

Business Expectations Survey ¹

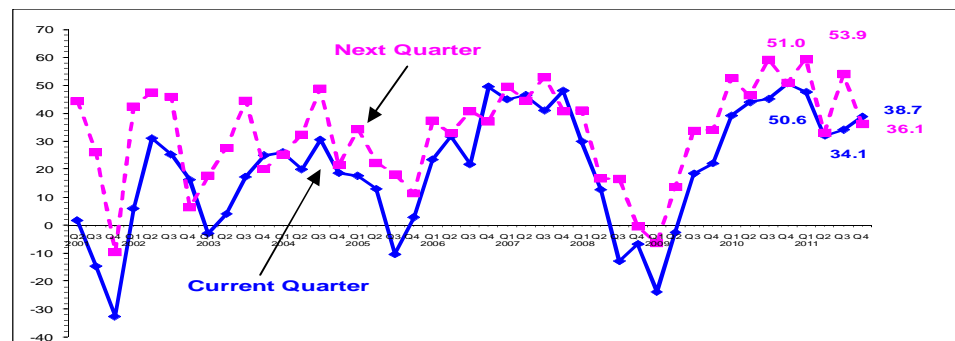
Fourth Quarter 2011

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Business Sentiment Improves in Q4 2011

Overall Business Outlook on the Macroeconomy

Overall Business Confidence Index
Q2 2001 – Q4 2011



Business sentiment improves in Q4 2011, but softer in Q1 2012. Business sentiment continued to improve in Q4 2011, with the confidence index (CI)² rising to 38.7 percent from 34.1 percent in Q3 2011. This quarter-on-quarter uptick in the CI in Q4 2011 indicates that more businesses are optimistic about the country's economic prospects compared to the previous quarter. Respondents cited the following factors for their more optimistic outlook: (a) seasonal increase in consumer demand during the Christmas and harvest seasons, (b) implementation of government projects, including the Public-Private Partnership (PPP) program, (c) sound macroeconomic fundamentals, (d) business expansion arising from steady investment inflows, (e) introduction of new and enhanced business strategies, and (f) the steady stream of overseas Filipinos' (OFs) remittances. Business sentiment in the Philippines fared better compared to those of other developed economies, such as in the US, Germany, Singapore, Hong Kong and New Zealand, whose outlook was dampened by the sluggishness in the US economy and the debt crisis in the Eurozone. Meanwhile, similar to the Philippines, businesses in Korea and India were more upbeat in the current quarter.

For Q1 2012, business outlook turned less optimistic, with the next quarter CI declining to 36.1 percent from 53.9 percent in the previous quarter. This is due in part to the weak global economy, geo-political tensions in the Middle East and North Africa (MENA) region, residual effects of the natural disasters in Japan and Thailand,

¹ The Business Expectations Survey (BES) is a quarterly survey of firms drawn at random from the Securities and Exchange Commission's Top 7000 Corporations. Results of the BES provide advance indication of the direction of the change in the overall business activity in the economy and in the various measures of companies' operations as well as in selected economic indicators.

² The CI is computed as the percentage of firms that answered in the affirmative less the percentage of firms that answered in the negative with respect to their views on a given indicator. A positive CI indicates a favorable view, except for the inflation rate and the peso-borrowing rate, where a positive CI indicates the opposite.



and seasonal factors. Moreover, the damage due to typhoons and other weather disturbances in the country, especially to crops and businesses, was expected to result in higher prices of basic commodities and loss of household and business income.

Business sentiments in the AONCR improve while those in the NCR remain steady in Q4 2011. Sentiments of businesses in Q4 2011 improved in Areas Outside NCR (AONCR) while remaining broadly steady in the National Capital Region (NCR). A more detailed look at the responses of firms in AONCR³ showed that business confidence in Q4 2011 improved quarter-on-quarter in all regions except in Region XII. Firms from the AONCR cited brisker demand during the holidays, improvement in farm production, better marketing strategies and good business environment, as reasons behind their improved outlook. Respondent firms in Region I were the most upbeat, with their CI reverting from negative to positive, in view of expectations of increasing consumer demand, festive holiday season, and resilient remittance flows. Meanwhile, respondents in Region XII attributed their less optimistic outlook to the uncertainty of fish supply, clients' tight financial conditions and rising oil prices.

For Q1 2012, sentiments in the NCR and across all regions in the AONCR except in Region XI, turned less optimistic compared to a quarter ago as firms expressed concerns over increasing prices of fuel, electricity and other commodities, and lower demand. Meanwhile, the outlook of respondent firms in Region XI improved both from their quarter- and year-ago levels as firms anticipated business expansion and higher OF remittances in the region.

Firms engaged in international commodity trading are less optimistic. Firms engaged in international commodity trading were less upbeat in Q4 2011. The less upbeat outlook of exporters and dual-activity firms outweighed the bullish sentiments of importing firms. Exporting firms and those engaged in dual activities were less optimistic due to the anticipated weak demand in the world market, and high cost of raw materials. Other developments at the local front, such as the diminishing supply of tuna fish catch and the occurrence of diseases in major banana-growing areas in the country, also weakened their outlook. Importers, however, were more bullish in Q4 2011 due to general expectations of stronger domestic demand during the holidays, fuelled partly by the strong influx of OF remittances. For the next quarter, outlook of firms across all trade groups was less favorable.

Outlook of small- and medium-sized firms is more upbeat. By employment size,⁴ small- and medium-sized firms were more favorable in their outlook in Q4 2011, while the outlook of large-sized firms was broadly steady. Going forward, the outlook of firms for Q1 2012 across all employment sizes turned less upbeat, with large-sized firms being the least optimistic.

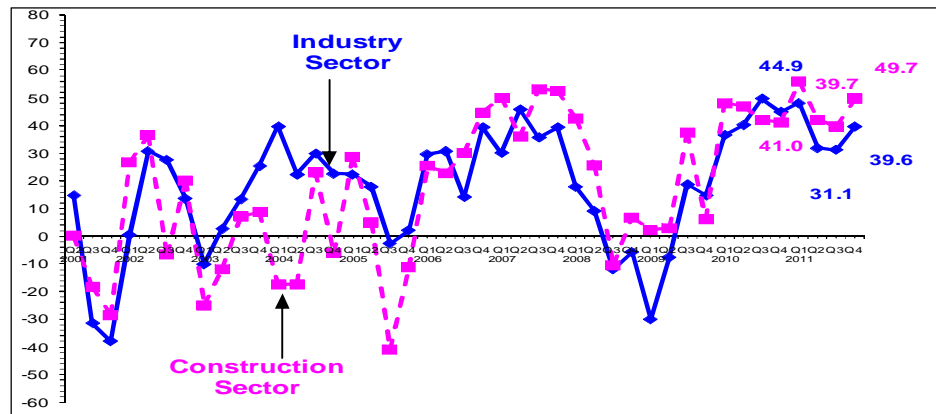
³ While the survey covered all 17 regions of the Philippines, the bulk (89.6 percent) of the respondents were from NCR and nine regions outside NCR, namely: Regions I, III, IV, V, VI, VII, IX, XI and XII. (For the list of regions and the distribution of top 7000 corporations by region, please see Annexes A and B).

⁴ Small firms have less than 100 employees; medium firms, 100-499 employees; while large firms have over 500 employees.



Sectoral Outlook

Current Quarter Business Outlook Index by Sector
Q2 2001 – Q4 2011



The more buoyant business outlook is broad-based. The more buoyant business outlook in Q4 2011 was broad-based as business sentiment improved across all sectors—except for the services sector. The less favorable sentiments of the financial intermediation, business activities, and community and social services sub-sectors outweighed the more bullish outlook of the hotels and restaurants sub-sector. For the next quarter (Q1 2012), however, business confidence softened in all sectors.

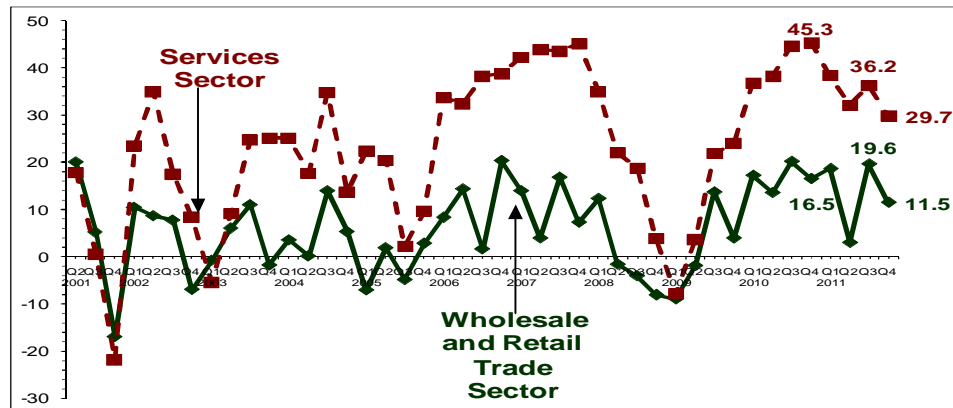
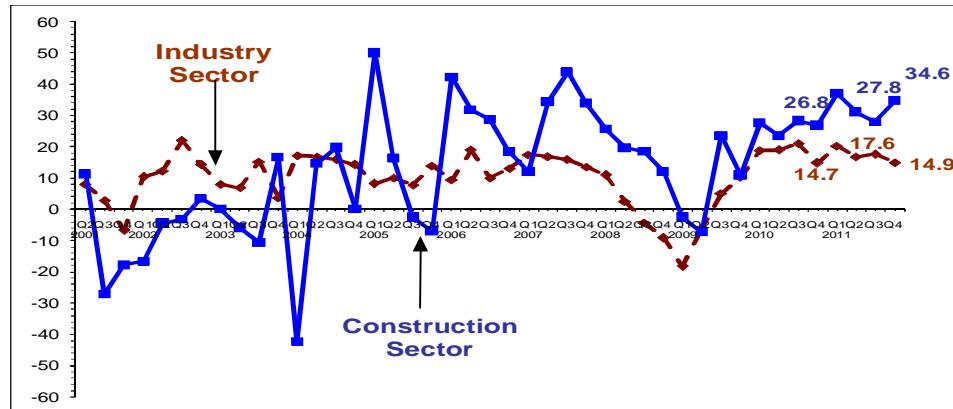
The construction sector continued to be the most bullish, reflecting the continued implementation of the government’s infrastructure projects under the PPP program. Likewise, the wholesale and retail trade, and industry sectors’ more favorable sentiments drew support from increased confidence in the government, aside from expectations of a more robust demand.

In the services sector, business outlook was pulled down by concerns over the uncertainty in the global financial market, and expectations of higher fuel and electricity costs.



Business Confidence on Own Operations

Current Quarter Business Outlook Index by Sector
Q2 2001 – Q4 2011



Businesses' outlook about their own operations is less favorable. Except for construction (which had a steady bullish outlook for the current and next quarters) expectations of businesses about their own operations eased across all sectors due to the anticipated lower volume of business activity in the coming quarter.

Average capacity utilization declines. Consistent with the less favorable business outlook on own operations, the average capacity utilization in Q4 2011 declined to 74.5 percent (from 76.1 percent in Q3 2011).



Access to Credit and Financial Conditions⁵

More firms expect easy access to credit even as financial conditions remain tight. Tight financial conditions during the quarter persisted. However, firms' liquidity requirements could be met through available credit as more firms expected easy access to credit than those who said otherwise, even as the number of firms who have favorable views declined compared to a quarter and a year ago. This is validated by the results of the Senior Loan Officers Survey which showed that most banks had generally unchanged credit standards for the tenth consecutive quarter. This suggests that firms' anticipated needs for liquidity could be supported by available credit.

Volume of Business Activity

The outlook for volume of business activity and total orders improves in Q4 2011. Consistent with the more positive business outlook in Q4 2011, the volume of business activity and total orders were more robust compared to that of the previous quarter. Looking ahead to Q1 2012, however, the outlook on the volume of business activity and total orders was less upbeat compared to a quarter ago, consistent with the expected adjustment in demand after the holiday and harvest seasons, and the softer business outlook on the global economy for the same period.

Employment and Expansion Plans

Employment outlook softens but remains positive. Employment outlook declined but remained positive in all sectors, indicating a slowdown in hiring for the next quarter.

The number of firms with expansion plans holds steady. About one in every four respondent firms in the industry sector (27.0 percent) indicated expansion plans for Q1 2012. The number of respondents that indicated expansion plans was almost unchanged from a quarter ago. Expansion plans in the agriculture, fishery and forestry, as well as in the electricity, gas and water sub-sectors increased, while remaining steady for the manufacturing sub-sector. However, the huge decline in expansion plans in the mining and quarrying sub-sector partly offset the increase in expansion plans in the other sectors.

Business Constraints

Competition, weak demand, and unclear economic laws are the major risks to business. The top three business constraints identified by respondents in Q4 2011 were: competition, weak demand (leading to low sales volume), and unclear economic laws (such as double standard in implementation of laws, red tape, outdated labor laws, and unclear applications of tax laws, among others).

⁵ *Financial conditions* refer to the firm's general cash position, taking into account the level of cash and other cash items and repayments terms on loans. On the other hand, *access to credit* refers to the environment external to the firm, such as the availability of credit from the banking system and other financial institutions.



Expectations on Key Economic Indicators⁶

The outlook for a stronger peso, higher inflation and interest rates moderate in the current and next quarters. Respondents that expected inflation and interest rates to go up continued to outnumber those with opposite views, but the number that said so declined. This indicates that inflationary expectations continued but have lessened, consistent with the expected easing of global commodity price pressures due to slower growth in the world economy. Likewise, more respondent firms expected the peso to appreciate in Q4 2011 and Q1 2012. Expectations of the peso's appreciation could be due to anticipated strong inflows of remittances and investments.

About the Survey

Survey response rate is 76.4 percent. The Q4 2011 BES was conducted during the period 3 October–11 November 2011. There were 1,617 firms surveyed nationwide. Respondents were drawn from the Securities and Exchange Commission's Top 7,000 Corporations, as follows: 602 companies in NCR (37.2 percent) and 1,015 firms in AONCR (62.8 percent), covering all 17 regions nationwide. The survey response rate for this quarter was lower at 76.4 percent (from 76.8 percent in the previous quarter). The response rates were also lower for both NCR and AONCR, at 75.4 percent (from 75.8 percent in the previous quarter) and 76.9 percent (from 77.5 percent in Q3 2011), respectively.

A breakdown of responses by type of business showed that 12.7 percent were importers, 6.2 percent were exporters, and 13.0 percent were both importers and exporters. About 68.1 percent of the respondents were neither importers nor exporters, or did not specify their firm type.

The Business Expectations Survey (BES) uses the stratified random sampling design covering corporations from the SEC's Top 7000 Corporations (ranked based on Gross Revenues) as sampling units. The top 7000 corporations are subdivided into 192 strata classified by region—NCR and Areas Outside NCR (the other 15 regions of the country)⁷—and by industry sub-groups, namely: (a) Group 1: Industry, which consists of manufacturing, mining and quarrying, electricity, gas and water, and agriculture, fishery and forestry; (b) Group II: Construction; (c) Group III: Wholesale and Retail Trade; and (d) Group IV: Services, which consists of financial intermediation, real estate, renting and business activities, hotels and restaurants, transport, storage and communications and community, social and personal services, using the 1994 Philippine Standard Industrial Classification (PSIC).

⁶ The expectations on key economic indicators are expressed in terms of confidence indices (CIs), which are computed as the percentage of firms that answered "up" less the percentage of firms that answered "down" with respect to their views on a given economic key indicator. A positive CI indicates a favorable view, except for the inflation rate and the peso-borrowing rate, where a positive CI indicates the opposite.

⁷ In the sampling design, Regions 4A and 4B were combined into one region.



Annexes: Business Expectations Survey (BES) Report Q4 2011

Annex B. Regions and Provinces of the Philippines

Regions	Provinces
I-Ilocos	Ilocos Norte, Ilocos Sur, La Union and Pangasinan
II-Cagayan Valley	Batanes, Cagayan, Isabela, Nueva Vizcaya, Quirino
III-Central Luzon	Aurora, Bataan, Bulacan, Nueva Ecija, Pampanga, Tarlac and Zambales
IV-Southern Tagalog	Cavite, Laguna, Batangas, Marinduque, Occidental Mindoro, Oriental , Mindoro, Palawan, Quezon, Rizal and Romblon
V-Bicol	Albay, Camarines Norte, Camarines Sur, Catanduanes, Masbate and Sorsogon
VI-Western Visayas	Aklan, Antique, Capiz, Guimaras, Iloilo and Negros Occidental
VII-Central Visayas	Cebu, Bohol, Negros Oriental and Siquijor
VIII-Eastern Visayas	Biliran, Eastern Samar, Leyte, Northern Samar, Samar and Southern Leyte
IX-Zamboanga Peninsula	Zamboanga del Norte, Zamboanga del Sur, Zamboanga Sibugay, Isabela City and Zamboanga City
X-Northern Mindanao	Bukidnon, Camiguin, Lanao del Norte, Misamis Occidental, Misamis Oriental,
XI-Davao	Compostela Valley, Davao del Norte, Davao del Sur and Davao Oriental
XII-SOCCSKARGEN	Cotabato, Sultan Kudarat, South Cotabato and Sarangani
Cordillera Administrative Region (CAR)	Abra, Apayao, Benguet, Ifugao, Kalinga, and Mountain Province
Autonomous Region of Muslim Mindanao (ARMM)	Basilan (excluding Isabela City), Lanao del Sur, Maguindanao, Sulu and Tawi-Tawi
Caraga	Agusan del Norte, Agusan Del Sur, Dinagat Islands, Surigao del Norte, Surigao del Sur

Annexes: Business Expectations Survey (BES) Report Q4 2011

Annex A. Distribution of Top 7000 Corporations by Region: 2009 ^a

Population

SECTOR/SUB-SECTOR	Region 1	Region 2	Region 3	Region 4	Region 5	Region 6	Region 7	Region 8	Region 9	Region 10	Region 11	Region 12	CARAGA	ARMM	CAR	NCR
Agriculture	1	0	9	7	1	4	3	0	5	4	35	13	1			34
Business	3	8	30	34	1	3	24	0	1	1	7	4	0		1	487
Community	6	5	19	32	0	6	13	0	3	4	5	1	2	1	1	152
Construction	2	1	27	31	7	5	16	2	3	2	7	0	3		1	211
EGW	3	1	12	6	0	1	10	0		4	1	0	0			41
Finance	2	4	11	15	1	2	18	0	1	4	9	2	2			363
Hotels	8		14	12	3	10	11	3		1	8	0	0		4	134
Manufacturing	4	2	144	504	9	16	95	8	4	8	34	10	3	2	3	869
Mining	0	0	1	3	0	0	4	0		0	1	0	0			40
Real Estate	2	2	10	31	1	8	20	0	1	1	9	3	1			233
Trade	38	8	202	260	35	48	126	12	21	21	97	25	14	3	11	1539
Transportation	1		22	25	1	1	19	1	2	3	14	2	0			251
Services Sector	22	19	106	149	7	30	105	4	8	14	52	12	5	1	6	1620
Industry Sector	8	3	166	520	10	21	112	8	9	16	71	23	4	2	4	984
Grand Total	70	31	501	960	59	104	359	26	41	53	227	60	26	6	22	4354

Number of Samples

SECTOR/SUB-SECTOR	Region 1	Region 2	Region 3	Region 4	Region 5	Region 6	Region 7	Region 8	Region 9	Region 10	Region 11	Region 12	CARAGA	ARMM	CAR	NCR
Agriculture	1	0	2	4	1	4	3	0	5	4	16	13	1			14
Business	1	8	4	7	1	3	8	0	1	1	3	4	0		1	50
Community	6	5	3	5	0	6	4	0	3	4	2	1	2	1	1	31
Construction	2	1	7	6	7	5	7	2	3	2	2		3		1	68
EGW	3	1	4	2	0	1	3	0		4	1		0			18
Finance	1	4	2	2	1	2	5	0	1	4	3	2	2			68
Hotels	8		4	3	3	10	5	3		1	3		0		4	27
Manufacturing	4	2	37	88	9	16	46	8	4	8	15	9	3	2	3	78
Mining	0	0	0	2	0	0	2	0		0	1		0			18
Real Estate	1	2	3	4	1	8	7	0	1	1	2	3	1			50
Trade	36	8	59	42	35	48	46	12	21	21	28	24	13	3	12	131
Transportation	1		5	5	1	1	8	1	2	3	6	2	0			49
Services Sector	18	19	21	26	7	30	37	4	8	14	19	12	5	1	6	275
Industry Sector	8	3	43	96	10	21	54	8	9	16	33	22	4	2	4	128
GRAND TOTAL	64	31	130	170	59	104	144	26	41	53	82	58	25	6	23	602

^a The latest available listing from the Securities and Exchange Commission

Business Expectations Survey

Business Outlook Index on the Macroeconomy

	Current Quarter																Next Quarter																							
	2007				2008				2009				2010				2011				2007				2008				2009				2010				2011			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4				
Importer	39.5	49.4	47.5	45.1	38.8	15.6	-17.4	0.7	-26.1	-9.7	10.9	15.2	43.2	37.4	38.7	53.2	50.3	36.5	39.6	47.8	40.7	44.8	59.6	43.2	50.4	9.8	28.6	0.0	-9.2	16.8	43.6	31.4	50.0	46.3	56.3	49.4	62.4	39.2	55.0	42.7
Exporter	24.9	37.5	4.2	24.2	3.5	8.6	-6.8	3.3	-39.8	-6.1	7.2	13.6	33.7	46.6	43.2	24.2	45.3	26.0	26.1	17.1	39.0	37.5	6.3	31.6	22.4	33.3	6.8	6.7	-10.8	6.1	6.0	19.8	57.3	60.2	44.3	31.6	55.8	48.8	34.8	27.6
Both (Import and Exporter)	38.9	50.0	41.5	36.8	9.3	0.7	-5.4	-4.1	-24.7	-9.4	21.8	20.9	37.1	52.4	46.8	40.7	42.5	36.3	32.0	24.8	51.1	44.2	42.5	37.6	19.6	13.7	14.5	10.1	-7.4	9.0	33.3	35.2	55.3	54.8	60.1	49.7	62.0	36.3	50.9	32.9

Number of Respondents

	Current Quarter																Next Quarter																							
	2007				2008				2009				2010				2011				2007				2008				2009				2010				2011			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4				
Importer	81	87	98	111	125	122	109	138	118	119	110	105	162	147	150	156	181	189	169	167	10.6	11.5	13.5	14.4	14.5	13.7	11.7	14.7	11.2	10.9	10.4	10.0	13.3	13.3	12.3	12.7	14.2	14.5	13.6	12.7
Exporter	41	40	48	66	35	81	88	92	83	82	83	81	89	88	88	85	86	86	86	80	76	5.4	5.3	6.6	8.5	9.8	9.1	9.5	9.8	7.8	7.5	7.8	7.7	7.3	7.3	7.2	7.8	6.7	6.6	5.5
Both (Import and Exporter)	90	86	106	117	140	141	147	145	162	178	156	159	175	166	168	177	179	171	171	175	161	11.8	11.4	14.5	15.2	16.2	15.8	15.8	15.3	16.3	14.7	15.2	14.4	14.4	13.8	14.4	14.0	13.1	14.7	13.0
Not Applicable	194	209	245	228	328	329	340	316	451	413	387	379	595	584	612	553	592	644	584	552	25.4	27.6	33.5	29.5	38.0	36.9	36.6	33.8	42.5	37.8	36.5	36.2	49.0	49.0	50.2	45.1	48.4	49.3	46.9	44.7
Not Specified	359	336	234	250	186	218	244	245	247	302	323	322	194	249	201	244	237	217	247	289	48.3	44.3	32.9	32.4	21.5	24.5	28.3	26.2	23.2	27.6	30.5	30.8	16.9	16.0	16.5	19.9	18.6	16.6	19.9	23.4
Total	765	757	732	772	864	891	928	936	1062	1094	1059	1046	1215	1225	1219	1225	1275	1307	1244	1235	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Business Outlook Index on the Macroeconomy

	Current Quarter																Next Quarter																							
	2007				2008				2009				2010				2011				2007				2008				2009				2010				2011			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4				
Small (<100)	41.7	43.2	33.9	43.2	28.2	10.5	-19.2	-5.9	-18.0	-4.8	16.8	16.3	32.8	31.7	34.5	43.4	37.0	27.5	30.4	33.0	51.7	43.2	53.8	43.2	39.9	17.3	14.1	-2.1	1.0	18.1	34.3	35.5	46.4	40.3	55.9	50.4	53.0	29.8	53.3	39.4
Medium (100-500)	41.5	37.8	42.2	45.8	22.0	16.4	-5.6	6.8	-19.9	3.6	19.5	23.8	40.0	-45.3	41.8	55.6	44.6	-29.2	29.0	-38.7	44.4	43.8	48.8	40.7	39.2	24.1	15.2	6.8	-7.9	13.3	37.9	32.4	51.4	44.8	57.0	53.2	58.8	31.4	56.5	40.5
Large (500 & up)	42.3	54.4	39.5	53.0	30.9	15.4	-5.1	-20.5	-29.2	2.0	20.4	32.7	50.6	53.3	59.1	61.0	56.0	43.1	40.5	39.5	50.0	43.4	55.1	44.4	46.0	29.2	18.6	-3.0	-4.2	6.3	32.7	40.8	57.5	56.3	69.9	50.0	69.4	41.4	56.5	38.4

Number of Respondents

	Current Quarter																Next Quarter																							
	2007				2008				2009				2010				2011				2007				2008				2009				2010				2011			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4				
Small (<100)	259	259	247	254	308	324	333	339	442	455	423	417	500	499	490	500	500	523	484	457	33.9	34.2	33.7	32.9	36.6	36.4	35.9	36.2	41.6	41.6	38.9	39.9	41.2	41.2	40.2	40.8	39.2	40.0	38.9	37.0
Medium (100-500)	284	251	256	267	309	311	303	308	356	364	348	361	420	437	426	419	444	459	451	447	37.1	33.2	35.0	34.6	36.8	34.9	32.7	32.9	33.5	33.3	32.9	34.5	34.6	34.6	34.6	34.2	34.8	35.1	36.3	36.2
Large (500 & up)	130	136	147	151	136	130	156	169	144	150	147	147	160	167	176	182	193	181	168	185	17.0	16.0	20.1	19.6	18.1	14.6	16.8	17.7	13.6	13.7	13.9	14.1	13.2	13.2	14.4	14.6	15.1	13.8	13.6	16.0
Not Specified	82	111	82	100	108	126	136	123	120	125	141	121	135	122	127	124	138	144	141	148	12.0	14.7	11.2	13.0	12.5	14.1	14.7	13.1	11.3	11.4	13.3	11.6	11.1	11.1	10.4	10.1	10.8	11.0	11.3	11.6
Total	765	757	732	772	864	891	928	936	1062	1094	1059	1046	1215	1225	1219	1225	1275	1307	1244	1235	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0