

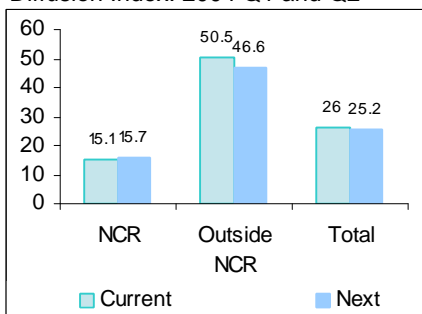


Business Expectations Remain Optimistic in the First Quarter of 2004*

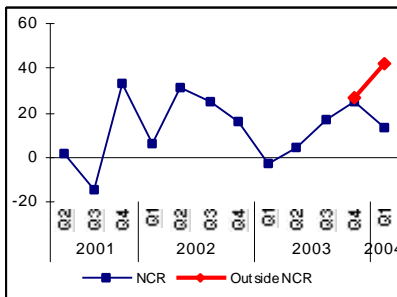
Overall business outlook

Business outlook remains optimistic for the first and second quarters of 2004.

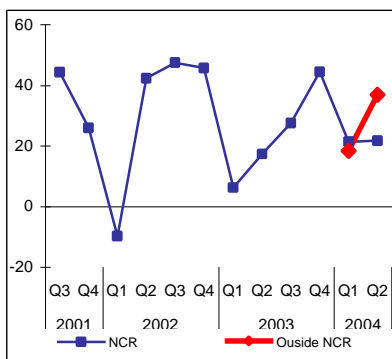
Overall Business Outlook
Diffusion Index: 2004 Q1 and Q2



Current Quarter Business Outlook
Q1: 2004



Next Quarter Business Outlook
Q2: 2004



Business sentiment remains optimistic in the first and second quarters 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 26.0 percent and 25.2 percent, respectively (Table 1).¹

For the first quarter of 2004, overall business outlook index increased to 26.0 percent from 24.9 percent in the fourth quarter of 2003. This was due mainly to the substantial improvement in business sentiment in areas outside the National Capital Region (NCR), which moved up to 50.5 percent from 26.8 percent in the previous quarter. Business outlook in the NCR, however, declined from 24.6 percent to 15.1 percent during the same period (Table 2).

Respondents cited the expected increase in consumer demand in the run up to the May elections as the main factor contributing to their positive business outlook. However, the resulting political uncertainty, stiff competition and the weakening of the peso were identified to affect negatively business activity.

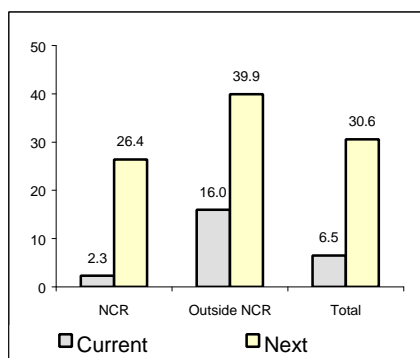
For the second quarter of 2004, the overall business outlook diffusion index remained positive at 25.2 percent compared to the 20.1 percent recorded in the previous quarter. The DIs for the second quarter of 2004 for the NCR respondents declined to 15.7 percent from 20.4 percent during the previous quarter, but the respondents outside NCR projected a higher index of 46.6 percent compared to 18.4 percent for the same period.

* This survey covers respondents from NCR and Regions I, VII and XI.

¹ The diffusion Index (DI) is computed as the percentage share of firms that answered in the affirmative less percentage share of firms that answered negative in a given indicator. 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

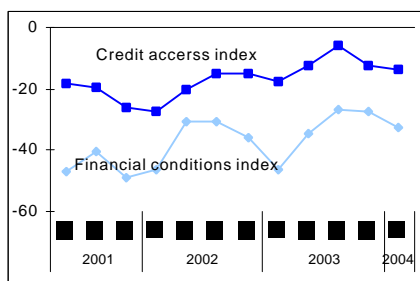
Volume of Business Activity



Respondents expect continued growth in the economy as majority of the firms projected positive business activity in the first quarter and more so in the second quarter of 2004 with indices of 6.5 percent and 30.6 percent, respectively. This sentiment is reflected mainly in the volume of business activity index for respondents based outside NCR, which increased slightly to 16.0 percent in the first quarter from 14.1 percent in the fourth quarter last year, and then accelerated to 39.9 percent in the second quarter of 2004. The corresponding NCR index declined substantially to 2.3 percent but regained its momentum in the second quarter at 26.4 percent (Table 2).

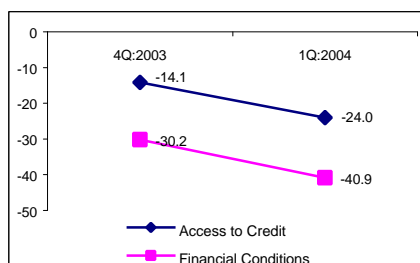
Access to Credit

NCR



Indices under the business-related factors show mix trends in the NCR. Respondent firms anticipate improvements in external financing, with the credit access index moving up to -8.7 percent from -12.4 percent in the previous quarter.² On the other hand, the financial conditions index, which is an indicator of the internal financial prospects of firms, declined further to -29.2 percent from -27.1 percent in the previous quarter (Table 2).²

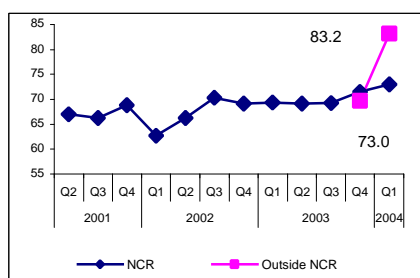
Outside NCR



In areas outside NCR, respondent firms indicated a more consistent outlook in terms of their access to credit and financial conditions. The credit access index for non-NCR respondents tightened further to -24.0 percent from -14.1 percent, while the financial conditions index also deteriorated to -40.9 percent from -30.2 percent (Table 2).

Capacity Utilization

Q1 2004



The estimated average capacity utilization in the industry sector improved to 76.2 percent for the first quarter from 71.3 percent in the previous quarter. This was due largely to the acceleration in capacity utilization in areas outside NCR from 69.7 percent in the previous quarter to 83.2

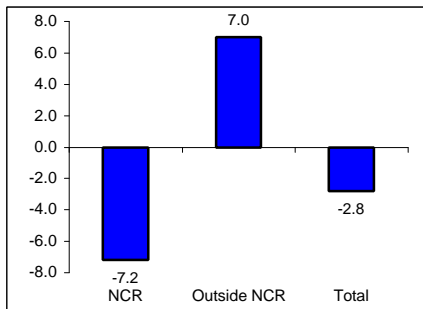
² The financial conditions index reflects the respondents' judgment on their general cash position, taking into account the level of cash and other cash items and repayment terms on loans. The access to credit index refers to the environment external to the firm, particularly the availability of credit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

percent. Average capacity utilization for NCR firms increased slightly to 73.0 percent from 71.5 percent (Table 2).³

Despite the presence of spare capacity in the manufacturing sector, 30.4 percent of the respondent firms indicated plans for expansion in the second quarter of 2004. NCR firms were less bullish with only 20.0 percent indicating expansion plans compared to 42.4 percent among non-NCR respondents (Table 3).

Employment Outlook Index

Q2 2004

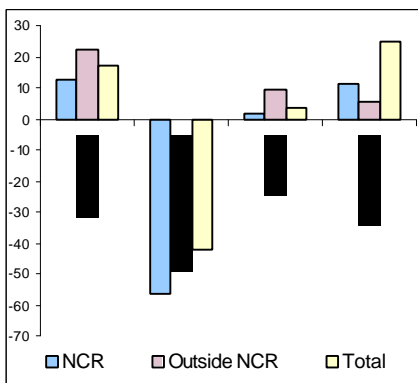


The overall employment outlook index of -2.8 percent for the second quarter of 2004 is consistent with the expansion plans indicated by both sets of respondents. The employment index for the NCR of -7.2 percent corresponds to the low percentage of firms planning business expansions in the area. The positive employment index of 7.0 percent for areas outside NCR is also in line with the higher percentage of firms that indicated expansion plans in these areas (Table 2).

Confidence indicators

Positive confidence indicators for the industry, trade and services sectors

Business Confidence Index
Q1 2004



Confidence indicators of business performance such as volume of business activity and business conditions showed largely positive trends in the first quarter. The confidence index for the services sector was most optimistic at 25.1 percent, followed by the industry sector at 17.1 percent. For the construction sector, the confidence index was negative 42.4 percent (Table 4).

³ The average capacity utilization of 76.2 percent in the first quarter 2004 of the BES sample firms from the industry sector in Metro Manila and the three selected regions differs from the average capacity utilization figures of 78.6 percent from October - November 2003 of the National Statistics Office (NSO), which were computed based on a sample of large manufacturing firms nationwide.

Sub-sector outlook

Manufacturing boosted optimism in the industry sector for the first two quarters of 2004.

The industry sector continued to show positive expectations with diffusion indices of 39.7 percent in the first quarter and 38.4 percent in the second quarter of 2004. The manufacturing sub-sector was the major contributor to the optimistic industry expectations, with indices at 39.0 percent in the first quarter and improving slightly to 40.4 percent in the second quarter. The positive outlook came particularly from firms outside NCR, which recorded indices of 70.0 percent and 60.0 percent, for the first and second quarters, respectively (Table 1).

Business activity and hotels and restaurants led the continued business optimism in the services sector for the first two quarters of 2004.

The services sector maintained its optimistic outlook with overall diffusion indices of 29.1 percent and 17.4 percent in the first and second quarters of 2004, respectively. The services sector in the NCR recorded a 29.1 percent DI in the first quarter but declined considerably to 15.9 percent in the second quarter. On the contrary, the services sector in areas outside NCR posted a 29.1 percent DI in the first quarter and continued its positive outlook at 33.0 percent in the next quarter. Contributing mainly to this optimism are firms engaged in business activity with a high 49.5 percent and 45.4 percent diffusion indices; and hotels and restaurants with 40.0 percent and 25.2 percent diffusion indices (Table 1).

Business constraints

Stiff competition and low demand continue to constrain business activities in the first quarter of 2004.

Around 62 percent of respondent firms cited stiff competition while 56 percent mentioned low demand as the major factors that constrain production and business activity in the first quarter. Other major factors cited by respondent firms were unclear economic laws, high interest rates, financial problems and limited access to credit (Table 5).

Expectations on key economic indicators

A higher peso borrowing rate, a higher inflation rate and a weaker peso are expected in the first and second quarters of 2004.

Survey respondents anticipate a higher peso-borrowing rate in the first quarter of 2004 as the corresponding diffusion index registered 33.7 percent. They likewise expect a relatively higher inflation rate with an index of 45.8 percent and a weaker peso to US\$ rate with an index of -15.9 percent. The expectation of a weaker peso could be due largely to non-economic factors such as the political uncertainty arising from the forthcoming national elections. Meanwhile, a higher inflation rate could be attributed to the possible increase in oil prices and the expected increase in consumer spending resulting from the preparations for the 2004 elections. Expectations for the second quarter of 2004 indicated a generally similar trend. (Table 6)

TECHNICAL NOTES

Beginning the fourth quarter of 2003, 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 in 2002 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 650 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 58 percent. The response rate is 66 percent for NCR and 40 percent for the selected regions outside NCR. It is worth noting that 33.7 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 second week until end of January 2004.

SECTOR	Population					Sample				
	NCR	I	VII	XI	Total	NCR	I	VII	XI	Total
Industry	1121	6	127	22	1276	143	6	49	22	220
Agriculture, Fisheries and Forestry	38	0	5	14	57	7	0	2	14	23
Mining and Quarrying	18	0	1	1	20	2	0	0	1	3
Manufacturing	974	5	117	7	1103	129	5	45	7	186
Electricity, Gas and Water Supply	39	1	4	0	44	5	1	2	0	8
Construction	142	1	8	3	154	19	1	3	3	26
Wholesale and Retail Trade	1051	24	63	12	1150	140	24	25	12	201
Services	1199	12	59	10	1280	158	12	23	10	203
Hotels and Restaurant	110	4	4	0	134	15	4	2	0	21
Transport, Storage and Communications	199	1	13	5	210	26	1	5	5	37
Financial Intermediation	347	1	13	1	356	45	1	5	1	52
Real Estate	172	3	14	1	180	23	3	5	1	32
Renting and Business Activities	245	0	8	1	216	32	0	3	1	36
Community, Social and Personal Services	126	3	7	2	140	17	3	3	2	25
TOTAL NUMBER OF FIRMS	3513	43	257	47	3860	460	43	100	47	650

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Table 1. INDICES OF OVERALL BUSINESS OUTLOOK BY SECTOR ^{1/}
 First and Second Quarters of 2004

12 February 2004

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Sectors	Number of Respondents			Index Points					
				Current Quarter January - March			Next Quarter April - June		
	NCR	Outside NCR	Total	NCR	Outside NCR	Total	NCR	Outside NCR	Total
All Sectors	302	75	377	15.1	50.5	26.0	15.7	46.6	25.2
Industry	106	29	135	16.4	66.6	39.7	23.7	55.5	38.4
of which:									
Manufacturing	95	20	115	11.6	70.0	39.0	23.2	60.0	40.4
Construction	8	3	11	-12.5	-33.3	-17.6	-12.5	0.0	-9.4
Wholesale and Retail Trade	72	21	93	1.4	33.3	9.6	11.1	38.1	18.0
Services	116	22	138	29.1	29.1	29.1	15.9	33.0	17.4
of which:									
Financial Intermediation	41	4	45	29.3	25.0	28.8	14.6	25.0	15.7
Business Activity	22	2	24	54.5	0.0	49.5	50.0	0.0	45.4
Community & Social Services	13	4	17	15.4	25.0	17.7	0.0	50.0	12.3
Hotel and Restaurants	15	5	20	40.0	40.0	40.0	26.7	20.0	25.2

1/ The diffusion index is weighted based on the distribution of the 2002 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 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.

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Table 2. SELECTED INDICATORS OF BUSINESS EXPECTATIONS
Fourth Quarter 2003 and First Quarter 2004

INDICATORS	Fourth Quarter 2003			First Quarter 2004		
	NCR	Outside NCR	Total	NCR	Outside NCR	Total
Business Outlook Index						
Current Quarter	24.6	26.8	24.9	15.1	50.5	26.0
Next Quarter	20.4	18.4	20.1	15.7	46.6	25.2
Volume of Business Activity Index						
Previous Quarter	3.7	-4.9	2.6	17.8	33.8	22.7
Current Quarter	33.7	14.1	31.1	2.3	16.0	6.5
Next Quarter	21.4	10.8	20.0	26.4	39.9	30.6
Volume of Total Order Book Index						
Previous Quarter	0.6	3.7	1.0	12.7	31.6	18.5
Current Quarter	25.7	24.5	25.6	0.0	12.1	3.8
Credit Access Index						
Current Quarter	-12.4	-14.1	-12.7	-8.7	-24.0	-13.4
Financial Conditions Index						
Current Quarter	-27.1	-30.2	-27.5	-29.2	-40.9	-32.8
Ave. Capacity Utilization (Industry Sector)						
Current Quarter	71.5	69.7	71.3	73.0	83.2	76.2
Employment Outlook Index						
Next Quarter	-3.2	5.4	-2.0	-7.2	7.0	-2.8

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

Industry Group	Number of Respondents			Percent Share								
				With Expansion Plans			No Expansion Plans			No Answer		
	NCR	Outside NCR	Total	NCR	Outside NCR	Total	NCR	Outside NCR	Total	NCR	Outside NCR	Total
Industry Sector	106	29	135	20.0	42.4	30.4	73.5	57.0	65.9	6.5	0.5	3.8
Mining & Quarrying	2	1	3	50.0	0.0	39.1	50.0	0.0	39.1	0.0	100.0	21.7
Manufacturing	95	20	115	20.0	45.0	31.7	76.8	55.0	66.6	3.2	0.0	1.7
Electricity, Gas & Water	5	1	6	0.0	0.0	0.0	0.0	100.0	36.1	100.0	0.0	63.9
Agriculture, Fishery & Forestry	4	7	11	25.0	14.3	19.6	75.0	85.7	80.4	0.0	0.0	0.0

Table 4. CONFIDENCE INDICATORS AND DIFFUSION INDICES

First Quarter 2004

In percent

SECTORS	Confidence Indicator ^{1/}			Diffusion Index		
	NCR	Outside NCR	Total	NCR	Outside NCR	Total
1. Industry	12.9	22.0	17.1			
Volume of Total Order Book (Current Quarter)				11.6	39.3	24.5
Volume of Stocks of Finished Goods (Current Quarter)				10.8	19.8	15.0
Volume of Production (Next Quarter)				37.7	46.6	41.8
2. Construction	-56.3	0.0	-42.4			
Volume of Total Order Book (Current Quarter)				-62.5	0.0	-47.1
Number of People Employed (Next Quarter)				-50.0	0.0	-37.7
3. Wholesale and Retail Trade	1.4	9.5	3.5			
Volume of Stocks of Finished Goods (Current Quarter)				-2.8	-14.3	-5.7
Business Conditions (Current Quarter)				-12.5	-19.0	-14.2
Business Conditions (Next Quarter)				13.9	33.3	18.9
4. Services	11.0	5.5	25.1			
Business Conditions (Current Quarter)				5.2	1.4	4.8
Business Conditions (Next Quarter)				20.4	11.9	19.7
Number of People Employed (Next Quarter)				7.5	3.1	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. Discrepancies between diffusion index and confidence indicator figures are due to rounding-off.

Table 5. FACTORS LIMITING PRODUCTION/BUSINESS ACTIVITY BY SECTOR
First Quarter 2004

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	377	33.0	34.7	19.8	56.4	30.7	31.9	62.5	18.5	19.4	16.4	6.5
NCR	302	32.6	36.9	13.9	60.5	30.9	32.6	67.3	16.1	14.1	17.7	5.3
Industry	106	30.3	40.4	18.8	68.1	30.9	34.8	67.5	28.3	27.5	21.6	5.4
Of which:												
Manufacturing	95	30.5	40.0	16.8	70.5	29.5	33.7	71.6	27.4	28.4	18.9	2.1
Construction	8	25.0	12.5	0.0	62.5	50.0	0.0	37.5	12.5	0.0	12.5	0.0
Wholesale and Retail Trade	72	37.5	44.4	11.1	63.9	34.7	36.1	77.8	16.7	13.9	1.4	5.6
Services	116	31.3	30.1	13.5	50.7	25.3	31.4	61.4	5.0	4.0	29.3	5.4
Of which:												
Financial Intermediation	41	17.1	36.6	4.9	53.7	14.6	22.0	68.3	4.9	7.3	100.0	7.3
Business Activity	22	45.5	36.4	18.2	59.1	31.8	45.5	77.3	1.1	1.3	0.9	1.6
Community & Social Services	13	15.4	15.4	15.4	38.5	15.4	23.1	61.5	7.7	7.7	0.0	15.4
Hotel and Restaurants	15	33.3	46.7	20.0	60.0	26.7	60.0	73.3	26.7	6.7	0.0	13.3
Outside NCR	75	33.8	29.8	33.1	47.3	30.2	30.4	51.9	24.0	31.3	13.4	9.3
Industry	29	23.2	32.0	41.3	53.5	31.4	26.1	50.6	29.2	36.7	7.0	14.0
Of which:												
Manufacturing	20	25.0	30.0	40.0	55.0	30.0	25.0	50.0	25.0	35.0	5.0	10.0
Construction	3.0	66.7	66.7	66.7	33.3	66.7	100.0	66.7	33.3	100.0	33.3	33.3
Wholesale and Retail Trade	21	57.1	19.0	14.3	23.8	23.8	28.6	61.9	4.8	19.0	14.3	0.0
Services	22	32.7	30.5	22.7	62.8	28.0	36.6	38.1	32.0	14.5	34.9	0.0
Of which:												
Financial Intermediation	4	25.0	0.0	0.0	50.0	25.0	0.0	50.0	0.0	0.0	100.0	0.0
Business Activity	2	50.0	100.0	0.0	100.0	0.0	0.0	0.0	50.0	0.0	50.0	0.0
Community & Social Services	4	0.0	0.0	0.0	25.0	0.0	50.0	75.0	0.0	0.0	25.0	0.0
Hotel and Restaurants	5	40.0	40.0	40.0	60.0	40.0	40.0	80.0	40.0	40.0	20.0	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

First and Second Quarters of 2004

In Index Points

Sectors	Current Quarter (January - March)			Next Quarter (April - June)		
	Average Peso Borrowing Rate	Average Inflation Rate	Average Peso/US \$ Rate	Average Peso Borrowing Rate	Average Inflation Rate	Average Peso/US \$ Rate
Total	33.7	45.8	-15.9	32.6	52.9	-15.6
NCR	29.4	44.4	-16.2	30.7	50.0	-16.8
Industry	31.2	44.0	-12.0	33.6	47.9	-9.0
Construction	37.5	37.5	-12.5	50.0	75.0	-12.5
Wholesale & Retail Trade	25.0	43.1	-22.2	25.0	50.0	-26.4
Services	42.2	38.1	-5.7	33.0	40.5	-7.1
Outside NCR	43.3	49.1	-15.4	36.8	59.2	-12.9
Industry	46.0	61.7	-32.6	41.3	62.3	-25.6
Construction	-33.3	0.0	-100.0	66.7	66.7	-33.3
Wholesale & Retail Trade	47.6	28.6	33.3	23.8	52.4	19.0
Services	23.1	36.4	-42.9	39.2	54.8	-39.0

Table 7. AVERAGE NUMBER OF EMPLOYEES

First Quarter 2004

Sectors	No. of Respondents	Current Number of Employee (in percent)					No Response
		Small <100	Medium		Large >500		
			101-300	301-500			
Total	377	33.7	24.5	10.6	15.3	15.9	
NCR	302	35.1	23.2	7.5	15.8	18.4	
Industry	106	30.9	22.9	8.5	21.7	16.0	
Construction	8	50.0	25.0	0.0	0.0	25.0	
Wholesale and Retail Trade	72	36.1	26.4	8.3	8.3	20.8	
Services	116	36.3	20.4	6.6	19.1	17.6	
Outside NCR	75	30.5	27.5	17.7	13.9	10.3	
Industry	29	17.5	30.8	23.2	19.2	9.3	
Construction	3	66.7	0.0	33.3	0.0	0.0	
Wholesale and Retail Trade	21	52.4	19.0	9.5	4.8	14.3	
Services	22	41.7	33.4	4.5	10.0	10.3	