



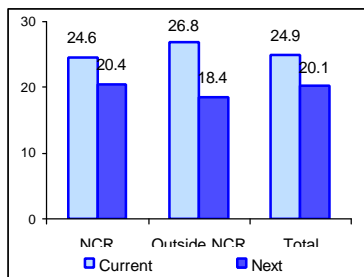
Business Expectations Remain Optimistic in the Fourth Quarter of 2003*

Overall business outlook

Business outlook remains optimistic for the fourth quarter of 2003 and the first quarter of 2004.

Business sentiment remains optimistic in the fourth quarter of 2003 and the first quarter of 2004 as indicated by the positive diffusion indices (DI) for the overall business outlook. For these two quarters, the overall DIs were recorded at 24.9 percent and 20.1 percent, respectively (Tables 1 and 2).¹

Overall Business Outlook
Diffusion Index: 2003 Q4 and 2004 Q1



For the fourth quarter of 2003, business expectations of respondent firms based in the NCR increased to 24.6 percent from 17.2 percent in the previous quarter, while those based outside the NCR shared the same positive business expectations with a slightly higher business outlook index of 26.8 percent. All sectors yielded positive diffusion indices for the fourth quarter, with the highest expectations of 30.6 percent coming from the services sector (Table 1).

Respondents cited the expected increase in consumer demand during the Christmas season and the forthcoming national elections as the main factors contributing to their positive business outlook. However, the unstable political situation, high operating costs, stiff competition and the weakening of the peso were identified to negatively affect business activity.

For the first quarter of 2004, the business outlook diffusion index remained positive although lower at 20.1 percent compared to 24.9 percent for the 4th quarter 2003. The DIs for the first quarter of 2004 for both NCR and outside

* This survey includes respondents from NCR and areas outside NCR particularly Regions I, VII and XI.

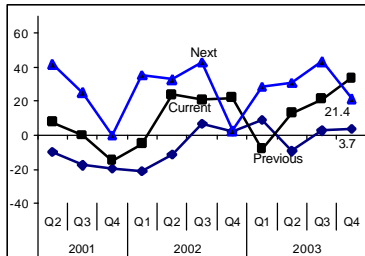
¹ The diffusion Index (DI) is computed as follows: (1) for the "business outlook" variable (Table 1): percentage share of firms that have an "improving outlook" less percentage share of firms that have a "deteriorating" outlook; (2) for the other business variables (Tables 2, 3 and 6): percentage share 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.

NCR respondents declined relative to the 4th quarter 2003, but the decline was more pronounced for firms outside NCR. However, all sectors continued to have positive business expectations, indicating a better business climate at the start of 2004.

Business-related factors

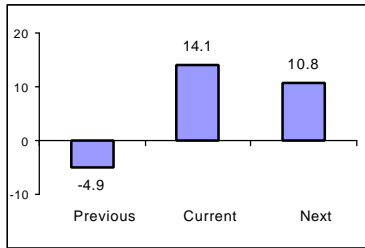
Volume of Business Activity

NCR



Respondents expect the economy to remain in the growth path, as majority of the firms projected increased business activity in the fourth quarter of 2003 and well into the first quarter of 2004. This sentiment is reflected in the volume of business activity index for respondents based in NCR, which rose to 33.7 percent in the fourth quarter from 21.0 percent in the previous quarter. For the next quarter, the index remained positive at 21.4 percent although lower than the 43.4 percent recorded in the previous survey (Table 2).

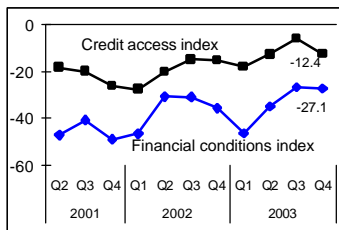
Outside NCR



Respondent firms outside NCR showed the same positive trend of business activity as those from the NCR, but at a slower rate. The volume of business activity from these areas registered positive diffusion indices of 14.1 percent for the fourth quarter of 2003 and 10.8 percent for the first quarter of 2004.

Access to Credit

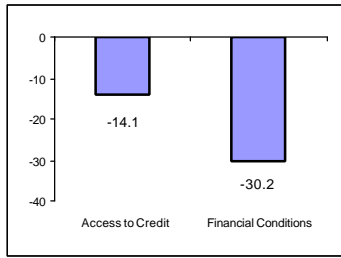
NCR



Indices for business-related factors show slight deterioration. Respondent firms in the NCR anticipate a slight tightening of external financing, with the credit access index decreasing to -12.4 percent from -5.9 percent in the previous quarter.² Likewise, the financial conditions index, which is an indicator of the internal financial prospects of firms, declined slightly to -27.1 percent from -26.6 in the previous quarter (Table 2).²

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.

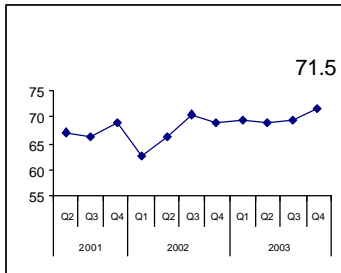
Outside NCR



Similarly, respondent firms outside NCR indicated the same outlook in terms of their access to credit and financial conditions. The credit access index for non-NCR respondents is at -14.1 percent, while the financial conditions index is at -30.2 percent.

Capacity Utilization

Q4 2003

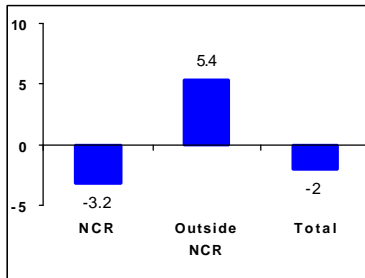


The estimated average capacity utilization in the industry sector for NCR firms slightly increased to 71.5 percent for the fourth quarter from 69.2 percent during the previous quarter. Respondent firms outside NCR have a slightly lower capacity utilization at 69.7 percent (Table 2).³

Despite the presence of spare capacity in the manufacturing sector, 20 percent of the respondent firms indicated plans for expansion in the first quarter of 2004. However, NCR firms are less bullish with only 13.5 percent indicating expansion plans compared to 51.3 percent among non-NCR respondents (Table 3).

Employment Outlook Index

Q1 2004



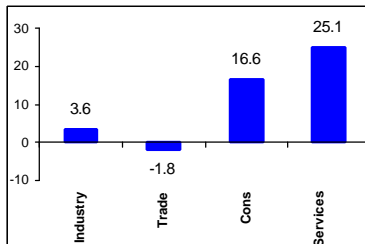
The overall employment outlook index of -2.0 percent for the first quarter of 2004 is consistent with the expansion plans indicated by both sets of respondents. The employment index for the NCR of -3.2 percent corresponds to the low percentage of firms planning business expansions in the area. The positive employment index of 5.4 percent for areas outside NCR is also in line with the higher percentage of firms that indicated expansion plans in these areas (Table 2).

³ The average capacity utilization of 71.5 percent in the fourth quarter 2003 of the BES sample firms from the industry sector in Metro Manila and the three regions differs from the average capacity utilization figures of 78.0 percent from July - August 2003 of the National Statistics Office (NSO), which were computed based on a sample of large manufacturing firms nationwide.

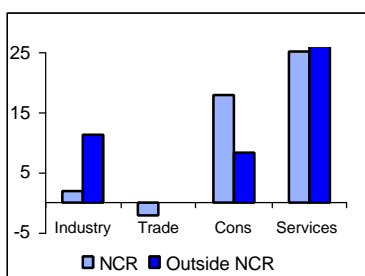
Confidence indicators

Positive confidence indicators for the industry, construction and services sectors

Overall Business Confidence Index



NCR vs. Outside NCR



Confidence indicators of business performance such as volume of business activity and business conditions showed largely positive trends in the fourth quarter. The confidence index for the services sector was most optimistic at 25.1 percent, followed by construction at 16.6 percent and by industry at 3.6 percent. For the wholesale and retail trade sector, the confidence index was slightly negative at 1.8 percent (Table 4).

The business confidence index for the construction sector of respondent firms within NCR is higher than that of respondent firms outside NCR. However, business confidence for the services, industry and wholesale and retail trade sectors are higher for respondent firms outside NCR than those of NCR-based firms.

Sub-sector outlook

Hotels and restaurants, and financial intermediation led the continuing optimism for Q4 2003 and Q1 2004 in the services sector.

The services sector maintained its optimistic outlook with the overall diffusion index of 30.6 percent and 24.2 percent in the fourth quarter of 2003 and in the first quarter of 2004, respectively. Contributing mainly to this optimism are hotels and restaurants with a high 62.5 percent and 58.6 percent diffusion indices; and financial intermediation with a constant 36.1 percent diffusion index. Meanwhile, the community & social services sub-sector signaled positively in the fourth quarter of 2003 with a diffusion index of 19.6 percent, but reversed its outlook in the first quarter of 2004 with a -4.3 percent diffusion index (Table 1).

Manufacturing boosted the optimism in the industry sector for Q4 2003 and Q1 2004.

The industry sector also indicated optimistic expectations with diffusion indices of 25.4 percent and 20.9 percent for the fourth quarter of 2003 and the first quarter of 2004, respectively. Industry sub-sectors contributed positively to the optimistic industry expectations, particularly manufacturing which posted 25.5 percent and 21.2 percent diffusion indices for the two quarters (Table 1).

Business constraints

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

About 73 percent of respondent firms cited stiff competition while around 64 percent mentioned low demand as the major factors that constrain production and business activity in the fourth quarter. Other major factors cited by

Expectations on key economic indicators

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

But a higher peso borrowing rate, a higher inflation rate and a weaker peso are expected in the first quarter of 2004.

respondent firms were unclear economic laws, high interest rates, and financial problems (Table 5).

Survey respondents anticipate a higher peso-borrowing rate in the fourth quarter as the corresponding diffusion index registered 27.2 percent. They likewise expect a relatively higher inflation rate with an index of 42.1 percent and a stronger peso to US\$ rate with an index of 0.5 percent. The expectation of a stronger peso could be due largely to the anticipated increase in foreign exchange remittances by overseas Filipino workers during the Christmas season. Meanwhile, a higher inflation rate could be attributed to both supply and demand-side developments. On the supply side, an expected uptrend in oil prices could raise prices. On the demand side, an expected increase in consumer spending due to the holiday season and preparations for the 2004 elections could also exert inflationary pressures. Expectations for the first quarter of 2004 are generally unchanged, except for a possible slight depreciation of the peso. (Table 6)

TECHNICAL NOTES

Beginning this quarter, to provide a regional dimension to business prospects, the BES survey coverage was expanded to include regions outside the NCR. The expanded BES coverage consists of firms in SEC's Top 5000 Corporations which are based in NCR and three selected regions: Region 1, Region VII and Region XI. From each of these regions, a stratified random sample of 662 firms was selected across four major economic 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 combined survey response rate for this quarter is 53 percent. The response rate is 66 percent for NCR and 25 percent for the selected regions outside NCR. It is worth noting that 36 percent of respondents belong to the small-firm category employing less than 100 workers. The distribution of sample size by region is found below. The survey was conducted during the period covering the first week of October 2003 to the first week of November 2003.

SECTOR	Population					Sample				
	NCR	I	VII	XI	Total	NCR	I	VII	XI	Total
Industry	1121	7	169	58	1355	183	7	49	26	265
Agriculture, Fisheries and Forestry	33	1	9	35	78	8	1	3	16	28
Mining and Quarrying	17	0	3	1	21	2	0	1	0	3
Manufacturing	1032	5	151	20	1208	167	5	43	9	224
Electricity, Gas and Water Supply	39	1	6	2	48	6	1	2	1	10
Construction	142	3	13	6	164	18	3	7	6	34
Wholesale and Retail Trade	999	21	89	50	1159	125	21	26	22	194
Services	1128	15	73	20	1236	124	15	21	9	169
Hotels and Restaurant	113	8	10	3	134	14	8	3	1	26
Transport, Storage and Communications	184	1	13	12	210	22	1	4	5	32
Financial Intermediation	341	1	12	2	356	34	1	3	1	39
Real Estate	164	1	14	1	180	18	1	4	1	24
Renting and Business Activities	198	0	16	2	216	21	0	5	1	27
Community, Social and Personal Services	128	4	8	0	140	15	4	2	0	21
TOTAL NUMBER OF FIRMS	3390	46	344	134	3914	450	46	103	63	662

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Table 1. INDICES OF OVERALL BUSINESS OUTLOOK BY SECTOR ^{1/}

Fourth Quarter 2003 and First Quarter 2004

Sectors	Number of			Index Points					
				Current Quarter October - December			Next Quarter January - March		
	NCR	Outside NCR	Total	NCR	Outside NCR	Total	NCR	Outside NCR	Total
All Sectors	296	52	348	24.6	26.8	24.9	20.4	18.4	20.1
Industry	121	20	141	27.4	16.2	25.4	22.6	12.8	20.9
of which:									
Manufacturing	109	12	121	28.4	8.3	25.5	22.0	16.7	21.2
Construction	14	6	20	7.1	16.7	8.8	28.6	50.0	32.3
Wholesale and Retail Trade	78	18	96	21.8	11.1	20.3	15.4	0.0	13.3
Services	83	8	91	26.4	75.0	30.6	21.6	51.6	24.2
of which:									
Financial Intermediation	27	1	28	33.3	100.0	36.1	33.3	100.0	36.1
Business Activity	15	0	15	26.7	0.0	24.4	13.3	0.0	12.2
Community & Social Services	14	2	16	21.4	0.0	19.6	0.0	-50.0	-4.3
Hotel and Restaurants	9	4	13	55.6	100.0	62.5	55.6	75.0	58.6

^{1/} The diffusion index is weighted based on the distribution of the 2001 Top 5000 Corporations: (a) across the twelve economic sectors grouped as follows: Industry-manufacturing, electricity, gas and water, agriculture, fishery and forestry, and mining and quarrying; Construction, Wholesale and Retail Trade and Other Services Sector-finance, real estate, transport, storage & communication, hotels & restaurant, renting & business activities and community, social & personal services; and (b) beginning 4th Quarter 2003, between those firms based in the National Capital Region (NCR) and those based outside NCR, particularly Regions I, VII and XI.

Table 2. SELECTED INDICATORS OF BUSINESS EXPECTATIONS
Fourth Quarter 2003

INDICATORS	NCR	Outside NCR	Total
Business Outlook Index			
Current Quarter	24.6	26.8	24.9
Next Quarter	20.4	18.4	20.1
Volume of Business Activity Index			
Previous Quarter	3.7	-4.9	2.6
Current Quarter	33.7	14.1	31.1
Next Quarter	21.4	10.8	20.0
Volume of Total Order Book Index			
Previous Quarter	0.6	3.7	1.0
Current Quarter	25.7	24.5	25.6
Credit Access Index			
Current Quarter	-12.4	-14.1	-12.7
Financial Conditions Index			
Current Quarter	-27.1	-30.2	-27.5
Ave. Capacity Utilization (Industry Sector)			
Current Quarter	71.5	69.7	71.3
Employment Outlook Index			
Next Quarter	-3.2	5.4	-2.0

**Table 3. DISTRIBUTION OF COMPANIES WITH AND WITHOUT EXPANSION PLANS
FOR THE INDUSTRY SECTOR**
First Quarter 2004

Industry Group	Number of Respondents			Percent Share								
				With Plans			No Plans			No Answer		
	NCR	Outside NCR	Total	NCR	Outside NCR	Total	NCR	Outside NCR	Total	NCR	Outside NCR	Total
Industry Sectors	121	20	141	13.5	51.3	20.0	69.0	44.8	64.9	17.5	3.9	15.2
Mining & Quarrying	1	0	1	100.0	0.0	100.0	0.0	0.0	0.0	0.0	0.0	0.0
Manufacturing	109	12	121	11.9	50.0	17.5	73.4	50.0	70.0	14.7	0.0	12.5
Electricity, Gas & Water	5	2	7	0.0	0.0	0.0	0.0	0.0	0.0	100.0	100.0	100.0
Agriculture, Fishery & Forestry	6	6	12	33.3	66.7	52.6	50.0	33.3	40.4	16.7	0.0	7.1

Table 4. CONFIDENCE INDICATORS AND DIFFUSION INDICES

Fourth Quarter 2003

In percent

SECTORS	Confidence Indicator ^{1/}			Diffusion Index		
	NCR	Outside NCR	Total	NCR	Outside NCR	Total
1. Industry	2.0	11.3	3.6			
Volume of Total Order Book (Current Quarter)				9.8	18.0	11.2
Volume of Stocks of Finished Goods (Current Quarter)				24.2	-19.1	16.7
Volume of Production (Next Quarter)				20.3	-3.3	16.2
2. Construction	17.9	8.3	16.6			
Volume of Total Order Book (Current Quarter)				35.7	16.7	33.2
Number of People Employed (Next Quarter)				0.0	0.0	0.0
3. Wholesale and Retail Trade	-2.1	0.0	-1.8			
Volume of Stocks of Finished Goods (Current Quarter)				20.5	22.2	20.7
Business Conditions (Current Quarter)				3.8	16.7	5.6
Business Conditions (Next Quarter)				10	6	9.6
4. Services	25.1	34.4	25.1			
Business Conditions (Current Quarter)				34.3	20.3	33.1
Business Conditions (Next Quarter)				38.5	51.6	39.6
Number of People Employed (Next Quarter)				2.6	31.3	2.6

^{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. Discrepancies between diffusion index and confidence indicator figures are due to rounding-off.

Table 5. FACTORS LIMITING PRODUCTION/BUSINESS ACTIVITY BY SECTOR
Fourth Quarter 2003

Sectors	No. of Respondents	Percent Share										
		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	348	34.2	41.2	24.2	63.7	29.0	34.2	73.0	23.5	24.6	16.2	6.3
NCR	296	30.2	38.1	21.5	66.5	26.0	31.6	73.5	21.1	19.3	16.7	3.5
Industry	121	30.4	33.6	25.0	65.9	23.1	33.4	70.8	27.5	30.0	14.3	3.8
Of which:												
Manufacturing	109	31.2	33.9	24.8	67.0	22.0	33.9	74.3	27.5	30.3	12.8	0.9
Construction	14	28.6	42.9	14.3	85.7	42.9	28.6	92.9	35.7	14.3	14.3	0.0
Wholesale and Retail Trade	78	34.6	41.0	25.6	76.9	32.1	42.3	78.2	29.5	26.9	1.3	5.1
Services	83	26.3	39.2	15.4	55.4	21.5	20.7	69.6	5.5	2.5	33.0	2.2
Of which:												
Financial Intermediation	27	14.8	33.3	11.1	66.7	11.1	7.4	77.8	3.7	3.7	100.0	3.7
Business Activity	15	26.7	40.0	6.7	60.0	20.0	20.0	86.7	0.6	0.8	0.9	0.9
Community & Social Services	14	14.3	7.1	7.1	21.4	0.0	7.1	50.0	7.1	0.0	21.4	7.1
Hotel and Restaurants	9	33.3	44.4	33.3	66.7	44.4	55.6	77.8	33.3	11.1	0.0	0.0
Outside NCR	52	46.2	50.6	32.2	55.3	37.7	42.0	71.4	30.7	40.6	15.0	14.7
Industry	20	52.2	64.7	39.8	55.3	43.0	46.1	71.2	36.6	58.6	19.2	25.5
Of which:												
Manufacturing	12	58.3	75.0	33.3	66.7	33.3	41.7	75.0	33.3	58.3	0.0	8.3
Construction	6	33.3	33.3	33.3	83.3	50.0	66.7	83.3	33.3	33.3	0.0	16.7
Wholesale and Retail Trade	18	55.6	44.4	27.8	66.7	38.9	38.9	88.9	27.8	27.8	0.0	0.0
Services	8	21.9	32.8	21.9	32.8	21.9	32.8	43.8	21.9	21.9	31.3	12.5
Of which:												
Financial Intermediation	1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	100.0	0.0
Business Activity	0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Community & Social Services	2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	50.0
Hotel and Restaurants	4	50.0	75.0	50.0	75.0	50.0	75.0	100.0	50.0	50.0	0.0	0.0

^{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 SELECTED ECONOMIC INDICATORS BY SECTOR

Fourth Quarter 2003 and First Quarter 2004
In Index Points

Sectors	Current Quarter (October - December 2003)			Next Quarter (January - March 2004)		
	Average Peso Borrowing Rate	Average Inflation Rate	Average Peso/ US \$ Rate	Average Peso Borrowing Rate	Average Inflation Rate	Average Peso/ US \$ Rate
Total	27.2	42.1	0.5	22.0	33.4	-11.5
NCR	24.7	43.0	3.3	21.8	33.0	-11.0
Industry	16.0	35.5	-4.1	21.8	32.8	-15.7
Construction	35.7	57.1	-28.6	28.6	64.3	-7.1
Wholesale & Retail Trade	23.1	46.2	1.3	17.9	30.8	-12.8
Services	34.7	46.2	14.1	25.7	32.2	-6.2
Outside NCR	43.1	35.8	-17.9	23.3	36.1	-15.3
Industry	42.7	30.3	1.3	9.5	42.9	-17.8
Construction	0.0	33.3	16.7	50.0	33.3	33.3
Wholesale & Retail Trade	44.4	33.3	-27.8	22.2	22.2	-5.6
Services	50.8	52.0	-52.0	49.6	42.6	-34.4

Table 7. AVERAGE NUMBER OF EMPLOYEES
Fourth Quarter 2003

Sectors	No. of Respondents	Current Number of Employee (in percent)					No Response
		Small <100	Medium		Large >500		
			101-300	301-500			
Total	348	35.5	21.3	8.3	14.9	20.0	
NCR	296	34.8	20.6	8.1	15.1	21.5	
Industry	121	29.4	25.8	7.6	20.3	16.9	
Construction	14	50.0	21.4	14.3	14.3	0.0	
Wholesale and Retail Trade	78	51.3	19.2	9.0	7.7	12.8	
Services	83	23.6	16.5	7.0	16.6	36.4	
Outside NCR	52	40.1	26.1	9.3	13.8	10.7	
Industry	20	32.0	32.0	11.6	22.4	2.0	
Construction	6	50.0	16.7	16.7	0.0	16.7	
Wholesale and Retail Trade	18	55.6	16.7	5.6	5.6	16.7	
Services	8	27.0	31.6	8.2	8.2	25.0	