BUSINESS OUTLOOK VERY OPTIMISTIC FOR THE FIRST AND SECOND QUARTERS OF 2006*

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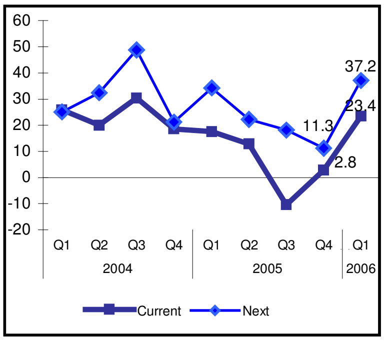
➢ Overall Business Outlook

Business outlook is upbeat for the first and second quarters of 2006.

Overall Business Outlook Diffusion Index: Q1 2004 – Q1 2006

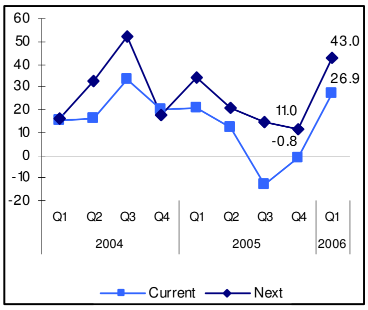


Results of the First Quarter 2006 Business Expectations Survey (BES) showed outlook of the business sector is very optimistic for the first two quarters of 2006. Compared with the previous survey results, the overall diffusion index (DI) in the current quarter expanded significantly to 23.4 percent from 2.8 percent and increased further to 37.2 percent in the next.[1] This outlook reflects respondents' improved expectations on business and economic performance for the first two quarters of 2006 compared to the first two quarters of 2005 (Table 1).

Respondents attributed their optimistic view to the following factors: (1) appreciation of the peso; (2) lower interest rates; (3) improved government fiscal position; (4) expectations of sales increase during summer, graduation period and school opening in June; (5) higher tourists arrivals; and (6) expected increase in export receipts during the second quarter. On the other hand, respondents cited downside risks to business such as the increase in the VAT rate to 12 percent starting 1 February 2006; rise in oil prices; and continuing political noise.

Respondents both from NCR and AONCR are optimistic.

NCR Business Outlook
Current and Next Quarter

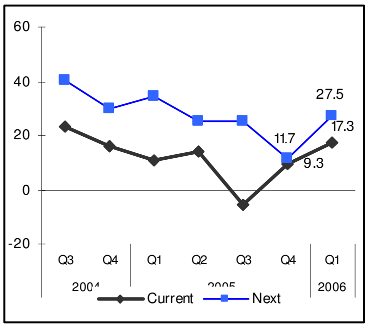


Respondents from both the NCR and AONCR were optimistic as their indices were on the uptrend. The overall diffusion indices in the NCR reversed to 26.9 percent in the current quarter from -0.8 percent in the previous survey, and accelerated further to 43.0 percent in the next (Table 2).

* The First Quarter 2006 BES was conducted from 2 January to 3 February 2006.

[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 in the negative in a given indicator. A positive DI indicated 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

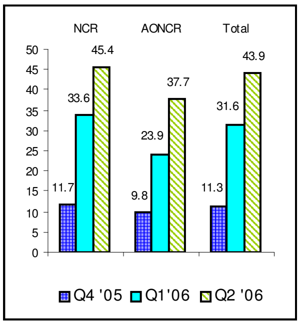


Meanwhile, the diffusion indices in AONCR rose to 17.3 percent in the current quarter, from 9.3 percent during the previous survey, and further to 27.5 percent in the next (Table 2).

➢ Sectoral Outlook

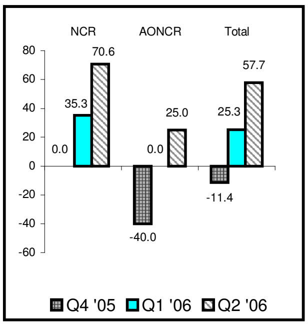
All sectors view that business will be better in the first two quarters of 2006.

Services Outlook
Q4 2005 - Q1 2006



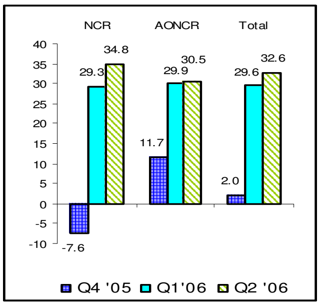
Sentiment across sectors is bullish. The services sector was the most upbeat with an index of 31.6 percent, up from 11.3 percent in the previous survey. The DIs of all service categories (i.e., financial intermediaries, hotels and restaurants, renting and business activities, real estate, transportation, community and social services), in both NCR and AONCR rose for the first two quarters of 2006 (Table 1).

Construction Outlook
Q4 2005 – Q1 2006



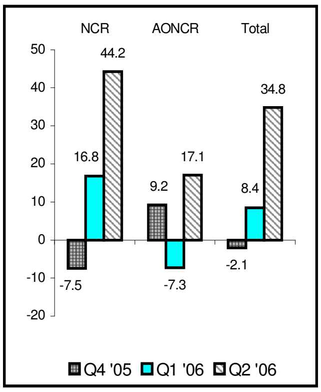
The DI of the construction sector reversed to 25.3 percent in the current quarter (from the previous survey's –11.4 percent) and further to 57.7 percent in the next quarter (from the previous survey's –5.7 percent) with the expected pick up in construction activities during summer and the increase in the volume of business activities in the other sectors for the first two quarters of the year. While both remaining positive, the DI of respondent firms in NCR was higher compared to their AONCR counterparts (Table 1).

Industry Outlook
Q4 2005 – Q1 2006



Similarly, the DI of the industry sector posted positive and higher indices during the current quarter, at 29.6 percent (up from the previous survey's 2.0 percent) and further to 32.6 percent in the next quarter (from 12.0 percent in the previous quarter). Both DIs in the NCR and AONCR increased relative to those of the previous survey (Table 1).

Trade Outlook
Q4 2005 – Q1 2006



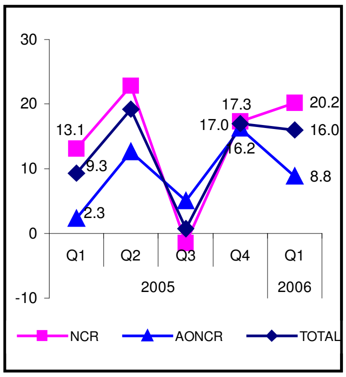
The trade sector DI also registered an upturn from –2.1 percent during the fourth quarter of 2005 to 8.4 percent in the first quarter of 2006 and further to 34.8 percent in the second quarter. Respondent firms in NCR showed greater business confidence than their AONCR counterparts.

➢ Business-related Factors

Volume of business activity remains positive in the current quarter and in the second quarter of 2006.

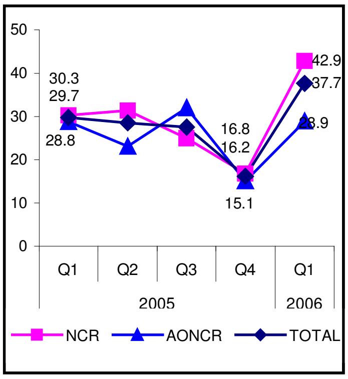
The volume of business activity DI during the first quarter of 2006 is lower by 1 percentage point at 16.0 percent from 17.0 percent in the previous survey due to the expected slowdown in consumer spending after the Christmas season. NCR respondents expected an increase in the volume of business activity with its DI improving to 20.2 percent from 17.3 percent in the previous quarter. While volume of business activity DI in AONCR during the first quarter of 2006 remains positive, the index is lower at 8.8 percent compared to 16.2 percent in the fourth quarter of 2005 (Table 2).

Volume of Business Activity
Current Quarter



It is noted, however, that discounting seasonal factors, outlook of business activity was brisker in the first quarter of 2006 compared to same period in 2005 as the volume of business activity index for the first quarter of 2006 moved up to 16.0 percent from 9.3 percent a year ago.

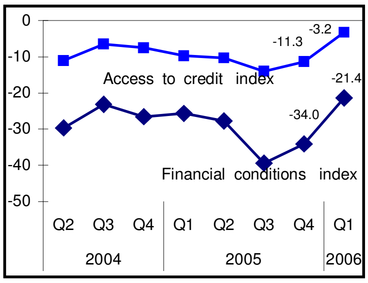
Volume of Business Activity
Next Quarter



For the second quarter of 2006, the overall volume of business activity index increased significantly to 37.7 percent from 16.2 percent in the previous survey. Both NCR and AONCR DIs show that volume of business is expected to increase further in the next quarter of 2006 with the opening of the school year, harvest season, and increase in tourist arrivals (Table 2).

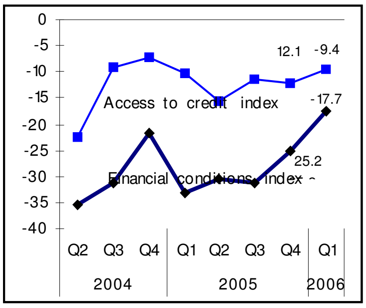
Outlook on credit access and financial conditions is better in the first quarter of 2006 compared to the previous survey.

NCR Access to Credit and
Financial Conditions



Although still negative, the outlook of respondent firms in the NCR on indices on credit access and financial conditions improved considerably. The NCR credit access index improved to –3.2 percent in the first quarter of 2006 compared to –11.3 percent in the previous quarter. [2] Likewise, the financial conditions index was higher at –21.4 percent from –34.0 percent for the same period (Table 2).

AONCR Access to Credit and Financial Conditions

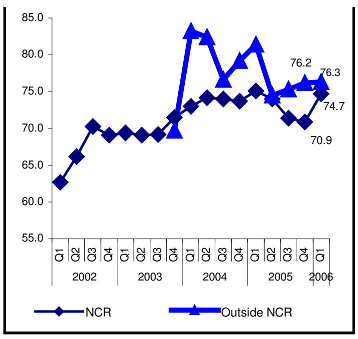


The same trends are observed in AONCR with credit access index improving to –9.4 percent in the first quarter of 2006 compared to –12.1 percent in the previous quarter. Respondent firms in AONCR also expected improvements in their financial conditions as the index registered –17.7 percent from –25.2 percent in the previous survey (Table 2).

➢ Capacity Utilization

Average capacity utilization slightly increases during the first quarter of 2006.

Capacity Utilization: Q1 2006



Albeit modestly, the overall capacity utilization in the industry sector is also expected to increase to 75.5 percent for the first quarter of 2006 from 73.5 percent in the previous quarter. Average capacity utilization for NCR firms is expected to rise to 74.7 percent in the current quarter from 70.9 percent in the previous quarter. On the other hand, respondents anticipated that average capacity utilization of firms in AONCR would remain unchanged at 76.3 percent in the current quarter (Table 2). [3]

➢ Employment Outlook

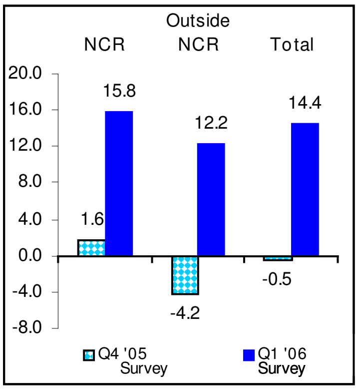
Employment outlook improves in both the NCR and AONCR.

Consistent with the expected improvement in business activity in the second quarter of 2006, the overall employment outlook index yielded 14.4 percent, from the previous survey's –0.5 percent. The employment outlook

[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.

[3] The average capacity utilization of the BES is based on a survey of 270 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
Next Quarter



index in NCR went up to 15.8 percent from 1.6 percent in the last survey. Similarly, the employment outlook index in AONCR increased significantly to 12.2 percent, a turnaround from last survey's DI of –4.2 percent (Table 2). The positive employment outlook is consistent with the expansion plans during the quarter of some firms surveyed from the industry sector (Table 3).

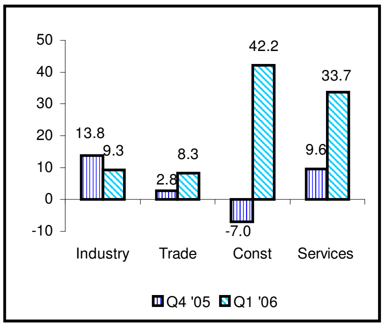
➢ Confidence Indicators

Business confidence indices for all sectors are positive in the first quarter of 2006.

Business confidence across sectors continue to be strong in the first quarter of 2006.

The construction sector was the most optimistic with the confidence index at 42.2 percent, an upturn from –7.0 percent from the previous quarter. This was followed by the services sector at 33.7 percent (up from 9.6 percent); the trade sector at 8.3 percent (up from 2.8 percent). The index of the industry sector, while it declined, remained positive at 9.3 percent in the first quarter of 2006 (from 13.8 percent in the previous quarter) (Table 4). The lower confidence index for the industry sector could be attributed to seasonally higher volume of stocks of finished goods in the first quarter compared to the fourth quarter of the year.

Business Confidence
Q1 2006



➢ Business Constraints

Competition, insufficient demand, and unclear economic laws are viewed as major risks to business in the first quarter of 2006.

The 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, and financial problems (Table 5).

➢ Expectations on Key Economic Indicators

A stronger and stable peso, and higher inflation and interest rates are expected in the first quarter of 2006.

Survey respondents anticipated a stronger and stable peso, and higher inflation and domestic borrowing rates during the first two quarters of 2006 (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 2004 which are based in the NCR and the five selected regions. From each of these regions, a stratified random sample of 933 firms (460 in NCR and 473 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 72.1 percent: 82.0 percent for NCR and 62.6 percent for the selected regions outside NCR. It is worth noting that 32.1 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 Outside NCR	Region 1 Ilocos Region	Region 3 Central Luzon	Region 4 Southern Luzon	Region 7 Central Visayas	Region 11 Southern Mindanao	Total	NCR	Areas Outside NCR	Region 1 Ilocos Region	Region 3 Central Luzon	Region 4 Southern Luzon	Region 7 Central Visayas	Region 11 Southern Mindanao
1.	Agriculture, Fisheries and Forestry	109	21	36	52	0	6	9	7	30	24	4	20	0	2	2	2	14
2.	Business Activities	299	8	247	44	0	12	15	15	2	50	36	14	0	4	3	5	2
3.	Community, Social & Personal Services	144	9	101	34	3	7	10	10	4	29	17	12	2	2	2	3	3
4.	Construction	195	9	140	46	2	12	15	16	1	36	21	15	2	4	3	5	1
5.	Electricity, Gas and Water Supply	75	1	46	28	4	11	4	8	1	20	7	13	4	4	1	3	1
6.	Financial Intermediation	322	5	295	22	0	6	6	9	1	51	44	7	0	2	1	3	1
7.	Hotels and Restaurant	114	1	85	28	2	7	5	10	4	22	12	10	2	2	1	3	2
8.	Manufacturing	1717	48	827	842	5	138	535	138	26	321	121	200	5	45	93	46	11
9.	Mining and Quarrying	29	3	20	6	0	0	0	5	1	6	3	3	0	0	0	2	1
10.	Real Estate	195	6	153	36	2	5	12	17	0	33	22	11	1	2	2	6	0
11.	Transport, Storage & Communications	239	8	167	64	2	19	21	15	7	47	24	23	2	6	4	5	6
12.	Wholesale and Retail Trade	1562	75	1019	468	33	139	134	110	52	294	149	145	27	42	23	36	17
	TOTAL NUMBER OF FIRMS	5000	194	3136	1670	53	362	766	360	129	933	460	473	45	115	135	119	59

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Table 1. INDICES OF OVERALL BUSINESS OUTLOOK BY SECTOR [1/]
1st and 2nd Quarters of 2006

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Sectors	Number of Respondents			Index Points					
				Current Quarter Jan - Mar			Next Quarter Apr - Jun		
	NCR	Outside NCR	Total	NCR	Outside NCR	Total	NCR	Outside NCR	Total
All Sectors	**377**	**296**	**673**	**26.9**	**17.3**	**23.4**	**43.0**	**27.5**	**37.2**
Industry	**115**	**155**	**270**	**29.3**	**29.9**	**29.6**	**34.8**	**30.5**	**32.6**
of which:									
Manufacturing	**102**	**132**	**234**	**29.4**	**30.3**	**29.9**	**38.2**	**33.3**	**35.7**
Construction	**17**	**8**	**25**	**35.3**	**0.0**	**25.3**	**70.6**	**25.0**	**57.7**
Wholesale & Retail Trade	**113**	**82**	**195**	**16.8**	**-7.3**	**8.4**	**44.2**	**17.1**	**34.8**
Services	**132**	**51**	**183**	**33.6**	**23.9**	**31.6**	**45.4**	**37.7**	**43.9**
of which:									
Financial Intermediation	**38**	**7**	**45**	**52.6**	**57.1**	**53.0**	**50.0**	**71.4**	**51.8**
Hotels & Restaurants	**12**	**8**	**20**	**50.0**	**50.0**	**50.0**	**41.7**	**75.0**	**50.1**
Renting & Business Activities	**31**	**10**	**41**	**29.0**	**50.0**	**32.7**	**41.9**	**60.0**	**45.1**
Community, Social Services	**17**	**10**	**27**	**29.4**	**0.0**	**20.6**	**29.4**	**30.0**	**29.6**

1/ The diffusion index is weighted based on the distribution of the 2004 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
4th Quarter of 2005 and 1st Quarter of 2006

INDICATORS	4th Quarter 2005 (Previous)			1st Quarter 2006 (Current)		
	NCR	Outside NCR	TOTAL	NCR	Outside NCR	TOTAL
Business Outlook Index						
Current Quarter	-0.8	9.3	2.8	26.9	17.3	23.4
Next Quarter	11.0	11.7	11.3	43.0	27.5	37.2
Volume of Business Activity Index						
Previous Quarter	-14.0	-5.4	-11.0	19.9	9.8	16.1
Current Quarter	17.3	16.2	17.0	20.2	8.8	16.0
Next Quarter	16.8	15.1	16.2	42.9	28.9	37.7
Volume of Total Order Book Index						
Previous Quarter	-14.5	-8.1	-12.3	12.7	7.2	10.7
Current Quarter	14.2	18.0	15.5	18.0	8.6	14.5
Credit Access Index						
Current Quarter	-11.3	-12.1	-11.5	-3.2	-9.4	-5.5
Financial Conditions Index						
Current Quarter	-34.0	-25.2	-30.9	-21.4	-17.7	-20.0
Ave. Capacity Utilization (Industry Sector)						
Current Quarter	70.9	76.2	73.5	74.7	76.3	75.5
Employment Outlook Index						
Next Quarter	1.6	-4.2	-0.5	15.8	12.2	14.4

Table 3. DISTRIBUTION OF COMPANIES WITH AND WITHOUT EXPANSION PLANS FOR THE INDUSTRY SECTOR
2nd 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
Industry Sector	115	155	270	27.1	32.3	29.8	63.2	61.5	62.3	9.7	6.2	7.9
Mining & Quarrying	3	3	6	33.3	33.3	33.3	66.7	66.7	66.7	0.0	0.0	0.0
Manufacturing	102	132	234	21.6	28.8	25.3	75.5	68.9	72.1	2.9	2.3	2.6
Electricity, Gas & Water	6	10	16	33.3	40.0	35.9	66.7	50.0	60.2	0.0	10.0	3.9
Agriculture, Fishery & Forestry	4	10	14	25.0	30.0	28.3	50.0	60.0	56.7	25.0	10.0	15.0

Table 4. CONFIDENCE INDICATORS AND DIFFUSION INDICES
1st Quarter 2006
In percent

SECTORS	Confidence Indicator[1/]			Diffusion Index		
	NCR	Outside NCR	Total	NCR	Outside NCR	Total
1. Industry	8.9	9.7	9.3			
Volume of Total Order Book (Current Quarter)				2.3	13.2	7.9
Volume of Stocks of Finished Goods (Current Quarter)				7.0	14.6	10.9
Volume of Production (Next Quarter)				31.4	30.4	30.9
2. Construction	58.8	0.0	42.2			
Volume of Total Order Book (Current Quarter)				64.7	0.0	46.5
Number of People Employed (Next Quarter)				52.9	0.0	38.0
3. Wholesale and Retail Trade	12.1	1.2	8.3			
Volume of Stocks of Finished Goods (Current Quarter)				16.8	4.9	12.7
Business Conditions (Current Quarter)				10.6	-11.0	3.1
Business Conditions (Next Quarter)				42.5	19.5	34.5
4. Services Sector	36.1	24.2	33.7			
Business Conditions (Current Quarter)				33.1	11.5	28.7
Business Conditions (Next Quarter)				55.0	39.9	52.0
Number of People Employed (Next Quarter)				20.3	21.1	20.5

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
1st Quarter 2006

Sector	No. of Respondents	Percent Share										
		High Interest	Unclear economic	Lack of equipment	Insufficient demand	Access to credit	Financial Problems	Competition	Labor problems	Lack of material-	Others	None
All Sectors	**673**	**32.4**	**40.3**	**21.2**	**58.7**	**29.2**	**31.1**	**74.1**	**23.0**	**21.8**	**16.5**	**5.5**
NCR	377	29.6	37.8	16.3	54.5	26.4	27.5	73.7	16.7	15.9	17.1	4.2
Industry	115	26.9	41.1	17.4	62.1	20.8	24.2	73.4	20.1	22.8	17.4	7.7
of which:												
Manufacturing	102	27.5	41.2	14.7	62.7	19.6	22.5	75.5	20.6	22.5	17.6	6.9
Construction	17	29.4	23.5	11.8	35.3	29.4	35.3	52.9	11.8	17.6	11.8	0.0
Wholesale & Retail Trade	113	37.2	40.7	15.0	58.4	33.6	31.0	77.9	16.8	14.2	14.2	3.5
Services	132	24.5	34.0	17.1	46.6	23.8	25.9	72.6	14.3	11.3	20.4	2.2
of which:												
Community & Social Services	17	35.3	29.4	11.8	35.3	11.8	29.4	76.5	5.9	5.9	17.6	0.0
Financial Intermediation	38	23.7	23.7	7.9	50.0	10.5	13.2	81.6	7.9	10.5	21.1	5.3
Renting & Business Activities	31	29.0	58.1	32.3	64.5	38.7	41.9	74.2	35.5	25.8	16.1	3.2
Hotels & Restaurants	12	25.0	41.7	16.7	33.3	16.7	25.0	75.0	16.7	8.3	33.3	0.0
Outside NCR	296	37.1	44.4	29.5	65.7	33.9	37.2	74.8	33.5	31.7	15.6	7.7
Industry	155	34.9	41.9	30.9	63.2	31.4	33.0	70.8	32.2	37.6	15.0	7.1
of which:												
Manufacturing	132	34.8	41.7	30.3	63.6	29.5	31.1	74.2	31.8	38.6	14.4	6.8
Construction	8	37.5	50.0	25.0	50.0	37.5	37.5	37.5	50.0	25.0	12.5	12.5
Wholesale & Retail Trade	82	47.6	48.8	30.5	75.6	47.6	52.4	87.8	41.5	30.5	15.9	8.5
Services	51	23.9	43.9	23.1	58.0	15.0	21.4	70.8	18.6	13.7	17.9	7.6
of which:												
Community & Social Services	10	30.0	30.0	30.0	50.0	30.0	40.0	90.0	10.0	10.0	10.0	0.0
Financial Intermediation	7	42.9	42.9	14.3	57.1	14.3	28.6	57.1	28.6	14.3	28.6	28.6
Renting & Business Activities	10	20.0	60.0	10.0	60.0	10.0	20.0	50.0	10.0	20.0	20.0	10.0
Hotels & Restaurants	8	25.0	37.5	12.5	50.0	12.5	25.0	100.0	12.5	12.5	12.5	0.0

Table 6. INDICES OF EXPECTATIONS ON ECONOMIC INDICATORS BY SECTOR

1st and 2nd Quarters of 2006

In Index Points

Sectors	Current Quarter (Jan - Mar)			Next Quarter (Apr - Jun)		
	Average Peso Borrowing Rate	Average Inflation Rate	Average Peso / US $ Exchange	Average Peso Borrowing Rate	Average Inflation Rate	Average Peso / US $ Exchange
Total	**6.8**	**22.9**	**7.5**	**16.5**	**27.8**	**-3.6**
NCR	8.2	31.5	6.2	20.6	34.7	-3.19
Industry	-2.7	25.3	6.7	16.6	26.9	-11.6
Construction	58.8	29.4	-29.4	64.7	47.1	-5.9
Wholesale & Retail Trade	15.9	40.7	10.6	18.6	36.3	-3.5
Services	3.5	28.3	6.2	20.2	38.5	5.0
Outside NCR	4.4	8.5	9.6	9.7	16.2	-4.2
Industry	5.5	0.0	0.0	0.0	0.0	0.0
Construction	12.5	0.0	12.5	12.5	12.5	25.0
Wholesale & Retail Trade	6.1	22.0	15.9	14.6	22.0	-1.2
Services	-4.8	-1.5	-2.7	-7.1	-2.5	-6.9

Table 7. AVERAGE NUMBER OF EMPLOYEES BY SECTOR
1st Quarter 2006

Sector	No. of Respondents	Current No. of Employees (in percent)				
		Small	Medium		Large	No Response
		<100	100-300	301-500	>500	
Total	**673**	**32.1**	**28.0**	**7.8**	**17.2**	**14.9**
NCR	377	31.2	26.9	7.5	17.8	16.6
Industry	115	22.6	30.6	13.1	22.6	11.1
Construction	17	29.4	41.2	0.0	11.8	17.6
Wholesale & Retail Trade	113	47.8	19.5	4.4	7.1	21.2
Services	132	22.8	28.8	6.6	24.9	16.8
Outside NCR	296	33.7	29.8	8.3	16.0	12.2
Industry	155	22.5	32.2	11.4	21.2	12.8
Construction	8	37.5	50.0	0.0	0.0	12.5
Wholesale & Retail Trade	82	52.4	25.6	3.7	6.1	12.2
Services	51	37.1	25.4	7.7	20.0	9.8