Rising GDP Capita and the Filipino Middle Class
Part 1: $5,000 by 2028, $10,000 by 2039
By: Allan F. Tripon Jr, CPA, CFA

I recently re-read a paper published in 2012 by the Asian Development Bank (ADB) entitled *Tracking the Middle-Income Trap*: *What is It, Who is in It, and Why?* According to their research, the Philippines – as of 2010 – has been a lower middle-income economy for the past 34 years. 14 years later – in 2024, the country is still in the same boat.

That's 48 years. For reference – according to the same paper, it usually takes countries 28 years at most to move on to the upper middle-income category. Otherwise, it's considered "stuck" in the lower middle-income trap. The question now is when will the Philippines escape this said trap.

Our prediction? **2028.**

NRI forecasts Philippine GDP per capita to breach the $5,000 mark by 2028 (see Figure 1) – finally joining the upper middle-income economies. We also expect this growth to be sustained over the next decade, with nominal **GDP per capita breaching the $10,000 mark by 2039.**

What will drive real GDP per Capita Growth?

To reach these milestones, real GDP per capita would need to grow at a rate of 4.6% annually, from 2024 until 2040. This growth will come mostly from a 4.4% annual increase in labor productivity, supported by a 0.2% (equivalent to +1.4% points) rise in the relative size of the employed population – as summarized by Figure 2.

Figure 1: Philippine GDP per Capita (in USD, Current Prices, Current PHP/USD)

Reference: PSA Data, BSP Data, and NRI Estimates/Forecasts
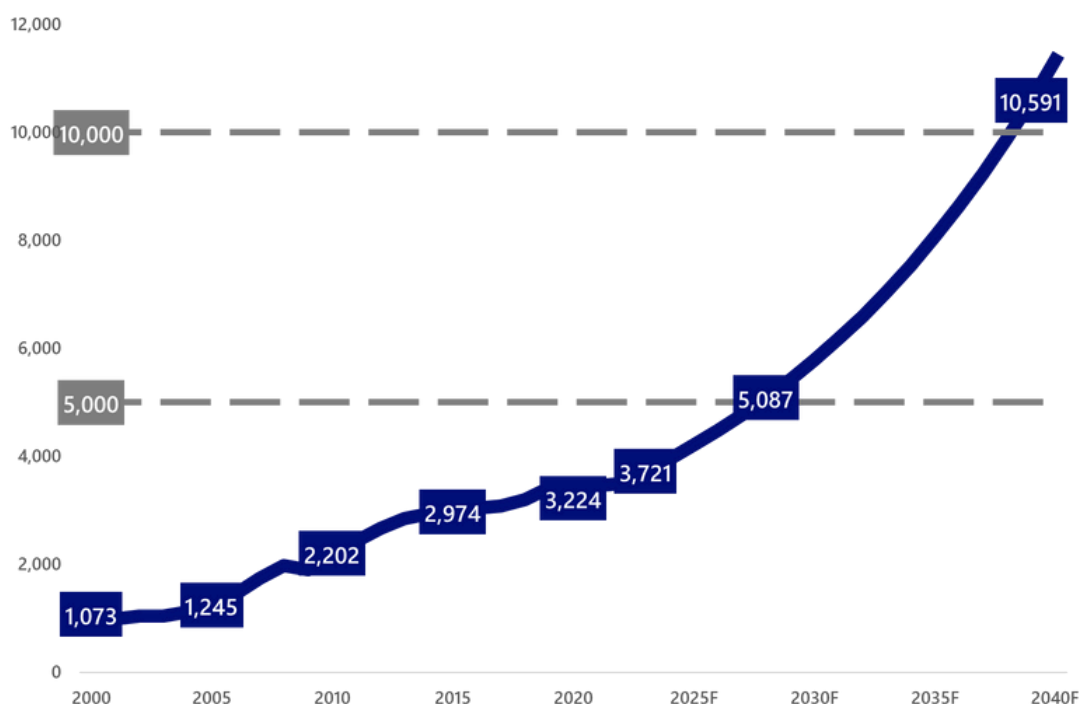
Figure 2: Decomposition of Real GDP per Capita Growth

	2023	2024	Total △	Annual % △
% of Population Working	**41.1 %**	**42.4%**	**+1.4% points**	**+0.2%**
Relative Working Age Size	64.4%	65.7%	+1.4% points	+0.1%
Labor Force Participation	65.7%	66.7%	+1.0 % points	+0.1%
Employment Rate	97.0%	96.7%	-0.3% points	-0.0%
Labor Productivity	**P436,943**	**P909,431**	**+P472,488**	**4.4%**
Agriculture				
% of Labor Force	23.2%	16.9%	-6.4% points	-1.9%
Annual Income per Worker	P161,257	P225,568	+P64,310	+2.0%
Industry				
% of Labor Force	17.5%	18.0%	+0.5% points	+0.2%
Annual Income per Worker	P726,909	P1,489,018	+P762,110	+4.3%
Services				
% of Labor Force	59.3%	65.1%	+5.9% points	+0.6%
Annual Income per Worker	P459,400	P926,286	+P466,885	+4.2%
Real GDP per Capita	**P179,432**	**P385,821**	**+P206,389**	**+4.6%**

Reference: UN Population Division Data, PSA Data, and NRI Estimates/Forecasts

Overall labor productivity will grow 4.4% annually – from 2024 to 2040, as more of the labor force moves away from agriculture and towards higher value-added jobs in the services sector.

Over the past quarter of a century, the share of the labor force employed in agriculture has been on a consistent and rather steep decline. In 2000, this sector accounted for 37.1% of all employed workers. 23 years later, this figure is down to 23.2% – representing a drop of 13.9% pts (see Figure 3).

Most of the new workers, instead, opted to take jobs in the services sector. As such, this industry's labor force share grew from 46.7% in 2000 to 59.3% in 2023 (see Figure 3).

This phenomenon shouldn't come as a surprise, given the wide disparity in income between the sectors.

In 2000, a worker in the services sector would have generated 2.7x more value vs. a worker in the agriculture sector (P288 thousand vs. P105 thousand, see Figure 4). Today, the disparity is even wider. A worker in the services sector generated 2.9x that of an agricultural worker (P459 thousand vs. P161 thousand, see Figure 4).

Moving forward, NRI expects the disparity in real GDP generated by 1 worker between the service and agricultural sectors to widen to 4.1x by 2040 (P926 thousand vs. P226 thousand, see Figure 4). The larger gap will then trigger more of the labor force to shy away from the agricultural sector, causing its labor share to further fall to 16.9% by 2040.

This continued labor migration would then lead to higher overall productivity, since a worker who would have generated P226 thousand in agriculture would now be generating P926 thousand in the service sector instead.

Figure 3: Breakdown of Employed Workers by Industry (in %)
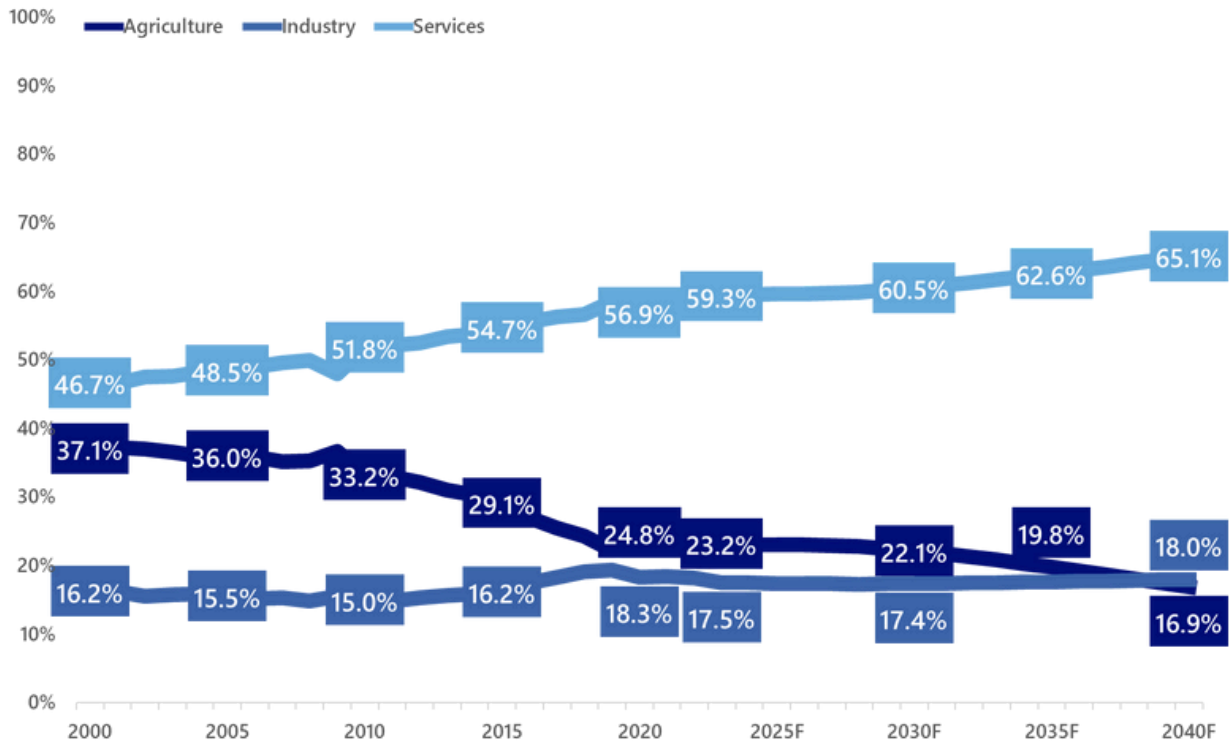
Reference: PSA Data and NRI Estimates/Forecasts

Figure 4: Real GDP (in PHP Thousands) Generated per Worker, Breakdown by Industry
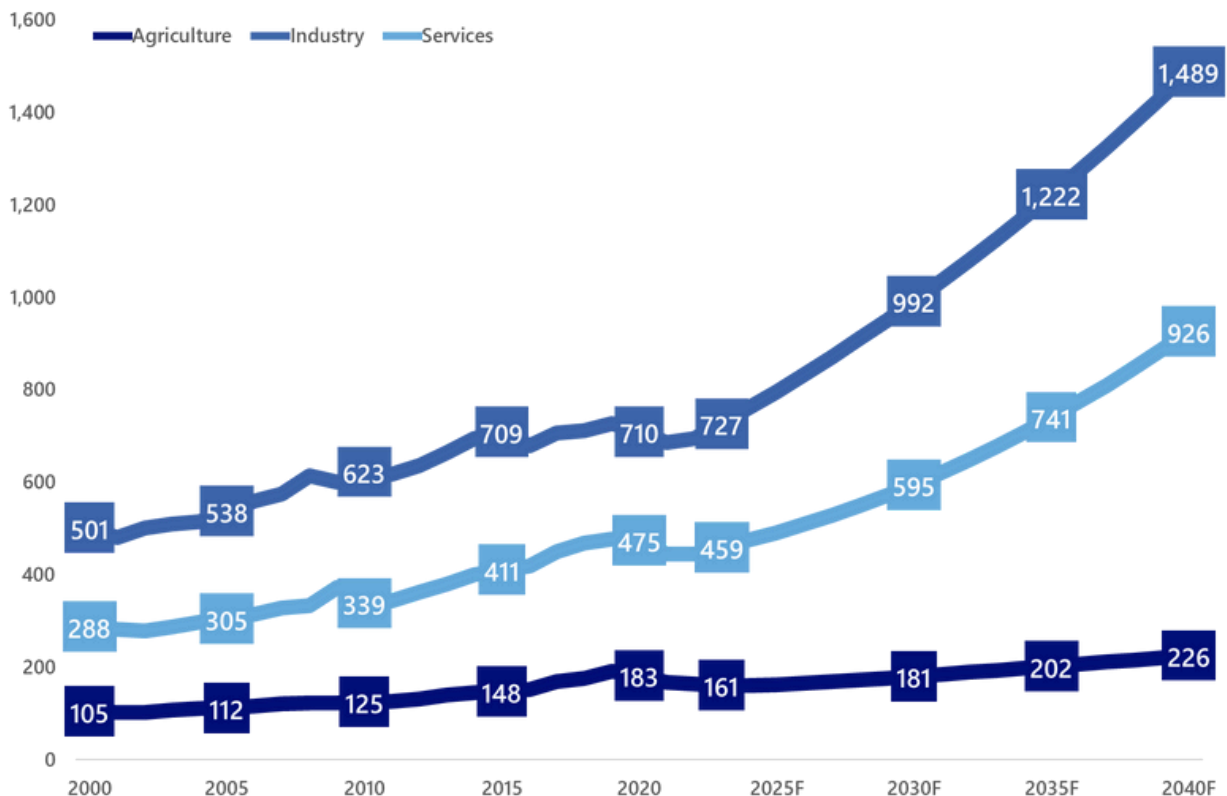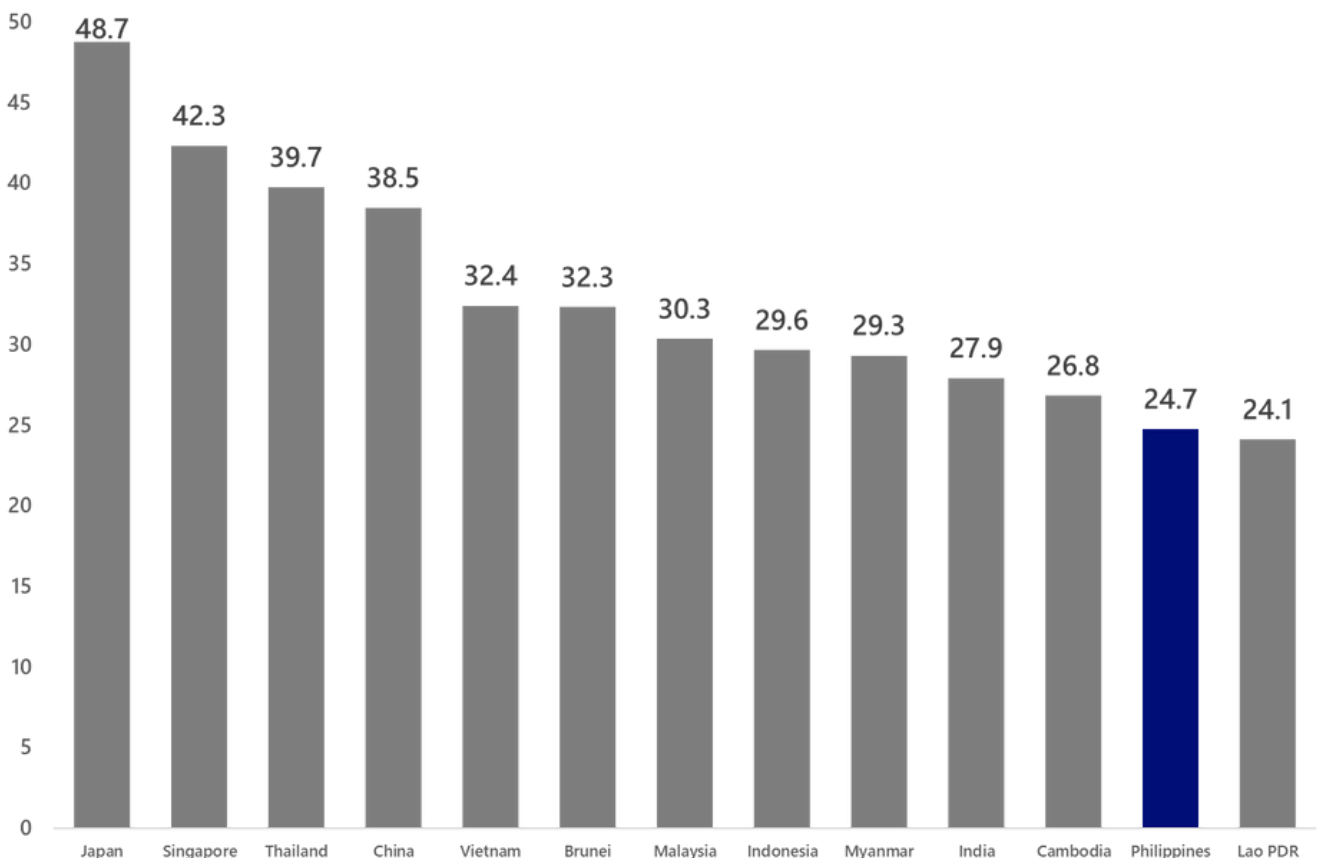

Reference: PSA Data and NRI Estimates/Forecasts

A relatively larger labor force will continue to provide a small boost to real GDP per capita growth, albeit at a decreasing rate.

The Philippines has one of the youngest populations in Asia, with a median age of 24.7 (see Figure 5). One of the benefits of this youth is having a relatively large (and growing) working age population to support the economy.

The numbers confirm this hypothesis. In 2000, 58.5% of the country were of working age (15 to 64 years-old). This figure grew to 63.8% by 2023 (see Figure 6). This 5.3%-point increase, we estimate, translated to 0.4%-points worth of annual growth in real GDP per capita from 2000 to 2023.

NRI expects this trend to continue over the next decade, albeit at a slightly slower pace. The population forecasts of the United Nations Population Division suggest that the country's relative working age population will reach 65.7% by 2040 – a 1.4%-point increase vs. 2023. NRI estimates that this slight increase will translate to a 0.2%-points worth of annual growth in real GDP per capita from 2024 to 2040 (see Figure 2).

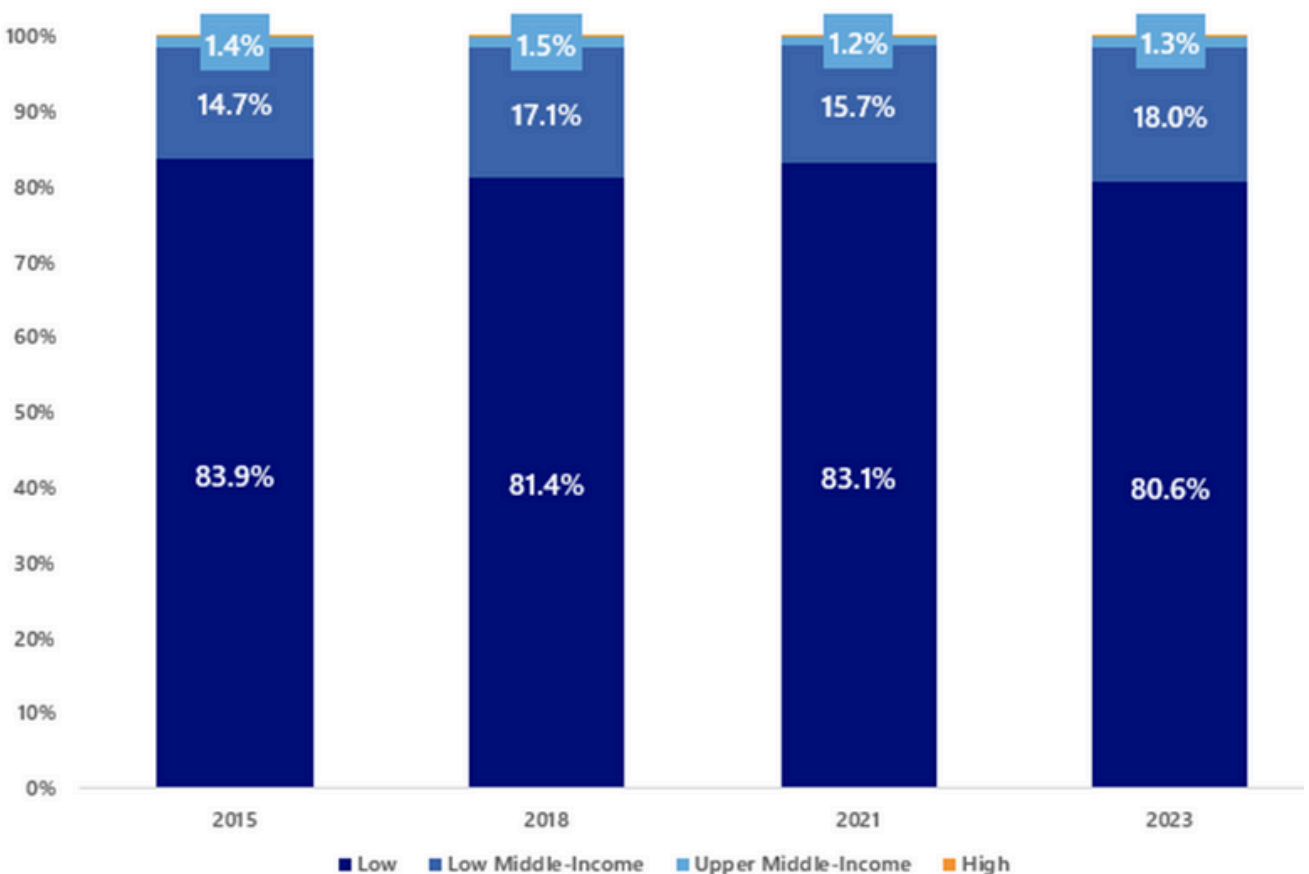**Figure 5:** Median Age of Select Asian Countries

Reference: UN Population Division Data

Figure 6: Philippine Population Demographics (in millions)
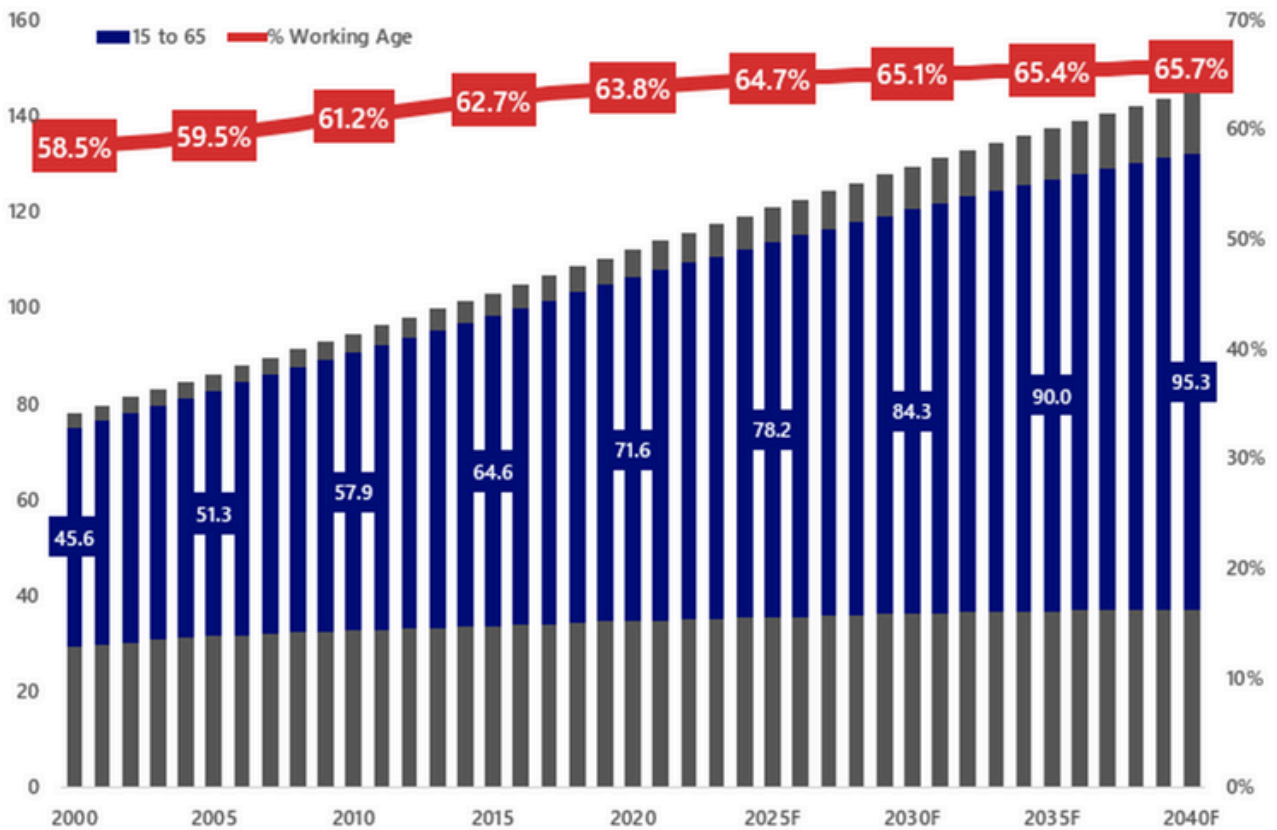
Reference: UN Population Division Data

Figure 7: Philippine Economy Pyramid

Reference: PSA Data and NRI Estimates

Final Thoughts

It took the country more than half a century, but it seems like the Philippines is finally poised to become an upper middle-income economy by 2028. Despite this rosy growth outlook – however, several questions remain:

1. Will the country regret the total shift away from agriculture? NRI projects agriculture share to decline to 16.9% by 2040 (from 23.2% today). While this shift would lead to higher overall productivity, it does come with food security and inflation risks that must be addressed if the country is to (inevitably?) go down this path.

2. Will the higher per capita income be felt by the lower classes? There seems to be a decent correlation between GDP per capita and the % of households in the low income category. In 2015, 83.9% of households were classified by the PSA as low-income (see Figure 7). This figure improved to 81.4% in 2018 (along with GDP per capita). The pandemic, however, reversed those gains.

Based on the historical empirical evidence, it seems like the lower classes should benefit some from the Philippines becoming an upper middle-income economy. This is the question that we'll look into next for part 2 of this series.

About the Contributor

Allan Tripon Jr., CPA, CFA
Senior Manager/Sector Head
allan.tripon@nrisg.com

Allan Tripon Jr. is the Business Strategy Consulting Head of Nomura Research Institute Singapore - Manila Branch. He specializes topics on financial markets, company valuation, economics, accounting, and taxation.

Prior to NRI, he was an investment research analyst for BDO Trust - covering the banking and mining industries, along with the large Philippine conglomerates. He was also a treasury and banking manager for P&G.

He graduated with a degree of BS Business Administration and Accountancy (Magna Cum Laude) from the University of the Philippines Diliman in 2019. He is also a Certified Public Accountant (Top 15) and Chartered Financial Analyst.

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📍 26/F Yuchengco Tower, RCBC Plaza, 6819 Ayala Avenue, Makati City Philippines