an impressive 7.1% growth in the third quarter of 2012, hailed as the fastest in the Southeast Asia region. Robust economic performance revives ordinary people's interest in the country's economic structure. This interest comes alongside various government initiatives on industrial policy, particularly those that seek to revitalize the country's manufacturing sector.

Issues, Views, Action gives a snapshot of the Philippines' economic and employment structure. This is also Action for Economic Reforms' introduction, in a popular form, of its foray into industrial policy. We present 10 sets of basic observations on the country's industry and employment.

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The Slide of Industry

Industrial growth peaked in the 1970s, averaging 7.8% throughout the decade. By 1980, industry posted an equal share of national output as services (42%). Reeling from a debt crisis, the economy had the poorest average performance in the 1980s.

Industry value-added dwindled progressively, from 39% of GDP in 1980 to 33% in 2011, a 15% decrease in three decades. Manufacturing had an even faster slide at 27%, with value-added shares slipping from 26% to 19% in the same period. This is a concern, as six in ten jobs in industry are in manufacturing.

Thus began industry's decline, registering a measly 0.5% average growth for 1981-90.

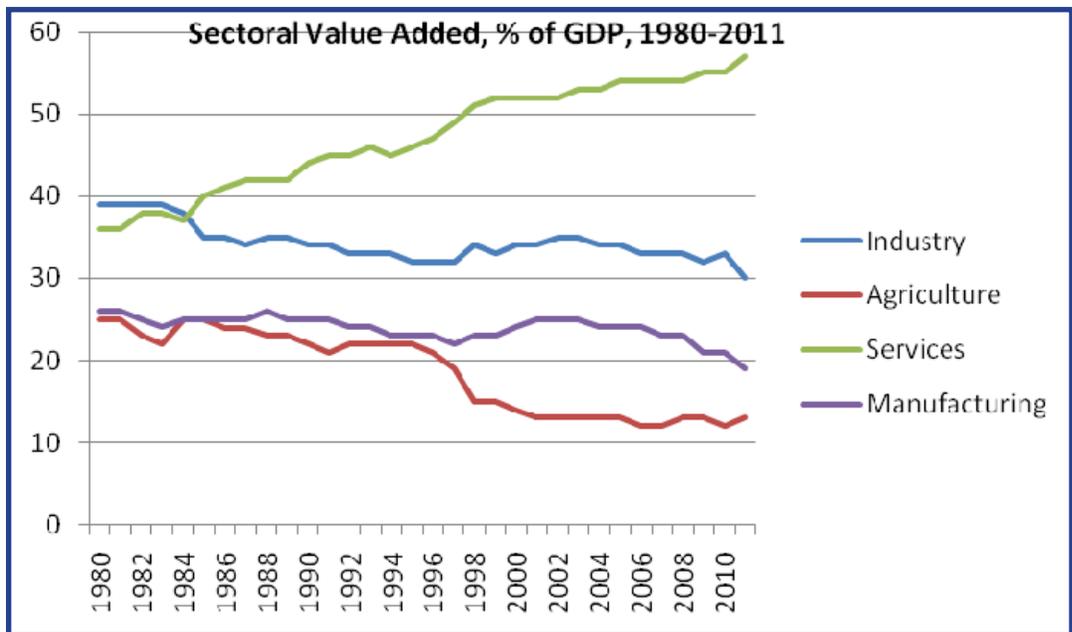


Table 2

Average Annual Growth Rates (%)

GDP, By Industrial Origin, 1961-2010

	1961-70	1971-80	1981-90	1991-2000	2001-10	1961-2010
Agri., Hunting, Forestry and Fishing	4.3	3.9	1.1	2.0	2.9	2.8
Industry Sector	5.6	7.8	0.5	2.5	4.3	4.1
Service Sector	4.7	5.2	3.3	3.5	5.6	4.5
GROSS DOMESTIC PRODUCT	4.9	5.9	1.8	2.9	4.8	4.1

The Demise of Agriculture

Agricultural share of GDP has consistently fallen since the 1960s, losing half its importance in five decades. The decline has been steeper than that of industry's, with

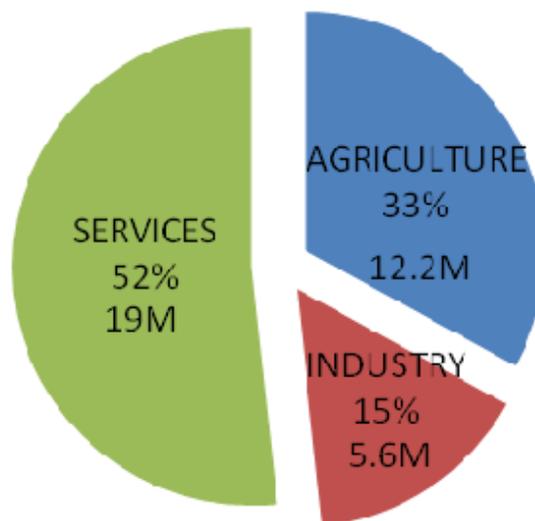
value added shares falling from 25% to 13% from 1980 to 2011. Despite this, agricultural employment has grown by almost 25%, from 9.8 million in 2000 to 12.2 million in 2011.

The Rise of Services

Services dominate the economy, accounting for 52% of employment and 57% of value added, and has recorded the fastest growth since the 1960s. Employment in the sector grew by almost 50% from 2000. The wholesale and retail trade, repair of motor vehicles, motorcycles and personal and household goods sub-sector

accounts for 38% of service sector employment, followed by transportation and communication at 14%. The Government is also a big employer, with public administration occupying 10% of service sector work. In addition, Government employs majority of the 1.6 million education, health and social services workers.

Employment, By Industry, 2011



The Philippine economy today

Table 1

Gross Domestic Product, By Industrial Origin

At Constant 2000 Prices, in Million Pesos

Third Quarter 2012 Growth

Agriculture, Hunting, Forestry, and Fishing 4.1

Agriculture 5.5

Forestry -22.8

Fishing -0.6

Industry 8.1

Mining and Quarrying -2.2

Manufacturing 5.7

Construction 24.3

Electricity, Gas, and Water Supply 2.7

Services 7.0

Transportation, Storage and Communication 9.0

Trade and Repair of Motor Vehicles, 7.0

Motorcycles, Personal and Household Goods

Financial Intermediation 8.3

Real Estate, Renting & Business Activity 7.8

Public Administration & Defense; 4.3

Compulsory Social Security

Other Services 5.3

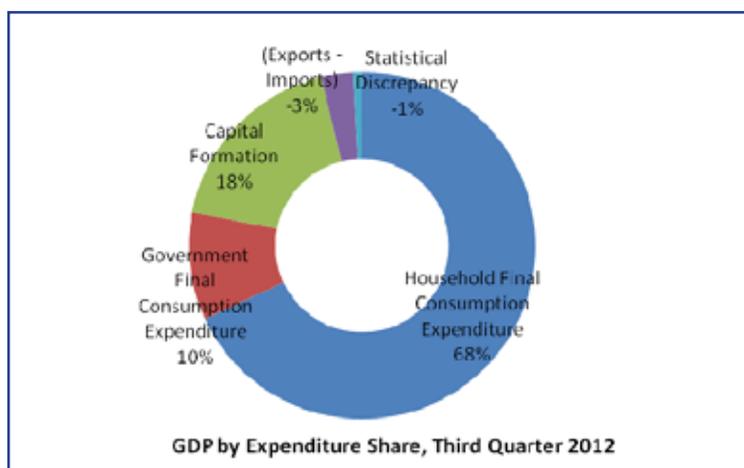
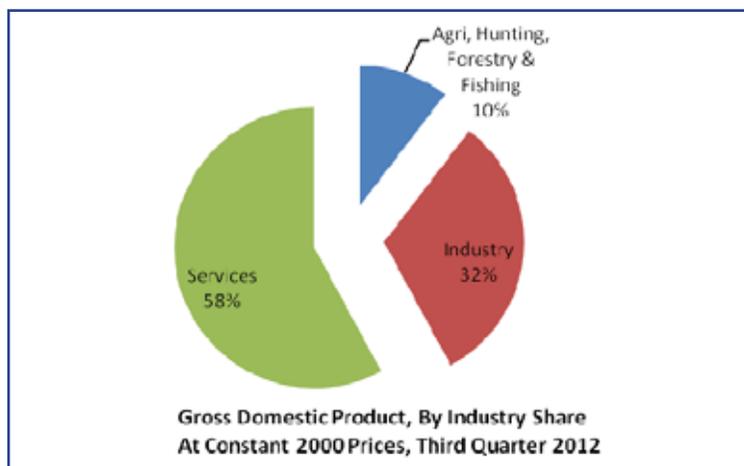
Gross Domestic Product 7.1

The Philippine economy today is dominated by the Services sector, accounting for almost 3/5 of economic output in the third quarter of 2012. Agriculture trails far behind at only 10%.

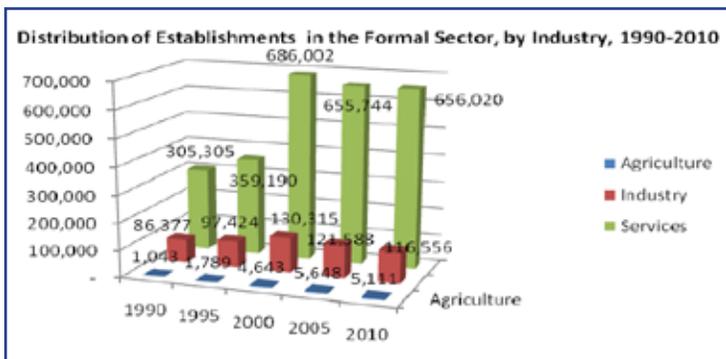
The construction subsector posted the strongest growth at 24.3%, followed by transportation, storage and communication (9%), and financial intermediation (8.3%). Primed by

the growth in construction, real estate, renting and business activity was also a top gainer at 7.8%. Agriculture's weakness is prompted by the 22.8% and 0.6% contraction in the forestry and fishing subsectors, respectively.

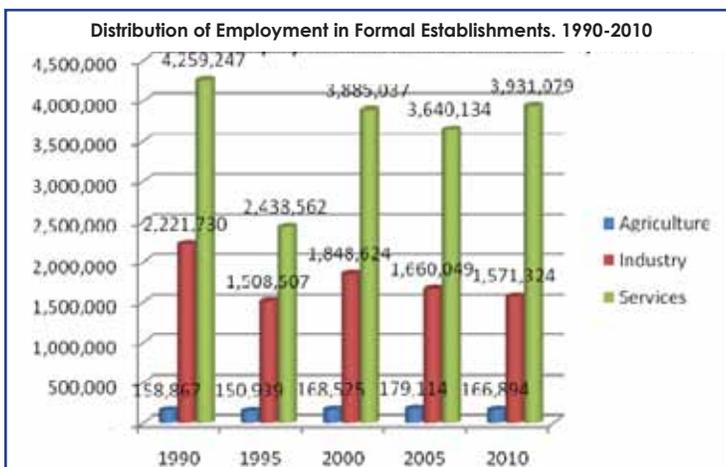
The country's growth is unmistakably consumption led, with final consumption accounting for almost 80% of GDP. Capital formation is only 18%.



The Narrow Formal Sector



The formal sector is shrinking. While the number of formal establishments has increased, the number of workers they employ has decreased. The more than 400 thousand increase in the number of firms has been accompanied by the shaving off of more than 300 thousand jobs in the formal sector between 1990 and 2010.



In 1990, firms in the formal sector employed an average of 17 workers, which dwindled to just 8 by 2011. Services accounts for the biggest numbers in terms of establishments as well as total employment share in the formal sector. However, on average, it employs the least number of workers. Labor intensity is highest in agriculture (34.3 workers), followed by industry (14.1 workers).

In 2011, nine in 10 formal establishments are micro establishments, with an employment size of 1-9 workers, representing 28% of total formal workforce. Medium and large establishments together account for less than 1% of total, but takes the biggest chunk of employment share at 46%. Only 204 establishments employ more than 2,000 workers, with the manufacturing sub-sector leading with 63 firms, followed by administrative and support service activities firms with 59.

Table 3
Establishments and Employment in the Formal Sector, 2011

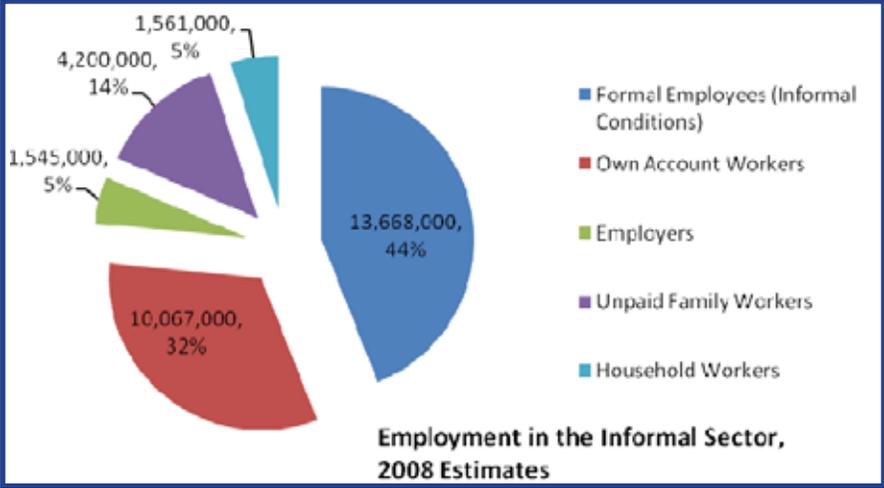
	No. of Establishments	% Share	Total Employment	% Share	Ave. No. of Workers
TOTAL	820,255	100.0%	6,345,742	100.0%	7.7
Agriculture, Forestry & Fishing	5,124	0.6%	175,547	2.8%	34.3
Industry	118,164	14.4%	1,670,728	26.3%	14.1
Services	696,967	85.0%	4,499,467	70.9%	6.5

Table 4
Distribution of Formal Establishments by Employment Size, 2011

	Total	MICRO	SMALL	MEDIUM	LARGE
PHILIPPINES	820,255	743,250	70,222	3,287	3,496
Agriculture Forestry & Fishing	0.6%	0.5%	1.8%	4.3%	4.2%
Industry	14.4%	13.9%	17.3%	35.6%	37.5%
Services	85.0%	85.6%	80.9%	60.1%	58.2%

Note: Micro – 1-9 workers; Small – 10-99 workers; medium – 100-199 workers; Large – 200 workers & over.

High Degree of Informality



Workers in the formal establishments represents 17 out of every 100 employed workers, indicating that majority of Filipino workers are in the informal sector.

Over 33 million Filipinos work under informal employment conditions. According to the Informal Sector Survey 2008, informal employment comprises (1) own-account workers and employers employed in their

own informal enterprise, (2) contributing family workers, irrespective of whether they work in the formal or informal sector, (3) employees holding informal jobs, whether employed by formal enterprise, informal sector enterprise, or as paid domestic workers of the households, (4) own-account workers engaged in the production of goods exclusively for own final use by their household.

Informality in the formal sector is also high. Formal sector jobs are also associated with informal conditions, in particular, the absence of formal contracts, benefits and social protection. (Note the gap between informality in the formal sector, which registers 13.7 million workers, and the employment in the formal sector which registers only 6.3 million workers.)

Locational Concentration

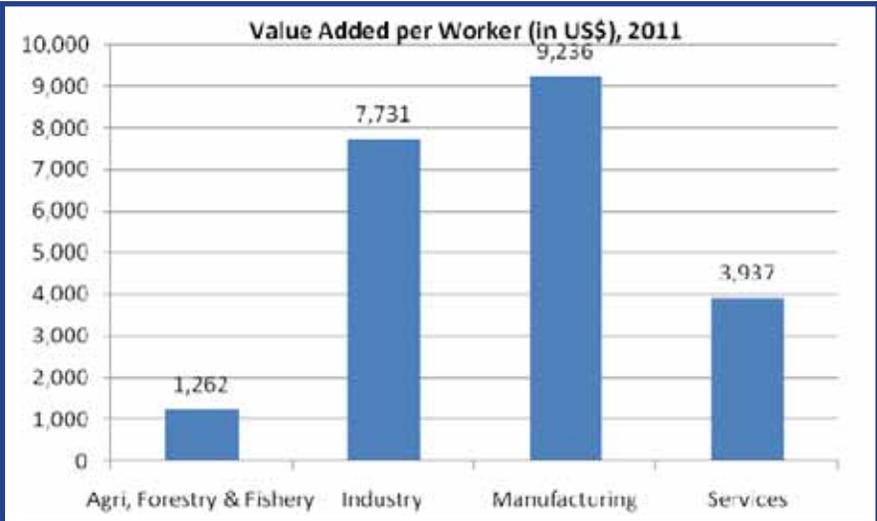
Much of the country's economic activity is concentrated in the main island of Luzon. Two in three formal establishments, and 6 of 10 workers, are in Luzon.

	Total Employment	Formal Establishments
Luzon	67.5%	55.0%
Visayas	14.1%	20.7%
Mindanao	18.4%	24.4%

The top five employment regions are: CALABARZON, NCR, Central Luzon, Western Visayas, and Central Visayas. CAR, CARAGA and ARMM capture the least employment. The same regions host the most and the least numbers of formal establishments, respectively.

Productivity

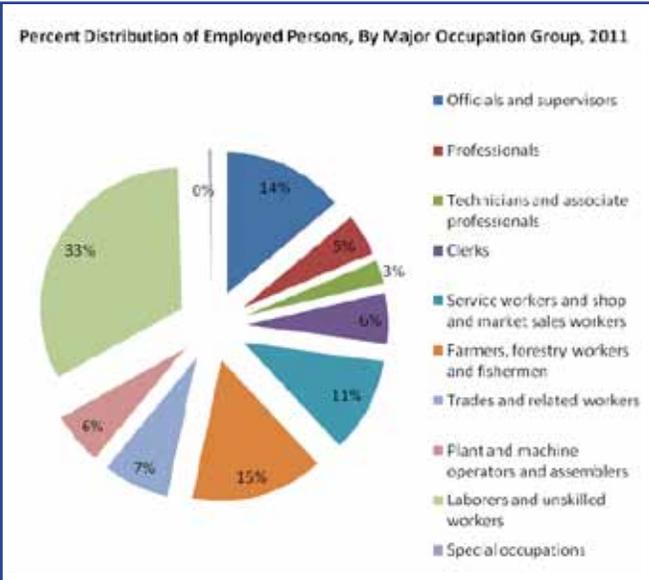
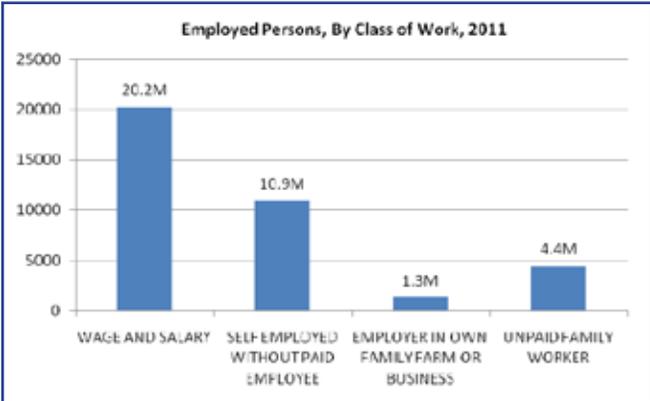
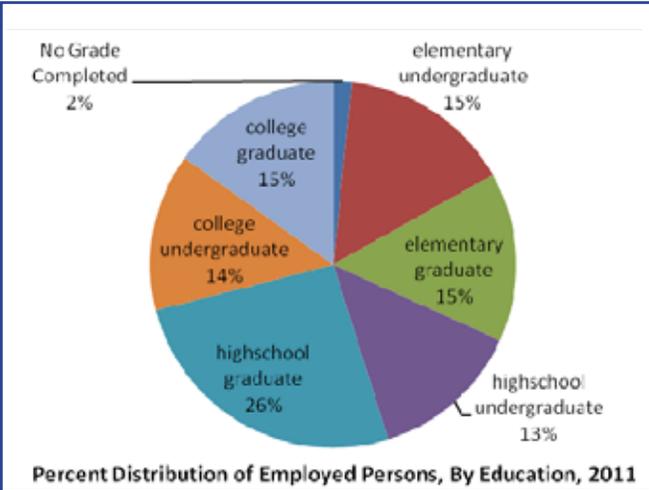
Despite its size, the service sector is only half as productive as industry. It is, however, three times as productive as agriculture. The manufacturing subsector generates the biggest value per worker in 2011.



The Quality of Employment

Three out of 10 workers have at most elementary education, while an additional 4 in 10 have at most high school education. It is also a relatively young workforce, 45% of whom are below 35 years old. Majority of workers earn wages and salaries, but 2 in 3 of them have informal conditions. One in ten wage and salary workers works in private households. More than 4 million Filipino are unpaid family workers.

Almost half of Filipino workers are either laborers or unskilled workers, or farmers, forestry workers and fishermen. Less than 5% are professionals.



Prospects and Challenges

Initial broad observations would point to the following:

- As labor intensity is highest in agriculture, any additional activity, innovation or growth in the sector will go deepest in terms of income shares.
- Industry, particularly manufacturing, is the most productive sector. Improvement in the sector would have the most impact in terms of economic growth and employment.
- The high degree of informality in the economy is due to a shrinking industrial sector and a stagnant agriculture.
- Services is the biggest sector in terms of employment and number of establishments, but much has to be done for it to go beyond the low value added activities.

**AER generates and monitors an industry and employment baseline as part of its Industrial Policy Framework project. The project is done in cooperation with the Office of Deputy Speaker Lorenzo Tañada III, and would like to acknowledge the National Statistics Office and the National Statistical Coordination Board for their data support.*

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