

## Slight dip in confidence amid underlying strength

### Outlook for Q4 2014 - Key Highlights

- Overall, the economy is still performing well with key indicators posting strong results.
- All Optimism levels dipped slightly this quarter except for Selling Prices and Employment which recorded a bigger than expected fall q-o-q.
- Between 94-95% of respondents anticipate an increase in sales volume and profits this quarter.
- Cooling measures have effectively slowed down the real estate market which saw much lower growth in 1H2014.

Despite a slight dip in business confidence this quarter, there is still a lot of underlying strength in the economy with many sectors still performing well. Between 94-95% of respondents anticipate an increase in sales volume and profits during this last quarter of the year which traditionally sees retail sales picking up due to the Christmas holiday season. As a result, the economic outlook is still favourable.

This is backed by strong GDP growth rates which registered 6.4% y-o-y in 2Q, up from 5.6% y-o-y in 1Q. This is despite the many natural disasters that have afflicted the Philippines in recent quarters. The growth was broad-based, with private consumption rising by 5.3% y-o-y

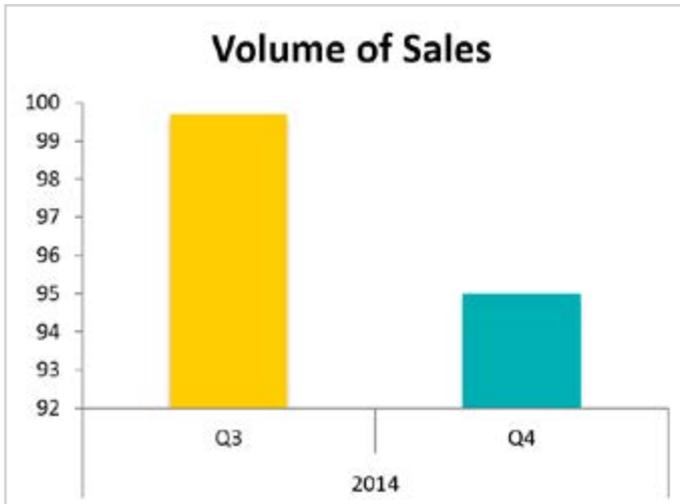
and exports by 10.3%. Net exports had a strong positive contribution to growth, as imports increased by just 1.4%. As of August, motor vehicle sales were still growing at high rates of almost 40.0% y-o-y, while manufacturing output was 9.7% higher y-o-y in July.

On the production side, manufacturing increased by 10.8% y-o-y, the services sector by 6.0% and agriculture by 3.6%. Gross fixed capital formation however decelerated from the previous quarter, expanding by just 4.0% compared with 11.0% in Q1.

Meanwhile, for the first time since 3Q 2014, the construction component of investment increased although investment in equipment slowed down markedly.

Growth in the construction sector remains subdued however due to the cooling measures implemented by the authorities over the last few quarters to slow down credit growth which had contributed to a booming real estate market in the last few years. In particular, interest rate hikes had a dampening effect on the real estate market which was previously growing at an annual growth rate of 18.2% at the height of the real estate market boom in 2012. The authorities' measures had effectively cooled down the property market which saw very much lower growth of below 1.0% in 1H2014.

In conclusion, despite the slowing property market and a slight dip in business confidence this quarter, the country's economy is still performing well.



## Volume of Sales

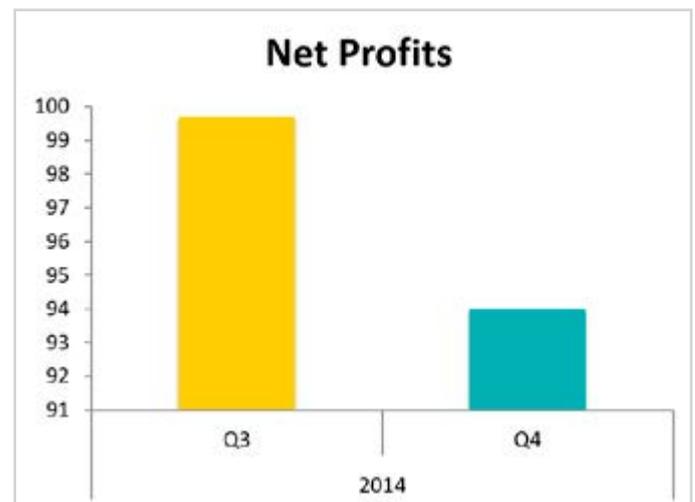
Optimism level on sales across all sectors fell in 4Q2014 compared to the last quarter. In spite of the drop, 95% of the respondents are still anticipating increase in sales volume in the closing quarter of 2014.

Agriculture, Hunting, Forestry and Fishing together with Manufacturing sector registered the highest optimism level with almost 100% of respondents expecting higher sales this quarter.

## Net Profits

In tandem with the Volume of Sales index, the optimism level for Net Profits dropped q-o-q across all sectors except for Manufacturing and Agriculture, Hunting, Forestry & Fishing sectors.

Undeterred by the drop, the overall optimism level stood high: 94% of respondents anticipate an increase in Net Profits in the last quarter of 2014. Meanwhile, about 11% of the respondents from Transportation, Communication & Utilities sector feel that their Net Profits will remain unchanged in 4Q2014.



## Selling Price

Optimism level on Selling Prices for all sectors plunged a massive 63 percentage points q-o-q from 93% to 30%. An average of 70% of respondents expect Selling Prices to remain unchanged from the last quarter with the Wholesale & Retail sector (94%) most convinced that there will be no changes in Selling Prices this quarter.





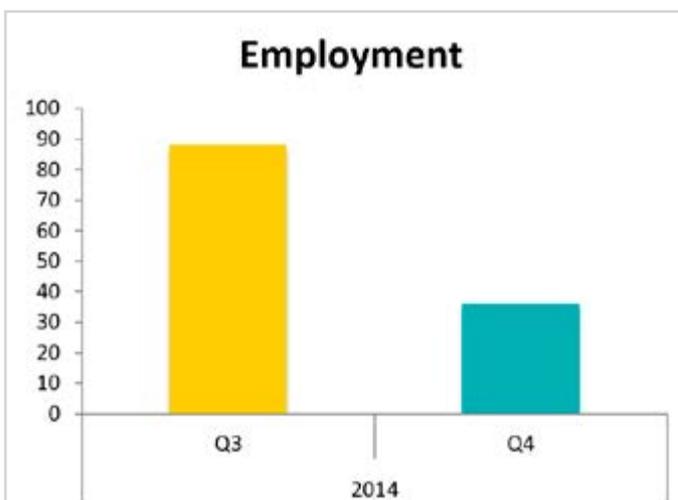
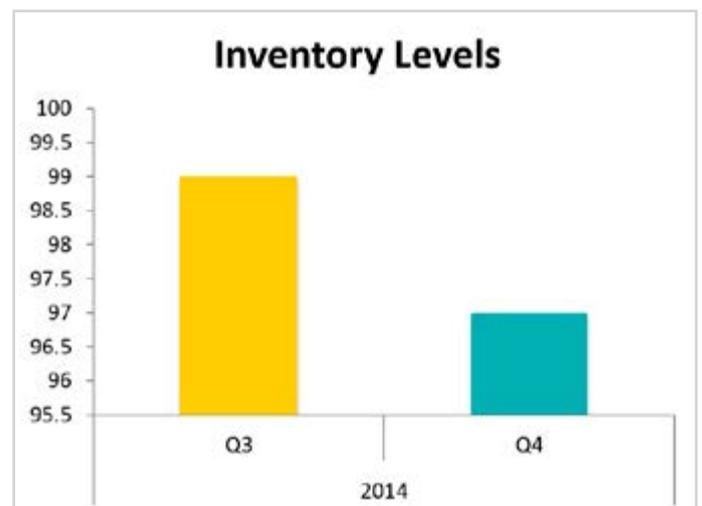
## New Orders

Optimism level on New Orders remained high despite a slight drop in Q4 compared to Q3. Overall, about 93% of the respondents anticipate an increase in new orders. This optimistic view is mainly due to the coming Christmas season where traditionally more demand is expected. Only 5% of respondents from Wholesale & Retail sector expect New Orders to remain unchanged this quarter.

## Inventory Level

In line with the high Optimism level of New Orders, Inventory Levels similarly posted high Optimism levels despite a slight dip this quarter compared to Q3. About 97% of respondents across all sectors (except for Services<sup>1</sup>) anticipate an increase in their Inventory Levels mainly due to the coming Christmas season.

<sup>1</sup> The sample size does not include the Services sector.



## Employment

Although there is a significant plunge in Optimism level (over 50 percentage points) compared to the last quarter, 64% of the respondents expect to keep their workforce unchanged while 36% plan to increase. About 89% of respondents from Wholesale and Retail Sector expect no movement in the number of employees this quarter.

## Business Optimism Index (BOI) Report

D&B Optimism Index report is recognized as a product, which measures the pulse of the business community and serves as a reliable benchmark for investors. The D&B Optimism Index is arrived at on the basis of a quarterly survey of business expectations. Over time, this quarterly survey has emerged as a leading indicator of turning points in economic activity in countries which it is published.

### Methodology

For the purpose of conducting the survey, a sample is randomly selected from D&B database, consisting of companies belonging to the following sectors including Agriculture, Construction, Electric, Finance, Manufacturing, Mining, Services, Transportation, and Wholesalers.

All the respondents in the survey are asked six standard questions regarding their expectations as to whether the following critical parameters pertaining to their respective companies will register an increase, decline or show no change in the ensuing quarter as compared to the same quarter in the prior year: Volume of Sales, Net Profits, Selling Prices, New Orders, Inventory Levels, and Employees. The individual indices are then calculated by subtracting the percentage of respondents expecting decreases from those expecting increases. Unless otherwise stated, increases and decreases in indices represent changes from the previous quarter.

### Composite Business Optimism Index

Dun & Bradstreet introduced the Composite Business Optimism Index from Q1 2010. The purpose of the Composite Business Optimism Index is to capture the aggregate behaviour of all the six individual indices. Each of the six parameters has a weight assigned to it. For calculating the Composite Business Optimism Index, the positive responses for each of these parameters for the period under review are expressed as a proportion of positive responses in the base period (Q2 1999). The parameter weights are then applied to these ratios and the results aggregated to arrive at the Composite Business Optimism Index. For the purpose of the survey, Q1 is the period between January and March, Q2 is the period between April and June, Q3 is the period between July and September and Q4 is the period between October and December each year. We trust that you will find the D&B Optimism Index as a useful tool in your day-to-day decisionmaking. Please do give us your feedback in this regard.



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