

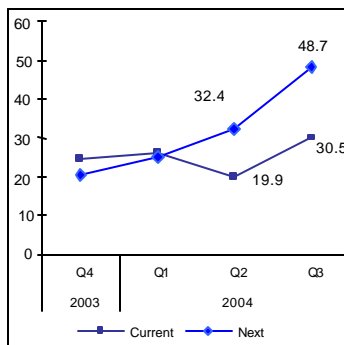


Business Optimism Soars In the Third and Fourth Quarters of 2004[?]

Overall business outlook

Business optimism reaches record highs in the third and fourth quarters of 2004.

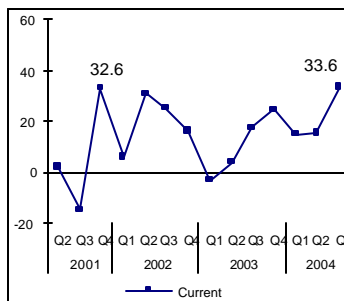
Overall Business Outlook
Diffusion Index: Q4 2003 - Q3 2004



Business confidence in the economy reached record highs as the overall business outlook diffusion indices (DI) registered 30.5 percent and 48.7 percent, for the third and fourth quarters of the year from 19.9 percent and 32.4 percent respectively, in the previous survey (Tables 1 and 2).¹ The sizeable increases in the diffusion indices indicate the strong expectations by the respondents that economic growth will accelerate during the second half of the year.

Respondents cited various reasons for their bullish business outlook: one, relatively stable political environment; two, a generally stable peso; and three, increasing demand for Philippine products and services in both the domestic and external markets. Respondents also indicated that other factors such as better government support, technology and systems' improvements, good weather conditions and market demand seasonality also contributed to the more favorable business outlook. This optimism by the business sector should strengthen the expectation that the government's target of 4.9 to 5.8 percent GDP growth this year could be achieved. This optimism is also consistent with international expectations of strong economic performance by Asian and major world economies in 2004.

NCR Business Outlook Current Quarter

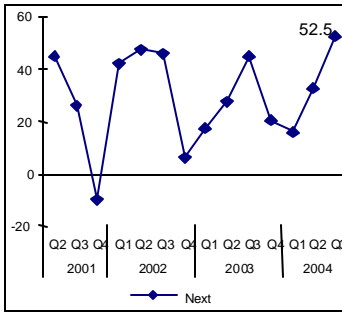


NCR respondents registered their most optimistic business expectations since the second quarter of 2001. Their overall business outlook index for the third quarter of 2004 rose to 33.6 percent from 15.7 percent in the previous quarter (Table 2).

[?] Results of the Third Quarter BES Survey conducted from 1 July to 9 August 2004. The survey period was extended due to the expansion of survey coverage to Regions III and IV.

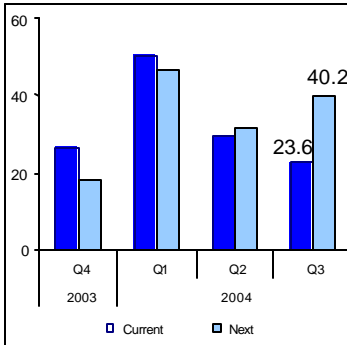
¹ The diffusion Index (DI) is computed as the percentage share of firms that answered in the affirmative less percentage share of firms that answered negative in a given indicator. A positive DI indicates a favorable view, except for the average inflation rate and the average peso-borrowing rate, where a positive DI indicates the opposite. Please note that all index figures are diffusion indices.

**NCR Business Outlook
Next Quarter**



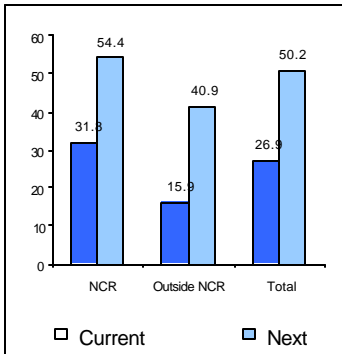
The next quarter business outlook index for NCR respondents stood at a much higher diffusion index of 52.5 percent, indicating an even more optimistic outlook for the fourth quarter of 2004.

**Areas Outside NCR
Business Outlook
Current and Next Quarters**



Business confidence of respondent firms in areas outside the NCR also increased but at a smaller scale compared to NCR respondents. The business outlook index for the third quarter of 2004 for respondents outside the NCR decreased but remained positive at 23.6 percent in the third quarter of 2004 from 29.5 percent in the second quarter of 2004. However, their next quarter business outlook index increased to 40.2 percent from 31.6 percent in the previous quarter.

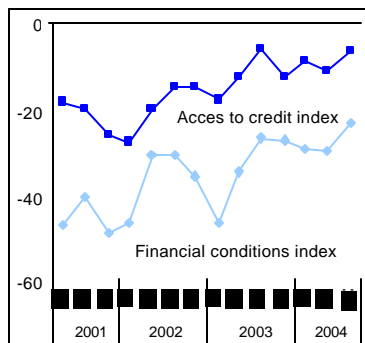
**Business-related factors
Volume of Business Activity**



Expectations of accelerating growth in the economy were further confirmed as majority of the firms projected brisker volume of business in the third quarter, and much more so in the fourth quarter of 2004, with indices of 26.9 percent and 50.2 percent, respectively. This sentiment is reflected particularly in the volume of business activity index for NCR respondents, which increased to 31.8 percent in the third quarter from 23.1 percent in the second quarter, and then accelerated to 54.4 percent in the fourth quarter of 2004. The corresponding index outside NCR, however, decreased to 15.9 percent in the third quarter from 30.5 percent in the second quarter, but recovered in the fourth quarter with an index of 40.9 percent (Table 2).

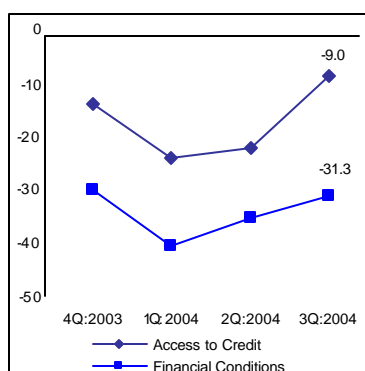
Access to credit

NCR



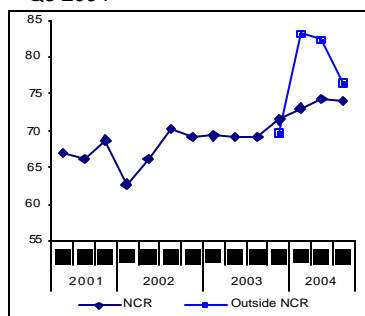
Indices for business-related factors show better financial conditions for respondent firms in the NCR. Less respondent firms anticipate difficulties in accessing credit with the credit access index improving to -6.5 percent from -11.1 percent in the previous quarter. Likewise, the financial conditions index, which is an indicator of the internal financial situation of firms, improved to -23.2 percent from -29.6 percent in the previous quarter (Table 2).²

Outside NCR



Similarly, less respondent firms outside of the NCR anticipate tighter access to credit and worsening financial conditions compared to the previous quarter. The credit access index for non-NCR respondents improved to -9.0 percent from -22.4 percent, while the financial conditions index also increased to -31.3 percent from -35.5 percent (Table 2).

Capacity Utilization Q3 2004



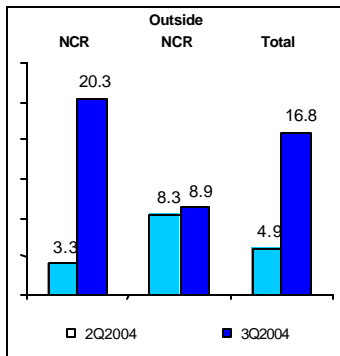
Despite the highly positive outlook in the next two quarters, the average expected capacity utilization in the industry sector declined to 74.8 percent for the third quarter from 76.7 percent in the previous quarter. This was due largely to the decrease in expected capacity utilization of firms outside NCR from 82.4 percent in the second quarter to 76.6 percent in the third quarter. Meanwhile, average expected capacity utilization for NCR firms remained virtually flat at about 74.0 percent. The decline in the capacity utilization does not necessarily imply a decrease in production. It could be due to firms with already very high capacity utilization in the previous quarter but expanded their businesses and acquired new or improved machines with higher capacity (Table 2).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 repayments 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 and other financial institutions.

³ The average capacity utilization of 76.7 percent in the second 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 79.1 percent from April-May 2004 of the National Statistics Office (NSO), which were computed based on a sample of large manufacturing firms nationwide.

Employment Outlook

Q3: 2004



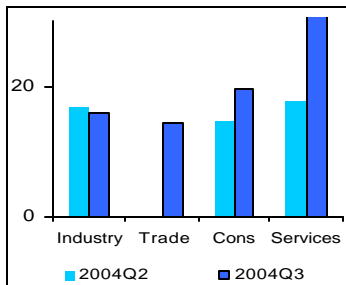
Consistent with the continuing increase in business activity in the next two quarters, the overall employment outlook index also increased further to 16.8 percent diffusion index from 4.9 percent in the second quarter of 2004. The employment index for NCR increased to 20.3 percent from 3.3 percent in the previous quarter. Likewise, the index in areas outside NCR increased to 8.9 percent in the third quarter from 8.3 percent in the second quarter (Table 2). With the increases in the employment diffusion indices for the third quarter of 2004, the business sector expects significant increases in employment in both the NCR and areas outside NCR.

The expectation of increasing employment in the third quarter of 2004 is further supported by the expansion plans of 23.4 percent of respondent firms in the industry sector. NCR firms were slightly optimistic with 24.2 percent indicating expansion plans compared to 22.5 percent among respondents in areas outside NCR (Table 3).

Confidence indicators

Strong business confidence in services and construction sectors

Business Confidence Index
Q3 2004



Business confidence also showed high positive indices in the third quarter. The confidence index for the services sector was most optimistic at 34.7 percent, followed by the construction sector at 19.7 percent. The industry and wholesale and retail trade sectors also posted positive but lower indices. All sectors registered higher indices in the NCR than outside NCR (Table 4).

Sub-sector outlook

Business services and hotels and restaurants will drive the services sector in the third and fourth quarters of 2004, respectively.

All sectors (industry, construction, wholesale and retail trade, and services) of the economy recorded very high diffusion indices for the third and fourth quarters of 2004. The services sector recorded the most optimistic business outlook with overall diffusion indices of 37.3 percent and 55.8 percent in the third and fourth quarters of 2004, respectively. The services sector in the NCR posted a 38.1 percent DI in the third quarter which improved considerably to 57.6 percent in the fourth quarter. In areas outside NCR, the services sector registered a 28.6 percent DI in the third quarter which increased to 37.8 percent in the next quarter. The main contributors to this optimism are respondent firms engaged in

business services, community and social services in the third quarter; and financial intermediation and hotels and restaurants in the fourth quarter (Table 1).

Business services like rentals, computer services, advertising, consultancy and other related services are expected to perform better in areas outside NCR, while hotels and restaurants and community and social services have higher prospects in the NCR. Services related to financial intermediation showed mixed trends.

Manufacturing remains the major source of optimism in the industry sector for the third and fourth quarters of 2004.

The industry sector also continued to show more positive expectations with diffusion indices of 29.9 percent in the third quarter and 37.1 percent in the fourth quarter of 2004. The manufacturing sub-sector remains the major contributor to industry growth, with indices at 32.2 percent in the third quarter and increasing to 35.9 percent in the fourth quarter. The positive industry outlook came primarily from firms in the NCR which recorded indices of 35.6 percent and 41.1 percent, for the third and fourth quarters, respectively (Table 1).

Business constraints

Increasing oil prices, accelerating inflation, and the growing fiscal deficit seen as the main risks to business

Respondent firms identified increasing oil prices, accelerating inflation, and the growing fiscal deficit as the main risks to the expected business upswing this year. However, the country's vulnerability to external shocks could be reduced by the expected increase in remittances of overseas Filipino workers in the last quarter of 2004 and the increase in foreign direct investments. Meanwhile, business sector's perception of greater political stability indicates heightened expectations on good governance with regard to these risks.

Stiff competition continues to constrain business activities in the third quarter of 2004.

Despite increasing demand for Philippine products in the domestic and external markets, respondent firms cited stiff competition as the major factor that constrains production and business activity in the third quarter. Other major factors cited by respondent firms were unclear economic laws, high interest rates, and financial problems (Table 5).

Expectations on key economic indicators

Higher interest rates, higher inflation rate and a stronger peso are expected in the fourth quarter of 2004.

Survey respondents anticipate a higher peso-borrowing rate in the third quarter of 2004 as the corresponding diffusion index registered 39.8 percent. They likewise expect a relatively higher inflation rate with an index of 51.0 percent and a weaker peso to US\$ exchange rate with an index of -2.5 percent. Expectations for the fourth quarter of 2004 likewise indicated higher interest rates and inflation rates, but respondents anticipate a strengthening of the peso with a positive diffusion index of 4.6 percent. The anticipated strengthening of the peso in the fourth quarter could be attributed to the expectations of more stable political

conditions, increase in the remittances of overseas Filipino workers and higher exports during the period (Table 6).

TECHNICAL NOTES

To provide a regional dimension to business prospects, the BES survey coverage was expanded to include regions outside the NCR. Starting from the fourth quarter of 2003, the BES was expanded to include Regions I, VII and XI. Beginning this quarter, i.e. third quarter of 2004, two more regions were included in the survey coverage, namely Regions III and IV. The expanded BES coverage now consists of firms in SEC's Top 5000 Corporations in 2002 which are based in NCR and five selected regions: Region I, III, IV, VII and XI. From each of these regions, a stratified random sample of 898 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 64 percent. The response rate is 81 percent for NCR and 46 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 shown below.

SECTOR	Population									Sample						
	Total	NCR	Outside NCR	I	III	IV	VII	XI	Total	NCR	Outside NCR	I	III	IV	VII	XI
Industry	1932	1069	863	6	156	552	127	22	358	143	215	6	56	84	49	20
Agriculture, Fisheries and Forestry	69	38	31	0	5	7	5	14	28	7	21	0	2	3	2	14
Mining and Quarrying	22	18	4	0	0	2	1	1	5	2	3	0	0	2	0	1
Manufacturing	1782	974	808	5	142	537	117	7	309	129	180	5	50	75	45	5
Electricity, Gas and Water Supply	59	39	20	1	9	6	4	0	16	5	11	1	4	4	2	0
Construction	180	142	38	1	13	13	8	3	33	19	14	1	4	4	3	2
Wholesale and Retail Trade	1342	1051	291	23	110	83	63	12	258	140	118	23	35	25	25	10
Services	1397	1199	198	12	56	61	59	10	249	158	91	12	22	24	23	10
Hotels and Restaurant	139	110	29	4	12	9	4	0	30	15	15	4	5	4	2	0
Transport, Storage and Communications	246	199	47	1	17	11	13	5	46	26	20	1	5	4	5	5
Financial Intermediation	379	347	32	1	7	10	13	1	61	45	16	1	4	5	5	1
Real Estate	204	172	32	3	5	9	14	1	38	23	15	3	2	4	5	1
Renting and Business Activities	268	245	23	0	7	7	8	1	42	32	10	0	3	3	3	1
Community, Social and Personal Services	161	126	35	3	8	15	7	2	32	17	15	3	3	4	3	2
TOTAL NUMBER OF FIRMS	4851	3461	1390	42	335	709	257	47	898	460	438	42	117	137	100	42

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

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Sectors	Number of Respondents			Index Points					
				Current Quarter July - September			Next Quarter October - December		
	NCR	Outside NCR	Total	NCR	Outside NCR	Total	NCR	Outside NCR	Total
All Sectors	374	200	574	33.6	23.6	30.5	52.5	40.2	48.7
Industry of which:	118	90	208	35.6	23.3	29.9	41.1	32.4	37.1
Manufacturing	104	75	179	39.4	24.0	32.2	39.4	32.0	35.9
Construction	14	7	21	21.4	28.6	23.2	35.7	57.1	41.0
Wholesale and Retail Trade	104	49	153	27.9	20.4	26.0	60.6	59.2	60.2
Services of which:	138	54	192	38.1	28.6	37.3	57.6	37.8	55.8
Financial Intermediation	44	13	57	36.4	46.2	37.3	59.1	53.8	58.6
Business Activities	25	8	33	44.0	75.0	46.9	52.0	62.5	53.0
Community & Social Services	17	12	29	47.1	33.3	43.7	52.9	25.0	46.1
Hotel and Restaurants	15	8	23	40.0	25.0	36.7	73.3	62.5	71.0

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 and including Regions III and IV starting 3rd quarter 2004.

Table 2. SELECTED INDICATORS OF BUSINESS EXPECTATIONS
Second and Third Quarters of 2004

INDICATORS	Second Quarter 2004			Third Quarter 2004		
	NCR	Outside NCR	Total	NCR	Outside NCR	Total
Business Outlook Index						
Current Quarter	15.7	29.5	19.9	33.6	23.6	30.5
Next Quarter	32.8	31.6	32.4	52.5	40.2	48.7
Volume of Business Activity Index						
Previous Quarter	13.1	19.2	15.0	23.4	16.8	21.3
Current Quarter	23.1	30.5	25.4	31.8	15.9	26.9
Next Quarter	36.4	36.5	36.4	54.4	40.9	50.2
Volume of Total Order Book Index						
Previous Quarter	12.4	15.6	13.4	14.9	12.5	14.1
Current Quarter	18.6	16.8	18.0	23.3	11.0	19.5
Credit Access Index						
Current Quarter	-11.1	-22.4	-14.6	-6.5	-9.0	-7.3
Financial Conditions Index						
Current Quarter	-29.6	-35.5	-31.4	-23.2	-31.3	-25.7
Ave. Capacity Utilization (Industry Sector)						
Current Quarter	74.2	82.4	76.7	74.0	76.6	74.8
Employment Outlook Index						
Next Quarter	3.3	8.3	4.9	20.3	8.9	16.8

**Table 3. DISTRIBUTION OF COMPANIES WITH AND WITHOUT EXPANSION PLANS
FOR THE INDUSTRY SECTOR**
Third 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	118	90	208	24.2	22.5	23.4	69.6	60.7	65.5	6.1	16.7	11.0
Mining & Quarrying	2	1	3	100.0	0.0	78.3	0.0	0.0	0.0	0.0	100.0	21.7
Manufacturing	104	75	179	23.1	22.7	22.9	70.2	61.3	66.0	6.7	16.0	11.1
Electricity, Gas & Water	5	5	10	0.0	0.0	0.0	100.0	0.0	63.9	0.0	100.0	36.1
Agriculture, Fishery & Forestry	7	9	16	42.9	22.2	32.5	57.1	55.6	56.3	0.0	22.2	11.1

Table 4. CONFIDENCE INDICATORS AND DIFFUSION INDICES

Third Quarter 2004

In percent

SECTORS	Confidence Indicator ^{1/}			Diffusion Index		
	NCR	Outside NCR	Total	NCR	Outside NCR	Total
1. Industry	18.9	12.2	15.8			
Volume of Total Order Book (Current Quarter)				27.4	9.0	18.8
Volume of Stocks of Finished Goods (Current Quarter)				18.9	4.0	12.0
Volume of Production (Next Quarter)				48.3	31.7	40.6
2. Construction	21.4	14.3	19.7			
Volume of Total Order Book (Current Quarter)				28.6	28.6	28.6
Number of People Employed (Next Quarter)				14.3	0.0	10.8
3. Wholesale and Retail Trade	14.7	11.6	13.9			
Volume of Stocks of Finished Goods (Current Quarter)				23.1	18.4	21.9
Business Conditions (Current Quarter)				24.0	6.1	19.5
Business Conditions (Next Quarter)				43.3	46.9	44.2
4. Services	35.7	23.9	34.7			
Business Conditions (Current Quarter)				28.9	24.8	28.5
Business Conditions (Next Quarter)				51.9	35.9	50.5
Number of People Employed (Next Quarter)				26.4	11.0	25.1

^{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
Third 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	574	38.4	37.0	22.0	58.7	27.9	33.5	70.3	22.8	23.6	13.2	6.3
NCR	374	39.2	36.8	19.6	59.2	29.6	33.9	73.3	18.8	20.1	14.5	5.7
Industry	118	36.3	38.0	22.0	62.3	29.2	28.0	72.5	30.3	33.3	10.6	11.5
Of which:												
Manufacturing	104	36.5	37.5	20.2	63.5	27.9	26.9	76.9	30.8	34.6	7.7	8.7
Construction	14	14.3	14.3	0.0	64.3	0.0	14.3	64.3	0.0	0.0	0.0	0.0
Wholesale and Retail Trade	104	50.0	40.4	22.1	65.4	36.5	43.3	82.7	24.0	26.0	1.9	2.9
Services	138	35.1	35.3	17.4	50.5	27.3	33.3	66.9	6.1	5.6	30.8	3.8
Of which:												
Financial Intermediation	44	29.5	38.6	9.1	50.0	18.2	20.5	65.9	6.8	11.4	100.0	6.8
Business Activity	25	28.0	44.0	32.0	60.0	32.0	40.0	84.0	1.1	1.3	1.5	1.7
Community & Social Services	17	35.3	5.9	5.9	29.4	0.0	52.9	64.7	11.8	0.0	11.8	5.9
Hotel and Restaurants	15	33.3	40.0	20.0	53.3	33.3	60.0	80.0	26.7	20.0	0.0	6.7
Outside NCR	200	36.6	37.4	27.4	57.4	24.2	32.5	63.7	31.7	31.4	10.4	7.5
Industry	90	33.9	39.5	31.7	61.2	28.7	34.6	67.6	31.2	36.8	6.1	9.6
Of which:												
Manufacturing	75	34.7	40.0	29.3	61.3	26.7	33.3	68.0	29.3	34.7	1.3	6.7
Construction	7	28.6	14.3	14.3	57.1	0.0	14.3	57.1	14.3	28.6	14.3	0.0
Wholesale and Retail Trade	49	53.1	44.9	24.5	57.1	22.4	36.7	79.6	28.6	26.5	12.2	4.1
Services	54	22.3	21.0	17.2	42.2	13.1	20.5	22.7	42.3	17.5	24.6	5.6
Of which:												
Financial Intermediation	13	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	100.0	0.0
Business Activity	8	0.0	25.0	0.0	37.5	0.0	0.0	0.0	37.5	25.0	0.0	0.0
Community & Social Services	12	25.0	25.0	25.0	33.3	25.0	33.3	66.7	25.0	33.3	16.7	8.3
Hotel and Restaurants	8	25.0	25.0	25.0	50.0	25.0	37.5	75.0	25.0	25.0	12.5	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 SECTORThird and Fourth Quarters of 2004
In Index Points

Sectors	Current Quarter (July - September)			Next Quarter (October - December)		
	Average Peso Borrowing Rate	Average Inflation Rate	Average Peso/US \$ Rate	Average Peso Borrowing Rate	Average Inflation Rate	Average Peso/US \$ Rate
Total	39.8	51.0	-2.5	32.0	41.6	4.6
NCR	42.9	54.0	-1.5	33.0	45.8	7.2
Industry	37.8	50.6	-0.8	22.9	38.1	3.8
Construction	42.9	57.1	21.4	50.0	57.1	50.0
Wholesale & Retail Trade	43.3	58.7	-1.0	28.8	49.0	8.7
Services	47.7	52.9	-5.7	44.7	49.1	3.9
Outside NCR	32.9	44.4	-4.7	29.7	32.1	-1.2
Industry	36.9	50.3	-6.7	37.4	41.0	4.3
Construction	0.0	28.6	28.6	0.0	0.0	28.6
Wholesale & Retail Trade	26.5	34.7	-4.1	14.3	16.3	-18.4
Services	47.5	31.9	-3.2	49.6	32.2	22.1

Table 7. AVERAGE NUMBER OF EMPLOYEES
Third Quarter 2004

Sectors	No. of Respondents	Current Number of Employee (in percent)				
		Small <100	Medium		Large >500	No Response
			101-300	301-500		
Total	574	36.1	24.9	8.9	15.0	14.7
NCR	374	36.7	24.0	7.1	14.2	18.0
Industry	118	28.6	29.0	7.5	20.8	14.0
Construction	14	35.7	35.7	0.0	0.0	28.6
Wholesale and Retail Trade	104	48.1	22.1	5.8	5.8	18.3
Services	138	34.1	19.9	8.8	17.3	20.0
Outside NCR	200	34.8	26.9	12.8	17.0	7.4
Industry	90	23.6	33.2	15.2	24.1	3.8
Construction	7	57.1	14.3	0.0	0.0	28.6
Wholesale and Retail Trade	49	59.2	16.3	10.2	6.1	8.2
Services	54	37.2	20.7	9.7	8.8	17.0