SUMMARY

• Manufacturing has remained as a key driver of Economic Growth

• Short-term challenge due to prices

• Diversification to cater to domestic markets critical

• Connection of industry and academe needed to benefit from demographic dividend
PHILIPPINE GDP AND MANUFACTURING SECTOR, GROWTH %

Gross Domestic Product | Manufacturing

-0.09 | 10.1%
-0.0375 | 4.0%
0.015 | 6.8%
0.0675 | 5.8%
0.12 | 4.0%

SLOWEST GROWTH SINCE 2012


2.5% | 6.0% | 2.2% | 2.0% | 3.6% | 4.9% | 4.3% | 3.4% | 5.3% | 8.4% | -7.7% | 5.8% | 8.9% | 7.5% | 6.8% | 4.0% | 0.015 | 0.0675 | 0.12 | -0.0375 | -0.09
BIGGEST SUB-SECTORS ARE ALSO THE FASTEST GROWERS

- Food manufactures
- Beverage industries
- Chemical & chemical products
- Basic metal industries
- Furniture and fixtures

Graph showing quarterly growth trends from 1998 Q3 to 2018 Q3.
SUB-SECTORS WITH THE SLOWEST GROWTH

- Tobacco manufactures
- Textile manufactures
- Wearing apparel
- Footwear and leather and leather products
- Wood, bamboo, cane and rattan articles
PSEI MIRRORS DECLINE IN NET MARGINS

chart showing net margins decline from 2015 to 2018 for various companies.
FOOD MANUFACTURES’ OUTPUTS TO THE PHILIPPINE SECTORS, PERCENT (%)
CONTRIBUTION TO TOTAL INTERMEDIATE DEMAND

- Food manufactures: 35.3%
- Wholesale and retail trade and...: 10.2%
- Accommodation and Food Service Activities: 9.0%
- Computer, Electronic and Optical products: 7.3%
- Transport equipment: 5.8%
- Chemical and chemical products: 3.0%
- Livestock: 2.8%
- Arts, Entertainment and Recreation: 2.4%
- Construction: 2.1%
- Electrical equipment: 2.0%
ELECTRICAL MACHINERY AND APPARATUS’ OUTPUTS TO THE PHILIPPINE SECTORS, PERCENT (%) CONTRIBUTION TO TOTAL INTERMEDIATE DEMAND

- Wholesale and retail trade and... 17.2%
- Transport equipment 16.9%
- Computer, Electronic and Optical products 15.5%
- Other Service Activities, nec 11.5%
- Construction 9.0%
- Electrical equipment 6.0%
- Electricity 2.6%
- Administrative and Support Service... 2.4%
- Food manufactures 2.3%
- Accommodation and Food Service Activities 2.2%
CHEMICAL AND CHEMICAL PRODUCTS’ OUTPUTS TO THE PHILIPPINE SECTORS, PERCENT (%) CONTRIBUTION TO TOTAL INTERMEDIATE DEMAND

- Wholesale and retail trade and...: 17.1%
- Chemical and chemical products: 12.8%
- Rubber and plastic products: 6.6%
- Computer, Electronic and Optical products: 5.5%
- Food manufactures: 5.1%
- Other Service Activities, nec: 4.9%
- Palay: 4.3%
- Textile manufactures: 4.3%
- Accommodation and Food Service Activities: 3.8%
- Construction: 3.7%
CAPITAL FORMATION GROWTH REMAINS ROBUST

1. Household Final Consumption Expenditure - - - -
2. Government Final Consumption Expenditure - - - -
3. Capital Formation - - - -
Capital Formation and Fixed Capital, Growth Rates (%)

Source: Philippine Statistics Authority
Percent (%) Share to Capital Formation, Durable Equipment

- MISCELLANEOUS EQUIPMENT
- TRANSPORT EQUIPMENT
- GENERAL INDUSTRIAL MACHINERY AND EQUIPMENT
- MACHINERY SPECIALIZED FOR PARTICULAR INDUSTRIES

Source: Philippine Statistics Authority
Machinery Specialized for Particular Industries, Percent (%) Share to Durable Equipment

- Other special industrial mach.
- Telecommunications & sound recording/reproducing equip.
- Metal working machineries
- Pulp and paper machineries
- Sugarmill machineries
- Sawmill & logging machineries
- Textile machineries
- Mining, construction mach.
- Tractor other than steam
- Agricultural machineries

Source: Philippine Statistics Authority
General Industrial Machinery and Equipment, Percent (%) Share to Durable Equipment

- Other general industrial mach.
- Other electrical machinery and apparatus
- Pumps and compressor
- Aircon & refrigeration equip.

Source: Philippine Statistics Authority
Transport Equipment, Percent (%) Share to Durable Equipment

- Water transport
- Air transport
- Railway transport
- Road vehicles

Source: Philippine Statistics Authority
Miscellaneous Equipment, Percent (%) Share to Durable Equipment

Source: Philippine Statistics Authority
Key Messages

• There is an observable increase in durable equipment investments for manufacturing

• Beyond the requirements of Buildx3, other equipment investments are building up

• These should be online in the coming years – sustaining manufacturing capacity
**Percent (%) Share to Total Exports**

- **Others**
- **Articles of Apparel and Clothing**
- **Accessories**
- **Principal Fishery Products**
- **Principal Agricultural Products**
- **Electronic Components**

Source: Philippine Statistics Authority
Electronic Components, Percent (%) Share to Total Exports

- Automotive Electronics
- Medical/Industrial Instrumentation
- Control Instrumentation
- Communication/Radar
- Telecommunication
- Consumer Electronics
- Office Equipment
- Electronic Data Processing
- Components/Devices (Semiconductors)

Source: Philippine Statistics Authority
Principal Agricultural Products, Percent (%) Share to Total Exports

- Sugar
- Pineapple and Pineapple Products
- Mango, Fresh or Dried
- Dessicated Coconut
- Copra Oil Cake or Meal
- Coconut Oil
- Bananas, including Plantains, Fresh or Dried

Source: Philippine Statistics Authority
PRINCIPAL IMPORT GOODS, Percent (%) Share to Total Imports

- Electronics
- Others
- Transport equipment
- Base metals
- Mineral fuels
- Electrical machinery
- Machinery and mechanical appliances
- Artificial resins
- Medical and Pharmaceutical products
- Paper products
- Chemical products
- Cereals
- Textile yarns
- Feedstuff
- Dairy Products
- Metalliferous ores and metal scrap

Source: Philippine Statistics Authority
<table>
<thead>
<tr>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>Beverages and tobacco</td>
<td>0.24</td>
<td>0.13</td>
<td>0.46</td>
<td>0.61</td>
<td>0.83</td>
<td>0.57</td>
<td>0.64</td>
<td>0.84</td>
<td>0.68</td>
<td>0.62</td>
<td>0.62</td>
</tr>
<tr>
<td>Crude materials, inedible, except fuels</td>
<td>3.04</td>
<td>1.32</td>
<td>1.64</td>
<td>2.60</td>
<td>3.70</td>
<td>3.48</td>
<td>5.45</td>
<td>6.49</td>
<td>4.56</td>
<td>3.78</td>
<td>3.53</td>
</tr>
<tr>
<td>Mineral fuels, lubricants and related materials</td>
<td>1.51</td>
<td>1.33</td>
<td>1.88</td>
<td>2.05</td>
<td>2.92</td>
<td>2.43</td>
<td>3.77</td>
<td>2.97</td>
<td>1.32</td>
<td>1.33</td>
<td>1.51</td>
</tr>
<tr>
<td>Animal and vegetable oils, fats and waxes</td>
<td>4.84</td>
<td>1.25</td>
<td>1.68</td>
<td>2.50</td>
<td>3.04</td>
<td>2.24</td>
<td>2.38</td>
<td>2.44</td>
<td>2.06</td>
<td>2.12</td>
<td>2.45</td>
</tr>
<tr>
<td>Chemicals and related products, n.e.s.</td>
<td>1.96</td>
<td>0.89</td>
<td>1.34</td>
<td>3.02</td>
<td>3.90</td>
<td>3.71</td>
<td>4.10</td>
<td>3.58</td>
<td>2.82</td>
<td>2.75</td>
<td>2.51</td>
</tr>
<tr>
<td>Machinery and transport equipment</td>
<td>22.18</td>
<td>76.13</td>
<td>74.39</td>
<td>44.28</td>
<td>41.41</td>
<td>59.65</td>
<td>55.69</td>
<td>57.56</td>
<td>64.57</td>
<td>64.50</td>
<td>65.72</td>
</tr>
<tr>
<td>Miscellaneous manufactured articles</td>
<td>12.87</td>
<td>11.47</td>
<td>10.16</td>
<td>4.50</td>
<td>6.04</td>
<td>11.43</td>
<td>9.23</td>
<td>9.75</td>
<td>9.73</td>
<td>9.91</td>
<td>8.16</td>
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<tr>
<td>Commodities and transactions, n.e.s.</td>
<td>39.29</td>
<td>0.40</td>
<td>0.15</td>
<td>29.71</td>
<td>22.31</td>
<td>0.94</td>
<td>0.61</td>
<td>0.47</td>
<td>0.77</td>
<td>1.20</td>
<td>1.86</td>
</tr>
</tbody>
</table>
US-CHINA TRADE WAR

Source: UNCOMTRADE

LIST #1
34B products
818 products

LIST #2
14B products
279 products

LIST #3
199B products
5745 products

TOTAL
246B

5745 products
## HOW IT WILL IMPACT PH?

<table>
<thead>
<tr>
<th>Export Partner</th>
<th>Share to total exports</th>
<th>Share to 2017 GDP (Exports/GDP)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Japan</td>
<td>20.33%</td>
<td>11.57%</td>
</tr>
<tr>
<td>United States</td>
<td>15.42%</td>
<td>8.77%</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>11.53%</td>
<td>6.56%</td>
</tr>
<tr>
<td>China</td>
<td>11.10%</td>
<td>6.32%</td>
</tr>
<tr>
<td>Singapore</td>
<td>6.66%</td>
<td>3.79%</td>
</tr>
</tbody>
</table>

SOURCE: ACERD ESTIMATES
<table>
<thead>
<tr>
<th>Description</th>
<th>Tariffed Imports from China</th>
<th>Import Value from ASEAN</th>
<th>Imports Value from the Philippines</th>
</tr>
</thead>
<tbody>
<tr>
<td>ADP magnetic disk drive storage units, disk dia. n/ov 21 cm, not in cabinet, w/o attached external power</td>
<td>891,851</td>
<td>4,261,711</td>
<td>434,899</td>
</tr>
<tr>
<td>Electronic integrated circuits: processors and controllers</td>
<td>1,123,467</td>
<td>13,968,391</td>
<td>448,572</td>
</tr>
<tr>
<td>Electronic integrated circuits: other</td>
<td>711,884</td>
<td>2,805,309</td>
<td>859,185</td>
</tr>
<tr>
<td>Printed circuit assemblies, not incorporating a cathode ray tube, of the machines of 8471</td>
<td>11,642,086.00</td>
<td>1,628,467</td>
<td>1,058,171</td>
</tr>
</tbody>
</table>

Source: UNCOMTRADE
WHERE WILL U.S. BUSINESSES GO IF NOT IN CHINA?

Open for Business
U.S. firms in China that have moved production abroad, or are considering it, have Southeast Asia at top of list.

- Southeast Asia: 18.5%
- Elsewhere: 10.4%
- Indian subcontinent: 6.3%
- United States: 6.0%
- East Asia: 4.2%
- Europe: 4.2%
- Latin America: 3.9%

Source: AmCham China, AmCham Shanghai
Notes: Indian subcontinent includes India, Bangladesh, Pakistan, Sri Lanka. 64.6% of the more than 430 firms who responded to survey said they had no relocation plans. Survey conducted Aug. 29-Sept. 5, 2018.
Key Messages

• There is a strong connection between export of goods and manufacturing

• There is a gap between domestic demand and manufacturing

• Lack of diversification in exports will weaken manufacturing

• Trade War will hit some exports in electronics
NUMBER OF EMPLOYED PERSONS IN THE MANUFACTURING SECTOR (IN THOUSANDS)

- Number of Employed Persons in the Manufacturing Sector (in thousands)
- Percentage Share
NUMBER OF EMPLOYED PERSONS IN THE MANUFACTURING SECTOR (IN THOUSANDS)

- Food Products
- Tobacco Products
- Wearing Apparel
- Wood and of Products of Wood
- Printing and Reproduction of Recorded Media
- Chemicals and Chemical Products
- Rubber and Plastic Products
- Basic Metals
- Computer, Electronic, and Optical Products
- Machinery and Equipment, NEC
- Other Transport Equipment
- Other Manufacturing

Key Messages

• The growth in employment in manufacturing is slower than the growth of the sector itself

• The quality of employment in manufacturing is too high for the general public to connect

• Regional spread of manufacturing remain as they are for the 2 decades
PURCHASING MANAGER’S INDEX

Source: Banko Sentral ng Pilipinas (BSP)
LOANS FOR PRODUCTION BY ECONOMIC ACTIVITY, IN MILLIONS PHP

- Real Estate Activities
- Wholesale & Retail Trade, Repair of Motor Vehicles and Motorcycles
- Manufacturing
- Electricity, Gas, Steam & Airconditioning Supply
- Financial and Insurance Activities
- Information and Communication
- Transportation and Storage
- Construction
- Agriculture, Forestry and Fishing

<table>
<thead>
<tr>
<th>Year</th>
<th>Agriculture, Forestry and Fishing</th>
<th>Construction</th>
<th>Transportation and Storage</th>
<th>Information and Communication</th>
<th>Financial and Insurance Activities</th>
<th>Electricity, Gas, Steam &amp; Airconditioning Supply</th>
<th>Real Estate Activities</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014-Aug</td>
<td>1,750,000.00</td>
<td>3,500,000.00</td>
<td>5,250,000.00</td>
<td>7,000,000.00</td>
<td>1,750,000.00</td>
<td>3,500,000.00</td>
<td>5,250,000.00</td>
</tr>
</tbody>
</table>
Business Sentiments Softened

Source: BSP
INTEREST RATES

T-Bill Rates  Time Deposit  Savings  Inflation  Lending  Interbank Call loan

Jan/01  Jun/01  Nov/01  Apr/02  Sept/02  Feb/03  Jul/03  Dec/03  May/04  Oct/04  Mar/05  Aug/05  Jan/06  Jun/06  Nov/06  Apr/07  Sept/07  Feb/08  Jul/08  Dec/08  May/09  Oct/09  Mar/10  Aug/10  Jan/11  Jun/11  Nov/11  Apr/12  Sept/12  Feb/13  Jul/13  Dec/13  May/14  Oct/14  Mar/15  Aug/15  Jan/16  Jun/16  Nov/16  Apr/17  Sept/17  Feb/18
BANK NONPERFORMING LOANS TO TOTAL GROSS LOANS (%)
Lack of incentives is not a leading problem for doing business in the Philippines

MOST PROBLEMATIC FACTORS FOR DOING BUSINESS IN THE PHILIPPINES, 2017

INEFFICIENT GOVERNMENT BUREAUCRACY
INADEQUATE SUPPLY OF INFRASTRUCTURE
CORRUPTION
TAX REGULATIONS
TAX RATES
POLICY INSTABILITY
ACCESS TO FINANCING
GOVERNMENT INSTABILITY/COUPS
RESTRICTIVE LABOR REGULATIONS
POOR WORK ETHIC IN NATIONAL LABOR FORCE
INSUFFICIENT CAPACITY TO INNOVATE
INADEQUATELY EDUCATED WORKFORCE
TAX CRIME AND THEFT
FOREIGN CURRENCY REGULATIONS
INFLATION
POOR PUBLIC HEALTH

SOURCE: WORLD ECONOMIC FORUM
NOTE: FROM THE LIST OF FACTORS, RESPONDENTS TO THE WORLD ECONOMIC FORUM'S EXECUTIVE OPINION SURVEY WERE ASKED TO SELECT THE FIVE MOST PROBLEMATIC FACTORS FOR DOING BUSINESS IN THEIR COUNTRY AND TO RANK THEM BETWEEN 1 (MOST PROBLEMATIC) AND 5. THE SCORE CORRESPOND TO THE RESPONSES WEIGHTED ACCORDING TO THEIR RANKINGS.
Demographic sweet spot ahead!

Demographic sweet spot for variable and traditional life insurers
## EXPECTATIONS

<table>
<thead>
<tr>
<th>INDICATOR</th>
<th>FORECAST</th>
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<tbody>
<tr>
<td>1Q18</td>
<td>6.6%</td>
</tr>
<tr>
<td>2Q18</td>
<td>6.0%</td>
</tr>
<tr>
<td>3Q18</td>
<td>6.1%</td>
</tr>
<tr>
<td>4Q18e</td>
<td>6.1 – 6.3%</td>
</tr>
<tr>
<td>GDP 2018e</td>
<td>6.1 – 6.3%</td>
</tr>
<tr>
<td>2019f</td>
<td>6.2 – 6.5%</td>
</tr>
<tr>
<td>EXCHANGE RATE (AVERAGE)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>53.50 (2018)</td>
</tr>
<tr>
<td></td>
<td>54.50 (2019)</td>
</tr>
<tr>
<td>INTEREST RATE (AVERAGE 91 DAY TBILL)</td>
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<tr>
<td></td>
<td>3.5% (2018)</td>
</tr>
<tr>
<td></td>
<td>4.5% (2019)</td>
</tr>
<tr>
<td>INFLATION</td>
<td>Average 5.3% (2018)</td>
</tr>
<tr>
<td></td>
<td>4.5% (2019)</td>
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<tr>
<td>REMITTANCES GROWTH</td>
<td>3.0%</td>
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</table>