

Business Expectations Survey

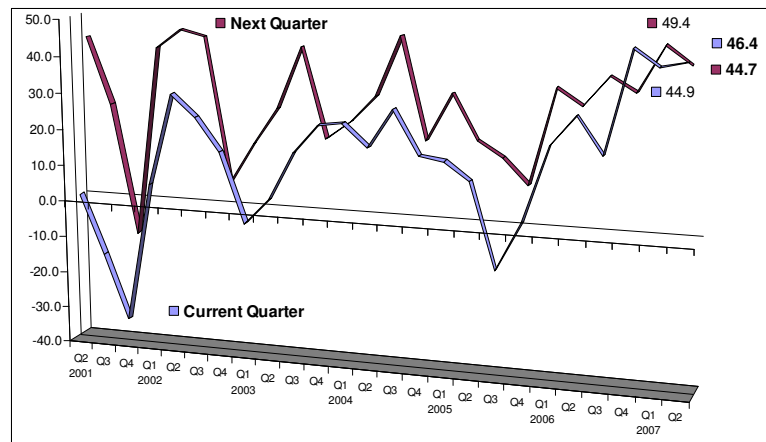
Second Quarter 2007

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BUSINESS SENTIMENT CONTINUES TO BE BULLISH IN THE SECOND QUARTER OF 2007

Overall Business Outlook

Overall Business Confidence Index
Q2 2001 – Q2 2007



Business sentiment remains optimistic in second quarter.

In the second quarter 2007, businesses continued to have an optimistic view of the macroeconomic conditions. The overall business confidence index (CI) remained above the 40 percent level for the third consecutive quarter, after rising to a record high of 49.4 percent in the fourth quarter 2006.¹

The index for the second quarter remained strong at 46.4 percent, higher relative to comparable levels year-on-year (by 14.8 points) and quarter-on-quarter (by 1.5 points).

Optimism is due to favorable developments such as the stable macroeconomy and greater business opportunities from the electoral exercise and enrollment.

Respondents attributed their expectation of a better economic outlook to the following factors: 1) a generally stable macroeconomic environment (as reflected in the strengthening peso, low inflation and stable interest rates, improved investment conditions); 2) economic expansion in Asian economies; 3) greater business opportunities during the election period; 4) brisker business during the dry/summer season; 5) increased consumer spending due to the opening of classes in June; and 6) new and enhanced business strategies.

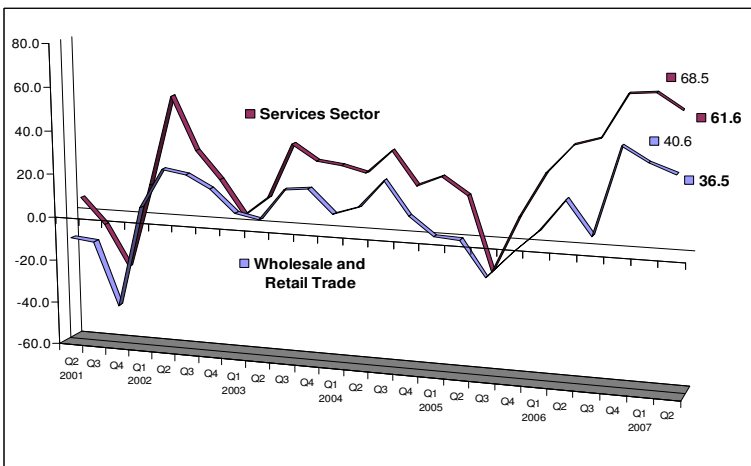
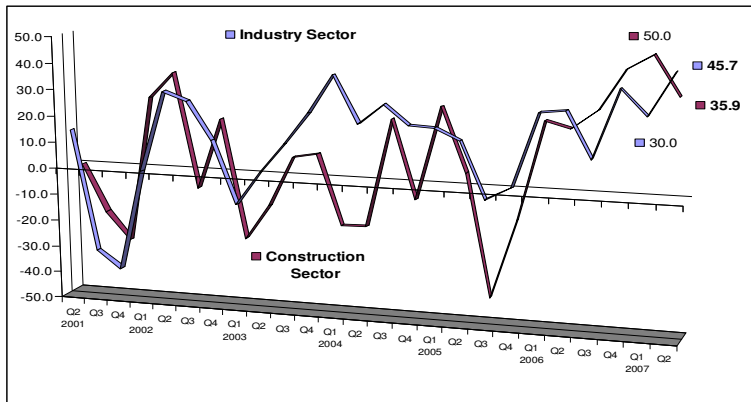
¹ The CI is computed as the percentage of firms that answered in the affirmative less the percentage of firms that answered in the negative in a given indicator. A positive CI indicates a favorable view, except for the average inflation rate and the average peso-borrowing rate, where a positive CI indicates the opposite.

Business executives also remained confident about the next quarter as the index (at 44.7 percent) rose by almost 12.0 points year-on-year. Quarter-on-quarter, however, the index fell by 4.7 points. Risks cited by respondents that could adversely affect macroeconomic conditions in the succeeding quarter included: 1) anticipated adjustments in crude oil prices; 2) possible contraction of consumer demand in the US; and 3) seasonal factors (i.e., onset of the wet season).

Both respondents from the NCR (National Capital Region) and AONCR (Areas Outside the NCR) were upbeat in their current and next quarter outlook.

Sectoral Outlook

**Business Outlook Index by Sector
Current Quarter
Q2 2001 – Q2 2007**



Positive outlook in the second quarter is sector-wide. The favorable sentiment on the macroeconomy was noted across all sectors. Respondents in all sectors expected the economy in the second quarter to be better compared to the year ago as shown by uptrend in their indices. However, the sectoral indices were lower quarter-on-quarter, with the exception of the industry sector, indicating that the bullish overall outlook in the current quarter was mostly driven by this sector.

The industry sector peaked to an all-time high of 45.7 percent (up by 15.0 points year-on-year and quarter-on-quarter). This was due in large part to greater production operations of firms to meet election- and school opening-related demand in the second quarter.

The services sector index, the highest at 61.6 percent, was up year-on-year by 17.5 points, but down by almost 7.0 points quarter-on-quarter. The index for renting and business activities sub-sector, which was abnormally high in the first quarter on the back of surge in election-related projects, was lower quarter-on-quarter as these projects were expected to culminate after the election. On the other hand, the CI of the hotels and restaurants sub-sector exhibited a downtrend in the second quarter in tandem with the slowdown in tourism-related activities, following the end of the school break and onset of the rainy season in June. This is as expected, reflecting historical trends.

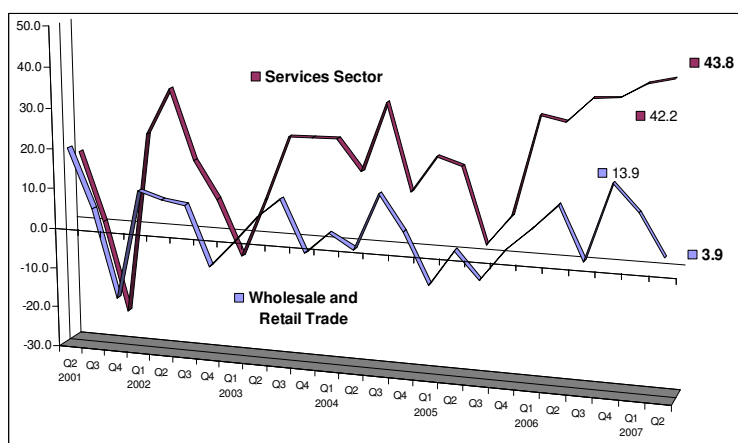
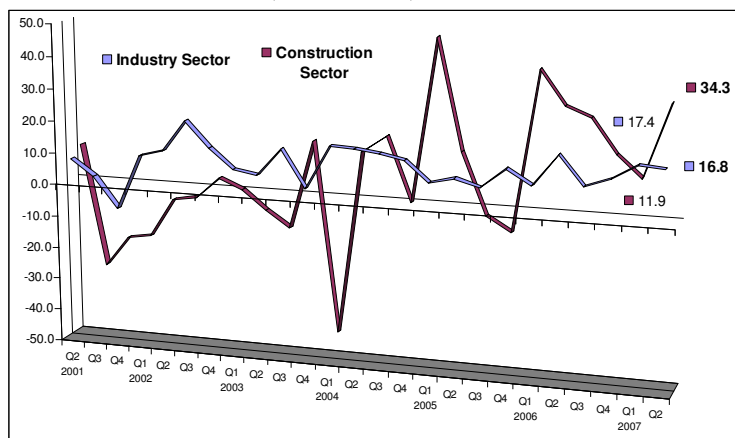
The business outlook of the wholesale and retail trade sector as well as the construction sector at 36.5 percent and 35.9 percent, respectively, were higher than their comparable levels last year (both by an average of 13.0 points) but lower quarter-on-quarter (by 4.1 points for trade and 14.1 points for construction).

Mixed expectations are observed in the next quarter. Business expectations in the third quarter tracked those in the second quarter. That is, all sectoral indices, except for construction, were on the uptrend year-on-year but lower quarter-on-quarter. The factors cited by respondents that could adversely affect the economy in the third quarter assumed considerable importance in shaping their near-term outlook.

Executives in the construction sector expected that the economy would be even stronger in the third quarter with the index at 59.0 percent climbing by 13.2 points year-on-year and 20 points quarter-on-quarter. While seemingly inconsistent with the natural business cycle of a downtrend during the rainy season, real estate and infrastructure projects are observed to be mushrooming as developers take advantage of the heightened demand in the property market.

Business Confidence on Own Operations

**Current Quarter Business Confidence Index by Sector
Q2 2001 – Q2 2007**



Businesses have a favorable view regarding their own operations.

Respondents were of the view that their operations continued to expand in the second quarter as indices remained positive. Some respondents were more bullish on their sector's outlook in the second quarter as the indices were noticeably higher relative to comparable levels last year and last quarter.

The services sector has been the most optimistic, with its index at 43.8 percent (up by 11.4 points year-on-year and 1.6 points quarter-on-quarter), rising consistently since the fourth quarter of 2005.

Similarly, the construction sector continued to be upbeat as its index (at 34.3 percent) was up by 2.6 points year-on-year and rising by almost threefold quarter-on-quarter.

Factors lifting the business outlook included expected higher volume of business activity (at 35.7 percent in the second quarter 2007 from 31.3



percent last year and 22.6 percent last quarter), total order book (at 27.7 percent in the second quarter 2007 from 25.9 percent last year and 17.1 percent last quarter), and an increase in the average capacity utilization (at 83.4 percent in the second quarter 2007 from 75.0 percent last year and 83.1 percent last quarter).

Access to Credit, Employment and Expansion Plans

Access to credit remains favorable. For the fourth quarter in a row, access to credit index continued to be positive at 9.0 percent (up by 12.5 points year-on-year although down by a point quarter-on-quarter). This trend is consistent with data on outstanding loans granted by banks, which has registered a stronger uptrend since July 2006.

Employment expectations are strong. The employment outlook index for the next quarter also increased at 17.3 percent (higher by 4.7 points year-on-year and almost a point, quarter-on-quarter), suggesting that employment is expected to be stronger next quarter. The employment outlook index was particularly strong for the construction sector and real estate sub-sector.

Expansion plan index rises. Meanwhile, 31.1 percent of respondent industry firms indicated plans to expand operations in the next quarter, compared with 27.2 percent of the previous quarter.

Business Constraints

Competition and insufficient demand are considered to be major impediments to stronger business activity. Competition, particularly emanating from local firms, and insufficient demand leading to low volume of sales, were the most commonly identified as the major constraints to stronger business activity. However, the percentage of respondents who cited insufficient demand, unclear economic laws, and financial and labor problems as limiting factors have declined.

Expectations on Key Economic Indicators

Survey respondents are positive on key economic indicators. Views on selected economic indicators were also positive. Majority of the respondents anticipated that the peso would remain strong and that interest rates would continue to decelerate in the current quarter and the next quarter. However, inflation while trending down in the current quarter was expected to move up in the third quarter, consistent with the BSP's forecast that inflation has already bottomed out.

About the Survey

A total of 1,076 firms were surveyed. The second quarter 2007 BES was conducted from 10 April to 8 May 2007. A total of 1,076 firms nationwide were surveyed. They were drawn from the Securities and Exchange Commission 2005 Top 5,000 Corporations as follows: 477 companies in NCR and 599 firms in AONCR, covering all 17 regions nationwide. The overall survey response rate for this quarter is 71.0 percent (similar to that of last quarter). For NCR, the response rate was 78.4 percent (72.5 percent last quarter); and for AONCR, the response rate was 65.0 percent (from 69.7 percent).

