

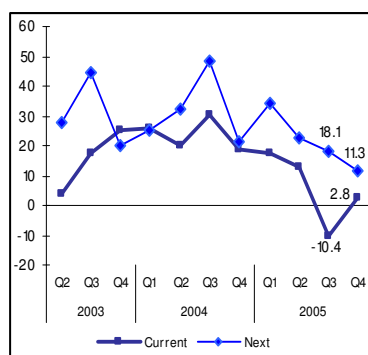
# BUSINESS OUTLOOK IS POSITIVE FOR THE FOURTH QUARTER OF 2005 AND THE FIRST QUARTER OF 2006\*

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## ➤ Overall Business Outlook

*Business outlook is positive for the fourth quarter of 2005 and the first quarter of 2006.*

Overall Business Outlook Diffusion Index: Q2 2003 – Q4 2005

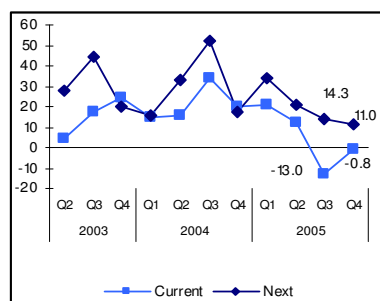


Latest Business Expectations Survey (BES) of the BSP for the fourth quarter of 2005 indicates that firms were optimistic as the overall diffusion index (DI) recovered to 2.8 percent compared to -10.4 percent in the previous quarter.<sup>1</sup> Business confidence remained up for the next quarter with a DI of 11.3 percent albeit lower than the 18.1 percent DI in the previous quarter's survey (Table 1).

Respondents attributed their positive business outlook during the current quarter on the following: (a) expected increase in consumer demand during the Christmas season; (b) higher income due to the harvest season; and (c) increase in dollar remittances and export receipts. Business optimism, however, was dampened by the implementation of the RVAT law which took effect on 1 November 2005, the continued increase in oil prices, as well as the unsettled political issues.

*Respondents in both the NCR and AONCR are optimistic.*

NCR Business Outlook Current and Next Quarter



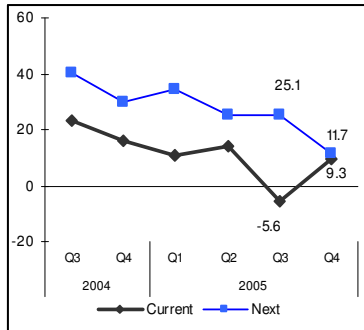
NCR respondents expected better business conditions in the fourth quarter of 2005 as the overall DI, while still negative, rose to -0.8 percent from -13.0 percent in the previous survey. The positive business outlook continued in the next quarter as the DI registered 11.0 percent, albeit lower than the 14.3 percent level in the previous survey (Table 1).

\* The Fourth Quarter 2005 BES was conducted from 3 October to 8 November 2005.

<sup>1</sup> The diffusion index (DI) is computed as the percentage share of firms that answered in the affirmative less percentage share of firms that answered in the 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 Quarter



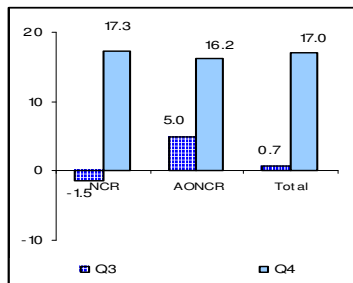
On the other hand, firms in AONCR were more bullish on their business outlook with the DIs for the current quarter and the next, higher than those of NCR. The current quarter DI of 9.3 percent in AONCR was an upturn from the -5.6 percent registered during the previous survey. The next quarter DI of 11.7 percent was lower compared to the previous survey's 25.1 percent which could be explained by the expected slowdown in consumption expenditures by the first quarter of 2006 following the end of the holiday season (Table 1).

➤ Business-related Factors

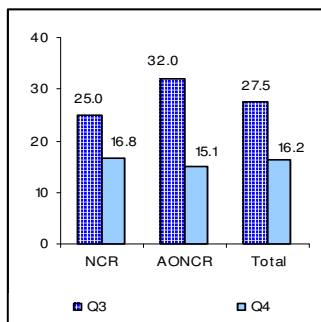
*Volume of business activity expands in the fourth quarter and is sustained in the next quarter.*

Consistent with the view of better economic performance in the fourth quarter was the expansion in the volume of business activities which posted an index of 17.0 percent from 0.7 percent in the previous survey. Both the NCR and AONCR expected heightened business activities as diffusion indices rose to 17.3 percent and 16.2 percent, respectively. The positive DI in NCR was a reversal from the -1.5 percent in the previous survey. (Table 2).

Volume of Business Activity  
Current Quarter



Volume of Business Activity  
Next Quarter

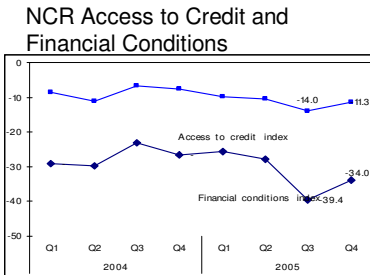


The outlook for overall volume of business activity index for the first quarter of 2006 was lower than the 27.5 percent posted during the previous survey but remained positive at 16.2 percent. The volume of business activities showed similar trends for both NCR and AONCR with indices remaining positive in the next quarter but lower than the levels in the previous quarter. Post-holiday slowdown in consumer spending explains largely this view of the business sector (Table 2).

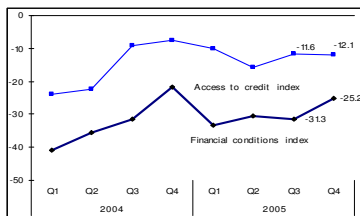


*Credit access and financial conditions improve in the fourth quarter compared to the previous survey.*

Outlook of respondent firms in the NCR on credit access and financial conditions improved slightly. The NCR credit access index improved to -11.3 percent in the fourth quarter of 2005 compared to -14.0 percent in the previous quarter.<sup>2</sup> Likewise, the financial condition index was higher at -34.0 percent from -39.4 percent for the same period (Table 2).



AONCR Access to Credit and Financial Conditions



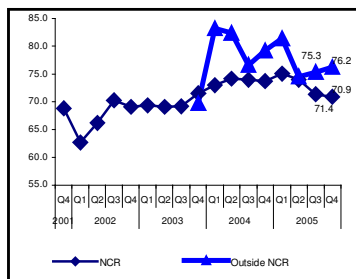
Meanwhile, views of respondent firms in AONCR on credit access remained the same in the fourth quarter as that in the previous survey with a DI of -12.1 percent. Respondent firms also anticipated improvement in their financial conditions as registered DI inched up to -25.2 percent from -31.3 percent in the previous survey (Table 2).

➤ **Capacity Utilization**

*Average capacity utilization is unchanged. NCR index is lower than in AONCR.*

Overall capacity utilization index at 73.5 percent was steady in the current quarter from the previous survey's 73.3 percent. Respondent firms in NCR anticipated a lower average capacity utilization index of 70.9 percent in the current quarter, from last quarter's 71.4 percent. On the other hand, firms outside NCR registered a slight improvement in capacity utilization at 76.2 percent from last quarter's 75.3 percent (Table 2).<sup>3</sup>

Capacity Utilization: Q4 2005



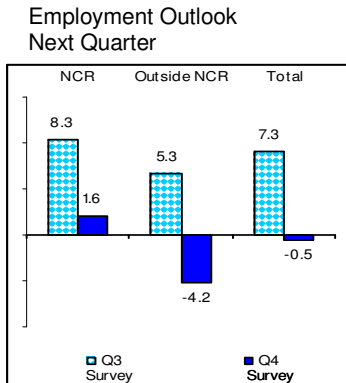
<sup>2</sup> The access to credit index refers to the environment external to the firm, particularly the availability of credit from the banking system and other financial institutions. The financial conditions index reflects the respondents' judgment on their general cash position, taking into account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

<sup>3</sup> The average capacity utilization of the BES is based on a survey of 218 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.



➤ **Employment Outlook**

*Employment outlook index is down in both the NCR and AONCR.*



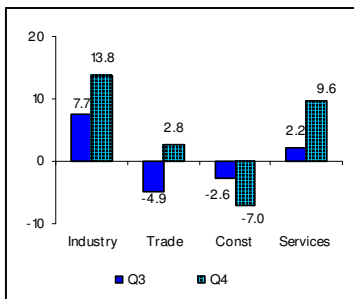
Notwithstanding the anticipated increase in economic activity in the next quarter, employment outlook mainly in transportation, community and social services, was weaker as indicated by the decline in the overall index to -0.5 percent from the previous survey's 7.3 percent. Employment outlook index of respondents from both the NCR and AONCR decreased to 1.6 percent (from 8.3 percent) and -4.2 percent (from 5.3 percent), respectively. The principal reason cited was the possible wage adjustment that could reduce their competitiveness and business prospect.

Meanwhile, the proportion of respondents mainly from mining in AONCR, indicated expansion plans for the first quarter of 2006 resulting in the significant increase in DI from last quarter's 9.2 percent to 29.9 percent (Tables 2 and 3). This was largely brought about by the expected pick-up in investments in mining following the favorable decision of the Supreme Court allowing the 100 percent foreign ownership in mining.

➤ **Confidence Indicators**

*Business confidence is generally higher in the fourth quarter compared to the previous quarter.*

Business Confidence Q4 2005



Except for the construction sector, business confidence in all sectors improved in the fourth quarter compared to the previous quarter. From the third quarter's confidence index of 7.7 percent, the industry sector's confidence index increased to 13.8 percent in the fourth quarter of 2005; the services sector from 2.2 percent to 9.6 percent; and a reversal in trade sector from -4.9 percent to 2.8 percent. In contrast, outlook on construction was bearish with index declining further to -7.0 percent from -2.6 percent which could be attributed to seasonal factors (Table 4).

All other sectors in both NCR and AONCR registered positive confidence levels except for the -50.0 percent confidence index of the construction sector in AONCR. The negative outlook for construction could be attributed to the slowdown in construction activities particularly during the last quarter of the year (Table 4).



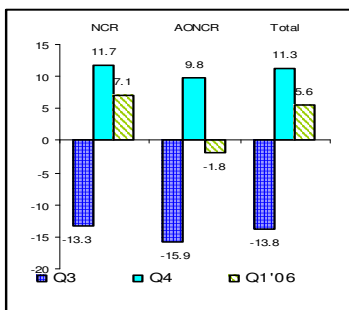
➤ Sectoral Outlook

*Business sentiment for all sectors is positive for the fourth quarter of 2005 and for the next quarter.*

*Optimism is highest among respondents of the services and industry sectors.*

There was a marked increase in the business outlook DIs of all sectors during the current quarter compared to the previous survey. The services sector was the most optimistic with an index of 11.3 percent, a significant turn around from the previous survey's -13.8 percent. This was followed by the industry sector at 2.0 percent, up from -2.7 percent; wholesale and retail trade at -2.1 percent, up from -13.9 percent; and construction sector at -11.4 percent, from -40.9 percent. The positive sentiment of the services sector, particularly hotels and restaurants, was attributed to the expected influx of tourists and visitors during the Christmas holidays (Table 1).

Services Outlook  
Q3 2005- Q1 2006

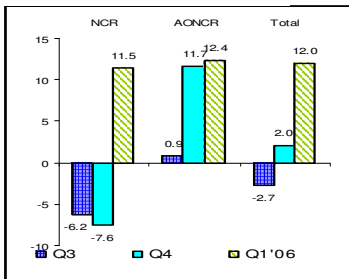


The positive outlook for the services sector continued in the next quarter although at a slower pace of 5.6 percent with the downward income from the hotels and restaurants sub-sector after the Christmas holidays, and the negative business outlook of the community and social services sector at the start of the new year (Table 1).

Respondents in both NCR and AONCR expected greater economic activity in the services sector in the fourth quarter. The services DI in the NCR increased to 11.7 percent from -13.3 percent in the previous quarter. Likewise, the DI in AONCR rose to 9.8 percent from -15.9 percent in the previous quarter.

However, a less favorable outlook is anticipated in the first quarter 2006 as the DI in NCR declined to 7.1 percent while that in AONCR dropped to -1.8 percent (Table1).

Industry Outlook  
Q3 2005 – Q1 2006

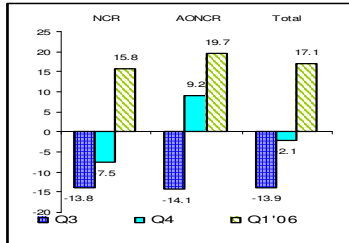


The industry sector likewise posted overall positive DI of 2.0 percent during the current quarter mostly attributed to the positive outlook of respondents in AONCR. The positive view further improved to 12.0 percent in the next quarter.



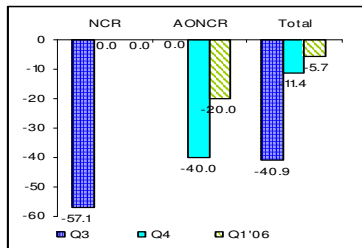
*Outlook on trade and construction sectors improves during the fourth quarter of 2005 compared to the previous survey.*

Trade Outlook  
Q3 2005 – Q1 2006



Firms outlook on trade in the current quarter improved as the DI went up from -13.9 percent during the last quarter to -2.1 percent this quarter. Notwithstanding, the DI has remained negative due to the perceived effect of the implementation of the RVAT law effective 1 November 2005 which is expected to temper the usual optimism of increased sales volume during the Christmas season. Respondent firms in AONCR showed greater business confidence than their NCR counterparts. However, business optimism for the trade sector in both the NCR and AONCR surged back to positive levels in the first quarter 2006 (Table 1).

Construction Outlook  
Q3 2005 – Q1 2006



Although still negative, the DI at -11.4 percent for the construction sector improved this current quarter from its previous level of -40.9 percent. Respondent firms in NCR, with zero percent DI during the current quarter, contributed to this improved business outlook.

Overall construction DIs in the first quarter of next year remained negative at 5.7 percent, but this was an improvement from last quarter's -11.4 percent. This signifies better business prospects in the next quarter for the construction sector (Table 1).

### ➤ Business Constraints

*The prolonged political noise, implementation of the RVAT law and continued increase in oil prices are the major risks to business.*

Respondents cited that the biggest risks which could slow down business expansion in the country are the prolonged political noise, the additional tax burden brought about by the implementation of the RVAT law, and the continued rise in oil prices.

*Competition, insufficient demand, and unclear economic laws rank high among the other constraints to business in the fourth quarter.*

Other major risks to business which were ranked highly by the respondents in all sectors are as follows: stiffer competition, insufficient demand, unclear economic laws particularly on taxation, financial problems, and high interest rates (Table 5).



### ➤ Expectations on Key Economic Indicators

*Rising inflation, higher interest rates, and a stable peso are expected in the last quarter of 2005 and first quarter of 2006.* Survey respondents anticipated the following to ensue in the current and in the next quarters: rising inflation rate, higher domestic borrowing rate, and a generally stable 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 878 firms (459 in NCR and 419 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 1.68 percent decline in the number of samples from the third quarter of 2005 was due to the closure of some companies.

The combined survey response rate for this quarter is 71.4 percent: 84.5 percent for NCR and 57.0 percent for the selected regions outside NCR. It is worth noting that 33.6 percent of respondents belong to the small-firm category employing less than 100 workers. The distribution of sample size by region is shown below.

| INDUSTRY SECTOR                          | Number of Population |               |      |                   |    |                           |                           |                            |                             |                                | Number of Samples |     |                   |                           |                           |                            |                             |                                |
|--|----------------------|---------------|------|-------------------|----|---------------------------|---------------------------|----------------------------|-----------------------------|--------------------------------|-------------------|-----|-------------------|---------------------------|---------------------------|----------------------------|-----------------------------|--------------------------------|
|  | Total                | Other Regions |      | Areas Outside NCR |    | Region 1<br>Ilocos Region | Region 3<br>Central Luzon | Region 4<br>Southern Luzon | Region 7<br>Central Visayas | Region 11<br>Southern Mindanao | Total             | NCR | Areas Outside NCR | Region 1<br>Ilocos Region | Region 3<br>Central Luzon | Region 4<br>Southern Luzon | Region 7<br>Central Visayas | Region 11<br>Southern Mindanao |
|  |                      | NCR           |      |                   |    |                           |                           |                            |                             |                                |                   |     |                   |                           |                           |                            |                             |                                |
| 1. Agriculture, Fisheries and Forestry   | 90                   | 11            | 31   | 48                | 0  | 4                         | 6                         | 7                          | 31                          | 24                             | 4                 | 20  | 0                 | 1                         | 2                         | 3                          | 14                          |                                |
| 2. Business Activities                   | 276                  | 3             | 238  | 35                | 0  | 7                         | 13                        | 12                         | 3                           | 45                             | 33                | 12  | 0                 | 3                         | 4                         | 3                          | 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                           | 33                             | 17                | 16  | 2                 | 3                         | 3                         | 5                          | 3                           |                                |
| 5. Electricity, Gas and Water Supply     | 74                   | 7             | 43   | 24                | 2  | 10                        | 5                         | 6                          | 1                           | 16                             | 6                 | 10  | 2                 | 2                         | 3                         | 3                          | 0                           |                                |
| 6. Financial Intermediation              | 346                  | 5             | 308  | 33                | 0  | 8                         | 8                         | 14                         | 3                           | 56                             | 44                | 12  | 0                 | 4                         | 2                         | 4                          | 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                          | 273                            | 126               | 147 | 3                 | 35                        | 64                        | 35                         | 10                          |                                |
| 9. Mining and Quarrying                  | 20                   | 1             | 15   | 4                 | 0  | 0                         | 1                         | 2                          | 1                           | 5                              | 2                 | 3   | 0                 | 0                         | 1                         | 1                          | 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                          | 284                            | 149               | 135 | 22                | 35                        | 30                        | 31                         | 17                          |                                |
| TOTAL NUMBER OF FIRMS                    | 5000                 | 191           | 3252 | 1557              | 50 | 335                       | 707                       | 317                        | 148                         | 878                            | 459               | 419 | 36                | 98                        | 123                       | 101                        | 61                          |                                |

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**Table 1. INDICES OF OVERALL BUSINESS OUTLOOK BY SECTOR <sup>1/</sup>**  
4th Quarter 2005 and 1st Quarter 2006

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| Sectors                       | Number of Respondents |                |            | Index Points                 |                |              |                           |                |              |
|-------------------------------|-----------------------|----------------|------------|------------------------------|----------------|--------------|---------------------------|----------------|--------------|
|                               |                       |                |            | Current Quarter<br>Oct - Dec |                |              | Next Quarter<br>Jan - Mar |                |              |
|                               | NCR                   | Outside<br>NCR | Total      | NCR                          | Outside<br>NCR | Total        | NCR                       | Outside<br>NCR | Total        |
| <b>All Sectors</b>            | <b>388</b>            | <b>239</b>     | <b>627</b> | <b>-0.8</b>                  | <b>9.3</b>     | <b>2.8</b>   | <b>11.0</b>               | <b>11.7</b>    | <b>11.3</b>  |
| Industry<br>of which:         | <b>116</b>            | <b>102</b>     | <b>218</b> | <b>-7.6</b>                  | <b>11.7</b>    | <b>2.0</b>   | <b>11.5</b>               | <b>12.4</b>    | <b>12.0</b>  |
| Manufacturing                 | <b>108</b>            | <b>85</b>      | <b>193</b> | <b>-4.6</b>                  | <b>12.9</b>    | <b>4.1</b>   | <b>10.2</b>               | <b>12.9</b>    | <b>11.5</b>  |
| Construction                  | <b>15</b>             | <b>5</b>       | <b>20</b>  | <b>0.0</b>                   | <b>-40.0</b>   | <b>-11.4</b> | <b>0.0</b>                | <b>-20.0</b>   | <b>-5.7</b>  |
| Wholesale & Retail Trade      | <b>120</b>            | <b>76</b>      | <b>196</b> | <b>-7.5</b>                  | <b>9.2</b>     | <b>-2.1</b>  | <b>15.8</b>               | <b>19.7</b>    | <b>17.1</b>  |
| Services<br>of which:         | <b>137</b>            | <b>56</b>      | <b>193</b> | <b>11.7</b>                  | <b>9.8</b>     | <b>11.3</b>  | <b>7.1</b>                | <b>-1.8</b>    | <b>5.6</b>   |
| Financial Intermediation      | <b>40</b>             | <b>8</b>       | <b>48</b>  | <b>12.5</b>                  | <b>0.0</b>     | <b>11.1</b>  | <b>22.5</b>               | <b>0.0</b>     | <b>20.0</b>  |
| Hotels & Restaurants          | <b>13</b>             | <b>10</b>      | <b>23</b>  | <b>38.5</b>                  | <b>10.0</b>    | <b>31.8</b>  | <b>15.4</b>               | <b>20.0</b>    | <b>16.5</b>  |
| Renting & Business Activities | <b>33</b>             | <b>8</b>       | <b>41</b>  | <b>12.1</b>                  | <b>37.5</b>    | <b>15.6</b>  | <b>27.3</b>               | <b>12.5</b>    | <b>25.2</b>  |
| Community, Social Services    | <b>17</b>             | <b>10</b>      | <b>27</b>  | <b>0.0</b>                   | <b>30.0</b>    | <b>6.7</b>   | <b>-17.6</b>              | <b>-30.0</b>   | <b>-20.4</b> |

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) 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**

3rd and 4th Quarters of 2005

| INDICATORS                                  | 3rd Quarter 2005<br>(Previous) |                |       | 4th Quarter 2005<br>(Current) |                |       |
|---|--------------------------------|----------------|-------|-------------------------------|----------------|-------|
|   | NCR                            | Outside<br>NCR | TOTAL | NCR                           | Outside<br>NCR | TOTAL |
| Business Outlook Index                      |                                |                |       |                               |                |       |
| Current Quarter                             | -13.0                          | -5.6           | -10.4 | -0.8                          | 9.3            | 2.8   |
| Next Quarter                                | 14.3                           | 25.1           | 18.1  | 11.0                          | 11.7           | 11.3  |
| Volume of Business Activity Index           |                                |                |       |                               |                |       |
| Previous Quarter                            | 2.7                            | 12.7           | 6.2   | -14.0                         | -5.4           | -11.0 |
| Current Quarter                             | -1.5                           | 5.0            | 0.7   | 17.3                          | 16.2           | 17.0  |
| Next Quarter                                | 25.0                           | 32.0           | 27.5  | 16.8                          | 15.1           | 16.2  |
| Volume of Total Order Book Index            |                                |                |       |                               |                |       |
| Previous Quarter                            | -1.1                           | 12.2           | 3.6   | -14.5                         | -8.1           | -12.3 |
| Current Quarter                             | -3.1                           | 4.3            | -0.5  | 14.2                          | 18.0           | 15.5  |
| Credit Access Index                         |                                |                |       |                               |                |       |
| Current Quarter                             | -14.0                          | -11.6          | -13.2 | -11.3                         | -12.1          | -11.5 |
| Financial Conditions Index                  |                                |                |       |                               |                |       |
| Current Quarter                             | -39.4                          | -31.3          | -36.5 | -34.0                         | -25.2          | -30.9 |
| Ave. Capacity Utilization (Industry Sector) |                                |                |       |                               |                |       |
| Current Quarter                             | 71.4                           | 75.3           | 73.3  | 70.9                          | 76.2           | 73.5  |
| Employment Outlook Index                    |                                |                |       |                               |                |       |
| Next Quarter                                | 8.3                            | 5.3            | 7.3   | 1.6                           | -4.2           | -0.5  |

**Table 3. DISTRIBUTION OF COMPANIES WITH AND WITHOUT EXPANSION PLANS  
FOR THE INDUSTRY SECTOR**  
1st Quarter 2006

| 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 |
| <b>Industry Sector</b>          | 116                   | 102         | 218   | 47.2                 | 12.3        | 29.9  | 51.3               | 77.6        | 64.4  | 1.5       | 10.1        | 5.8   |
| Mining & Quarrying              | 2                     | 3           | 5     | 0.0                  | 33.3        | 8.3   | 100.0              | 66.7        | 91.7  | 0.0       | 0.0         | 0.0   |
| Manufacturing                   | 108                   | 85          | 193   | 24.1                 | 16.5        | 20.3  | 70.4               | 70.6        | 70.5  | 5.6       | 12.9        | 9.2   |
| Electricity, Gas & Water        | 5                     | 3           | 8     | 20.0                 | 0.0         | 11.6  | 80.0               | 100.0       | 88.4  | 0.0       | 0.0         | 0.0   |
| Agriculture, Fishery & Forestry | 1                     | 11          | 12    | 100.0                | 9.1         | 40.4  | 0.0                | 72.7        | 47.7  | 0.0       | 18.2        | 11.9  |

**Table 4. CONFIDENCE INDICATORS AND DIFFUSION INDICES**

4th Quarter 2005

In percent

| SECTORS  | Confidence Indicator <sup>1</sup> |             |       | Diffusion Index |             |       |
|--|-----------------------------------|-------------|-------|-----------------|-------------|-------|
|  | NCR                               | Outside NCR | Total | NCR             | Outside NCR | Total |
| 1. Industry  | 11.9                              | 15.6        | 13.8  |                 |             |       |
| Volume of Total Order Book ( Current Quarter)        |                                   |             |       | 16.0            | 17.4        | 16.7  |
| Volume of Stocks of Finished Goods (Current Quarter) |                                   |             |       | 2.6             | 1.4         | 2.0   |
| Volume of Production (Next Quarter)                  |                                   |             |       | 22.5            | 31.0        | 26.7  |
| 2. Construction                                      | 10.0                              | -50.0       | -7.0  |                 |             |       |
| Volume of Total Order Book ( Current Quarter)        |                                   |             |       | 0.0             | -60.0       | -17.0 |
| Number of People Employed (Next Quarter)             |                                   |             |       | 20.0            | -40.0       | 3.0   |
| 3. Wholesale and Retail Trade                        | 3.3                               | 1.8         | 2.8   |                 |             |       |
| Volume of Stocks of Finished Goods (Current Quarter) |                                   |             |       | -5.8            | -6.6        | -6.1  |
| Business Conditions (Current Quarter)                |                                   |             |       | -3.3            | 3.9         | -1.0  |
| Business Conditions (Next Quarter)                   |                                   |             |       | 7.5             | -5.3        | 3.4   |
| 4. Services Sector                                   | 10.6                              | 4.7         | 9.6   |                 |             |       |
| Business Conditions (Current Quarter)                |                                   |             |       | 6.6             | 10.1        | 7.2   |
| Business Conditions (Next Quarter)                   |                                   |             |       | 15.7            | 5.5         | 13.9  |
| Number of People Employed (Next Quarter)             |                                   |             |       | 9.6             | -1.4        | 7.7   |

<sup>1</sup> 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**  
4th 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       |
| <b>All Sectors</b>            | <b>627</b>         | <b>36.2</b>        | <b>48.7</b>      | <b>24.6</b>       | <b>65.4</b>         | <b>31.8</b>      | <b>37.6</b>        | <b>74.4</b> | <b>25.3</b>    | <b>25.7</b>            | <b>20.0</b> | <b>3.4</b> |
| NCR                           | 388                | 34.9               | 46.0             | 17.8              | 62.4                | 28.4             | 33.2               | 74.2        | 20.1           | 20.9                   | 21.0        | 2.7        |
| Industry of which:            | 116                | 29.4               | 47.3             | 20.2              | 68.1                | 21.9             | 31.1               | 77.3        | 22.8           | 26.8                   | 19.3        | 3.4        |
| Manufacturing                 | 108                | 30.6               | 49.1             | 20.4              | 67.6                | 21.3             | 31.5               | 79.6        | 24.1           | 25.0                   | 20.4        | 3.7        |
| Construction                  | 15                 | 33.3               | 46.7             | 6.7               | 66.7                | 26.7             | 20.0               | 73.3        | 26.7           | 20.0                   | 13.3        | 0.0        |
| Wholesale & Retail Trade      | 120                | 42.5               | 48.3             | 16.7              | 70.8                | 38.3             | 38.3               | 80.8        | 15.8           | 18.3                   | 17.5        | 0.8        |
| Services of which:            | 137                | 32.6               | 42.7             | 17.9              | 48.9                | 25.0             | 31.6               | 65.0        | 20.9           | 18.1                   | 26.8        | 4.1        |
| Community & Social Services   | 17                 | 52.9               | 35.3             | 17.6              | 35.3                | 17.6             | 47.1               | 70.6        | 23.5           | 17.6                   | 17.6        | 5.9        |
| Financial Intermediation      | 40                 | 30.0               | 45.0             | 12.5              | 60.0                | 25.0             | 25.0               | 80.0        | 17.5           | 12.5                   | 22.5        | 5.0        |
| Renting & Business Activities | 33                 | 30.3               | 51.5             | 18.2              | 45.5                | 24.2             | 36.4               | 63.6        | 21.2           | 24.2                   | 27.3        | 6.1        |
| Hotels & Restaurants          | 13                 | 30.8               | 46.2             | 38.5              | 53.8                | 30.8             | 61.5               | 69.2        | 38.5           | 30.8                   | 30.8        | 0.0        |
| Outside NCR                   | 239                | 38.6               | 53.8             | 37.3              | 70.8                | 38.1             | 45.9               | 74.9        | 35.1           | 34.6                   | 18.0        | 4.7        |
| Industry of which:            | 102                | 33.7               | 48.0             | 41.6              | 72.9                | 33.7             | 40.7               | 71.6        | 33.2           | 40.0                   | 14.0        | 5.3        |
| Manufacturing                 | 85                 | 34.1               | 49.4             | 43.5              | 75.3                | 35.3             | 38.8               | 74.1        | 34.1           | 42.4                   | 12.9        | 4.7        |
| Construction                  | 5                  | 40.0               | 40.0             | 20.0              | 60.0                | 40.0             | 80.0               | 60.0        | 40.0           | 40.0                   | 0.0         | 20.0       |
| Wholesale & Retail Trade      | 76                 | 52.6               | 69.7             | 36.8              | 73.7                | 51.3             | 57.9               | 89.5        | 42.1           | 31.6                   | 21.1        | 1.3        |
| Services of which:            | 56                 | 28.4               | 46.4             | 24.1              | 58.2                | 27.6             | 34.6               | 60.3        | 26.9           | 17.4                   | 31.8        | 6.6        |
| Community & Social Services   | 10                 | 30.0               | 20.0             | 20.0              | 20.0                | 30.0             | 50.0               | 70.0        | 20.0           | 10.0                   | 40.0        | 0.0        |
| Financial Intermediation      | 8                  | 25.0               | 50.0             | 25.0              | 50.0                | 37.5             | 37.5               | 62.5        | 25.0           | 25.0                   | 12.5        | 25.0       |
| Renting & Business Activities | 8                  | 25.0               | 62.5             | 12.5              | 62.5                | 12.5             | 25.0               | 50.0        | 25.0           | 12.5                   | 25.0        | 0.0        |
| Hotels & Restaurants          | 10                 | 30.0               | 40.0             | 40.0              | 70.0                | 40.0             | 40.0               | 60.0        | 30.0           | 30.0                   | 30.0        | 20.0       |

**Table 6. INDICES OF EXPECTATIONS ON ECONOMIC INDICATORS BY SECTOR**

4th Quarter 2005 and 1st Quarter 2006

In Index Points

| Sectors                  | Current Quarter (Oct - Dec) |                        |                               | Next Quarter (Jan - Mar)    |                        |                               |
|--------------------------|-----------------------------|------------------------|-------------------------------|-----------------------------|------------------------|-------------------------------|
|                          | Average Peso Borrowing Rate | Average Inflation Rate | Average Peso / US \$ Exchange | Average Peso Borrowing Rate | Average Inflation Rate | Average Peso / US \$ Exchange |
| <b>Total</b>             | <b>37.1</b>                 | <b>53.6</b>            | <b>10.1</b>                   | <b>31.4</b>                 | <b>45.7</b>            | <b>-0.9</b>                   |
| NCR                      | 41.0                        | 58.9                   | 15.2                          | 35.8                        | 49.4                   | 0.18                          |
| Industry                 | 43.9                        | 55.4                   | 20.9                          | 37.2                        | 46.9                   | 0.6                           |
| Construction             | 26.7                        | 73.3                   | 33.3                          | 6.7                         | 33.3                   | 0.0                           |
| Wholesale & Retail Trade | 38.3                        | 59.2                   | 7.5                           | 31.7                        | 50.8                   | 0.8                           |
| Services                 | 42.5                        | 60.3                   | 15.3                          | 41.7                        | 52.1                   | -0.8                          |
| Outside NCR              | 29.9                        | 43.6                   | 0.6                           | 23.3                        | 38.9                   | -2.8                          |
| Industry                 | 26.8                        | 0.0                    | 0.0                           | 0.0                         | 0.0                    | 0.0                           |
| Construction             | 20.0                        | 60.0                   | -20.0                         | 0.0                         | 20.0                   | 0.0                           |
| Wholesale & Retail Trade | 26.3                        | 48.7                   | 6.6                           | 27.6                        | 50.0                   | 6.6                           |
| Services                 | 52.7                        | 59.2                   | 6.5                           | 39.9                        | 53.0                   | -6.5                          |

**Table 7. AVERAGE NUMBER OF EMPLOYEES BY SECTOR**

4th Quarter 2005

| Sector                   | No. of Respondents | Current No. of Employees (in percent) |             |            |             | No Response |
|--------------------------|--------------------|---------------------------------------|-------------|------------|-------------|-------------|
|                          |                    | Small                                 | Medium      |            | Large       |             |
|                          |                    | <100                                  | 100-300     | 301-500    | >500        |             |
| <b>Total</b>             | <b>627</b>         | <b>33.6</b>                           | <b>25.0</b> | <b>8.7</b> | <b>16.0</b> | <b>16.7</b> |
| NCR                      | 388                | 33.9                                  | 25.0        | 6.4        | 14.5        | 20.1        |
| Industry                 | 116                | 25.4                                  | 34.3        | 9.2        | 16.8        | 14.3        |
| Construction             | 15                 | 33.3                                  | 33.3        | 0.0        | 20.0        | 13.3        |
| Wholesale & Retail Trade | 120                | 48.3                                  | 21.7        | 4.2        | 5.0         | 20.8        |
| Services                 | 137                | 27.9                                  | 19.1        | 6.8        | 20.9        | 25.3        |
| Outside NCR              | 239                | 32.9                                  | 25.0        | 13.0       | 18.9        | 10.3        |
| Industry                 | 102                | 21.5                                  | 28.4        | 18.0       | 25.6        | 6.4         |
| Construction             | 5                  | 40.0                                  | 40.0        | 0.0        | 0.0         | 20.0        |
| Wholesale & Retail Trade | 76                 | 57.9                                  | 15.8        | 7.9        | 7.9         | 10.5        |
| Services                 | 56                 | 25.2                                  | 27.1        | 5.5        | 18.4        | 23.8        |