



# COUNTRY REPORT

Volume II

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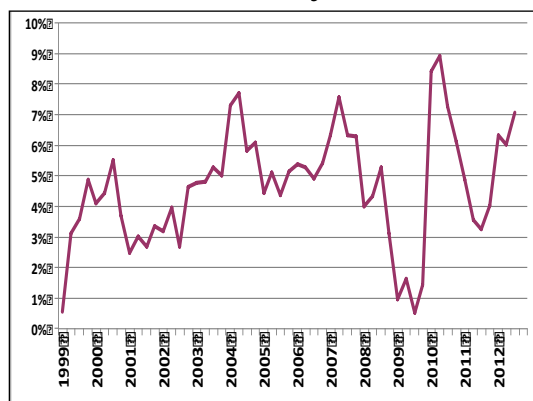
## ON A FASTER GROWTH

### STRONG AND STABLE MACROECONOMY

While the global economy had a slow and shaky recovery in 2012, the Philippine economy has defied its gravitational pull, ending the year with a Gross Domestic Product (GDP) growth rate of 6.6% year-on-year (y-o-y) growth (7.1% in Q3 and 6.8% in Q4), which is higher than the government's target of 5%-6%. From the supply side, this growth is actually broad-based as the three major sectors supported the trend. Services, which remained the main driver of the economy with 56% share in GDP, accelerated by 6.9% in Q4 2012, led by the Transport, Communication & Storage, and Real Estate, Renting & Business Activities. The Industry Sector, which accounts for 32% of GDP, posted the highest growth of 7.5%, mostly boosted by the massive 18.4% gain in Construction and 9.6% in Mining & Quarrying. Despite its small share to GDP of 9.3%, Agriculture, Forestry and Fishery has recovered by 2.9% with palay, poultry and sugarcanes as the key factors.

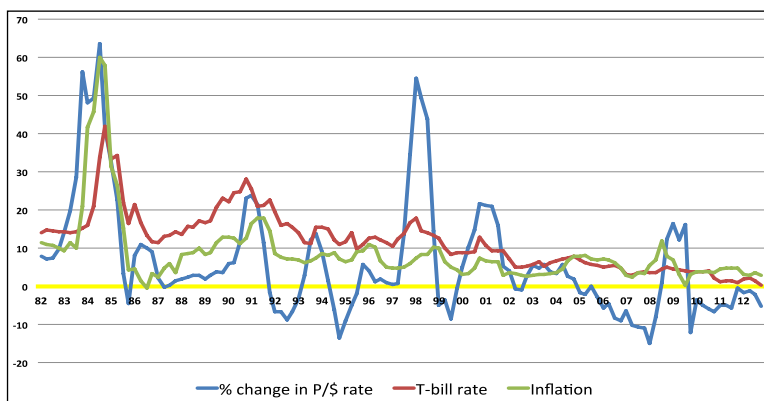
From the demand side, the acceleration of household and government expenditures (6.9% and 9.1% 2012 y-o-y growth respectively), the sustained recovery of capital formation (notably construction and durable equipment), and the remarkable performance of external trade contributed to the healthy economic growth in 2012. However, the seriousness of peso appreciation to a 5-year low also puts a toll to the economy. The continuous dollar inflow of Overseas Filipino Workers (OFW) remittances (7.6% growth amounting to \$1.9 B in November 2012 alone) and foreign portfolio further pressure the peso to appreciate. This has dampened the country's exports (despite the surge in electronics exports by 13.3%), business process outsourcing industry, tourism, and OFW remittances. Moreover, the peso appreciation has significant negative impact on employment, since this makes foreign raw materials and finished goods relatively cheaper than domestically produced goods.

**GDP Quarterly Growth Rate**



Source: NSCB

**Historical Price Environment**



Source: BSP, NSO

Meanwhile, interest rates and inflation have remained low and stable which supports the long-term sustainability of the growth. With inflation in December at 2.9% and averaging at 3.2% in 2012 (which is at the lower end of Bangko Sentral ng Pilipinas' 3%-5% target), this allowed BSP to cut policy rates by 100 bps in the same year. The massive growth of financial resources of both the private and

public sector, supply of money exceeds demand making interest rate substantially go down. The strong peso and macroeconomic fundamentals highlighted the country as an alternative investment site amidst the Eurozone debt crisis and US' slow economic recovery. This rally, together with very tempered increase in consumer prices, pushed spending both in consumer items and private investments.

The Aquino Administration, with its continuous effort to reduce corruption, has already built its momentum especially in infrastructure spending. Because of improving macroeconomic conditions, good fiscal and debt management of the Administration, the credit rating for the Philippines has been upgraded by Standard & Poor's from BB+ "stable" to BB+ "positive" which provided favorable setting for the Philippine peso.

Overall, the Philippine economy ended 2012 with a blast. Despite the negative effects of peso appreciation to exports, tourism, BPOs, and OFW remittances, the economy will remain upbeat in the near-term. The slight acceleration in Meralco sales, continued government spending on infrastructure, stable food prices, BSP's tendency to maintain policy rates, as well as heightened election-related spending will provide momentum to keep the economy at a faster growth in 2013.

## BOOMING CONSTRUCTION SECTOR

The total output construction sector increased remarkably in 2012, posting a double-digit growth of 14.4% from 2011, which is more than its average annual growth in the last several years. It is important to note that the sector surged to a high of 18.4% during the last quarter of 2012, coming from 8.1% registered in the previous year. This allowed the construction sector to contribute a total of Php 345 billion to the economy in 2012 (from Php 302 billion in 2011), and increased its share to GDP from 5.1% in 2011 to 5.5% in 2012. This phenomenal growth was mainly caused by the upsurge in government spending on infrastructure, and sustained growth in private construction.

### *Construction Sector Output and Share to GDP*

	Q4 2011	Q4 2012	Growth Rate (%)	2011	2012	Growth Rate (%)
<b>CONSTRUCTION</b>	81,084	96,014	18.4	302,014	345,481	14.4
<b>GDP</b>	1,596,579	1,705,421	6.8	5,924,409	6,314,866	6.6
<b>Share of Construction to GDP</b>	5.08%	5.63%		5.10%	5.47%	

Source: NSCB

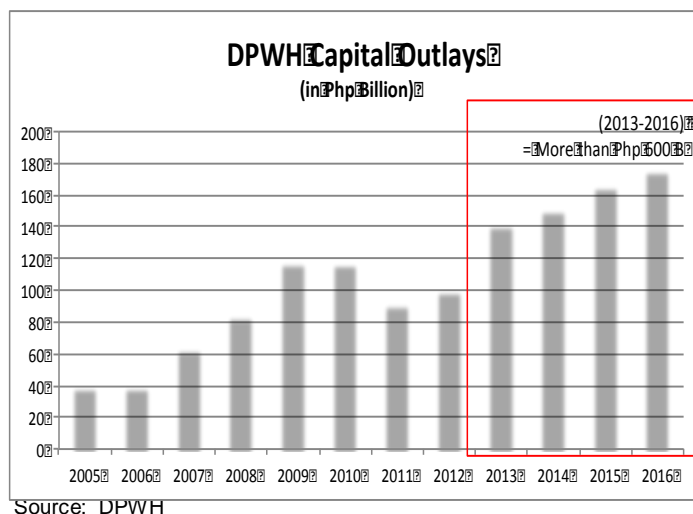
### *Public-Private Mix and Gross Value Added in Construction*

	Q4 2011	Q4 2012	Growth Rate (%)	2011	2012	Growth Rate (%)
<b>PUBLIC</b>	34,159	36,830	7.8	98,308	130,186	32.4
<b>PRIVATE</b>	90,034	111,024	23.3	362,079	393,178	8.6
<b>GROSS VALUE IN CONSTRUCTION</b>	124,193	147,854	19.1	460,387	523,363	13.7
<b>GROSS VALUE ADDED IN CONSTRUCTION</b>	81,084	96,014	18.4	302,014	345,481	14.4

Source: NSCB

One of the biggest contributors to the increased government spending is the Department of Public Works and Highways (DPWH). Since 2011, the department is committed to increase its expenditures to provide quality infrastructure facilities such as national roads, bridges, and major flood control projects. For 2013, more big-ticket infrastructure projects, including strategic tourism road projects, will be funded by the DPWH, allocating a total of Php 140 billion for the year: a staggering 40% climb

from last year. Moreover, it is expected that the public construction will continue to boost the sector in the next three years as the DPWH's rally will be sustained to garner more than Php 600 billion capital outlays by the end of 2016.



## UPDATES ON CONSTRUCTION SECTOR KEY INDICATORS

Generally, the wholesale prices of basic construction materials have slightly increased by 3.7% in 2012. However, it must be noted that the annual average growth rate of their price indices have decelerated from 7.6% in 2011 with exception to sand and gravel, cement, painting works, and PVC pipes. Meanwhile, the annual average rate in tileworks index remained at its last year's rate of 4.1% while that for machinery and equipment rental index was zero. The deceleration of price escalation of construction materials has complemented the huge demand for construction services in 2012.

### Wholesale Price Index of Construction Materials

Wholesale Price Index / 2012	2012			2011	
	Average	Dec	Y-O-Y Change (%)	Dec	Y-O-Y Change (%)
All items	217.6	114.6	3.7	214.1	7.6
Sand and Gravel	197.5	114.6	8.3	190	7.3
Concrete Products	199.5	201.2	3.3	195.9	6.1
Cement	179.7	183.5	0.1	178.1	-3.1
Hardware	210.7	212.6	3.7	207	4.1
Plywood	178.1	179.7	4.8	176.2	10.2
Lumber	223.8	227.5	4.5	218.2	9.1
G.I. Sheet	176.8	178.3	2	173.5	2.1
Reinforcing Steel	245.6	249.7	4.3	242.6	7.9
Structural Steel	276	278.4	5.6	267.7	8.2
Tileworks	172.8	175.8	4.1	171.5	4.1
Glass and Glass Products	178.5	179.2	0.8	177.7	1.8
Doors, Jambs, and Steel Casement	197.2	198.5	4.1	194.7	5.9
Electrical Works	193.2	195.8	5.8	188.4	7.2
Plumbing Fixtures & Accessories/Waterworks	155.6	156.3	1.8	154.3	4.3
Painting Works	202	203.1	4.8	198.6	4.7
PVC Pipes	172.3	173.1	2.3	170.2	1.4
Fuels and Lubricants	336.3	328.2	3.5	333.6	16.7
Asphalt	448.1	464	7	441.3	15.1
Machinery and Equipment Rental	114.6	114.6	0	114.6	0

Source: National Statistics Office (NSO)

The Construction Sector continues to provide a significant level of employment in the domestic economy. Despite of the lost of almost 900,000 jobs in 2012 (according to the latest Labor Force Survey)<sup>1</sup>, the Construction Sector continued to generate 103,300 new jobs and a total of 2.2 million workers to the country's labor force. This boosted its share in total employment from 5.6% in 2011 to 5.9% in 2012. The increased infrastructure spending by the government and real estate activities also created strong demand for construction sector's workforce.

<i>Employment in Construction</i>						
Sector	2010	Share to Total Employment	2011	Share to Total Employment	2012*	Share to Total Employment
<b>Agriculture</b>	<b>11,956</b>	<b>33.18%</b>	<b>12,267</b>	<b>32.98%</b>	<b>12,104</b>	<b>32.17%</b>
<b>Industry</b>	<b>5,399</b>	<b>14.98%</b>	<b>5,530</b>	<b>14.87%</b>	<b>5,767</b>	<b>15.33%</b>
Mining & Quarrying	199	0.55%	211	0.57%	252	0.67%
Manufacturing	3,033	8.42%	3,080	8.28%	3,130	8.32%
Electricity, Gas & Water	150	0.42%	148	0.40%	163	0.43%
<b>Construction</b>	<b>2,017</b>	<b>5.60%</b>	<b>2,066</b>	<b>5.55%</b>	<b>2,222</b>	<b>5.91%</b>
<b>Services</b>	<b>18,682</b>	<b>51.84%</b>	<b>19,394</b>	<b>52.15%</b>	<b>19,750</b>	<b>52.50%</b>
<b>Total</b>	<b>36,035</b>		<b>37,192</b>		<b>37,621</b>	

Source: Bureau of Labor and Employment Statistics (BLES)

\* Average for January-October 2012

The sector's labor productivity (measured as the ratio of gross value added of Construction to employment) had recovered from its negative growth of -10.6% in 2011 and boosted its efficiency by 7.6% in 2012. This means that the additional output created by the sector supersedes the corresponding increase in the sector's employment. In terms of compensation, the Construction Sector still provides one of the lowest (next to Mining) average daily basic pay among other industries. While the average daily compensation for the sector had increased by 3% to 4% in the last three years, inflation may just offset the benefits of the wage increase.

#### *Construction Labor Productivity*

	Labor Productivity	Growth Rates (%)
<b>2008</b>	145,448	
<b>2009</b>	150,711	3.6
<b>2010</b>	161,537	7.2
<b>2011</b>	144,435	-10.6
<b>2012</b>	155,482	7.6

Source: BLES

#### *Average Daily Basic Pay – Industry Sector*

Industry Group	2009	2010	2011
<b>Mining and Quarrying</b>	241.06	252.78	262.36
<b>Manufacturing</b>	299.93	310.57	316.49
<b>Electricity, Gas and Water Supply</b>	465.62	491.50	542.45
<b>Construction</b>	276.64	285.08	296.93
Growth Rate (%)		3.1	4.2

The latest 2009/2010 BLES Integrated Survey showed that, although cases of injuries have increased from 2,076 in 2007 to 3,022 in 2009, the frequency rate of injury cases, incidence rate of injury cases, and severity rate have improved in 2009. Nonetheless, considering that the sector provides a hazardous and risky work environment, construction companies must continue to improve their work sites to further minimize injuries among their employees. On a brighter note, the same survey reveals that there are more construction companies in 2010 (645 establishments compared to 618 in 2008)

<sup>1</sup> Even though the Philippine economy grew by 7.1% in Q3 2012, the economy surprisingly not only failed to create more jobs, it even lost almost 900,000 jobs over a year ending October 2012 (the largest ever annual decline), as reported in the latest Labor Force Survey. This was brought about by lower participation rates in the labor market, i.e. the loss of jobs meant more people who were classified as "unpaid family members" and "self-employed" persons left the job market to study or go abroad.

that have provided Occupational Safety and Health (OSH) trainings and seminars to their employees including improvement of preventive and control measures in their respective workplace.

### **Occupational and Safety Records for the Construction Sector**

Occupational Health & Safety Records	TOTAL		With Workdays Lost						Without Workdays Lost			
	2007	2009	Total		Fatal		Permanent Incapacity		Temporary Incapacity		2007	2009
Cases of Injuries	2,076	<b>3,022</b>	837	<b>791</b>	0	<b>12</b>	16	<b>17</b>	822	<b>762</b>	1,238	<b>2,231</b>
Frequency rate of injury cases	3.53	<b>2.92</b>	3.52	<b>0.04</b>	0	<b>2.88</b>	0.07	<b>0.06</b>	3.46	<b>2.82</b>		
Incidence rate of injury cases	9.25	<b>7.71</b>	9.25	<b>0.12</b>	0	<b>7.59</b>	0.17	<b>0.17</b>	9.07	<b>7.42</b>		
Severity rates	30.74	<b>18.11</b>										

Source: BLES

## **BULLISH CONSTRUCTION SECTOR FOR 2013 AND BEYOND**

With the year ending at a high note for the Construction Sector and the whole economy, and prospects both at home and abroad looking a bit better, the fearless forecast for 2013 would show a faster acceleration in growth by as much as 8%, coupled with sustained low inflation rate (stabilize at 3% or lower) and interest rates (91-day T-bill rate and 10-yr T-bond at 2% and 4.5% respectively). Of course, this assumes that the peso will not appreciate further to below P40/\$, otherwise this will just dampen the growth-positive potential.

The staggering increase in public construction investments in 2012 - reinforced by conducive macroeconomic conditions, government's ability to further boost infrastructure expenditures, the growing electricity demand, and the 2013 mid-term elections-related spending - will provide a blistering momentum to the Construction Sector in 2013. The increased growth of the private sector in real estate development supported by low interest rates will likewise contribute to the sector's expansion.

Improved business confidence mainly because of efforts of current Administration to combat corruption will also support growth in the economy and the construction as this leads to more investments. According to the latest Social Weather Station survey in 4Q 2012, the President's satisfaction is rated "very good" with a net score of +55.

Aside from these positive factors, the Construction Sector can ride on the rise in the following economic growth drivers: a) emerging industries such as tourism and business process outsourcing (BPO); b) OFW remittances; and c) public-private partnership (PPP) program of the current administration (*updates on these growth drivers are presented in the table below*). Increasing activities in these growth drivers would result to more civil construction works such as office buildings, roads and bridges, facilities for utilities, and the like.

In the international scene, the sector also faces a host of opportunities. Because of the slow recovery of US economy and the debt crisis in Europe, Asia has now become a catalyst of global recovery, providing a prospective destination for construction activities. The world is now looking at this region, especially in the Philippines, which is an emerging hub in Asia for both business and leisure. The need to enhance the capacity and quality of Philippine infrastructure (e.g. expansion of our existing airports, seaports, and highway systems) would mean higher demand for construction services. Meanwhile, Filipino construction companies may also find opportunities in Middle East, particularly Saudi Arabia (being the largest construction market in the region) and Qatar (due to the 2022 FIFA World Cup preparations).

Sector/Growth Drivers	Trends/Target	Remarks
Tourism Industry	<p>Department of Tourism (DoT) is targeting 10 million international passengers, 35.5 million domestic tourists, and about Php 2 trillion worth of tourism receipts by 2016. This will also generate 7 million jobs and contribute 7.43% to GDP.</p>	<p>Through the DOT-DPWH Convergence Program on Enhancing Tourism Access, both national and local roads that are part of a tourism road network will be funded. In 2013 budget, the Program has Php 12 billion allocation for tourism roads across the country (majority of which are local roads).</p>
Business Process Outsourcing (BPO)	<p>The BPO industry in the Philippines has grown at an annual rate of 20% to 30% over a decade, faster than the growth of the global offshore services market. It also provides significant contribution (approximately 5%) to the country's GDP and it is the third largest net foreign exchange earner after tourism and overseas remittances.</p> <p>According to the IT-BPO Roadmap for 2011-2016, the target for the industry is to reach \$25 billion in revenue and 1.3 million knowledge workers (which implies the creation of up to 536,000 new jobs) by 2016.</p>	<p>The BPO industry has already expressed loss of competitiveness due to currency appreciation. India has once again obtained a significant cost advantage after its currency has depreciated by some 20% since 2009.</p>
Overseas Filipino Worker (OFW) Remittances	<p>OFW remittances are expected to still expand by 4% to 5%. In fact, OFWs tend to remit more dollars to compensate for a peso appreciation in order to meet the peso budgets of their families in Philippines. However, the Q1 2013 projections will likely exhibit a slowdown from the previous quarter, as the OFWs tend to save up for months.</p> <p>Nonetheless, the robust remittances will provide added boost to real estate purchases among families of overseas workers and the strong peso, which benefits developers who import construction materials.</p>	<p>With strong OFW remittances and inflow of foreign investments, we expect the peso to appreciate particularly in Q1 2013 and a larger trade deficit, which will emerge from higher imports of capital goods and larger imports of crude oil as a result of faster economic growth. However, this can be tempered by BSP policies on the further buildup of international reserves, more prudent measures, a further cut in policy rates, among others.</p>
Public-Private Partnerships (PPPs)	<p><b>PPP - From Projects Properly Prepared to Projects in Pipelines being Procured:</b> The good news is that many PPP projects are already gaining momentum. Two PPP Projects were already successfully awarded: a) US\$ 46-M Daang Hari-SLEX Link Project, and b) US\$ 381-M PPP for School Infrastructure Project Phase 1 (around 10,000 classrooms).</p> <p>As of January 2013, the following projects were rolled out (with live bidding):</p> <ul style="list-style-type: none"> <li>• US\$ 378-M NAIA Expressway Phase 2</li> <li>• US\$ 136-M Modernization of Philippine Orthopedic Center</li> <li>• US\$ 262-M PPP for School Infrastructure Project Phase 2</li> <li>• US\$ 1.4-B LRT Line 1 South Extension</li> <li>• US\$ 216-M Mactan-Cebu International Airport Passenger Terminal</li> <li>• US\$ 43-M Automatic Fare Collection System</li> <li>• US\$ 27.5-M Rehabilitation, Operation and Maintenance of Angat Hydro Electric Power Plant Auxiliary Turbines 4 &amp; 5</li> </ul> <p>Meanwhile, 3 PPP projects have been approved by the President and are in the process of finalizing transaction documents for publication of the invitation</p>	<p>Albeit the delays in the preparation and implementation of priority PPP Projects in 2011 and 2012, it is expected that there will be a continuous rolling out of projects by 2013 and beyond.</p>

	<p>to bid. These are: 1) NLEX-SLEX Connector Road (Unsolicited Proposal), 2) Cavite-Laguna Expressway, and 3) Talisay City Plaza Complex Heritage Restoration and Redevelopment. Meanwhile, the Civil Registration System – IT Project Phase 2 and the Vaccine Self-Sufficiency Project Phase 2 are currently being evaluated by relevant government agencies.</p>	
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