

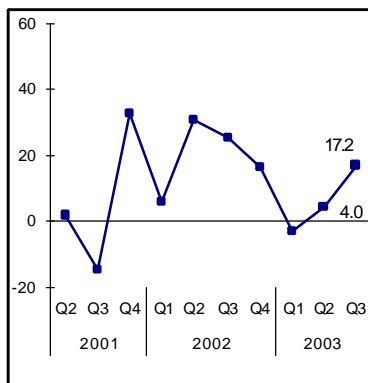


Business Expectations Continue to be Optimistic in the Third and Fourth Quarters of 2003

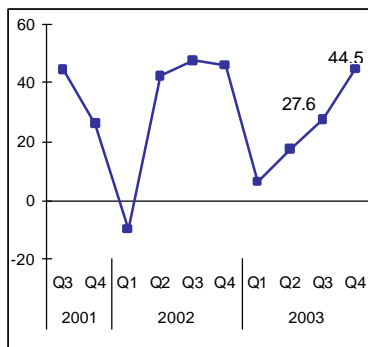
Overall business outlook

Business outlook continue to be optimistic for the third and fourth quarters of 2003.

Overall Business Outlook
Diffusion Index: Current Quarter



Overall Business Outlook
Diffusion Index: Next Quarter

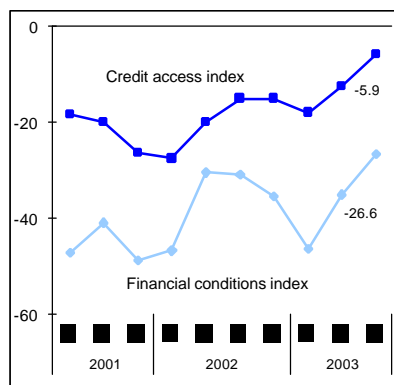
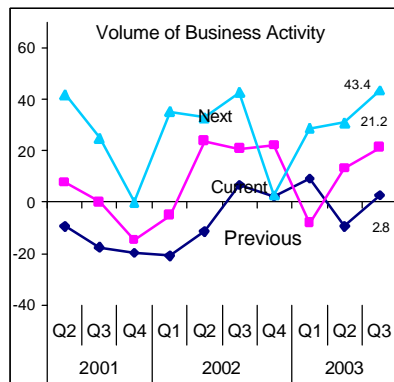


Business sentiment continued to be optimistic for the third quarter of 2003 as the overall business outlook diffusion index (DI) increased to 17.2 percent from 4.0 percent during the second quarter of the year (Tables 1 and 2).¹ Although respondents cited the quick resolution of the US-led Iraq war and the immediate control of the Severe Acute Respiratory Syndrome (SARS) as main reasons for their positive outlook, factors such as the mutiny in Makati and the weakening of the peso dampened their optimism. In addition, the onset of the rainy season was cited by the construction sector as a factor that could restrain economic activity. All sectors yielded positive diffusion indices for the third quarter including the construction sector, which improved to 7.1 percent as compared to the -11.8 percent recorded during the previous quarter (Table 1).

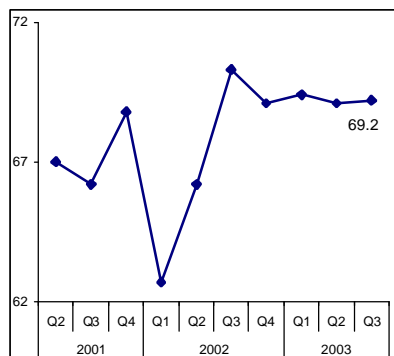
For the fourth quarter of 2003, the overall business outlook diffusion index of positive 44.5 percent, from 27.6 percent recorded last quarter, indicated greater optimism among the respondents. This outlook is consistent with the market's expectation of a stronger domestic economic activity in the last quarter of the year. Respondents cited more orders from USA, Europe and Asia and an increase in the domestic demand in anticipation of the Christmas season as bases for their growing optimism.

¹ The diffusion Index (DI) is computed as follows: (1) for the "business outlook" variable (Table 1): percentage share of firms that have an "improving outlook" less percentage share of firms that have a "deteriorating" outlook; (2) for the other business variables (Tables 2, 3 and 6): percentage share of firms that answered that a given indicator would go "up" less percentage share of firms that answered that a given indicator would go "down". With respect to these business variables, a positive DI indicates a favorable view, except for the average inflation rate, the average peso-dollar rate and the average peso-borrowing rate, where a positive DI indicates the opposite. Please note that all index figures are diffusion indices.

Business-Related Factors



Average Capacity Utilization



Respondents expect the economy to track the targeted growth path, with majority of the firms projecting higher volume of business activity in the fourth quarter. This sentiment is reflected in the volume of business activity index, which rose to 43.4 percent in the fourth quarter from 31.0 percent in the previous quarter (Table 2).

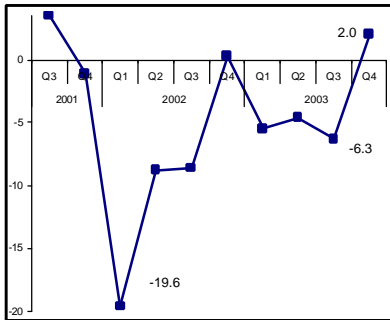
Other business-related factors showed improving signals. As indicated in the credit access and financial conditions indices,² respondent firms were anticipating better access to external financing, with the credit access index improving to -5.9 percent from -12.5 percent in the previous quarter. Although still negative, this is the highest value reached by the index since the second quarter of 2001. Furthermore, the financial conditions index, which is an indicator of the internal financial standing of firms, also improved to -26.6 percent from -34.8 percent in the previous quarter (Table 2).

The estimated average capacity utilization in the industry sector remained stable at 69.2 percent from 69.1 percent during the previous quarter (Table 2).³ While majority of the respondents (75.9 percent) still do not have business expansion plans given that excess capacity in the manufacturing sector still exists, 19.9 percent of the firms indicated plans to expand their businesses in the fourth quarter of 2003 compared to 22.6 percent in the last quarter (Table 3).

² The financial conditions index reflects the respondents' judgment on their general cash position, taking into account the level of cash and other cash items and repayment terms on loans. The access to credit index refers to the environment external to the firm, particularly the availability of credit from the banking system or other financial institutions.

³ The average capacity utilization of 69.1 percent in the second quarter 2003 of the BES sample firms from the industry sector in Metro Manila differs from the average capacity utilization figures of 78.0 percent from April to May 2003 of the National Statistics Office (NSO), which were computed based on a sample of large manufacturing firms nationwide.

Employment Outlook Index

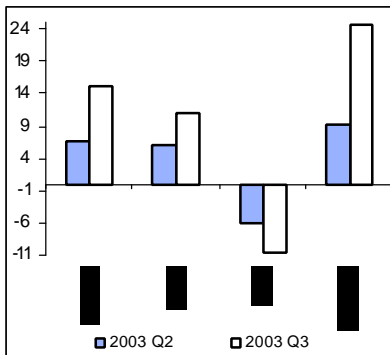


Along with the expansion in economic activity expected in the fourth quarter of 2003, the employment outlook index for the same period strengthened at 2.0 percent from -6.3 percent in the previous quarter, indicating that majority of the respondent firms intend to hire additional staff for the duration of the fourth quarter of 2003 (Table 2).

Confidence indicators

Confidence indicators show mixed trends.

Business Confidence Index



Confidence indicators of business performance in the third quarter showed mixed trends. The confidence index for the industry sector further increased to 15.2 percent in the third quarter from 6.8 percent in the previous quarter. For the wholesale and retail trade sector, the confidence index also increased to 11.0 percent as compared to 6.0 percent in the second quarter. The biggest gain in the confidence index was from the services sector, which jumped to 24.8 percent from 9.0 percent last quarter. The confidence index for the construction sector, on the other hand, further declined to -10.7 percent from -5.9 percent in the previous quarter as reflected in the decline in the total volume of order book and an unchanged employment status as compared to the second quarter (Table 4).

Factors limiting production and business activity

Stiff competition and low demand continue to constrain business activities in the third quarter.

About 70 percent of respondent firms cited stiff competition and low demand as the major factors that constrain production and business activity in the third quarter. Other factors cited by around one-third of respondent firms were unclear economic laws, high interest rates, and financial problems (Table 5).

Expectations on key economic indicators

A lower peso borrowing rate, a higher inflation rate and a weaker peso are expected in the third quarter of 2003.

But a higher peso borrowing rate, a lower inflation rate and a stronger peso are expected in the fourth quarter of 2003.

Survey respondents anticipate a lower peso borrowing rate in the third quarter as the corresponding diffusion index decreased to 9.5 percent from 26.5 percent in the previous quarter. In contrast, they expect a relatively higher inflation rate as the index increased to 27.9 percent from 25.8 percent in the previous quarter. Respondents also expect a slightly weaker peso to US\$ rate as the current quarter average peso/US\$ rate diffusion index increased slightly to 7.5 percent from 6.9 percent in the previous quarter. The expectation of a weaker peso is due mainly to the anticipation of a higher inflation rate resulting from unfavorable weather conditions, an uptrend in oil prices and the uncertainty brought about by the 27 July mutiny as well as the political uncertainties arising from the preparations for the 2004 elections. Meanwhile, respondents have better expectations in the fourth quarter characterized by a lower inflation rate and a stronger peso. The peso borrowing rate, on the other hand, is expected to rise. (Tables 6 and 6A).

Sub-sector outlook

The services sector, particularly financial intermediation, business activity, community & social services and hotels and restaurants sub-sectors, contributed substantially to the growing business optimism.

The services sector exhibited the most optimistic outlook with the overall diffusion index rising to 37.5 percent and 50.2 percent in the third and fourth quarters of 2003, respectively, from 12.5 percent in the previous survey. In addition, all sub-sectors posted positive diffusion indices. In particular, the financial intermediation sub-sector index increased to 46.7 percent from 22.6 percent in the second quarter. The business activity sub-sector improved its outlook from 22.2 percent diffusion index in the previous quarter to 38.9 percent. The business outlook index of the community & social services sub-sector turned around to 21.4 percent from -14.3 percent in the second quarter. Likewise, the index for the hotels and restaurants sub-sector improved to 8.3 percent in the third quarter from -7.7 percent.

In the industry sector, outlook remained positive but less upbeat than that of the services sector (Table 1).

For the fourth quarter of 2003, most sub-sectors exhibited optimistic expectations, particularly the hotels and restaurants (58.3 percent), business activity (55.6

percent), financial intermediation (53.3 percent), and the manufacturing (41.1 percent) sub-sectors. However, the community and social services sub-sector maintained an unchanged outlook (21.4 percent).

Business constraints

Competition and insufficient demand topped the factors that constrain production and business activity for the manufacturing sub-sector. The same views were also cited by the services sector, although under the financial intermediation sub-sector, 40 percent mentioned unclear economic laws as one of the major constraints to production and business activity in the third quarter. Respondents from the community and social services sub-sector were of the view that political climate, lack of confidence and unclear government regulations were the main reasons that hinder business activity. The hotels and restaurants sub-sector, aside from competition and insufficient demand, identified financial problems, unclear economic laws and labor problems as limiting factors to their operations (Table 5).

TECHNICAL NOTES

The third quarter 2003 Business Expectations Survey (BES) was conducted from the second week of July up to the first week of August, with 289 respondents representing 64 percent of the 450 target sample firms. The survey covered four major groups and 12 sub-groups namely: Group 1: Industry, which consists of manufacturing, mining and quarrying, electricity gas and water and agriculture fishery and forestry; Group II: Construction; Group III: Wholesale and Retail Trade and Group IV: Services Sector, which consists of financial intermediation, real estate, renting and business activities, hotels and restaurants, transport, storage and communication and community, social and personal services. The firms were drawn by random sampling from the top 5,000 corporations in Metro Manila based on their revenue performance in 2001 as listed by the Securities and Exchange Commission (SEC). It is worth noting that 36 percent of the sample firms belonged to the small-firm category employing less than 100 workers.

All quarterly data in the tables and charts came from the business expectations survey conducted during the reference quarter except for the next quarter charts whose figures are one quarter ahead of the actual conduct of the quarterly BES.

Table 1. INDICES OF OVERALL BUSINESS OUTLOOK BY SECTOR
 Third and Fourth Quarters 2003
 (Index points)

Sector	Second Quarter Survey		Third Quarter Survey		
	No. of Respondents	Previours Quarter April-June	No. of Respondents	Current Quarter July-September	Next Quarter October-December
All Sectors	315	4.0	289	17.2	44.5
Industry of which:	119	2.7	104	13.3	41.2
Manufacturing	107	2.8	90	13.3	41.1
Construction	17	-11.8	14	7.1	7.1
Wholesale & Retail Trade	83	4.8	79	19.0	49.4
Services of which:	96	12.5	92	37.5	50.2
Financial Intermediation	31	22.6	30	46.7	53.3
Business Activity	18	22.2	18	38.9	55.6
Community and Social Services	14	-14.3	14	21.4	21.4
Hotels and Restaurants	13	-7.7	12	8.3	58.3

Table 1A. OVERALL BUSINESS OUTLOOK BY SECTOR
Third and Fourth Quarters 2003

Sector	No. of Respondents	Current Quarter (in percent)				Next Quarter (in percent)			
		Improving	No Change	Deteriorating	No Response	Improving	No Change	Deteriorating	No Response
All Sectors	289	35.9	40.4	18.7	5.0	52.6	29.7	8.1	9.6
Industry	104	33.3	39.0	20.0	7.8	53.3	24.5	12.2	10.0
Of which:									
Manufacturing	90	33.3	38.9	20.0	7.8	53.3	24.4	12.2	10.0
Construction	14	21.4	57.1	14.3	7.1	35.7	35.7	28.6	0.0
Wholesale and Retail Trade	79	38.0	41.8	19.0	1.3	50.6	38.0	1.3	10.1
Services	92	46.4	42.2	8.8	2.6	58.5	28.0	8.2	5.3
Of which:									
Financial Intermediation	30	53.3	40.0	6.7	0.0	60.0	33.3	6.7	0.0
Business Activity	18	44.4	38.9	5.6	11.1	61.1	11.1	5.6	22.2
Community and Social Services	14	28.6	64.3	7.1	0.0	35.7	42.9	14.3	7.1
Hotels and Restaurants	12	33.3	33.3	25.0	8.3	66.7	16.7	8.3	8.3

Table 2. SELECTED INDICATORS OF BUSINESS EXPECTATIONS
Third and Fourth Quarters 2003

INDICATORS	2001			2002				2003		
	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Business Outlook Index										
Current Quarter	1.7	-14.7	32.6	5.9	31.0	25.2	16.2	-3.0	4.0	17.2
Next Quarter	44.4	26.0	-9.8	42.3	47.5	45.8	6.3	17.4	27.6	44.5
Volume of Business Activity Index										
Previous Quarter	-9.6	-17.5	-19.6	-20.9	-11.4	6.8	2.1	9.1	-9.5	2.9
Current Quarter	7.8	0.0	-14.7	-5.1	23.6	20.9	22.1	-8.1	13.2	21.1
Next Quarter	41.7	24.9	0.0	35.2	32.9	42.7	2.7	28.8	31.0	43.4
Volume of Total Order Book Index										
Previous Quarter	-13.9	-15.8	-14.7	-15.6	-10.6	6.4	1.5	3.7	-9.4	6.6
Current Quarter	-0.9	-3.4	-19.6	-5.7	22.7	20.9	20.4	-8.7	10.2	19.8
Credit Access Index										
Previous Quarter	-24.4	-21.5	-19.6	-29.5	-23.8	-19.9	-13.5	-13.5	-14.9	-4.4
Current Quarter	-18.3	-19.8	-26.1	-27.6	-20.0	-14.9	-15.0	-17.9	-12.5	-5.9
Financial Conditions Index										
Previous Quarter	-49.6	-41.8	-40.2	-51.8	-38.2	-32.0	-37.0	-40.4	-38.6	-30.0
Current Quarter	-47.0	-40.7	-48.9	-46.6	-30.6	-30.8	-35.6	-46.4	-34.8	-26.6
Ave. Capacity Utilization (Industry Sector)										
Current Quarter	67.0	66.2	68.8	62.7	66.2	70.3	69.1	69.4	69.1	69.2
Employment Outlook Index										
Next Quarter	3.5	-1.1	-19.6	-8.8	-8.6	0.3	-5.5	-4.6	-6.3	2.0

Table 3. DISTRIBUTION OF COMPANIES WITH AND WITHOUT EXPANSION PLANS
 FOR THE INDUSTRY SECTOR (In Percent)
 Third and Fourth Quarters 2003

Industry Group	Third Quarter (based on 2nd Quarter Survey)				Fourth Quarter			
	No. of Respondents	With Plans	No Plans	No Answer	No. of Respondents	With Plans	No Plans	No Answer
Industry Sectors	119	22.6	64.0	13.4	104	19.9	75.9	4.2
Mining & Quarrying	2	50.0	50.0	0.0	2	50.0	50.0	0.0
Manufacturing	107	23.0	67.7	9.3	90	19.0	75.5	5.6
Electricity, Gas & Water	6	0.0	0.0	100.0	6	16.7	83.3	0.0
Agriculture, Fishery & Forestry	4	25.0	75.0	0.0	6	33.3	66.7	0.0

Table 4. CONFIDENCE INDICATORS AND DIFFUSION INDICES 1/
Second and Third Quarters 2003

SECTORS	Second Quarter 2003		Third Quarter 2003	
	Confidence Indicator	Diffusion Index	Confidence Indicator	Diffusion Index
1. Industry	6.8		15.2	
Volume of Total Order Book (Current Quarter)		10.2		22.1
Volume of Stocks of Finished Goods (Current Quarter)		16.8		14.4
Volume of Production (Next Quarter)		27.0		37.9
2. Construction	-5.9		-10.7	
Volume of Total Order Book (Current Quarter)		-11.8		-21.4
Number of People Employed (Next Quarter)		0.0		0.0
3. Wholesale and Retail Trade	6.0		11.0	
Volume of Stocks of Finished Goods (Current Quarter)		12.0		19.0
Business Conditions (Current Quarter)		1.2		12.7
Business Conditions (Next Quarter)		28.9		39.2
4. Services Sector	9.0		24.8	
Business Conditions (Current Quarter)		-1.0		26.4
Business Conditions (Next Quarter)		28.1		40.9
Number of People Employed (Next Quarter)		0.0		7.1

1/ The confidence indicators were computed as the averages of the diffusion indices of the variables in each sector.
However, volume of stocks of finished goods were inverted (subtracted) rather than added.

Table 4A. CONFIDENCE INDICATORS AND DIFFUSION INDICES OF SELECTED SUB-SECTORS
Second and Third Quarters 2003

SECTORS	Second Quarter 2003		Third Quarter 2003	
	Confidence Indicator	Diffusion Index	Confidence Indicator	Diffusion Index
1. Industry Sector of which:				
a. Manufacturing	-2.2		15.2	
Volume of Total Order Book (Current Quarter)		10.3		22.2
Volume of Stocks of Finished Goods (Current Quarter)		16.8		14.4
Volume of Production (Next Quarter)		0.0		37.8
2. Services Sector of which:				
a. Financial Intermediation	2.2		24.4	
Business Conditions (Current Quarter)		6.5		40.0
Business Conditions (Next Quarter)		0.0		40.0
Number of People Employed Next Quarter		0.0		-6.7
b. Business Activity	1.9		42.6	
Business Conditions (Current Quarter)		5.6		38.9
Business Conditions (Next Quarter)		0.0		72.2
Number of People Employed (Next Quarter)		0.0		16.7
c. Community and Social Services	-16.7		2.4	
Business Conditions (Current Quarter)		-50.0		7.1
Business Conditions (Next Quarter)		0.0		7.1
Number of People Employed (Next Quarter)		0.0		-7.1

Table 5. FACTORS LIMITING PRODUCTION/BUSINESS ACTIVITY BY SECTOR
(In Percent)
Third Quarter 2003

Sector	High Interest Rate	Unclear Economic Laws	Lack of Equipment	Insufficient Demand	Access to Credit	Financial Problems	Competition	Labor Problems	Lack of Materials	Others ^{1/}	None
All Sectors	28.6	35.9	22.0	69.7	26.8	30.8	77.3	21.3	22.9	17.3	5.0
Industry	28.9	35.5	23.4	66.6	24.5	25.6	74.3	20.0	25.7	16.7	4.4
Of which:											
Manufacturing	28.9	35.6	23.3	66.7	24.4	25.6	74.4	20.0	25.6	16.7	4.4
Construction	28.6	28.6	14.3	85.7	57.1	42.9	85.7	42.9	14.3	7.1	0.0
Wholesale and Retail Trade	30.4	38.0	22.8	77.2	31.6	40.5	86.1	25.3	22.8	19.0	5.1
Services	18.9	29.1	9.0	54.4	17.2	21.9	57.0	9.8	4.2	14.9	8.8
Of which:											
Financial Intermediation	13.3	40.0	13.3	56.7	16.7	20.0	56.7	6.7	3.3	13.3	6.7
Business Activity	27.8	22.2	0.0	61.1	22.2	27.8	55.6	16.7	5.6	22.2	11.1
Community and Social Services	14.3	7.1	0.0	50.0	0.0	14.3	57.1	7.1	0.0	28.6	14.3
Hotels and Restaurants	16.7	33.3	8.3	66.7	16.7	41.7	66.7	25.0	8.3	0.0	16.7

1/ Other factors that limit production or business activities are political and economic climate, lack of investors' confidence and government regulations.

Table 6. INDICES OF EXPECTATIONS ON ECONOMIC INDICATORS BY SECTOR
(in index points)
Third and Fourth Quarters 2003

Sector	Third Quarter (July-September 2003)			Fourth Quarter (October-December 2003)		
	Average Peso Borrowing Rate	Average Inflation Rate	Average Peso/ US \$ Rate	Average Peso Borrowing Rate	Average Inflation Rate	Average Peso/ US \$ Rate
All Sectors	9.5	27.9	7.5	15.1	31.6	5.5
Industry	9.0	30.1	1.1	17.9	30.2	8.9
Construction	21.4	71.4	14.3	14.3	71.4	-7.1
Wholesale & Retail Trade	8.9	25.3	19.0	10.1	32.9	2.5
Services	14.2	19.7	-1.0	18.5	30.9	-3.0

Table 6A. INDICES OF EXPECTATIONS ON ECONOMIC INDICATORS BY SECTOR
(in index points)
Second and Third Quarters 2003 (Based on the second quarter BES)

Sector	Second Quarter (April-June 2003)			Third Quarter (July-September 2003)		
	Average Peso Borrowing Rate	Average Inflation Rate	Average Peso/ US \$ Rate	Average Peso Borrowing Rate	Average Inflation Rate	Average Peso/ US \$ Rate
All Sectors	26.5	25.8	6.9	25.3	28.6	11.3
Industry	32.7	23.3	4.7	28.0	29.0	9.4
Construction	-5.9	29.4	23.5	5.9	58.8	23.5
Wholesale & Retail Trade	19.3	30.1	10.8	22.9	28.9	15.7
Services	14.4	24.8	3.9	17.6	20.1	4.6

Table 7. AVERAGE NUMBER OF EMPLOYEES BY SECTOR
Third Quarter 2003

Sector	No. of Respondents	Current Number of Employee (in percent)				
		Small <100	Medium		Large >500	No Response
			101-300	301-500		
All Sectors	289	36.3	23.9	6.9	17.3	15.6
Industry	104	27.9	29.8	5.8	23.1	13.5
Of which:						
Manufacturing	90	26.7	32.2	6.7	21.1	13.3
Construction	14	35.7	21.4	0.0	14.3	28.6
Wholesale and Retail Trade	79	51.9	20.3	11.4	6.3	10.1
Services	92	32.6	20.7	5.4	20.7	20.7
Of which:						
Financial Intermediation	30	30.0	23.3	3.3	23.3	20.0
Business Activities	18	44.4	22.2	0.0	22.2	11.1
Community and Social Services	14	50.0	21.4	0.0	7.1	21.4
Hotels and Restaurants	12	8.3	33.3	16.7	25.0	16.7