



HOME GUARANTY CORPORATION

MACRO ECONOMIC REPORT

January to June 2008



EXECUTIVE SUMMARY

The unrelenting food and fuel price hikes during the first six months of 2008 have precipitated an episode of sluggish growth in the global economy. Developing economies have lost steam, as much as the advanced economies where business and consumer sentiments have drastically retreated.

This uncertainty in the world market, which kept global inflation rates soaring, coupled with a slowing U.S. economy and the negative effects of a strong peso have weighed on the Philippines' economic performance for the first half of 2008.

For the first six months of 2008, GNP growth has decelerated by 4.6 percent from its robust 7.6 percent growth in the first half of 2007, while GDP growth slid from 8.6 percent to a paltry 5.7 percent. Likewise, growth in Net Factor Income from Abroad (NFIA) slowed down to 15.9 percent from an upswing of 18.5 percent during the first semester of 2007.

Trade, Finance, and Transportation, Communication and Storage (TCS) jump-started the growth in the first quarter of 2008. In the second quarter, the growth engines were Manufacturing, Agriculture and Fishery, Trade, Private Services and Construction. The Mining and Quarrying sector adversely weighed on this expansion.

On the expenditure side, Personal Consumption Expenditure (PCE) growth slackened to 4.3 percent during the first semester of 2008 from 5.7 percent growth the previous year. Likewise, Government Consumption Expenditure (GCE) also slipped to negative 1.9 percent during the first six months of 2008 from 10.8 percent growth in 2007.

On the production side, growth in the Services sector expanded by only 5.4 percent from January to June 2008 from the robust growth of 8.4 percent during the same period in 2007. The sector's growth rate for the second quarter of 2008 is the lowest since the third quarter of 2001. Both Agriculture, Fishery and Forestry, and the Industry sectors buoyed up the economy but at a decelerated rate of 3.7 percent and 3.9 percent, respectively, compared to first half of 2007.

While there was a general down trend in the country's economy in the first half of 2008, national and domestic output have been outpacing population¹ growth, but at a slower rate. Per capita GDP grew by 2.6 percent from 5.5 percent in the previous half year while per capita GNP also increased at a slower rate of 3.6 percent from 6.4 percent. Per capita Personal Consumption Expenditure (PCE) posted a sluggish 2.2 percent growth rate from 3.7 percent in 2007.

¹ NSCB estimates population at 90.24 million in its 2008 second quarter National Accounts press release.

The country's economic performance for the first semester of 2008 can be characterized by upbeat growth in non-tradeables such as Agriculture, Fishery & Forestry, Durable Equipment, Electricity, Gas & Water, Ownership of Dwellings & Real Estate. Higher Manufacturing output growth mainly fed into the domestic market as evidenced by the deceleration of exports. Volatility in exchange rates and Cost-push inflation took its toll on Consumption. A selective decoupling from global trends was also observed.

The Macro economic outlook for the third quarter of 2008 takes shape from the ripples that the global financial turmoil has been sending across the globe and adversely affecting both advanced and emerging economies at various degrees.

The September 9, 2008 take over of mortgage lenders Freddie Mac and Fannie Mae, and the subsequent fall of Lehman Brothers, Merrill Lynch, and AIG have created negative effects on Asian stock exchanges in the short-term. Unless a bail-out plan is ironed out for these financial institutions, investors are likely to take the back seat.

Meanwhile, the movement of oil prices below the \$100-mark sends a positive signal that might cushion the inflationary pressures in the global economy as well as those on the country.

As the year draws to a close, OFW remittances are expected to pour in and provide the continued motivation for property developers to take a bullish outlook in the Philippine real estate sector.

Moreover, the Philippine internet economy continues to expand due to *netsourcing*² by foreign companies in the health, legal, finance, architecture, animation, and entertainment businesses. New financial channels powered by the Internet continues to work best for Filipinos taking their piece of the emerging home-based work arrangement and silently contributing to dollar inflows of the economy.

The Business Processes Outsourcing (BPO) industry, while sluggish in the second quarter of 2008, will remain as the expansion area of the Services sector. Considering the renewed perception of the sector's competitiveness, the country continues to be the compelling alternative to India.

While there is a general optimism in the resilience of the economy amidst the worldwide economic slump due to the food, oil and climate change issues, the worsening political and security problems in Mindanao threaten the country's

² Fortune® Magazine describes *netsourcing* as an expansion of the outsourcing concept into a new economic model that employs data networks and a suite of powerful online applications to dramatically cut costs, boost productivity and increase flexibility by freeing up key personnel to focus on a company's core business.

MACRO ECONOMIC REPORT
2008 First Semester

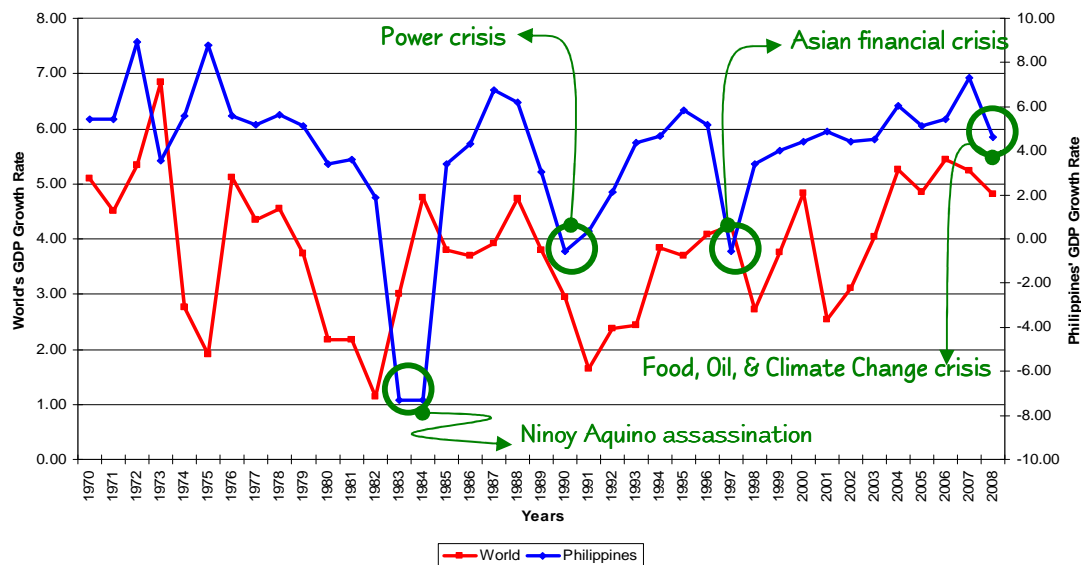
economic gains in recent months. Maintaining investors' confidence remains to be a challenge for the present administration of President Gloria-Macapagal Arroyo.

NATIONAL INCOME ACCOUNTS

Global Slump Hits 2008 H1 Economic Performance

The unrelenting food and fuel price hikes during the first six months of 2008 have precipitated a sluggish growth in the global economy. The International Monetary Fund's (IMF) forecasts a decelerated second half performance for both advanced and developing economies (**Figure 1**). Developing economies have lost steam, as much as the advanced economies, where business and consumer sentiments have drastically retreated³.

Figure 1. Annual Growth Rates of Gross Domestic Product, World and the Philippines: 1970-2007.



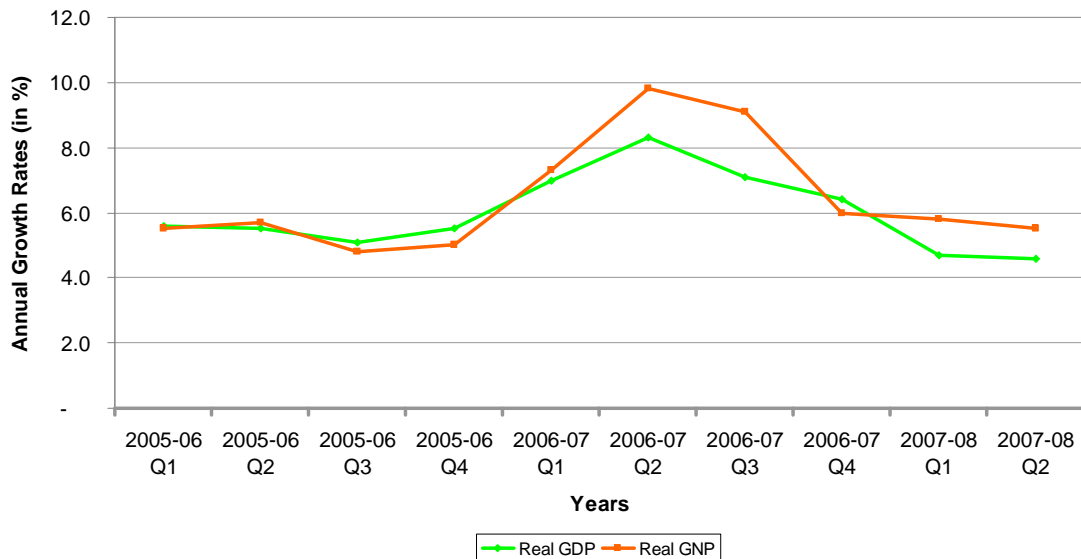
Source of Basic Data: IMF and NSCB

The growing uncertainty in the world market, soaring global inflation rates coupled with a slowing U.S. economy, and the negative effects of a strong peso have weighed on the Philippines' economic performance for the first half of 2008.

In fact, the country's Gross National Product (GNP) and Gross Domestic Product (GDP) figures for the period are poised to revert to its 2004-2005 levels after a stunning performance in 2006-2007 (**Figure 2**).

³ World Economic Outlook Update, July 2008, International Monetary Fund.

Figure 2. Annual Growth Rates of Real GDP and Real GNP, Philippines: 2005-2008.



For the first semester of 2008, GNP growth has decelerated to 4.6 percent from its robust 7.6 percent growth during the same period in 2007, while GDP toned down to 5.7 percent from an 8.6 percent growth previously.

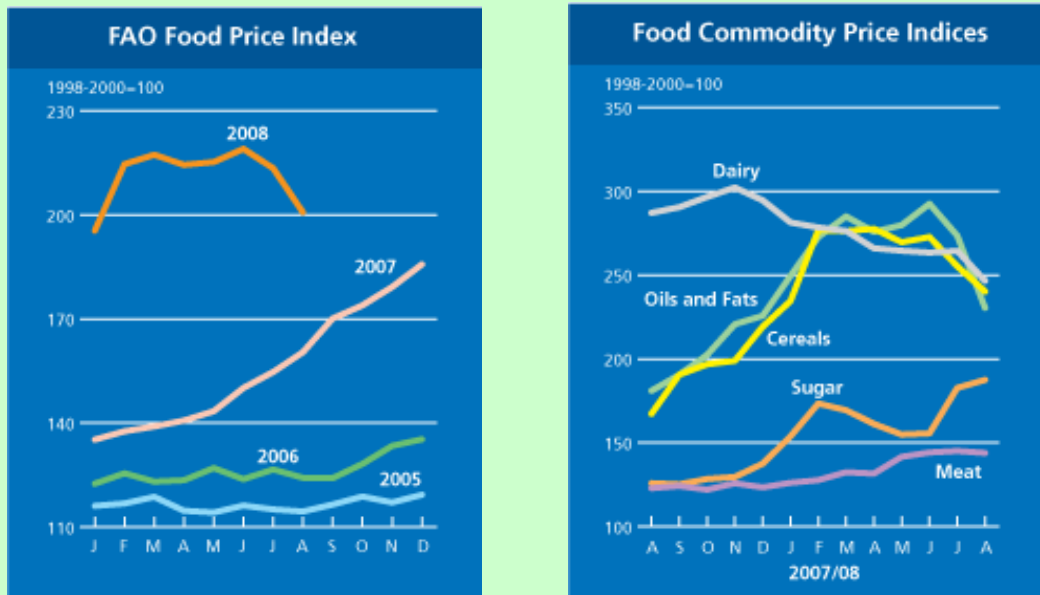
Likewise, Net Factor Income from Abroad (NFIA) growth slowed down to 15.9 percent from an upswing of 18.5 percent for the period indicated (**Table 1**). The inflow of Overseas Filipino Workers' (OFWs) remittances in the second quarter of 2008, pegged at US\$ 5.5 billion, reinforced the NFIA during the first six months of 2008.

Table 1. Economic Performance, Philippines (Growth Rates in Percent).

National Account	Second Quarter		First Half	
	2007	2008	2007	2008
GNP	9.8	↓ 5.5	8.6	↓ 5.7
GDP	8.3	↓ 4.6	7.6	↓ 4.6
NFIA	25.3	↓ 14.1	18.7	↓ 15.9

Source: National Statistical Coordination Board (NSCB)

Box 1. Food and Agriculture Organization (FAO) Food Price Index: 2005-2008.



The **FAO Food Price Index** continued to slide in August, falling by as much as 12 points, or 6 percent, from the previous month to a seven-month low of 201. The index fell largely on sharp drops in international prices of cereals, vegetable oils and dairy products. However, the food price index was still up 13 percent from its value in August 2007 and 60 percent from August 2006. The FAO food price index rose steadily since early 2006, climbing to a record 219 points in June 2008.

Source: <http://www.fao.org/worldfoodsituation/FoodPricesIndex/en/>

Expenditure Side

Consumer Spending Weakens

On the expenditure side, growth in consumer spending decelerated from 5.7 percent a year ago to 4.3 percent in the first half of 2008. Fortunately, the increases in compensation of OFWs kept consumer spending upbeat.

Expenditure items with higher growth include: Household Furnishings, which rebounded to 12.5 percent from negative 1.1 percent; and Household operations, which posted a 2.3 percent growth from 1.9 percent previously.

Growth in Food expenditures, which accounted for 52.7 percent of total Personal Consumption Expenditure (PCE), dramatically slid to 3.7 percent from 6.1

percent growth. Other sluggish PCE expenditure items include: Beverages, which grew by 1.0 percent from 2.5 percent; Clothing and footwear, which rose by 2.9 percent from 6.7 percent; Transportation/communication, which slowed down to 10.0 percent from 11.1 percent; and Miscellaneous, which slightly fell to 5.2 percent from 5.6 percent.

Growth in Tobacco and Fuel, light and water expenses slid to negative 2.8 percent and negative 0.5 percent, respectively (**Table 2**).

Table 2. Growth Rates in Personal Consumption Expenditure by Purpose, Philippines (at constant 1985 prices).

Expenditure Group	H1 2006 – 2007 (%)	H1 2007 – 2008 (%)
Personal Consumption Expenditure	5.7	↓ 4.3
Food	6.1	↓ 3.7
Beverages	2.5	↓ 1.0
Tobacco	4.4	↓ (2.8)
Clothing and footwear	6.7	↓ 2.9
Fuel, light and water	4.3	↓ (0.5)
Household furnishings	(1.1)	↑ 12.5
Household operations	1.9	↑ 2.3
Transportation / Communication	11.1	↓ 10.0
Miscellaneous	5.6	↓ 5.2

Source: National Statistical Coordination Board (NSCB)

Government Consumption Expenditure (GCE) Declines

Growth in Government Consumption Expenditure (GCE) slipped to negative 1.9 during the first six months of 2008 from 10.8 percent posted in 2007, which was an election year.

Investments in Fixed Capital Formation Decelerates

Investments in Fixed Capital Formation plummeted to 9.4 percent during the first semester of 2008 from a growth of 13.0 percent for the same period in 2007. (**Table 3**).

Table 3. Growth Rates in Capital Formation, Philippines (at constant 1985 prices).

Expenditure Group	H1 2006 – 2007 (%)	H1 2007 – 2008 (%)
Capital Formation	13.0	↓ 9.4
Fixed Capital	15.7	↓ 4.3
1. Construction	28.2	↓ 3.5
2. Durable Equipment	6.4	↔ 6.4
3. Breeding Stock & Orchard Dev't	4.4	↓ (3.5)

Source: National Statistical Coordination Board (NSCB)

Private investments sustain slow Construction growth - Robust investments in residential assets sustained the 14.0 double-digit growth of Private Construction during the first half of 2008 from 17.3 percent in 2007.

On the other hand, budget cuts in public works capital outlays significantly stunted Public Construction growth to a glaring negative 8.5 percent after a positive performance in the past two years.

Investments in Durable Equipment sustained – The 2007, 6.4 percent growth in investments in Durable Equipment was retained during the first six months of 2008. Increased investments were registered in ten (10) out of the twenty (20) types of equipment (**Table 4**).

Table 4. Growth Rates of Gross Domestic Capital Formation in Durable Equipment By Major Type: H1 2007 – H1 2008 (at constant 1985 prices).

Type of Equipment	H1 2006 – 2007	H1 2007 – 2008
Durable Equipment	6.4	↔ 6.4
A. Machinery Specialized for Particular Industries	7.2	↓ 5.0
1. Agricultural machineries	(16.2)	↑ 46.9
2. Tractor other than steam	(0.4)	↑ 32.2
3. Mining, construction machinery	40.5	↓ 33.2
4. Textile machineries	(3.4)	↓ (17.3)
5. Saw mill & logging machineries	(26.0)	↑ (6.2)
6. Sugar mill machineries	(80.1)	↑ 2,922.9

Table 4. Growth Rates of Gross Domestic Capital Formation in Durable Equipment By Major Type: H1 2007 – H1 2008 (at constant 1985 prices).

Type of Equipment	H1 2006 – 2007	H1 2007 – 2008
7. Pulp and paper machinery	14.8	↓ (23.6)
8. Metal working machineries	(9.5)	↓ (21.4)
9. Telecommunications & sound recording/reproducing equipment	8.8	↓ 1.5
10. Other special industrial machineries	4.1	↑ 10.2
B. General Industrial Machinery and Equipment	5.8	↓ (3.9)
1. Aircon & refrigeration equipment	(6.5)	↑ 18.0
2. Pumps and compressors	17.8	↓ (7.7)
3. Other electrical machinery and apparatus	(10.4)	↑ 8.6
4. Other general industrial machinery	22.9	↓ (20.1)
C. Transport Equipment	25.4	↓ 25.3
1. Road vehicles	7.4	↑ 33.3
2. Railway transport	244.1	↓ (63.7)
3. Air transport	203.2	↓ (16.2)
4. Water transport	302.1	↓ 60.3
D. Miscellaneous Equipment	(9.7)	↑ 6.5
1. Office machine & data processing	(19.8)	↑ 10.7
2. Other miscellaneous durable equipment	(1.9)	↑ 3.9

Source: National Statistical Coordination Board (NSCB)

Investments in Breeding Stocks, Orchard Development and Afforestation fall – First semester growth in capital formation for combined Breeding Stocks, Orchard Development and Afforestation suffered a reversal with negative 3.5 percent growth in 2008 from 4.4 percent during the first half of 2007.

Stocks Increases

Total addition to stocks in the first semester of 2008 amounted to P3,221 million compared to the P2,997 million withdrawals in the previous year. Additions to stocks were observed in all its sub-groups except Petroleum Products, Trade and Government from April to June 2008.

Total Exports dive

Total Exports growth plunged to 1.2 percent from 7.6 percent last year as Total Merchandise Exports registered a growth of negative 2.2 percent in the first semester of 2008 (**Table 5**).

Growth in Principal Merchandise Exports was down from a 5.0 percent growth performance in the first half of 2007 to negative 10.5 percent. The top five exports for the period include: Crude coconut oil, which expanded by 59.4 percent from a negative 43.2 percent growth; Copra oil, cake & meal, which grew by 40.5 percent from 19.4 percent; and Gold from copper ores, which recovered from a negative 6.3 percent growth to 26.6 percent.

On the other hand, Prepared tuna and Ignition wiring sets, while among the top growth drivers, posted a decelerated growth rate of 48.5 percent and 6.5 percent, respectively.

Table 5. Growth Rates of the Top 5 Merchandise Exports and Non-Factor Services: H1 2007– H12008 (at constant 1985 prices).

Items	H1 2006 – 2007	H1 2007 – 2008
EXPORTS	7.6	↓ 1.2
Total Merchandise Exports	7.2	↓ (2.2)
Principal Merchandise Exports	5.0	↓ (10.5)
1. Crude coconut oil	(43.2)	↑ 59.4
2. Prepared tuna	111.5	↓ 48.5
3. Copra oil, cake & meal	19.4	↑ 40.5
4. Gold from copper ores	(6.3)	↑ 26.6
5. Ignition wiring sets	7.8	↓ 6.5
Non-Factor Services	9.4	↑ 16.5
1. Transportation	(23.3)	↑ (10.4)
2. Insurance	(12.9)	↑ 64.2
3. Travel	27.8	↓ 7.0
4. Government	19.7	↑ 34.0
5. Miscellaneous Services	13.1	↑ 36.4

Source: National Statistical Coordination Board (NSCB)

Exports of Non-Factor Services rebounds - Exports of Non-Factor Services posted a double-digit growth of 16.5 percent during the first semester of 2008 from negative 9.4 percent a year ago.

The expansion of the sector was due to the upsurge of Insurance, which grew by 64.2 percent from negative 12.9 percent; Government, which rose by 34.0 percent from 19.7 percent; Miscellaneous services, which rallied to 36.4 percent from negative 13.1 percent; and, Transportation, which improved by negative 10.4 percent from a negative growth of 23.3 percent. On the other hand, Travel declined by 7.0 percent from a growth of 27.8 percent.

Total Imports Up

Total imports, posting a negative 3.4 percent growth from negative 6.5 percent in the previous year, was pulled up by Merchandise Imports.

Merchandise Imports improves – During the first semester of 2008, Total Merchandise Imports improved by a lower negative growth of 4.8 percent from negative 7.6 percent previously. Principal Merchandise Imports regained a negative 4.2 percent growth in the first semester of 2008 from a negative 12.9 percent the previous year.

The top five growth contributors among the Principal Merchandise Imports were: Cereal and Cereal Products, which soared to 33.5 percent from negative 40.2 percent; Fertilizers, which recovered from a negative 19.1 percent growth to a 24.1 percent upturn; Artificial resins and plastic materials, which grew by 7.7 percent from negative 17.3 percent; and Chemical elements and compounds, which posted 3.1 percent growth from negative 1.4 percent. Transport equipment, while among the top five growth contributors, decelerated to 5.3 percent from 18.4 percent for the first semester (**Table 6**).

Table 6. Growth Rates of the Top 5 Merchandise Imports and Non-Factor Services: H1 2007– H12008 (at constant 1985 prices).

Items	H1 2006 – 2007	H1 2007 – 2008
IMPORTS	(6.5)	↑ (3.4)
Total Merchandise Imports	(7.6)	↑ (4.8)
Principal Merchandise Imports	(12.9)	↑ (4.2)
1. Cereals & cereal products	(40.2)	↑ 33.5
2. Fertilizers	(19.1)	↑ 24.1
3. Artificial resins and plastic materials	(17.3)	↑ 7.7

Table 6. Growth Rates of the Top 5 Merchandise Imports and Non-Factor Services: H1 2007– H12008 (at constant 1985 prices).

Items	H1 2006 – 2007	H1 2007 – 2008
4. Transport Equipment	18.4	↓ 5.3
5. Chemical elements and compounds	(1.4)	↑ 3.1
Non-Factor Services	13.3	↑ 16.6
1. Transportation	23.1	↓ 16.7
2. Insurance	(37.0)	↑ 2.0
3. Travel	9.5	↑ 9.7
4. Government	32.5	↑ 63.8
5. Miscellaneous Services	15.8	↑ 20.5

Source: National Statistical Coordination Board (NSCB)

Imports of Non-Factor Services Sustains Expansion - Imports of Non-Factor services grew by 16.6 percent in the first semester of 2008 from 13.3 percent previously. The growth of the sector was boosted by Government, which dramatically expanded by 63.8 percent from 32.5 percent; Miscellaneous services, which posted 20.5 percent from 15.8 percent; Travel, which rose by 9.7 percent from 9.5 percent; Insurance, which recovered from a negative 37.0 percent growth to 2.0 percent; and Transportation, which decelerated to 16.7 percent from 23.1 percent.

Trade Balance Posts Surplus

In the first semester of 2008, Total Exports (Merchandise and Non-factor Services), valued at P1,391 billion pesos at current prices slightly exceeded Total Imports (Merchandise and Non-factor Services), valued at P1,390 billion pesos. This resulted in a trade surplus of P991 million pesos as against the trade surplus of 78 billion pesos registered in the same period last year.

Trade Index deteriorated - The terms of trade during the first semester of 2008 was down, with the trade index measured at 87.3 percent. This was lower than the trade index of 96.7 percent a year ago. GNP Implicit Price Index (IPIN) stood at 503.5 percent from 472.8 percent in the previous year or 6.5 percent inflation.

Production Side

Agriculture, Fishery and Forestry (AFF)

Both Agriculture, Fishery and Forestry, and the Industry sectors buoyed up the economy, albeit at decelerated rates of 3.7 percent and 3.9 percent, respectively during the first semester of 2008 (**Table 7**).

Table 7. Economic Performance, By Major Industries, Philippines (Growth Rates in Percent).

Major Industries	Second Quarter		First Half	
	2007	2008	2007	2008
AFF	4.2	↑ 4.9	4.1	↓ 3.7
Industry	10.3	↓ 4.8	8.6	↓ 3.9
Services	8.4	↓ 4.3	8.4	↓ 5.4

Source: National Statistical Coordination Board (NSCB)

AFF growth decelerates – AFF, which accounted for 17.8 percent of total GDP, grew slower by 3.7 percent compared to 4.1 percent recorded during the first semester of 2007, and contributed 0.7 percentage points to the total GDP growth. Biggest contributors to growth of AFF were Sugarcane, Banana, Corn, Coconut including copra, and Palay (**Table 8**).

Table 8. Gross Value Added in AFF by Industry Group, Philippines (at constant 1985 prices).

Industry / Industry Group	H1 2006 – 2007	H1 2007 – 2008
1. AGRICULTURE	4.2	↓ 3.7
a) Agriculture	3.1	↑ 4.1
Palay	2.9	↑ 5.8
Corn	5.7	↑ 19.6
Coconut incl. copra	(4.5)	↑ 6.4
Sugarcane	(6.5)	↑ 25.0
Banana	7.3	↑ 20.8
Other crops	7.1	↓ (3.9)
Livestock	2.5	↓ (3.3)
Poultry	0.2	↑ 5.7

Table 8. Gross Value Added in AFF by Industry Group, Philippines (at constant 1985 prices).

Industry / Industry Group	H1 2006 – 2007	H1 2007 – 2008
Agricultural activities & services	3.8	↓ 3.4
b) Fishery	7.4	↓ 2.6
2. FORESTRY	(7.6)	↑ (0.1)
GROSS VALUE ADDED in AFF	4.1	↓ 3.7

Source: National Statistical Coordination Board (NSCB)

Industry

Industry, which accounted for 32.8 percent of GDP, posted a 3.9 percent growth from 8.6 percent during the first semester of last year, and contributed 1.3 percentage points to total GDP growth. Biggest contributors to the growth were Manufacturing and Electricity, Gas & Water (**Table 9**).

Table 9. Growth Rates in the Industry Sector by Sub-Sectors, Philippines (at constant 1985 prices).

Industry / Sub-Sector	H1 2006 – 2007	H1 2007 – 2008
INDUSTRY SECTOR	8.6	↓ 3.9
a. Mining & Quarrying	28.0	↓ (5.3)
b. Manufacturing	3.7	↑ 4.3
c. Construction	30.4	↓ 3.7
d. Elec., Gas and Water	5.0	↑ 8.6

Source: National Statistical Coordination Board (NSCB)

Manufacturing propels Industry growth - Growth in Manufacturing accelerated from 3.7 percent to 4.3 percent during the first semester of 2008, and contributed 2.9 percentage points to the growth in the Industry sector.

Among the top five manufactures include: Food manufactures, which posted a 7.5 percent growth during the first semester of 2008 from 5.6 percent in 2007; Beverage industries, which grew by 21.7 percent from 2.6 percent; Footwear wearing apparel, which slightly accelerated by 15.9 percent from 13.0 percent; Products of petroleum & coal, which rose by 2.2 percent from a meager 0.5 percent growth; and Metal industries, which decelerated to 11.0 percent from 13.5 percent in 2007 (**Table 10**).

Table 10. Top Five Growth Contributors in the Manufacturing Sector, Philippines (at constant 1985 prices).

Industry / Sub-Sector	Growth Rates		Percentage Point Contribution to Growth in Manufacturing
	H1 2006 – 2007	H1 2007 – 2008	
MANUFACTURING	3.7	↑ 4.3	
Food manufactures	5.6	↑ 7.5	3.2
Beverage industries	2.6	↑ 21.7	0.6
Footwear wearing apparel	13.0	↑ 15.9	0.5
Products of petroleum & coal	0.5	↑ 2.2	0.3
Metal industries	13.5	↓ 11.0	0.3

Source: National Statistical Coordination Board (NSCB)

Mining & Quarrying slumps - From a high 28.0 percent growth last year, Mining and Quarrying dived to negative 5.3 percent as a result of the weak performances of Copper mining, which slightly decelerated to 18.2 percent from 19.8 percent; Chromium mining, which slid further to negative 51.9 percent from negative 10.9 percent; Nickel mining, which slumped to negative 39.1 percent from a robust growth of 191.0 percent; Other metallic mining, which dropped to negative 83.8 percent from 254.3 percent; Crude oil, which sank to negative 10.7 percent from 26.0 percent; Stone quarrying, clay and sandpits, which decelerated to negative 1.6 percent from 10.4 percent; and Other non-metallic, which fell to negative 0.3 percent from 39.5 percent. Among the Mining & Quarrying sub-sectors, only gold mining posted a positive growth rate of 3.6 percent from negative 2.6 percent (**Table 11**).

Table 11. Gross Value Added in Mining & Quarrying by Industry Group, Philippines (at constant 1985 prices).

Industry / Industry Group	H1 2006 – 2007	H1 2007 – 2008
Copper mining	19.8	↓ 18.2
Gold mining	(2.6)	↑ 3.6
Chromium mining	(10.9)	↓ (51.9)
Nickel mining	191.0	↓ (39.1)
Other metallic mining	254.3	↓ (83.8)
Crude oil	26.0	↓ (10.7)
Stone quarrying, clay and sandpits	10.4	↓ (1.6)

Table 11. Gross Value Added in Mining & Quarrying by Industry Group, Philippines (at constant 1985 prices).

Industry / Industry Group	H1 2006 – 2007	H1 2007 – 2008
Other non-metallic	39.5	↓ (0.3)
GVA in MINING AND QUARRYING	28.0	↓ (5.3)

Source: National Statistical Coordination Board (NSCB)

Construction sustained by private builders - Construction continued to expand, though sluggishly, by 3.7 percent from a high of 30.4 percent on account of the expansion in Private Construction by 14.0 percent. On the other hand, Public Construction dived to negative 8.5 percent from a robust 43.4 percent growth during the first semester 2007 (**Table 12**).

Table 12. Gross Value Added in Construction, Philippines (at constant 1985 prices).

Industry / Industry Group	H1 2006 – 2007	H1 2007 – 2008
Public	43.4	↓ (8.5)
Private	17.3	↓ 14.0
GROSS VALUE IN CONSTRUCTION	28.2	↓ 3.5
GVA in CONSTRUCTION	30.4	↓ 3.7

Source: National Statistical Coordination Board (NSCB)

EGW remains strong - Electricity, Gas and Water (EGW) improved from 5.0 percent growth during the first semester of 2007 to 8.6 percent this year. The overall performance of the sector was largely attributed to Electricity, which accounted for 93.4 percent of EGW. Electricity grew by 8.9 percent from 4.7 percent due to the improved energy efficiency and stronger consumption of both commercial and industrial segments. Water, on the other hand, slowed down by 4.2 percent from 8.2 percent the previous year (**Table 13**).

Table 13. Gross Value Added in Electricity, Gas and Water, Philippines (at constant 1985 prices).

Industry / Industry Group	H1 2006 – 2007	H1 2007 – 2008
Electricity and Gas	4.7	↑ 8.9
Water	8.2	↓ 4.2
GVA in ELEC., GAS & WATER	5.0	↑ 8.6

Source: National Statistical Coordination Board (NSCB)

Services Slowed Down

Services, with a share of 42.2 percent of total GNP, contributed the most to GDP growth with 2.6 percentage points. However, the sector posted its lowest growth since the 2001 with 5.4 percent during the first six months of 2008. Major contributors to the sector's growth include Trade, Private Services, and Finance (**Table 14**).

Table 14. Growth Rates in the Services Sector, Philippines (at constant 1985 prices).

Industry / Sub-Sector	Growth Rates		Percentage Point Contribution to Growth in Services
	H1 2006 – 2007	H1 2007 – 2008	
SERVICES	8.4	↓ 5.4	
Transport, Comm., Storage	10.0	↓ 4.4	0.83
Trade	7.4	↓ 5.0	1.63
Finance	15.2	↓ 7.2	0.92
O. Dwellings & R. Estate	5.8	↑ 7.3	0.70
Private Services	8.8	↓ 6.0	1.04
Government Services	2.0	↑ 3.2	0.29

Source: National Statistical Coordination Board (NSCB)

Transport and Storage foils TCS deceleration - Transport, Communication & Storage (TCS) decelerated by 4.4 percent from a growth of 10.0 percent. The 5.7 percent growth posted by Transport and Storage during the first semester of 2008 foils the TCS decline. Land Transport, the highest growth contributor to TCS, grew by 4.3 percent from 6.1 percent. Storage and Services Incidental to Transport, the second highest contributor to TCS growth, accelerated by 9.1 percent from 7.7 percent. In the same manner, Water Transport improved by 8.3 percent from 3.0 percent growth. Air Transport was slightly sluggish at 9.4 percent from 11.1 percent in 2007.

Communication weakened to 3.5 percent from a robust growth of 13.3 percent as consumers react to higher food and fuel costs (**Table 15**).

Table 15. Growth Rates in Transport, Communication & Storage, Philippines (at constant 1985 prices).

Industry / Sub-Sector	Growth Rates		Percentage Point Contribution to Growth in Trans., Comm., & Stor.
	H1 2006 – 2007	H1 2007 – 2008	
TRANS., COMM., & STOR.	10.0	↓ 4.4	
1. Transport and Storage	6.2	↓ 5.7	2.43
a) Land	6.1	↓ 4.3	1.29
b) Water	3.0	↑ 8.3	0.36
c) Air	11.1	↓ 9.4	0.16
d) Storage and services incidental to transport	7.7	↑ 9.1	0.63
2. Communication	13.3	↓ 3.5	1.97

Source: National Statistical Coordination Board (NSCB)

Trade propped up by Wholesale - Trade, contributing the most to Services, grew at a slower pace by 5.0 percent from 7.4 percent last year. The double-digit expansion in Wholesale Trade by 20.8 percent from 6.0 percent bolstered the growth in Trade. The NSCB attributes this upswing to petroleum and pharmaceutical products. Retail trade, on the other hand, slowed down to an 11.2 percent growth from 12.7 percent.

Banks boost Finance's growth - Financial Services grew, albeit at a slower pace, by 7.2 percent during the first semester of 2008 from a double-digit growth of 15.2 percent previously. The strong performance of Banks fueled the growth in Finance as it slightly decelerated to 10.2 percent from a 12.7 percent growth.











In contrast, Non-banks, which include financial services from investment companies, security dealers, brokers and pawnshops, suffered a negative 2.5 decline from 3.8 percent from the previous year. Likewise, Insurance dramatically slowed down to 1.6 percent from a strong performance of 34.2 percent previously.

ODRE remains upbeat - Ownership of Dwellings and Real Estate (ODRE) remained steadfast at 7.3 percent from 5.8 percent growth in 2007. Increased sales of residential houses, and the aggressive renting and leasing operations of giant super malls and shopping centers nationwide drove the Real Estate industry during the first half of 2008. Likewise, Ownership of Dwellings experienced a faster growth of 2.5 percent from 1.7 percent.

Table 18.b shows the breakdown of National Income by Industrial Origin.

Other Services decelerates - Other Services, which includes government and private services, decelerated during the first six months of 2008 with a growth of 5.0 percent as compared to the 6.4 percent growth during the same period in 2007 (**Table 16**).

Table 16. Gross Value Added in Other Services by Industry Group, Philippines (at constant 1985 prices).

Industry / Sub-Sector	Growth Rates		Percentage Point Contribution to Growth in Other Services
	H1 2006 – 2007	H1 2007 – 2008	
GVA in Other Services	6.4	 5.0	
1. Government Services	2.0	 3.2	1.1
2. Private Services	8.8	 6.0	3.9
a) Educational	2.7	 (2.0)	(0.1)
b) Medical and health	6.7	 4.3	0.4
c) Business	15.1	 9.5	1.5
d) Recreational	9.6	 10.8	0.9
e) Personal	6.1	 5.4	0.8
f) Hotel and restaurant	10.0	 4.1	0.4
g) Others	2.9	 3.1	0.1

Source: National Statistical Coordination Board (NSCB)

Private Services accounted for 3.9 percentage points of the total growth in the sector. Growth contributors in Private Services include: Business Services, which grew by 9.5 percent during the first semester of 2008 from a double-digit growth of 15.1 percent in the previous year; Recreational Services, which accelerated by 10.8 percent from 9.6 percent; Personal Services, which moderated down by 5.4 percent from 6.1 percent; Medical and Health Services, which sealed to 4.3 percent from 6.7 percent; Hotel and Restaurant Services, which grew by 4.1 percent from 10.0 percent; and Others, which was on an upswing by 3.1 percent from 2.9 percent. Conversely, Educational Services pulled down the growth of Private Services, reversing its 2.7 percent growth during the first semester of 2007 to negative 2.0 percent this semester.

Meanwhile, Government Services, which contributed 1.1 percentage points to Other Services' growth, accelerated by 3.2 percent during the period from 2.0 percent. Largely, the NSCB attributes this acceleration to the compensation of new hired government employees and the renewed efforts of the government to alleviate poverty.

Per Capita GNP, GDP & PCE

While there was a general down trend in the country's economy in the first half of 2008, national and domestic output has been outpacing population⁴ growth, but at a slower rate.

Per capita GDP grew by 2.6 percent from 5.5 percent in the previous half year while per capita GNP also increased at a slower rate of 3.6 percent from 6.4 percent. Per capita Personal Consumption Expenditure (PCE) posted a sluggish 2.2 percent growth rate from 3.7 percent during the first half of 2007 (**Table 17**).

**Table 17. Per Capita GDP, GNP and PCE, Philippines
(at constant 1985 prices).**

Per Capita	Second Quarter		First Half	
	2007	2008	2007	2008
GDP	6.2	↓ 2.6	5.5	↓ 2.6
GNP	7.6	↓ 3.5	6.4	↓ 3.6
PCE	3.6	↓ 1.4	3.7	↓ 2.2

Source: National Statistical Coordination Board (NSCB)

⁴ NSCB estimates population at 90.24 million in its 2008 second quarter National Accounts press release.

MACRO ECONOMIC REPORT
2008 First Semester

Box 2. Indicators Contributing to Growth in the Second Quarter of 2008.

Indicators	Growth (%)	Indicators	Growth (%)
Employment		Broadband Subscriber (Stock)	Up by 73.1
• Agriculture, Fishery and Forestry	Up by 0.4	MERALCO Sales – Value in Pesos	Up by 1.6
• Finance, Insurance, Real Estate & Business Services	Up by 5.3	Cement Sales (from CEMAP)	Up by 1.6
• Transportation, Communications & Storage	Up by 0.7	Capital Expenditures of LGUs	Up by 34.8
• Community, Social & Personal Services	Up by 0.9	Gross Revenue of Key Players in Selected Major Industries	
Net Sales of Selected Food Chains	Up by 9.3	• Trade	Up by 24.1
Car Sales	Up by 16.7	• Banks	Up by 5.2
• Passenger Car Sales	Up by 13.0	• Real Estate	Up by 33.6
• Commercial Vehicles	Up by 18.8	• Private Services	Up by 3.9
Manufacturing		Reserve Money	Up by 11.6
• Value of Production Index (VAPI)	Up by 9.4	Total Outstanding Loans of Universal & Commercial Banks	Up by 3.0
• Volume of Production Index (VOPI)	Up by 6.9	Excise Volume of Removals of Alcoholic Beverage – Taxed (BIR)	
• Value of Net Sales Index	Up by 7.7	• Distilled Spirits	Up by 12.8
• Volume of Net Sales Index	Up by 6.1	• Fermented Liquors	Up by 114.5
Exports of Sugar (Philippine Sugar Millers Association)	Up by 15.6	Airtime & Other Broadcasting Revenue of Selected TV Networks	Up by 3.9
Rail Ridership	Up by 18.2	Tourist Arrivals	Up by 5.2
Rail Gross Revenue	Up by 19.4	Hotel Occupancy Rates (April-May 2008)	Up by 3.0
Passengers of Domestic Airlines	Up by 6.4	Peso Appreciation	Up by (8.3)
Total Service Revenue	Up by 8.7	CPI Inflation	Up by 9.7
Cellular Subscriber Base (Stock)	Up by 23.8		

Source: Bangko Sentral ng Pilipinas (BSP) and National Statistics Office (NSO)

NATIONAL INCOME ACCOUNTS

**Table 18.a. National Income Accounts, by Expenditure Type, Philippines:
First Half of 2008 (at constant 1985 prices).**

Expenditure Type	Growth Rates		Contribution to Growth (H1 2008)
	H1 2007	H2 2008	
Personal Consumption	5.7	↓ 4.3	52.1
Government Consumption	10.8	↓ (1.9)	(2.3)
Capital Formation	13.0	↓ 9.4	28.3
Construction	28.2	↓ 3.5	5.2
Durable Equipment	6.4	↔ 6.4	8.9
Breeding Stock & Orchard Dev't	4.4	↓ (3.5)	(0.7)
Exports	7.6	↓ 1.2	9.7
Total Merchandise Exports	7.2	↓ (2.2)	(14.5)
Non-Factor Services	9.4	↑ 16.5	24.1
Transportation ⁵	(23.3)	↑ (10.4)	(2.6)
Insurance	(12.9)	↑ 64.2	0.3
Travel	27.8	↓ 7.0	0.04
Government	19.7	↑ 34.0	0.5
Miscellaneous Services ⁶	13.1	↑ 36.4	21.7
Imports	(6.5)	↑ (3.4)	25.0
Total Merchandise Imports	(7.6)	↑ (4.8)	32.9
Non-Factor Services	13.3	↑ 16.6	(8.3)
Transportation	23.1	↓ 16.7	(0.01)
Insurance	(37.0)	↑ 2.0	(0.01)
Travel	9.5	↑ 9.7	(2.0)
Government	32.5	↑ 63.8	(1.1)
Miscellaneous Services	15.8	↑ 20.5	(3.8)
Gross Domestic Product	7.6	↓ 4.6	73.3
Gross National Product	8.6	↓ 5.7	100.0

Source: NSCB

⁵ Includes passenger & other transportation services; e.g. cargo handling, storage & warehousing, packing services

⁶ Includes IT-enabled services e.g. contact centers, medical transcription, software development, etc.

NATIONAL INCOME ACCOUNTS

**Table 18.b. National Income Accounts, by Industry Origin, Philippines:
First Half of 2008 (at constant 1985 prices).**

Industry	Growth Rates		Contribution to Growth (H1 2008)
	H1 2007	H2 2008	
Agri., Fishery, Forestry	4.1	↓ 3.7	10.6
Industry	8.6	↓ 3.9	20.5
Mining & Quarrying	28.0	↓ (5.3)	(1.8)
Manufacturing	3.7	↑ 4.3	15.5
Construction	30.4	↓ 3.7	2.9
<i>Public</i>	43.4	↓ (8.5)	(5.8)
<i>Private</i>	17.3	↓ 3.5	11.0
Elect., Gas and Water	5.0	↑ 8.6	4.3
Service	8.4	↓ 5.4	42.2
Transport, Comm., Storage	10.0	↓ 4.4	6.4
Trade	7.4	↓ 5.0	12.7
Finance	15.2	↓ 7.2	7.1
O. Dwellings & R. Estate	5.8	↑ 7.3	5.5
<i>Real estate</i>	20.3	↑ 21.7	4.0
<i>Ownership of dwellings</i>	5.8	↑ 7.3	1.4
Gross Domestic Product	7.6	↓ 4.6	73.3
Gross National Product	8.6	↓ 5.7	100.0

Source: NSCB

GENERAL OBSERVATIONS

1. **Upbeat in Non-Tradeables.** There is a general deceleration for all sectors except for non-tradeables such as Agriculture, Fishery & Forestry, Durable Equipment, Electricity, Gas & Water, and Ownership of Dwellings & Real Estate. Return on investments in portfolios comprising these non-tradeables is potentially high in the short-term.
2. **Output Growth in Manufacturing.** Manufacturing output growth was mainly feeding the domestic market as evidenced by the deceleration of exports.
3. **Volatility in Exchange Rates.** During the first half of 2008, the peso posted a 17-year record-high appreciation of PhP41.00 to a dollar. However, rising commodity and fuel prices in the world market remain a constraint for both currencies.
4. **Cost-push inflation⁷ taking its toll on Consumption.** Inflation is increasingly becoming a problem, domestically and globally. Inflationary pressures are mounting faster due to the spectacular increases in prices of oil and food, which make up a much larger share of Filipino household expenditures⁸. Inflation rate has skyrocketed to 11.4 percent in the second quarter of 2008 from 2.3 in 2007.
5. **Selective decoupling from global trends.** Relatively, the Philippines has been shielded against the global slowdown, together with Malaysia, China and Brazil.⁹ Apparently, a selective decoupling of the country's economic cycle from that of the advanced and other emerging economies has evolved, as proven by its resilience to external financial shocks in the past decade.

⁷ Cost-push inflation results from the decrease in aggregate supply due to higher cost of production brought about by increasing costs of raw materials such as fuel.

⁸ Food prices account for about 45% of the consumer price index in the Philippines (source: Institute of International Finance).

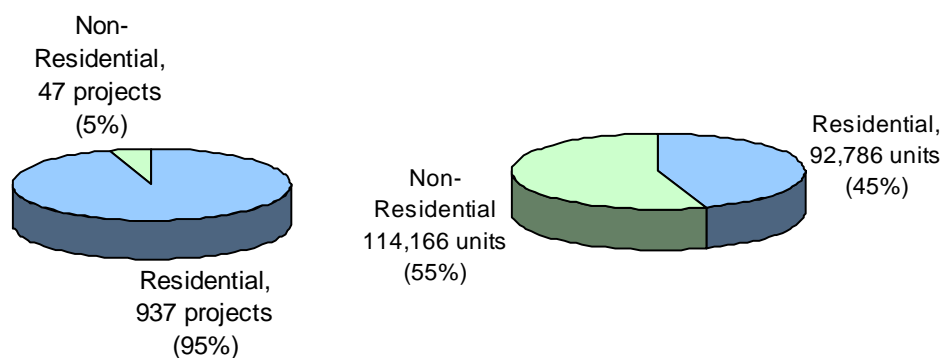
⁹ Conjoncture July 2008.

THE HOUSING SECTOR

HLURB Licenses to Sell (LTS) Issued

From January to June of 2008, the Housing and Land Use Regulatory Board (HLURB) issued Licenses to Sell (LTS) to 937 residential projects covering 92,786 units; and 47 non-residential projects covering 114,166 units across the nation (**Figure 3**).

Figure 3. Projects and Units with Housing and Land Use Regulatory Board-Issued Licenses to Sell, Philippines: January to June 2008.



Source of Basic Data: HLURB

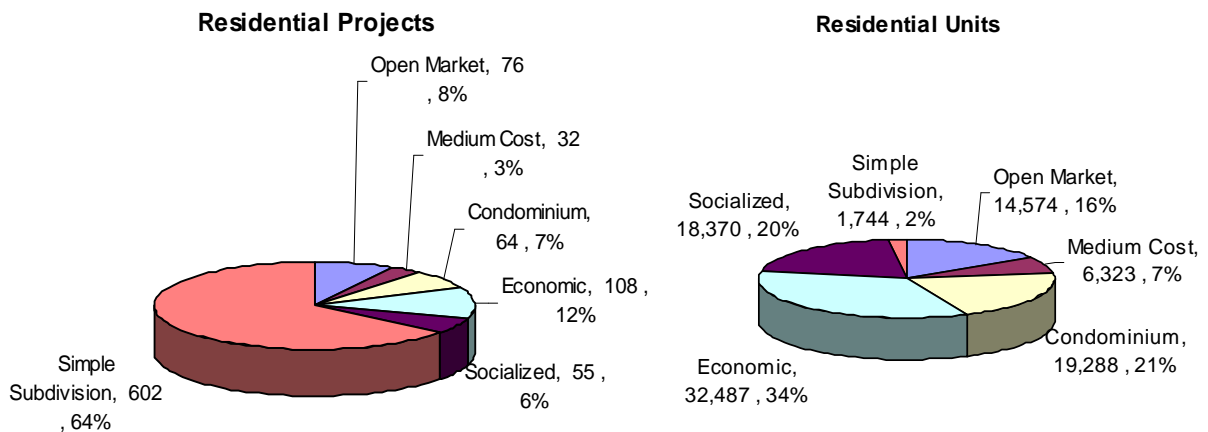
Residential Projects – Simple subdivisions account for 64.2 percent of the total number of LTS issued for residential projects from January to June 2008; Economic housing obtained 11.5 percent; Open market housing got 8.1 percent; Condominiums account for 6.8 percent; Socialized housing constitutes 5.9 percent; and Medium-cost housing got 3.4 percent.

Residential Units – Economic housing units represent 35.0 percent of the LTS issued to residential units; Condominiums account for 20.8 percent; Socialized housing with 19.8 percent; Open market housing units obtained 15.7 percent; Medium cost housing constitutes 6.8 percent; and Simple subdivisions with 1.9 percent.

Non-Residential Projects – Memorial parks represent 57.4 percent of the LTS issued to non-residential projects; Commercial subdivisions account for 21.3 percent; Farmlots got 12.8 percent; Commercial condominiums with 6.4 percent; and Industrial subdivisions taking only 2.1 percent.

Non-Residential Units – Memorial lots represent 98.7 percent of the LTS issued to non-residential units; and the rest of the units types under this category shared on the remaining 1.3 percent of LTS issued (**Figure 4**).

Figure 4. Projects with Housing and Land Use Regulatory Board Issued Licenses to Sell, By Type, Philippines: January to June 2008.



Source of Basic Data: HLURB

Growth in LTS Issued to Residential Projects and Units – LTS issued to Residential projects grew by 2.3 percent while that of the residential units rose by 11.1 percent (**Table 19**).

In terms of residential projects, LTS issued to Condominiums exhibited a robust growth of 64 percent in the first semester of 2008 compared with that of 2007; LTS for simple subdivisions also expanded by 7 percent. On the other hand residential projects under Medium-cost (negative 33%), Economic (negative 10%), Socialized (negative 10%) and Open Market (negative 8%) posted a decrease in LTS issued.

In terms of residential units, LTS issued to Condominiums astoundingly rose by 94 percent; Economic housing grew by 35 percent; and Socialized housing posted a 7 percent upswing. However, LTS issued to units under Open market (negative 33%), Medium-cost (negative 25%) and Simple subdivisions (negative 16%) all declined.

Table 19. Growth Rates of Licenses to Sell Issued by Project and Unit Type, Philippines: H1 2007-2008.

Residential Types	H1 2007-2008 Growth Rates (%)	
	Projects	Units
RESIDENTIAL	2.3	11.1
Open Market	(8.4)	(33.3)
Medium Cost	(33.3)	(25.1)
Condominium	64.1	94.2
Economic	(10.0)	35.1
Socialized	(9.8)	6.7
Simple Subdivision	6.5	(15.7)
NON-RESIDENTIAL	62.1	117.5
Commercial Condominium	200.0	(11.7)
Industrial Subdivision	NC	90.9
Commercial Subdivision	42.9	116.9
Farmlot	500.0	582.1
Memorial Parks	42.1	117.9
RESIDENTIAL & NON-RESIDENTIAL	4.1	52.1
<i>Note: NC - No Change</i>		
<i>Source of Basic Data: HLURB</i>		

Growth in LTS Issued to Non-Residential Projects and Units – LTS issued to Non-Residential projects grew by 62.1 percent while that of the non-residential units rose by 117.5 percent.

In terms of Non-residential projects LTS issued to Farmlots and Commercial condominiums strongly grew by 500.0 percent and 200.0 percent, respectively; Commercial subdivisions accounted for 42.9 percent; and Memorial parks rose by 42.1 percent. LTS issued to Industrial Subdivisions neither grew nor declined.

In terms of Non-residential units, LTS issued to Farmlot units grew by 582.1 percent; Memorial parks by 117.9 percent; Commercial Subdivisions by 116.9 percent; and Industrial subdivisions by 90.9 percent. On the other hand, LTS issued to Commercial condominiums declined with a growth rate of negative 11.7 percent.

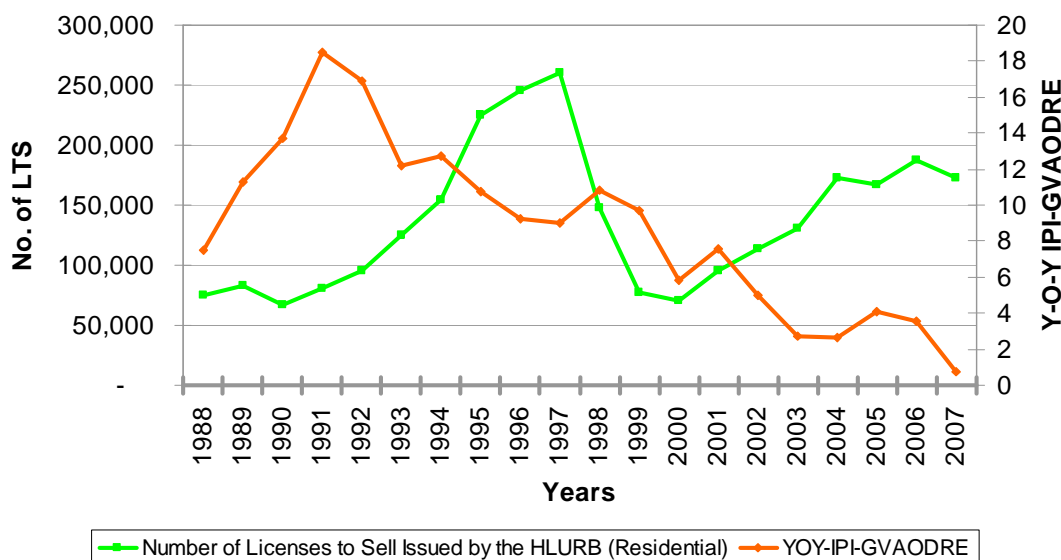
Considering the upswing in LTS issued by HLURB, the private sector should studiously assess its production targets. Over-supplying the market might be detrimental for both developers and key shelter agencies of the government, such as HLURB, PAG-IBIG, NHMFC, and HGC.

LTS and the Implicit Price Index of the Gross Value Added in Ownership of Dwellings and Real Estate (IPI-GVAODRE)

While IPI-GVAODRE has been declining, housing supply has been on an uptrend since 2000 (**Figure 5**). The excess housing inventory in the market pushes housing prices in the country down. Prudently, developers have responded to price stimuli by producing less until prices recoup.

On the part of HGC, the Corporation assesses the risks involved in guarantying the growing supply of housing units. It cautiously avoids a flood of guaranty calls that might result if these housing units have no sure takers.

Figure 5. Licenses to Sell and Implicit Price Index for Gross Value Added in Ownership of Dwellings and Real Estate (IPI-GVAODRE), Philippines: January to June 2008.



Source of Basic Data: NSCB

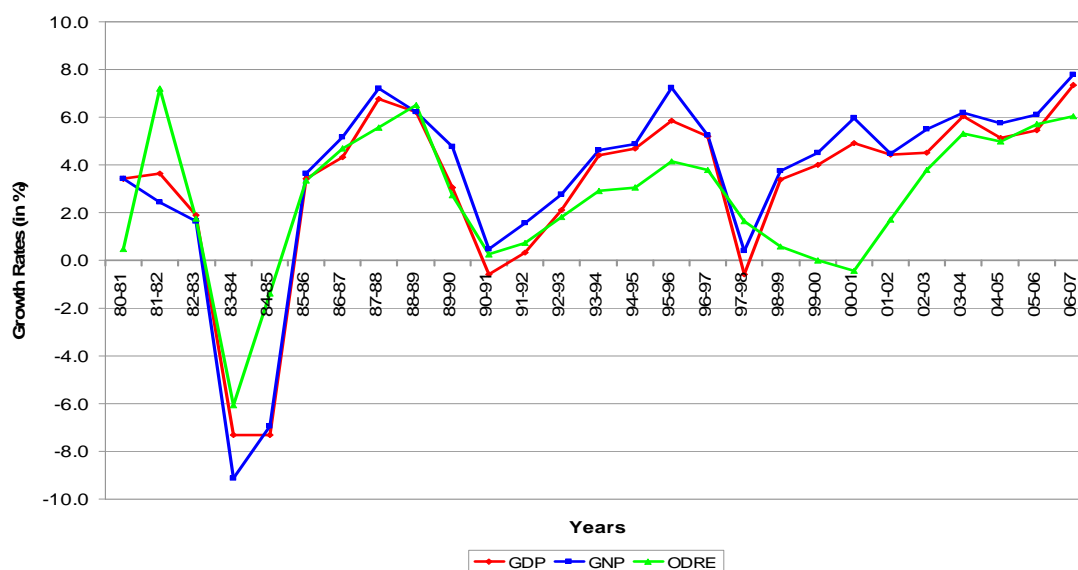
GNP, GDP and ODRE: Breaking the Cycle

If we go by cycles, growth may be slowing down but the economy has been able to sustain positive growth (**Figure 6**). However, during the first semester of 2008, economic performance diminished and soaring food and fuel prices have led to a significant contraction in economic activity. The poor are once again under fire as purchasing power further becomes eroded.

Surprisingly, an above average estimate, of slightly between 4.0 and 6.0 percent growth rate in real estate and dwellings, remains. It is important to note that the housing agencies alone have a lot of unused housing inventories and there is no point in producing more at this time.

The above average growth of real estate and housing since 2002 is unsustainable from a historical standpoint. Thus, these sectors might experience a slow down considering that it has registered only a 3.0 percent historical average growth rate for the past 20 years.

Figure 6. Growth in Real Gross National Product, Real Gross Domestic Product and Ownership of Dwellings and Real Estate (ODRE), Philippines: 1980-2007.



Source of Basic Data: NSCB

Growth in Per Capita GDP and IPI-ODRE

Intuitively, one can expect a correspondence between per capita GDP growth and house price inflation. Whenever there is an increase in income, an increase in demand and prices follows. However, house prices have counter-intuitively responded to per capita GDP growth. House prices have increased when incomes have fallen.

The convergence of per capita GDP growth rates and IPI-ODRE manifests sustainability (**Figure 7 and 8**). Although there is a divergence of late, it is a divergence in favor of sustainability. As one can see, house price have decreased when incomes have risen.

Figure 7. Growth in Per Capita Gross Domestic Product and the Implicit Price Index of Ownership of Dwellings and Real Estate (ODRE), Philippines: 1980-2007.

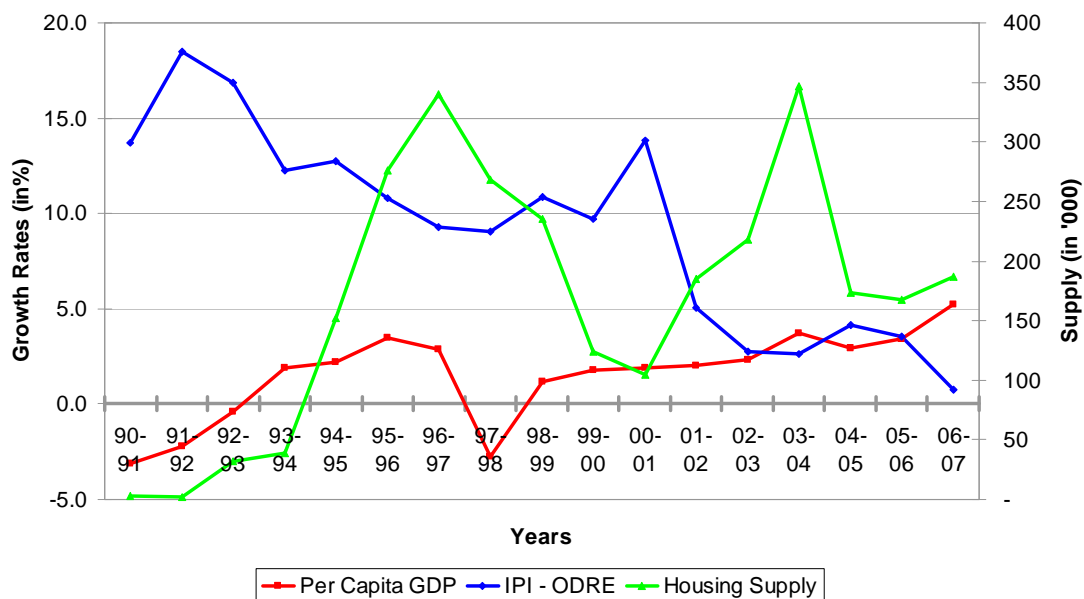


Source of Basic Data: NSCB

Growth in Per Capita GDP, IPI-ODRE and Annual Housing Supply

Figure 8 overlays per capita GDP, IPI-ODRE and licenses to sell from HLURB. Housing supply moves positively with per capita GDP but it in an amplified pro-cyclical manner that causes an over supply.

Figure 8. Per Capita Gross Domestic Product, Implicit Price Index of Ownership of Dwellings and Real Estate (IPI-ODRE) and Annual Housing Supply, Philippines: 1990-2007.



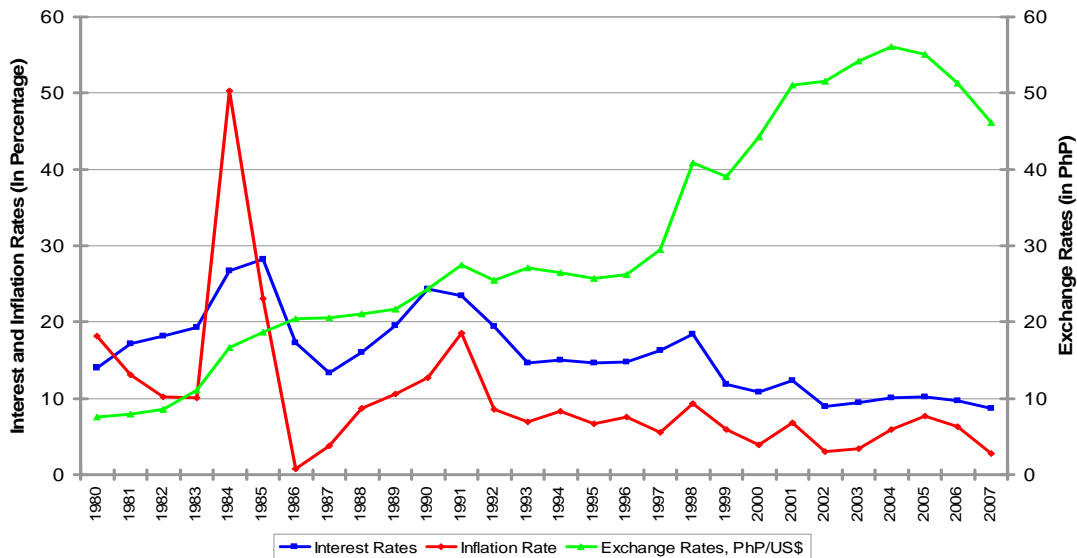
Source of Basic Data: NSCB

Interest, Inflation & Exchange Rates

A close correlation exists between the rates of inflation, foreign exchange and interest. But financial markets consider inflation as a basis for its fiscal and monetary policies (**Figure 9**).

During the first half of 2008, inflation rates have skyrocketed, weakening further the peso. While OFW remittances continue to pour in and effect an appreciation of the Philippine currency, the peso continues to slide resulting in lower purchasing power. In response, monetary authorities raised interest rates to support the peso, douse the onslaught of high inflation, and prevent the further erosion of the public's purchasing power.

Figure 9. Interest Rates, Inflation Rates and Exchange Rates, Philippines: 1980-2007.



Source of Basic Data: NSCB

Velocity of Money and GDP (at current prices)

Since the mid-80's, the Philippine economy has been dependent on monetary expansion, relying heavily on the financial system's infusion and injection of money and credit creation. However, these measures have the inherent tendency to make inflation more probable.

Expectedly, GDP at current prices, which incorporates inflation, has been increasing. Over-laying the crude measure of money supply against nominal GDP shows that as the velocity of money¹⁰ goes down, money supply increases. Simply, this means that the economy needs more money per unit of output generated.

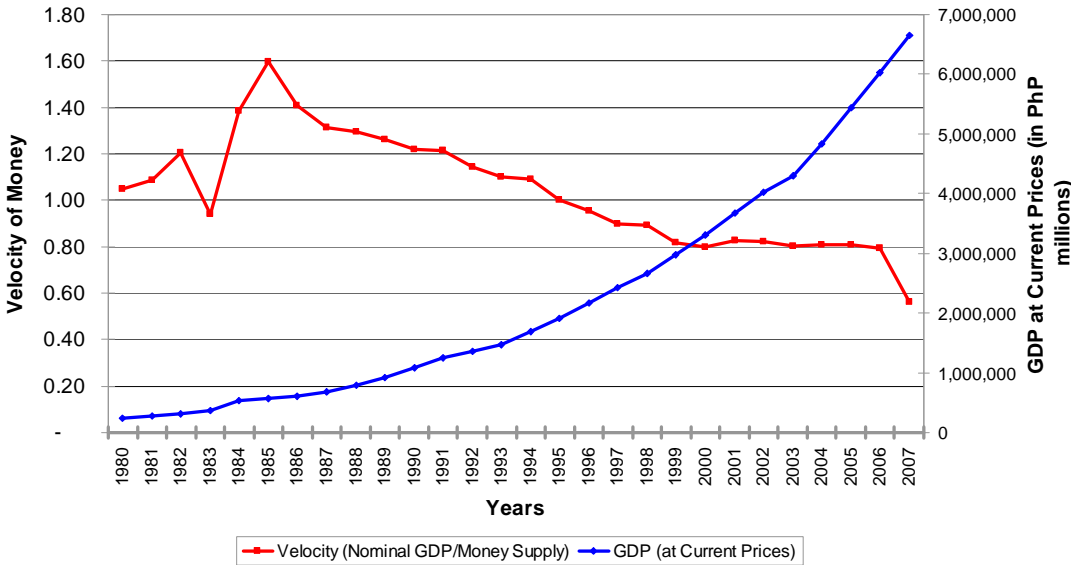
However, too much money in circulation is unhealthy, especially when it goes to the wrong places such as non-essential consumption and speculative markets. It might burst in a real estate bubble. In response, the monetary authorities have learned their lessons and started stepping on the velocity of money in 2000.

Since 2000, the velocity of money has tapered off at around 1.0 (**Figure 10**). This illustrates the effort of Philippine monetary authorities to reign in growth in money supply and liquidity. The latest effort of the Bangko Sentral ng Pilipinas (BSP) is

¹⁰ The speed at which money changes hands to support a certain level of economic activity.

to offer special deposit accounts at off-market rates, as a way of reining in this liquidity. As a result, extensive monetary expansion has been kept in check.

Figure 10. Velocity of Money and Gross Domestic Product (at current prices), Philippines: 1980-2007.



Source of Basic Data: NSCB

MACRO ECONOMIC OUTLOOK FOR THE 3RD QUARTER OF 2008

The Philippines' macro economic outlook for the third quarter of the year largely takes shape from the seismic developments in the global financial markets, whose after shocks are increasingly being felt in both advanced and emerging economies.

In September 9, 2008, the U.S. government has taken over mortgage lenders Freddie Mac and Fannie Mae in a bid to rescue their ailing housing sector. However, shortly after this, investment houses Lehman Brothers and Merrill Lynch took its turn under the guillotine with its declaration of bankruptcy. The financial implications of these developments on the country's financial institutions, who claim that their exposure on these investment houses is insignificant, remain to be seen.



Notwithstanding the global downturn, a continued pessimism among investors in the global financial markets looms. Asian stock exchanges are expected to take a respite in the short-term.

Meanwhile, the movement of oil prices below the \$100-mark sends a positive signal that might cushion the inflationary pressures in the global economy as well as that of the country.



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As the year draws to a close, OFW remittances are expected to pour in and provide the necessary motivation for property developers to take a bullish outlook in the real estate sector.

Moreover, the Philippine internet economy continues to expand due to netsourcing¹¹ by foreign companies in the health, legal, finance, architecture,

¹¹ Fortune® Magazine describes *netsourcing* as an expansion of the outsourcing concept into a new economic model that employs data networks and a suite of powerful online applications to dramatically cut costs, boost productivity and increase flexibility by freeing up key personnel to focus on a company's core business.

animation, and entertainment business. New financial channels powered by the Internet such as Paypal continues to work best for Filipinos taking their piece of the emerging home-based work arrangement.

Moreover, the Business Processes Outsourcing (BPO) industry, while sluggish in the second quarter of 2008, remains to be one of the backbones of the Services sector. Considering the renewed perception of the sector's competitiveness, the country prevails to be the compelling alternative to India. In fact, aside from Metro Manila, outsourcing providers have set a foothold on Cebu, Davao, Clark, including university towns such as Cagayan De Oro and Dumaguete. These destinations are capturing the interest of locators due to lower real estate values, among others¹².

While there is a general optimism in the resilience of the economy amidst the worldwide economic slump due to the food, oil and climate change issues, the worsening political and security problem in Mindanao threatens the country's economic gains in recent months. Maintaining investors' confidence remains to be a challenge for the present administration.

Box 3. Selected Socio Economic Indicators, Philippines: 2007-2008.

Indicators	Q2 2007	Q2 2008	Y-O-Y Growth (%)
CPI (2000=100)	142.9	157.4	10.15
Inflation (%) (2000=100)	2.3	11.4	395.6
Purchasing Power (2000=100)	0.71	0.64	(9.86)
Exchange Rate (P/\$)	46.3	44.8	(3.3)
Lending Rates (High Values)	8.3	9.8	2.80
91 Day T-Bill Rates	2.9	5.7	96.6
OFW Remittances (in US\$ Bn)	4.0	5.5	37.3
Unemployment Rate (as of April 08)	7.4	8.0	8.11

Source: Bangko Sentral ng Pilipinas (BSP) and National Statistics Office (NSO)

¹² Jaime Enrico R. Singson, "Raising the Competitiveness of the Philippine Outsourcing Industry," available at <http://www.outsourceit2philippines.com/news-outsource/Raising-the-competitiveness.htm>.