

Rising GDP per Capita and the Filipino Middle Class

Part 2: Effects on the Middle Class

By: Allan F. Tripon Jr, CPA, CFA

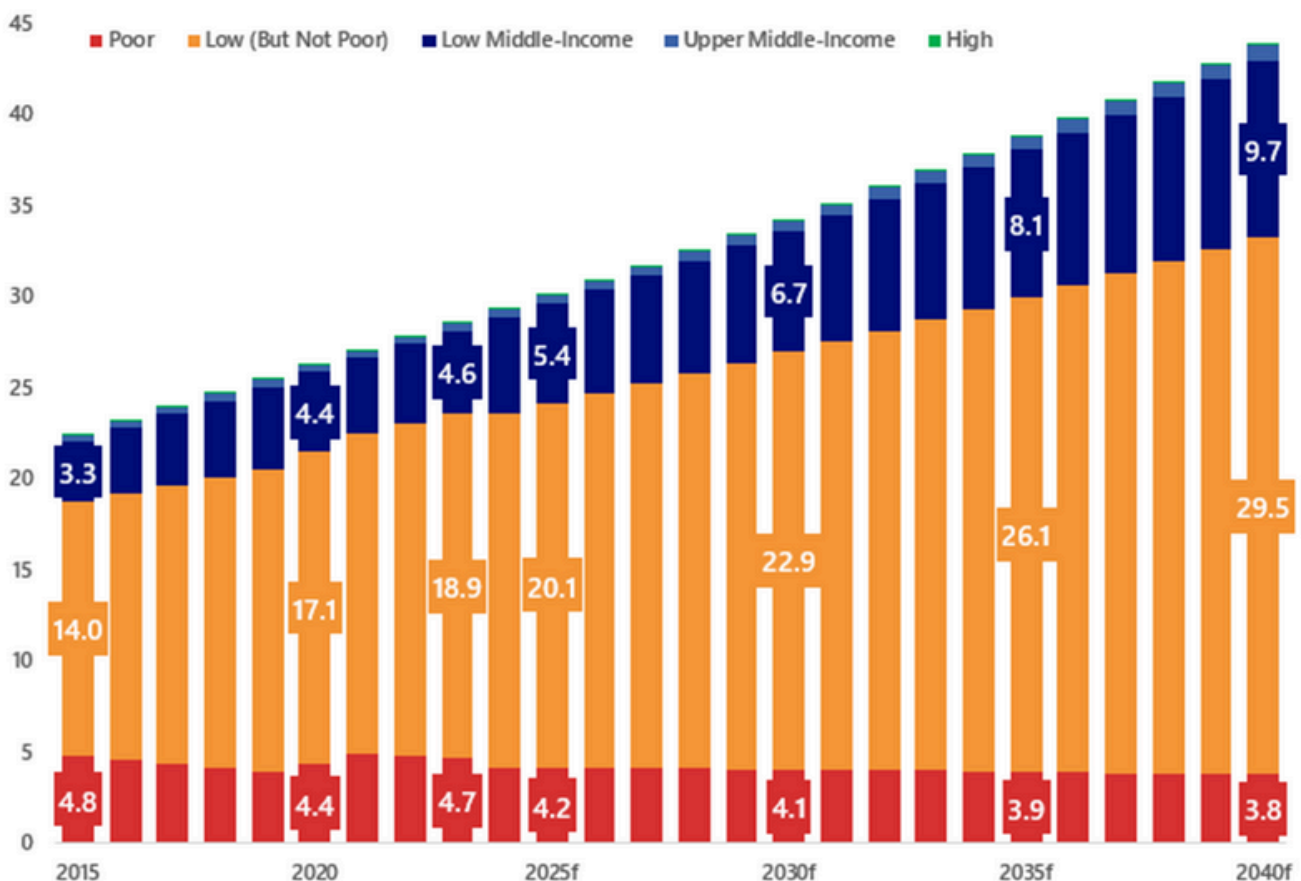
In 2015, 18.8 million Filipino families (83.9% of total) could be classified as low-income – with 4.8 million households (21.6% of total) living below the poverty threshold. Eight years later – in 2023, the situation is not much better. There are currently 23.6 million households (82.7% of total) that are low-income – with 4.7 million (16.4% of total) living in poverty (see Figures 1 and 2).

It seems like the Philippine population, just like the Philippine economy, is stuck. The country has been stuck as a lower middle-income economy for the past 48 years.

As a result, 80+% of Filipino households have been stuck below the middle-class threshold.

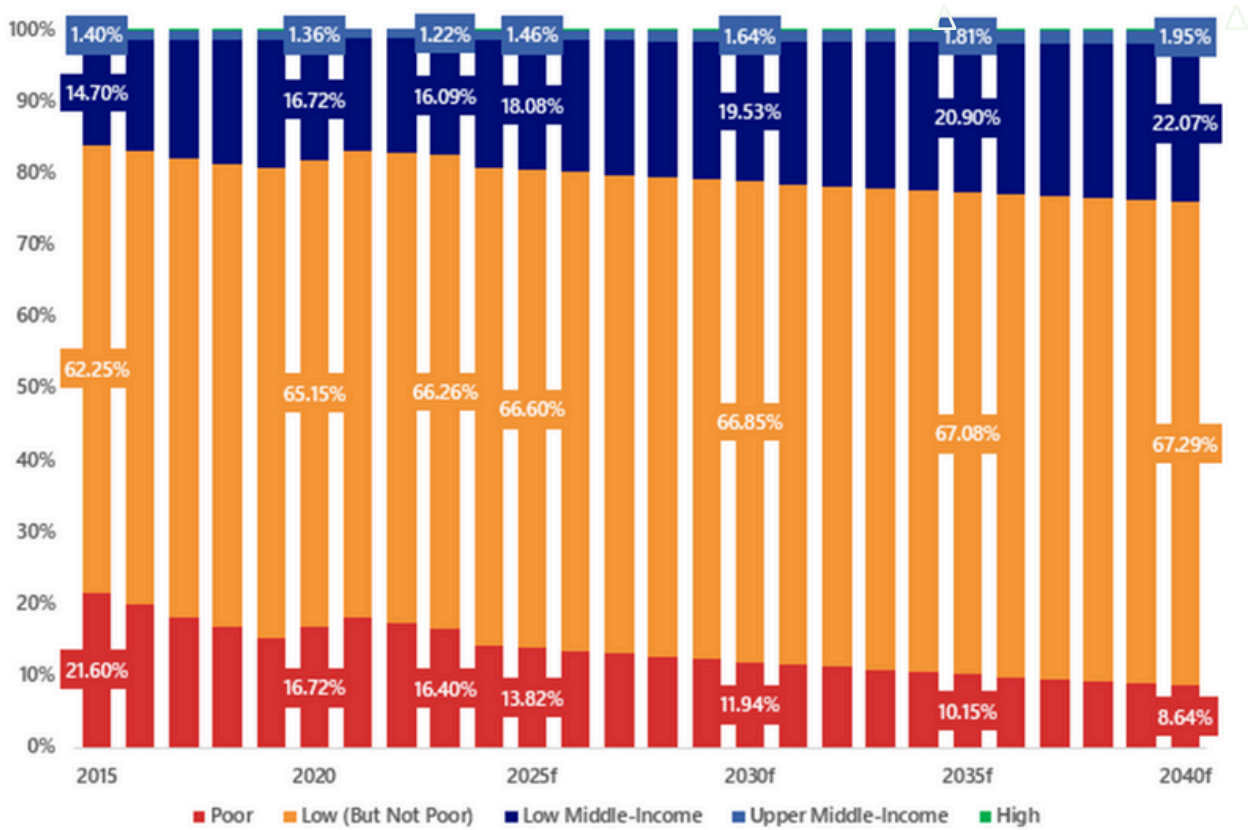
We expect this to change in the next 15 years, with GDP per capita finally breaching the \$5,000 mark by 2028 (and \$10,000 by 2039) (see Figure 3). **NRI expects this rise in per capita income to (1) expand the middle-class, which – in turn – will fuel future economic growth through (2a) an increase in the household savings rate and (2b) a change in the composition of the consumer basket.**

Figure 1: # of Filipino Households (in Millions), per Economic Class



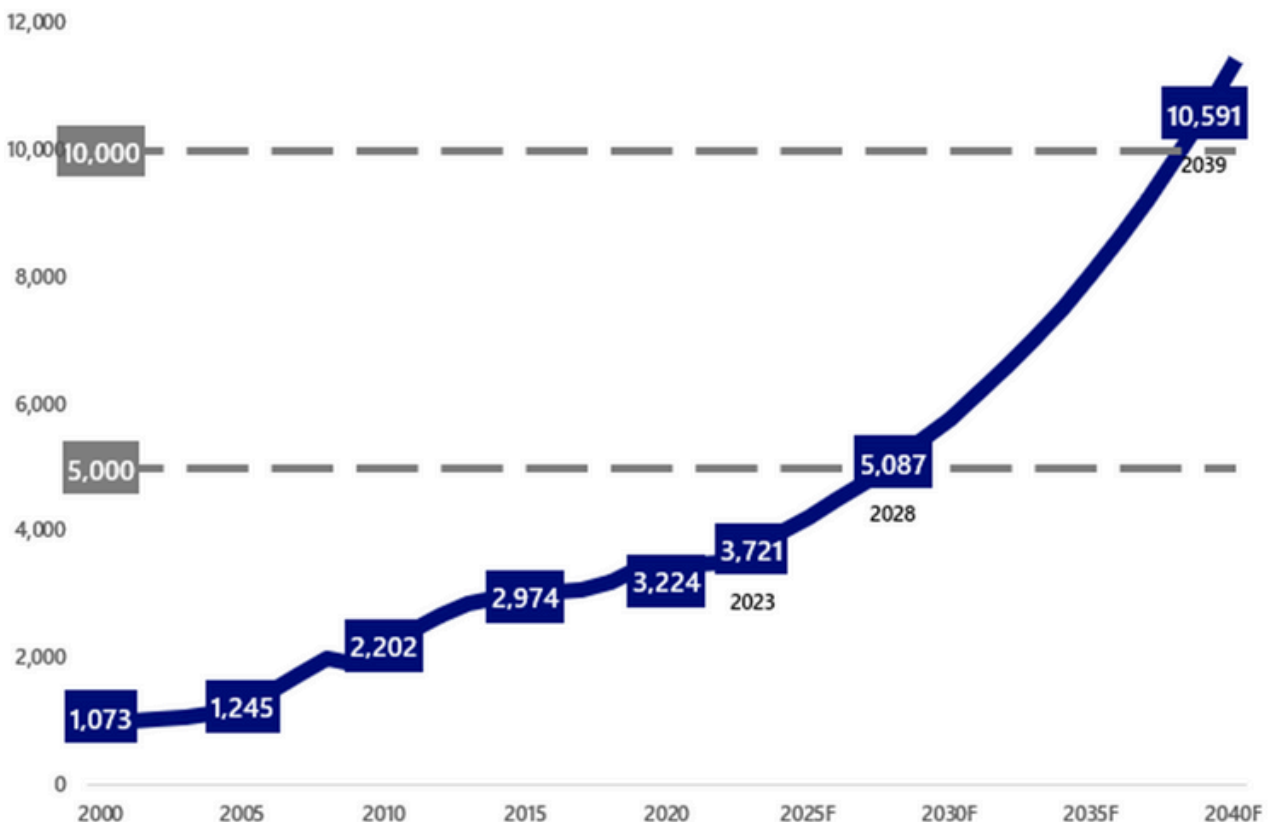
Reference: 2015, 2018, & 2021 PSA Family, Income, & Expenditures Surveys (FIES), PSA Economic Data, BSP Economic Data, and NRI Estimates/Forecasts

Figure 2: % of Filipino Households, per Economic Class



Reference: 2015, 2018, & 2021 PSA Family, Income, & Expenditures Surveys (FIES), PSA Economic Data, BSP Economic Data, and NRI Estimates/Forecasts

Figure 3: Philippine GDP per Capita (in USD, Current Prices, Current PHP/USD)



Reference: 2015, 2018, & 2021 PSA Family, Income, & Expenditures Surveys (FIES), PSA Economic Data, BSP Economic Data, and NRI Estimates/Forecasts

The rise in per capita income will lift households out of the low-income category, thereby expanding the middle-class.

Who are the income classes?

There is no internationally accepted standard or definition of the different income classes.

The Philippine Institute for Development Studies (PIDS), for example, uses seven income clusters (Poor, Low-Income but not Poor, Lower Middle-Income, Middle Middle-Income, Upper Middle-Income, Upper-Income but not Rich, and Rich), which are defined as the official poverty threshold multiplied by a certain multiplier (from 1x to 20x) (Albert, Santos, & Vizmanos, 2018).

The Philippine Statistics Authority (PSA), meanwhile, used a statistical approach to define five income clusters (Low Income, Low Middle-Income, Upper Middle-Income, Upper-Income, and Rich), based on family monthly income data (Virola, Viernes, & Cortel, 2022).

For this article, we combined both approaches. We took the income thresholds used by the PSA and divided it by the official poverty thresholds to identify the implied multiplier (like the PIDS approach). Figure 4 shows the result of this classification.

Figure 4: Income Class Definitions, for a Family of Five

Income Class	Definition	Monthly Income (2023)	
		Low	High
Poor	Below the poverty threshold	PHP 0	PHP 13,797
Low Income (but not poor)	Household income between 1.0x to 4.5x the poverty threshold	PHP 13,797	PHP 62,087
Low Middle-Income	Household income between 4.5x to 7.0x the poverty threshold	PHP 62,087	PHP 96,579
Middle Middle-Income	Household income between 7x to 15x the poverty threshold	PHP 96,579	PHP 206,955
Upper Middle-Income	Household income between 15x to 60x the poverty threshold	PHP 206,955	PHP 827,820
High Income	Household income at least 60x the poverty threshold	PHP 827,820	++

Reference: 2015, 2018, & 2021 PSA Family, Income, & Expenditures Surveys (FIES), PSA Economic Data, BSP Economic Data, and NRI Estimates/Forecasts

Based on this methodology, a Filipino family of five in 2023 would need to earn PHP 13.8 thousand per month to be classified as low income (but not poor), PHP 62.1 thousand per month to be classified as low middle-income, P207.0 thousand per month to be upper-middle income, and P827.8 thousand per month to be classified as high income. These thresholds will increase, along with the poverty thresholds (see Figure 5).

A sustained 4.6% annual real growth in GDP per capita will lift 1.34 million families out of poverty by 2030 and 2.60 million by 2040, bringing the poverty incidence rate down to 11.9% & 8.6% respectively.

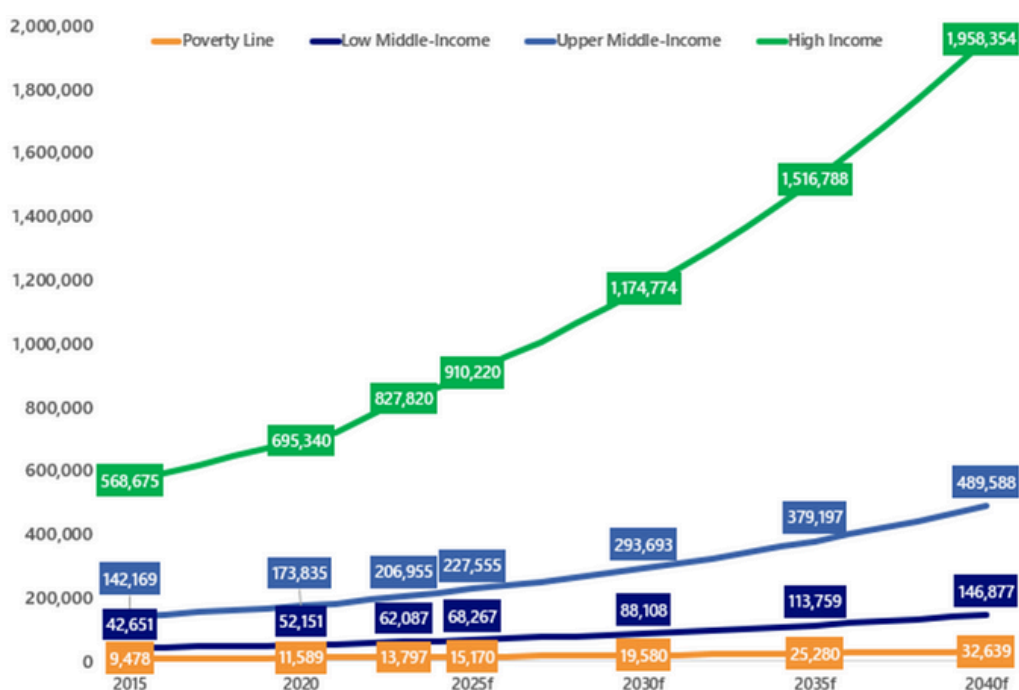
The number of families living below the poverty line is a product of the difference in the annual growth rates of (1) the income of the bottom 20% households and (2) the poverty threshold.

When income growth outpaces the growth in the threshold, then the number of households living in poverty should decline.

This was the case from 2015 to 2019. In this period, household income of the 1st & 2nd decile households grew at an average rate of 10.5% per year – outpacing the 4.2% annual increase in the poverty threshold (see Figure 6). As a result, the number of poor families fell from 4.8 million to 3.9 million – bringing the poverty incidence rate down to 15.3% (from 21.6%) (see Figure 7).

On the other hand – when the growth in the threshold outpaces the income growth, then the number of households living in poverty will increase. This was the case from 2020 to 2021. The pandemic caused household income growth to slow down to 2.7%, while the poverty line grew 3.8% (see Figure 6). As a result, one million families fell into poverty (from 3.9 million to 4.9 million) – bringing the poverty incidence rate up to 18.10% (from 15.3%) (see Figure 7).

Figure 5: Monthly Income Thresholds, for a Family of Five



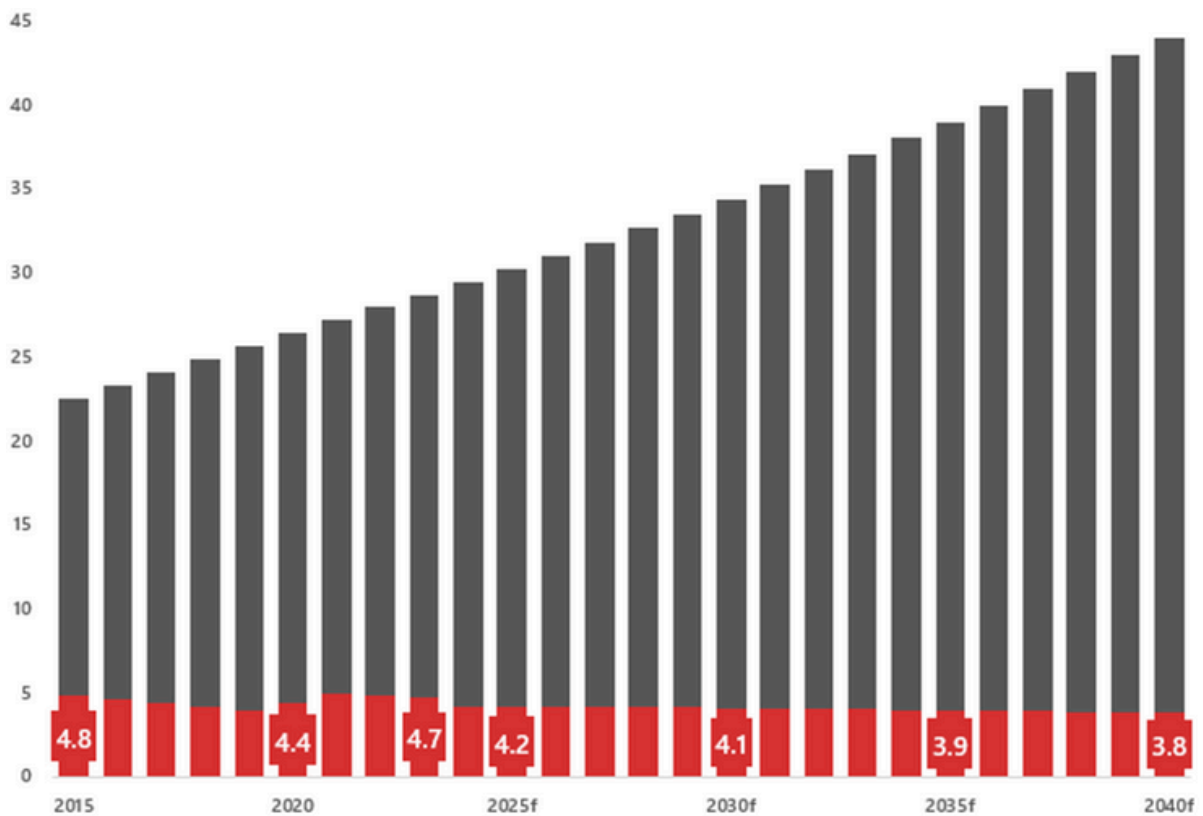
Reference: 2015, 2018, & 2021 PSA Family, Income, & Expenditures Surveys (FIES), PSA Economic Data, BSP Economic Data, and NRI Estimates/Forecasts

Figure 6: 1st to 2nd Decile Income, Poverty Threshold, & GDP per Capita Growth Rates



Reference: 2015, 2018, & 2021 PSA Family, Income, & Expenditures Surveys (FIES), PSA Economic Data, BSP Economic Data, and NRI Estimates/Forecasts

Figure 7: # of Poor Filipino Households (in Millions)



Reference: 2015, 2018, & 2021 PSA Family, Income, & Expenditures Surveys (FIES), PSA Economic Data, BSP Economic Data, and NRI Estimates/Forecasts

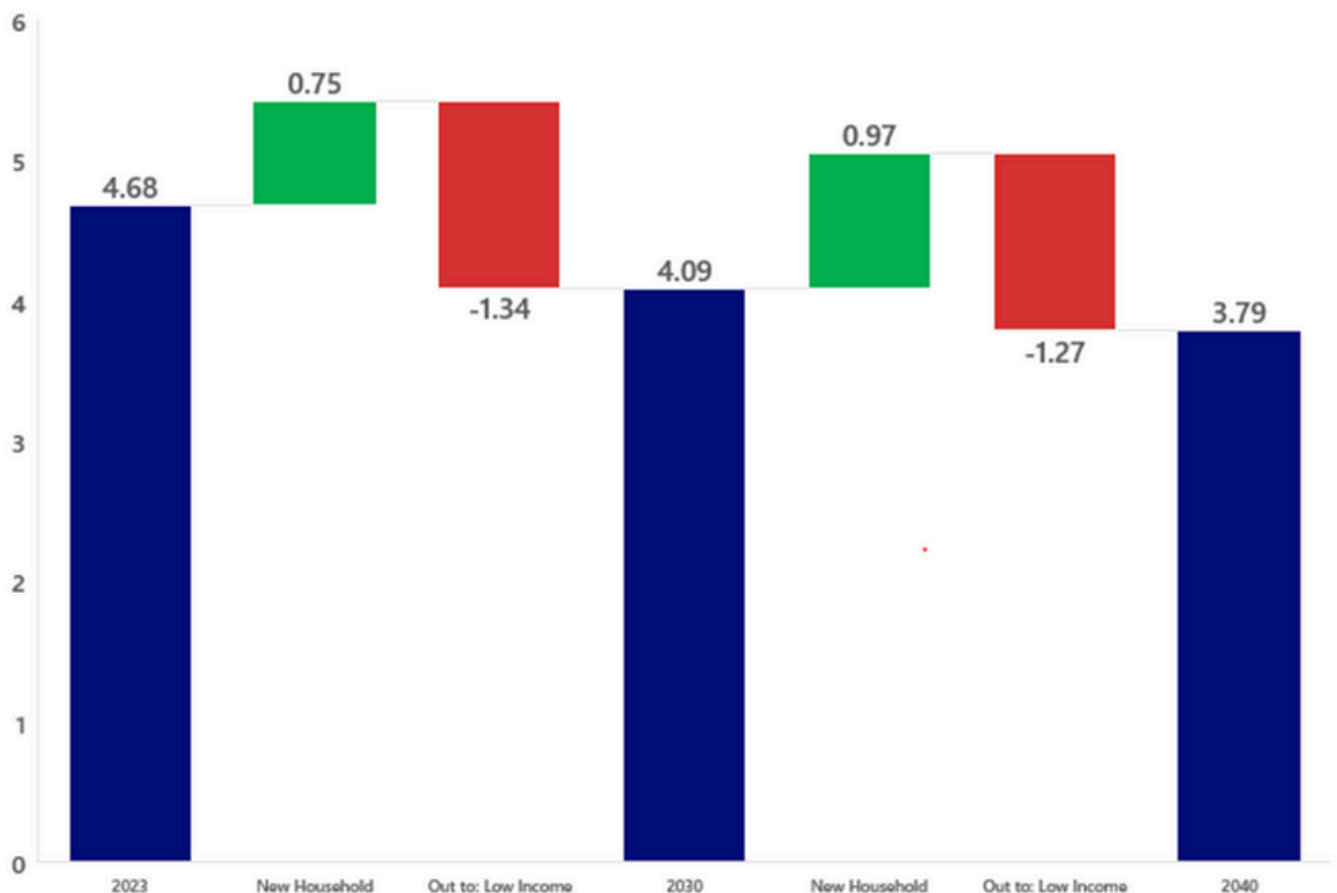
We expect the income of the bottom 20% households to grow 10.0% annually, from 2024 to 2040 – backed by a 7.0% annual rise in nominal GDP per capita (see Figure 6). The poverty threshold, meanwhile, will grow 5.2% per year in the same period.

This growth differential will allow 1.34 million families to get out of poverty by 2030 and another 1.27 million by 2040 – bringing the size of that income cluster from 4.7 million in 2023 down to 4.1 million in 2030 to 3.8 million in 2040 (see Figures 7 and 8). In percentage-terms, these figures translate into poverty incidence rates of 11.9% and 8.6% respectively (from 16.4% in 2023) (see Figure 2).

A sustained 4.6% annual real growth in GDP per capita will push 1.16 million families into the middle class (from the low-income class) by 2030 & 2.26 million by 2040, bringing the relative size of the middle class to 21.2% & 24.0% respectively.

Using the same logic, we expect the income of the 3rd to 8th decile households to grow 7.8% annually, from 2024 to 2040 – backed by the 7.0% yearly growth in nominal GDP per capita (see Figure 9). The middle-income threshold, meanwhile, will grow 5.2% year-over-year in the same period.

Figure 8: Movement in # of Poor Filipino Households (in Millions)



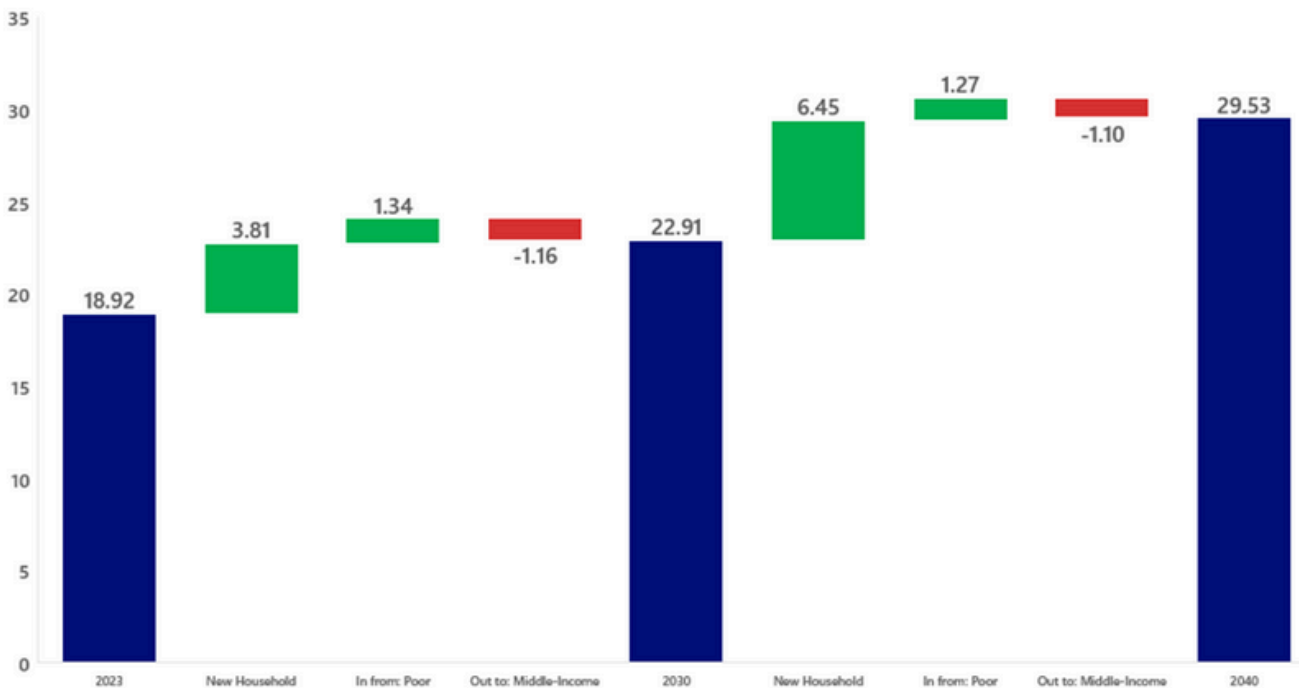
Reference: 2015, 2018, & 2021 PSA Family, Income, & Expenditures Surveys (FIES), PSA Economic Data, BSP Economic Data, and NRI Estimates/Forecasts

Figure 9: 3rd-8th Decile Income, Middle-Class Threshold, & GDP per Capita Growth Rates



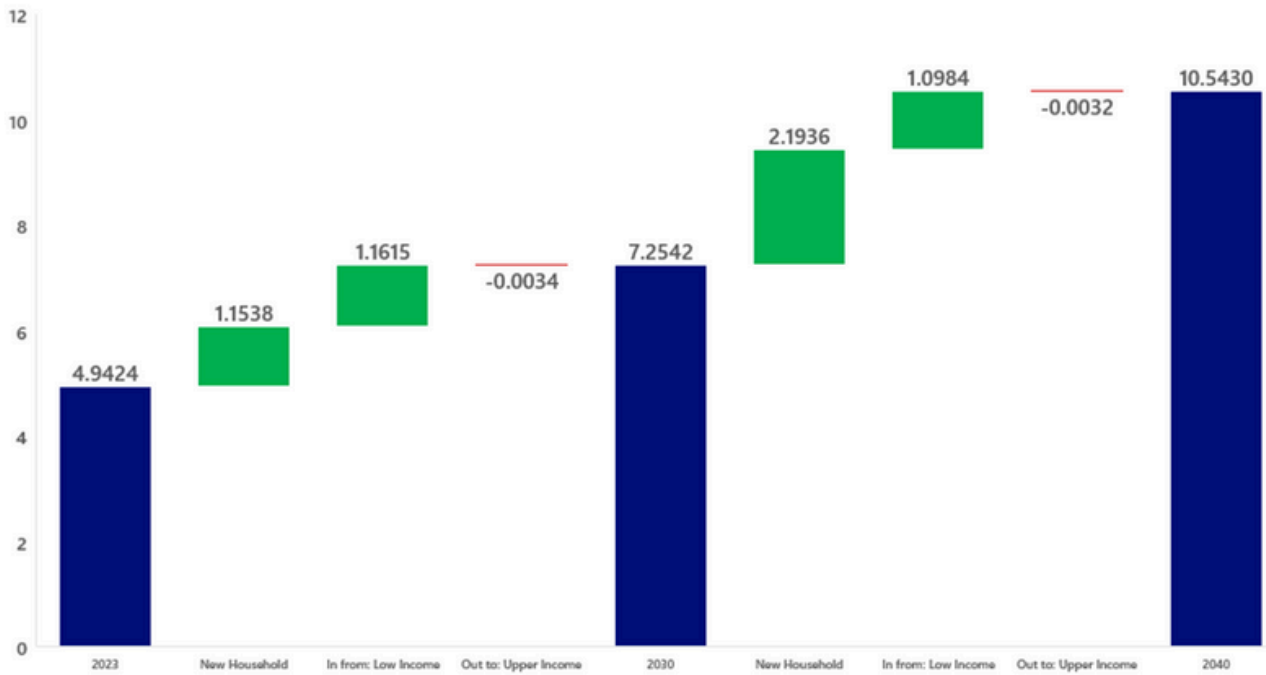
Reference: 2015, 2018, & 2021 PSA Family, Income, & Expenditures Surveys (FIES), PSA Economic Data, BSP Economic Data, and NRI Estimates/Forecasts

Figure 10: Movement in # of Low-Income (but not Poor) Filipino Households (in Millions)



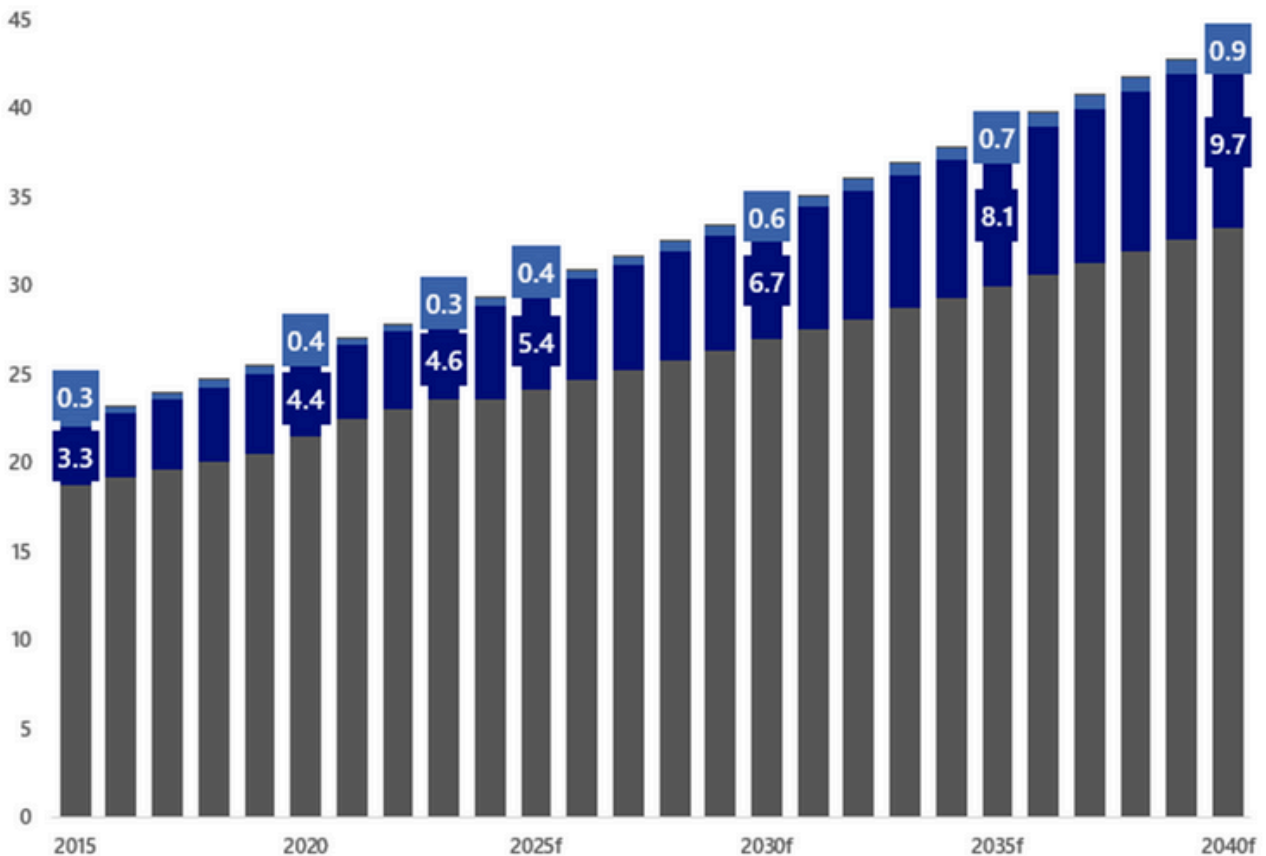
Reference: 2015, 2018, & 2021 PSA Family, Income, & Expenditures Surveys (FIES), PSA Economic Data, BSP Economic Data, and NRI Estimates/Forecasts

Figure 11: Movement in # of Middle-Income Filipino Households (in Millions)



Reference: 2015, 2018, & 2021 PSA Family, Income, & Expenditures Surveys (FIES), PSA Economic Data, BSP Economic Data, and NRI Estimates/Forecasts

Figure 12: # of Middle-Income Filipino Households (in Millions)



Reference: 2015, 2018, & 2021 PSA Family, Income, & Expenditures Surveys (FIES), PSA Economic Data, BSP Economic Data, and NRI Estimates/Forecasts

This growth differential will push 1.16 million formerly low-income (but not poor) families into the middle class by 2030 and another 1.10 million by 2040 – bringing the size of the middle class from 4.9 million in 2023 up to 7.3 million in 2030 to 10.5 million in 2040 (see Figures 10, 11, and 12). In percentage terms, these figures translate to 21.2% & 24.0% of total households respectively (from 17.3% in 2023) (see Figure 2).

This expansion of the middle class will lead to structural changes in the Philippine economy, further fueling growth. We'll talk more about these long-term effects in a future article.

References

Albert, J., Santos, A., & Vizmanos, J. (2018, December). Defining and profiling the middle class. Retrieved from Philippine Institute for Development Studies (PIDS): <https://pidswebs.pids.gov.ph/CDN/PUBLICATIONS/pidspn1818.pdf>

Virola, R., Viernes, M., & Cortel, D. (2022, October 3). Philippine Statistics Authority (PSA). Retrieved from Was the recent expansion of the Philippine middle-income class sustained despite the pandemic: https://psa.gov.ph/sites/default/files/ncs/paper-presentations-manuscripts/Was%20the%20Recent%20Expansion%20of%20the%20Filipino_.pdf

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.



Interested to talk about the article or any of NRI's services?



nrimanila-inquiry@nrisg.com



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