

BUSINESS OUTLOOK REMAINS POSITIVE IN THE SECOND AND THIRD QUARTERS OF 2005*

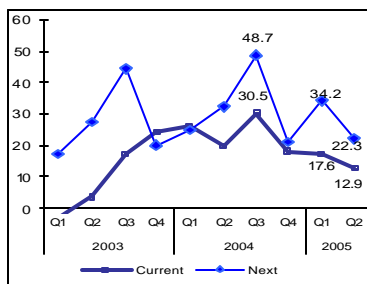
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Overall Business Outlook

Business outlook remains positive but optimism lower due to rising oil prices, pending increase in VAT and slowdown in foreign trade.

Business outlook in the second quarter of 2005 remained positive as indicated by the positive diffusion index (DI) at 12.9 percent but continued to decline for the third consecutive quarter.¹ The last improvement in the overall business outlook DI was posted in the third quarter of 2004 when it rose to 30.5 percent. The second quarter DI is the lowest since the third quarter of 2003 (Table 1).

Overall Business Outlook
Diffusion Index: Q2 2004 - Q2 2005



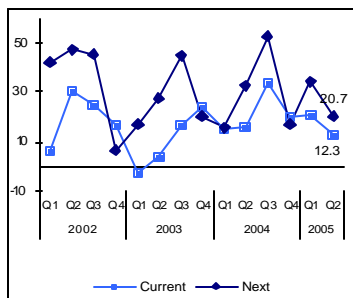
The third quarter business outlook was similarly lower at 22.3 percent from the previous survey's 34.2 percent (Table 1).

Survey respondents attributed the decline in business optimism to rising oil prices, pending increase in the value-added tax (VAT) and slowdown in foreign trade. On the other hand, they credited their positive outlook to increased consumer spending due to the opening of the school year in June, stability of the peso, increased investments and new and enhanced business strategies. These factors could help spur business activity and attract more investments, both domestic and foreign.

Business outlook of NCR respondents pulls down the overall index for the second quarter.

The overall DI in the second quarter of 2005 was weighed down by expectations of NCR respondents of a business slowdown at 12.3 percent from 21.1 percent in the previous survey. The next quarter (Q3 2005) business outlook indices for NCR likewise dropped to 20.7 percent from the previous survey's 34.2 (Table 2).

NCR Business Outlook
Current and Next Quarters

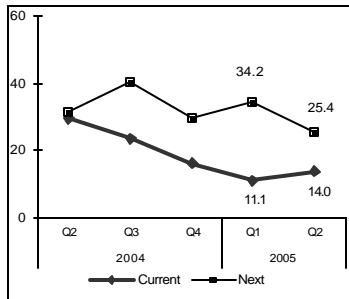


* The Second Quarter 2005 BES was conducted from 11 April to 6 May 2005.

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.



AONCR Business Outlook
Current and Next Quarters



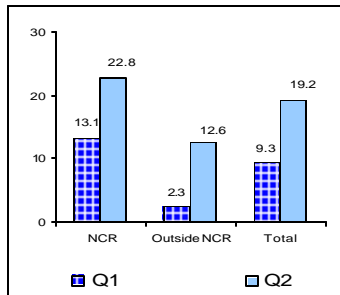
The drop in the business outlook of NCR respondents in the second quarter overshadowed the improvement in the DI registered by the regional respondents at 14.0 percent from 11.1 percent in the last quarter's survey. However, business outlook of respondents in areas outside NCR (AONCR) for the next quarter dropped to 25.4 percent from the 34.2 percent posted in the previous survey (Table 2).

Business-related Factors

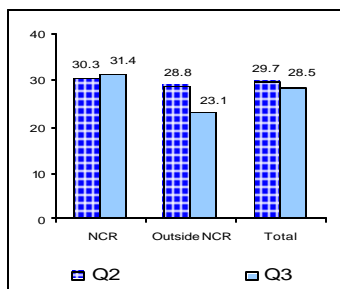
Volume of business activity index moves up in the second quarter but declines slightly in the third quarter.

Despite the decrease in business optimism, favorable business factors are expected to pull up business activities as the volume of business activity index went up to 19.2 percent from the previous survey's 9.3 percent, indicating outlook of a volume increase of production of goods and services in the second quarter compared to the previous quarter. The expected increase in the volume of business activity is largely attributed to the opening of classes this June. The volume of business activity indices for NCR and AONCR increased to 22.8 percent for the second quarter from 13.1 percent in the first quarter and to 12.6 percent from 2.3 percent, respectively, in the same period (Table 2).

Volume of Business Activity
Current Quarter



Volume of Business Activity
Next Quarter



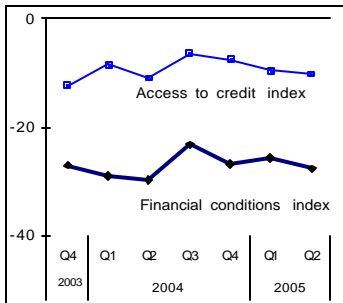
However, the overall volume of business activity is expected to decline marginally in the third quarter from 29.7 percent to 28.5 percent. Although the index for NCR, improved slightly to 31.4 percent in the current survey from 30.3 percent in the previous survey, the corresponding index for AONCR contracted to 23.1 percent from 28.8 percent in the same period (Table 2).



Credit access is anticipated to be tighter while financial conditions would be almost the same in the second quarter.

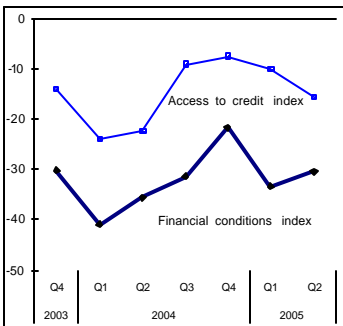
Respondents from both NCR and AONCR anticipate a slight tightening of credit access. The credit access index for this quarter's survey declined to -10.3 percent from -9.7 percent for NCR and to -15.8 percent from -10.1 percent for AONCR in the same period (Table 2).²

NCR access to credit and financial conditions



Respondents' outlook on their financial conditions showed mixed trends. The financial conditions index for NCR respondents weakened to -27.7 percent in the current quarter from -25.7 percent in the previous survey. On the other hand, the same index for AONCR improved to -30.4 percent from -33.2 percent for the same period. This brings overall outlook on financial conditions almost steady at -28.6 percent in this quarter compared to -28.3 percent a quarter ago (Table 2).

AONCR Access to credit and financial conditions



Capacity Utilization

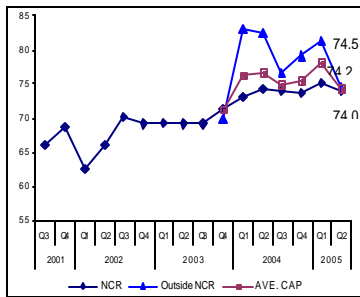
Average capacity utilization drops in the second and third quarters of 2005.

The decline in business outlook for the second and third quarters of 2005 is reflected in the anticipated combined average capacity utilization level (NCR and AONCR) of the industry sector which dropped to 74.2 percent in the second quarter from 78.2 percent in the previous quarter.

² 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. 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.



Capacity Utilization
Q2 2005

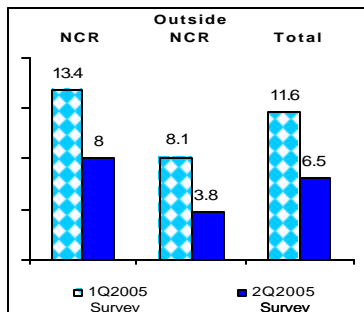


Respondent firms in NCR expect an average capacity utilization of 74.0 percent in the second quarter of 2005, a slight decline from last quarter's 75.1 percent. Moreover, firms outside NCR registered a significant decline with a capacity utilization of 74.5 percent compared to last quarter's 81.4 percent (Table 2).³

Employment Outlook

Outlook for employment remains positive but to slow down in the third quarter.

Employment outlook
Q3 2005



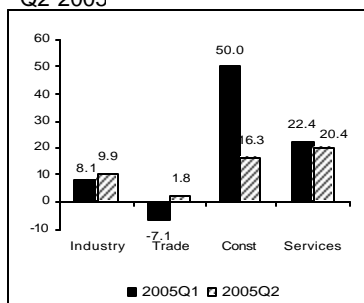
Consistent with the expected slowdown in economic growth, the employment outlook in the third quarter dropped to 6.5 percent from the previous survey's 11.6 percent. Employment outlook index of respondents from NCR and AONCR dropped to 8.0 percent (from 13.4 percent) and 3.8 percent (from 8.1 percent), respectively. The slowdown in employment growth is in line with the results of the survey which showed that a larger part of respondents (68.4 percent) indicated no expansion plans for the third quarter (Tables 2 and 3).

A positive employment index indicates that new jobs will be created in the third quarter of 2005. The quarter-on-quarter simultaneous drop, on the other hand, means that lesser firms would hire additional employees in the third quarter compared to the second quarter.

Confidence Indicators

Business confidence is positive for all the four sectors.

Business Confidence
Q2 2005



Consistent with the positive albeit lower business outlook for the second quarter, business confidence indices for all the four major sectors were all positive. The services sector posted the highest confidence index level at 20.4 percent but lower than the previous survey's 22.4 percent. Construction followed at 16.3 percent, lower than the previous survey's 50.0 percent. The industry sector's confidence index was registered at 9.9 percent, higher than last quarter's 8.1 percent. Also, wholesale and retail trade improved to 1.8 percent from -7.1 percent a quarter ago.

³ The average capacity utilization of the BES is based on a survey of 279 sample firms from the industry sector in Metro Manila and the five selected regions. This differs from the average capacity utilization figures of the National Statistics Office (NSO), which were computed based on a sample of large manufacturing firms nationwide.



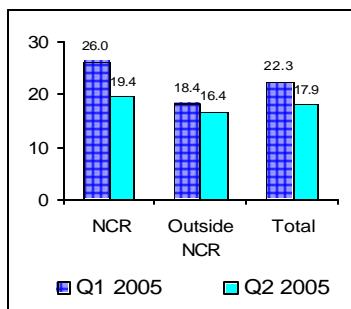
Respondents for NCR and AONCR indicated positive confidence in all four sectors except for the construction sector which was rated with a -10.0 percent confidence index by respondents from AONCR (Table 4).

Sectoral Outlook

Industry outlook is lower in the second quarter of 2005 and slightly higher in the next quarter compared to previous survey.

The business outlook in the industry sector is less optimistic with a DI of 17.9 percent in the second quarter, lower than the previous survey's 22.3 percent. The DIs for both NCR and AONCR dropped to 19.4 percent from 26.0 percent and to 16.4 percent from 18.4 percent, respectively, in the same period.

Industry outlook

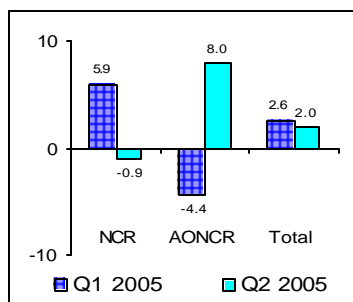


The next quarter index for the industry, on the other hand, dropped to 19.0 percent from last quarter's 38.7 percent (Table1).

Wholesale and retail trade outlook declines in the second and third quarters of 2005.

Respondents expect lower economic activity in the trade sector as the overall DI decreased slightly to 2.0 percent in the second quarter from 2.6 percent in the previous survey. The DI of NCR dropped to -0.9 percent from 5.9 percent in the previous quarter due to rising oil prices. Meanwhile, the DI of firms in AONCR increased to 8.0 percent from only -4.4 percent in the previous quarter.

Trade outlook



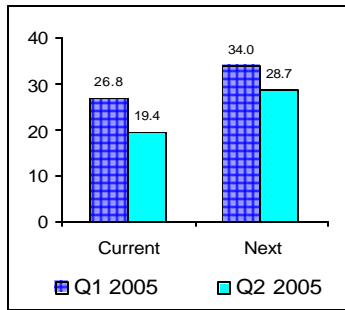
Likewise, the next quarter overall DI for the trade sector dropped significantly to 19.5 percent from 27.1 percent in the previous survey. The DIs in NCR and AONCR both contributed to the overall downtrend in the third quarter. However, it should also be noted that although the trade sector's optimism is not as high as in the previous survey, the outlook remains positive. This could be explained by the expected increase in consumer spending anticipated during the opening of the school year in June (Table1).



Outlook for the services sector drops in the second and third quarters of 2005.

The services sector posted a business outlook index of 19.4 percent, lower than the previous survey's 26.8 percent. This was weighed down by the transport, storage and communications and hotels and restaurants sub-sectors. Meanwhile, the DIs of the financial intermediation, real estate, renting and business activities and community and social services improved from the previous survey and contributed to the overall positive outlook of the sector.

Services outlook
Current and next quarters

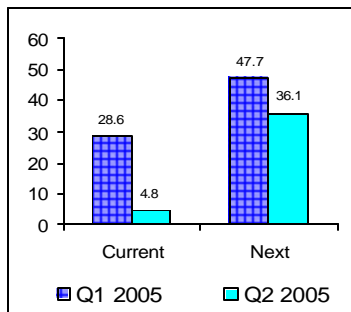


The next quarter DI for the services sector also declined to 28.7 percent from 34.0 percent in the previous survey. The decline in the overall DI for the services sector was attributed to the drop in the DIs of transport, hotels and restaurants and renting and business activities sub-sectors. Expectation of the community and social services sub-sector remained unchanged. On the other hand, finance and real estate sub-sectors expected higher growth in economic activity in the third quarter of 2005 (Table 1).

Business confidence in the construction sector decreases in the second and third quarters of 2005.

The business outlook of the construction sector decreased to 4.8 percent in the second quarter of 2005 from 28.6 percent in the previous quarter. Likewise, the next quarter index dropped to 36.1 percent in the third quarter from the previous survey's 47.7 percent. The lower business optimism of the sector could be due to the rainy season during the second and third quarters of the year. (Table 1).

Construction outlook
Current and next quarters



Business Constraints

Major risks to business include higher oil prices, higher inflation and huge fiscal deficit.

Respondents indicated that higher oil prices, rising inflation and huge fiscal deficit are the risks which can hamper business expansion in the country.

Competition and insufficient demand are among the other constraints to business in the second quarter.

In addition to the macroeconomic risks, stiff competition and insufficient demand are seen by most of the respondents as major factors that could constrain business operations in the second quarter of 2005. Moreover, they also cited unclear economic laws particularly on taxation, financial problems and high



interest rates as factors which limit their business activities (Table 5).

Expectations on Key Economic Indicators

Higher interest rates, rising inflation and a stronger peso are anticipated in the second and third quarters of 2005. Survey respondents expect the following to ensue in the current and in the next quarter: higher peso-borrowing rate, rising inflation rate, and a stronger peso (Table 6).

TECHNICAL NOTES

To provide a regional dimension to business prospects, the BES coverage was expanded to include regions outside the NCR particularly Regions I, III, IV, VII and XI.

The BES coverage consists of firms in SEC's Top 5000 Corporations in 2003 which are based in the NCR and the five selected regions. From each of these regions, a stratified random sample of 898 firms (480 in NCR and 438 in AONCR) 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 communications and community, social and personal services.

The combined survey response rate for this quarter is 68.4 percent 81.7 percent for NCR and 54.3 percent for the selected regions outside NCR. It is worth noting that 35 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	Number of Population										Number of Samples						
	Total	Other Regions	NCR	Areas	Region 1	Region 3	Region 4	Region 7	Region 11	Total	NCR	Areas	Region 1	Region 3	Region 4	Region 7	Region 11
				Outside NCR	Ilocos Region	Central Luzon	Southern Luzon	Central Visayas	Southern Mindanao			Outside NCR	Ilocos Region	Central Luzon	Southern Luzon	Central Visayas	Southern Mindanao
1. Agriculture, Fisheries and Forestry	90	11	31	48	0	4	6	7	31	25	4	21	0	2	2	3	14
2. Business Activities	276	3	238	35	0	7	13	12	3	48	34	14	0	3	4	5	2
3. Community, Social & Personal Services	152	8	118	26	1	4	12	6	3	31	17	14	1	3	4	3	3
4. Construction	169	5	121	43	2	15	10	12	4	34	17	17	2	4	3	5	3
5. Electricity, Gas and Water Supply	74	7	43	24	2	10	5	6	1	18	6	12	2	4	3	3	0
6. Financial Intermediation	346	5	308	33	0	8	8	14	3	58	44	14	0	5	2	5	2
7. Hotels and Restaurant	123	6	94	23	3	6	4	6	4	28	13	15	3	5	2	3	2
8. Manufacturing	1767	51	893	823	4	138	525	133	23	279	126	153	4	40	64	35	10
9. Mining and Quarrying	20	1	15	4	0	0	1	2	1	6	2	4	0	0	1	2	1
10. Real Estate	189	3	156	30	3	6	8	12	1	36	22	14	3	2	4	4	1
11. Transport, Storage & Communications	246	8	185	53	0	16	12	15	10	47	26	21	0	5	4	6	6
12. Wholesale and Retail Trade	1548	83	1050	415	35	121	103	92	64	288	149	139	26	35	30	31	17
TOTAL NUMBER OF FIRMS	5000	191	3252	1557	50	335	707	317	148	898	460	438	41	108	123	105	61

Table 1. INDICES OF OVERALL BUSINESS OUTLOOK BY SECTOR ^{1/}
2nd and 3rd Quarters of 2005

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Sectors	Number of Respondents			Index Points					
				Current Quarter Apr - Jun			Next Quarter Jul - Sep		
	NCR	Outside NCR	Total	NCR	Outside NCR	Total	NCR	Outside NCR	Total
All Sectors	376	238	614	12.3	14.0	12.9	20.7	25.4	22.3
Industry of which:	111	112	223	19.4	16.4	17.9	11.9	26.3	19.0
Manufacturing	102	95	197	18.6	18.9	18.8	14.7	27.4	21.0
Construction	15	5	20	6.7	0.0	4.8	26.7	60.0	36.1
Wholesale & Retail Trade	112	75	187	-0.9	8.0	2.0	20.5	17.3	19.5
Services of which:	138	46	184	19.3	19.9	19.4	28.1	31.7	28.7
Financial Intermediation	43	9	52	32.6	77.8	37.5	37.2	55.6	39.2
Hotels & Restaurants	13	10	23	46.2	0.0	35.3	46.2	0.0	35.3
Renting & Business Activities	28	7	35	25.0	-14.3	19.6	25.0	0.0	21.6
Community, Social Services	17	6	23	23.5	33.3	25.7	23.5	33.3	25.7

1/ The diffusion index is weighted based on the distribution of the 2003 Top 5000 Corporations across: (a) 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 and communication, hotels and restaurant, renting and business activities and community, social and personal services; and (b) between those firms based in the National Capital Region (NCR) and those based outside NCR, particularly Regions I, III, IV, VII and XI.

Table 2. SELECTED INDICATORS OF BUSINESS EXPECTATIONS

1st and 2nd Quarters of 2005

INDICATORS	1st Quarter 2005 (Previous)			2nd Quarter 2005 (Current)		
	NCR	Outside NCR	TOTAL	NCR	Outside NCR	TOTAL
Business Outlook Index						
Current Quarter	21.1	11.1	17.6	12.3	14.0	12.9
Next Quarter	34.2	34.2	34.2	20.7	25.4	22.3
Volume of Business Activity Index						
Previous Quarter	27.9	12.3	22.4	10.3	-6.9	4.3
Current Quarter	13.1	2.3	9.3	22.8	12.6	19.2
Next Quarter	30.3	28.8	29.7	31.4	23.1	28.5
Volume of Total Order Book Index						
Previous Quarter	19.6	11.7	16.9	3.1	-10.5	-1.6
Current Quarter	9.7	2.9	7.4	16.2	12.1	14.8
Credit Access Index						
Current Quarter	-9.7	-10.1	-9.8	-10.3	-15.8	-12.2
Financial Conditions Index						
Current Quarter	-25.7	-33.2	-28.3	-27.7	-30.4	-28.6
Ave. Capacity Utilization (Industry Sector)						
Current Quarter	75.1	81.4	78.2	74.0	74.5	74.2
Employment Outlook Index						
Next Quarter	13.4	8.1	11.6	8.0	3.8	6.5

**Table 3. DISTRIBUTION OF COMPANIES WITH AND WITHOUT EXPANSION PLANS
FOR THE INDUSTRY SECTOR**
3rd Quarter 2005

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	111	112	223	28.8	17.5	23.1	64.2	72.7	68.4	7.0	9.9	8.4
Mining & Quarrying	2	1	3	0.0	0.0	0.0	100.0	100.0	100.0	0.0	0.0	0.0
Manufacturing	102	95	197	22.5	20.0	21.3	68.6	70.5	69.6	8.8	9.5	9.1
Electricity, Gas & Water	5	7	12	20.0	0.0	11.6	60.0	85.7	70.8	20.0	14.3	17.6
Agriculture, Fishery & Forestry	2	9	11	50.0	33.3	39.1	50.0	55.6	53.6	0.0	11.1	7.3

Table 4. CONFIDENCE INDICATORS AND DIFFUSION INDICES

2nd Quarter 2005

In percent

SECTORS	Confidence Indicator ^{1/}			Diffusion Index		
	NCR	Outside NCR	Total	NCR	Outside NCR	Total
1. Industry	10.9	9.0	9.9			
Volume of Total Order Book (Current Quarter)				19.3	14.1	16.7
Volume of Stocks of Finished Goods (Current Quarter)				16.1	8.0	12.1
Volume of Production (Next Quarter)				29.4	20.9	25.1
2. Construction	26.7	-10.0	16.3			
Volume of Total Order Book (Current Quarter)				20.0	-20.0	8.6
Number of People Employed (Next Quarter)				33.3	0.0	23.9
3. Wholesale and Retail Trade	0.6	4.4	1.8			
Volume of Stocks of Finished Goods (Current Quarter)				6.3	4.0	5.5
Business Conditions (Current Quarter)				-8.0	-2.7	-6.3
Business Conditions (Next Quarter)				16.1	20.0	17.3
4. Services Sector	22.1	12.3	20.4			
Business Conditions (Current Quarter)				16.8	8.5	15.4
Business Conditions (Next Quarter)				29.7	32.0	30.1
Number of People Employed (Next Quarter)				19.8	-3.6	15.7

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 5. FACTORS LIMITING PRODUCTION/BUSINESS ACTIVITY BY SECTOR
2nd Quarter 2005

Sector	No. of Respondents	Percent Share										
		High Interest Rate	Unclear economic	Lack of equipment	Insufficient demand	Access to credit	Financial Problems	Competition	Labor problems	Lack of material-input	Others	None
All Sectors	614	34.7	38.0	22.6	60.9	30.3	36.1	73.4	26.8	24.7	17.1	4.6
NCR	376	33.6	37.6	18.5	59.0	27.0	33.4	73.3	23.7	20.9	18.4	3.6
Industry of which:	111	31.6	33.4	19.6	66.1	26.5	29.1	72.4	26.3	29.2	16.0	4.5
Manufacturing	102	29.4	31.4	19.6	63.7	25.5	28.4	71.6	24.5	29.4	17.6	4.9
Construction	15	26.7	40.0	20.0	66.7	26.7	26.7	73.3	26.7	33.3	20.0	0.0
Wholesale & Retail Trade	112	39.3	42.9	15.2	58.0	30.4	39.3	75.9	21.4	17.0	15.2	1.8
Services of which:	138	30.7	36.2	20.4	52.7	24.2	32.4	71.5	23.2	15.9	23.3	5.0
Community & Social Services	17	41.2	29.4	23.5	41.2	23.5	52.9	76.5	23.5	17.6	17.6	0.0
Financial Intermediation	43	30.2	41.9	16.3	55.8	20.9	25.6	72.1	16.3	14.0	18.6	9.3
Renting & Business Activities	28	28.6	50.0	21.4	53.6	28.6	35.7	89.3	39.3	17.9	28.6	3.6
Hotels & Restaurants	13	30.8	30.8	38.5	38.5	23.1	46.2	61.5	38.5	30.8	23.1	7.7
Outside NCR	238	36.7	38.7	30.3	64.4	36.5	41.0	73.6	32.7	31.8	14.7	6.6
Industry of which:	112	32.4	35.5	36.2	67.5	34.3	40.6	71.0	38.8	41.0	14.9	5.2
Manufacturing	95	33.7	34.7	37.9	69.5	35.8	40.0	72.6	40.0	43.2	14.7	5.3
Construction	5	20.0	40.0	0.0	40.0	20.0	20.0	80.0	0.0	0.0	0.0	20.0
Wholesale & Retail Trade	75	52.0	46.7	30.7	70.7	45.3	49.3	84.0	30.7	26.7	13.3	5.3
Services of which:	46	25.5	34.9	10.9	43.1	30.1	29.3	60.6	18.8	10.9	20.2	12.2
Community & Social Services	6	50.0	33.3	16.7	33.3	33.3	16.7	66.7	16.7	16.7	33.3	16.7
Financial Intermediation	9	33.3	44.4	22.2	44.4	33.3	22.2	77.8	22.2	22.2	22.2	22.2
Renting & Business Activities	7	28.6	14.3	14.3	57.1	28.6	57.1	57.1	42.9	14.3	14.3	0.0
Hotels & Restaurants	10	20.0	40.0	20.0	50.0	50.0	40.0	70.0	20.0	20.0	30.0	30.0

Table 6. INDICES OF EXPECTATIONS ON ECONOMIC INDICATORS BY SECTOR

2nd and 3rd Quarters of 2005

In Index Points

Sectors	Current Quarter (Apr - Jun)			Next Quarter (Jul - Sep)		
	Average Peso Borrowing Rate	Average Inflation Rate	Average Peso / US \$ Exchange	Average Peso Borrowing Rate	Average Inflation Rate	Average Peso / US \$ Exchange
Total	28.3	51.0	7.2	29.8	44.4	0.9
NCR	26.9	55.4	9.2	29.0	45.0	-1.35
Industry	32.7	54.1	7.9	24.9	38.9	-0.9
Construction	6.7	46.7	20.0	20.0	66.7	20.0
Wholesale & Retail Trade	19.6	60.7	9.8	30.4	54.5	-0.9
Services	30.8	52.4	8.6	32.3	38.9	-4.5
Outside NCR	30.9	42.9	3.3	31.3	43.2	5.0
Industry	23.2	0.0	0.0	0.0	0.0	0.0
Construction	40.0	60.0	40.0	60.0	60.0	20.0
Wholesale & Retail Trade	44.0	45.3	-2.7	41.3	54.7	10.7
Services	33.4	59.0	14.8	36.5	58.0	20.9

Table 7. AVERAGE NUMBER OF EMPLOYEES BY SECTOR
2nd Quarter 2005

Sector	No. of Respondents	Current No. of Employees (in percent)				
		Small	Medium		Large	No Response
		<100	100-300	301-500	>500	
Total	614	34.4	28.5	8.4	14.8	14.0
NCR	376	34.6	28.3	7.2	13.3	16.7
Industry	111	26.7	40.5	8.9	14.2	9.7
Construction	15	33.3	26.7	0.0	20.0	20.0
Wholesale & Retail Trade	112	49.1	25.9	3.6	3.6	17.9
Services	138	28.0	19.8	9.8	20.9	21.5
Outside NCR	238	33.9	28.9	10.6	17.6	9.1
Industry	112	23.1	33.5	12.8	22.3	8.3
Construction	5	20.0	40.0	20.0	0.0	20.0
Wholesale & Retail Trade	75	56.0	16.0	6.7	10.7	10.7
Services	46	34.4	35.0	7.8	16.2	6.6