



National Economic and Development Authority

Region XI, Davao City

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1st Quarter (Q1) 2017 Regional Economic Situationer

The CY 2017 First Quarter Regional Economic Situationer (QRES) provides a snapshot of the performance of Davao Region's economy by highlighting key socioeconomic indicators and assessing their performance vis-à-vis the same quarter of the previous year. The QRES also provides a brief development outlook for the Region for the succeeding months.

Macroeconomic Performance

Prices and Inflation

Prices of basic commodities in Davao Region posted an average inflation rate of 3.8 percent in Q1 2017, 1.1 percentage point higher than the 2.7 percent inflation rate recorded in Q1 2016. The increase of inflation could be attributed to higher prices of major food commodities, especially rice and oils, petroleum products, electricity, and other utilities. The average purchasing power of the peso was 0.63, lower by 0.03 points from the Q1 2016 Purchasing Power of the Peso.

The current quarter's inflation rate of food and non-alcoholic beverages was 3.2 percent, slightly lower than Q1 2016's food inflation rate of 3.6 percent. Inflation rates of major food commodities such as bread and cereals, rice, corn, fish, and oils and fat, were higher by 0.8 percentage point, 0.7 percentage point, 0.8 percentage point, and 1.3 percentage point, respectively, compared to their Q1 2016 levels. The upward price movements of these food-based items were due to tight regional supply. On the other hand, ample and higher reserves of other food-based items such as corn, meat, milk and cheese, fruits and vegetables, and sugar led to lower inflation rates for the current quarter compared with the previous reference quarter's rates, leading to lower overall inflation on food and non-alcoholic index.

Other commodities that registered lower inflation during the quarter as compared with their rates the year before were alcoholic beverages and tobacco (0.2 ppts), clothing and footwear (0.4 ppts), communication (0.3 ppts), transport (0.3 ppts), and restaurant and miscellaneous goods and services (0.4 ppts). Inflation for health, education, recreation and culture retained their previous rates. However, prices for housing, water, electricity, gas and other fuels registered a 7.3 percent inflation rate, higher by 1.7 ppts from the 5.6 percent rate a year ago. Elevated prices for oil-related CPI items affected the upward price adjustments for electricity and fuels, owing to higher prices of oil in the global market, which was aggravated by a weakening peso, and threats of higher excise taxes for petroleum products.

Overall, the performance of the all-item regional inflation rate for the year fell within the range of 3 percent, plus or minus 1 percentage point, set for CY 2017 by the Development Budget Coordinating Committee (DBCC) of the NEDA Board.

Labor and Employment

The Region's employment statistics for the quarter slightly declined based on the January 2017 round of the Labor Force Survey. The employment rate slowed to 94.1 percent, 0.8 percentage point lower than the year-ago employment rate. Consequently, unemployment rate rose to 5.9 percent, 0.8 percentage point higher than the rate in the same quarter in 2016. On the other hand, the Region's underemployment rate notably decreased to 14.6 percent, lower by 5.5 percentage points than Q1 2016's 20.1 percent. In real terms, there was a reduction of approximately 101 thousand underemployed persons, from 319 thousand in Q1 2016 to 218 thousand in Q1 2017. This suggests that there were fewer workers working under 40 hours per week in the Region and more employment opportunities with more working hours opened up. The higher number of workers was attributed to the construction and manufacturing sectors. The Region's total labor force was 2.106 million in Q1 2017, higher by 55 thousand persons from the Q1 2016 labor force.

Investments

Investments in the Region recorded positive growth during the first quarter of the year. In the case of BOI project commitments, a substantial increase of Ph3.948 billion was listed for Q1 2017, higher by almost 3 billion or a 320-percent increase from the same quarter of the previous year, and was expected to generate 2,391 jobs. The dramatic increase is traced to substantial investments in manufacturing and real estate. For manufacturing, San Miguel Foods, Inc. invested PhP 1.3 billion for a chicken production and processing facility in Brgy. Darong, Sta. Cruz, Davao City, and was estimated to generate 514 jobs. Ahya Coco Organic Manufacturing Corp. invested PhP 391 million for export production of processed coconut products, with its project facility located in Baguio District, Davao City.

For real estate, four notable investments were recorded during the quarter with total infusions amounting to PhP 2.05 billion. The biggest investment was made by Communities Davao, Inc. with PhP1.047 billion earmarked for the development of an economic and low-cost housing project, particularly a Camella Davao project in Brgy. Communal, Buhangin District, Davao de Sur. Other real estate firms with investments during the quarter included Filinvest Land, Inc., with PhP412 million worth of investments, and Prestige Homes and Realty Development Corp. with investments amounting to PhP596 million.

A renewable energy investment was also recorded during the quarter. Solar Pacific Citysun Corporation invested PhP91 million on an 840KW solar power project in Tagum City.

The total value of private building construction grew by 3.4 percent, from PhP3.734 billion in Q1 2016 to PhP3.863 billion in Q1 2017. The biggest growth under this sector was in the non-residential construction segment, which significantly grew to PhP2.1 billion in Q1 2017, higher by PhP881 million or 68 percent than Q1 2016's PhP1.284 billion. This suggests that commercial development outpaced residential properties growth as the effect of business expansion in Davao Region, particularly in Davao City, was felt more strongly.

The sharp increase in investments in the first quarter of 2017 as compared with the same quarter in 2016, indicated strong investment promotion policy of the government to attract investors and businesses to Davao City and the region. Moreover, Davao City and the Region maintained its competitiveness as a major commercial and trade hub, offering a fertile job market.

Exports and Imports

The Region's foreign trade expanded in terms of value of transactions during the quarter compared with the same quarter in 2016.

Davao Region's exports increased sharply by 67.6 percent, with export value climbing from US\$216.9 million in Q1 2016 to US\$363.5 million in Q1 2017. Banana remained the top export product of the region with \$104 million worth of mostly Cavendish bananas exported during the quarter. This figure was slightly lower than the 2016 first quarter banana export value of \$113 million. However, coconut crude oil, another top regional export, recorded the biggest jump in export value, with \$94.9 million worth of exports in Q1 2017 compared with only \$7.8 million in Q1 2016. This jump in exports represents over more than a ten-fold increase, further maintaining Davao Region's rank as the country's top coconut producer. While coconut production experienced delayed recovery from the dry spells in 2016, as well as coccolisap infestations in some coconut production areas in the Region, exports of coconut oil still surged due to high demand from Europe, especially the Netherlands and Italy, and the United States. Approximately 80 thousand kilos of coconut oil was exported during the quarter. Currently, the Philippines supplies about half of Europe's requirement for coconut oil, which is being used for food and cosmetic applications.

Another top export which saw considerable increase was natural rubber, with exports for the 1st quarter of 2017 reaching US\$20 million, which is a five-fold increase from US\$3.2 million worth of natural rubber exports in the same quarter of the previous year. The considerably higher exports of the commodity stemmed from strong demand from China and Japan, which is used in a variety of industrial applications, including tire manufacturing.

Besides banana and coconut oil, other top exports of the Region for the quarter included pineapples, gold in semi-manufactured form, other fruits, and activated carbon. The Region's top export markets were Japan, the USA, the Netherlands, China and South Korea.

For regional imports, the value increased by 33.8 percent, from US\$318.7 million in Q1 2016 to US\$426.7 million in Q1 2017. The increase was mainly attributed to higher import volumes for medium oils, including kerosene, aviation fuels and lubricating oils; and for light oils, mainly petroleum fuels. For medium oils, a record increase of \$66 million worth of imports was posted for the first quarter of 2017, higher by \$46.2 million from the \$19.8 million imported in Q1 2016. For light oils, imports more than doubled to \$34 million in Q1 2017 from \$16 million in Q1 2016. The higher imports for medium and light oils were likely due to increased vehicle purchases in the Region at the beginning of the year, as well as higher usage of oils for industrial, particularly manufacturing, construction, and energy generation, use.

The region's other top imports included unbleached kraft liner, semi-chemical fluting paper, other coal, semi-milled or wholly-milled rice, urea, tiles, and semi-finished products of iron.

The major sources of Davao Region's imports were China, Indonesia, South Korea, Vietnam, and the USA. The value of imports from China, the Region's biggest source of imports, amounted to US\$132 million in Q1 2017 from \$83 million in Q1 2016.

Davao Region's Economic Growth Drivers

Tourism

Tourist arrivals in Davao Region during the first quarter of 2017 totaled 651,925, a 2 percent decline from the 666,404 tourists recorded in the same quarter in 2016. The domestic travelers reached 611,292, fewer by 10,059 from the 621,351 travelers in Q1 2016. A decrease was likewise noted for foreign travelers, from 39,631 in Q1 2016 to 35,102 in Q1 2017. The bulk of arrivals, for foreign, domestic, and even overseas Filipinos, was recorded for Davao City, taking about 70.4 percent of all tourist arrivals, which was equivalent to 459,104 – an increase by 53 thousand from the 405,576 tourist arrivals in Q1 2016. This increase was likely due to the ASEAN-related activities, such as the ASEAN launching and visit of Japanese Prime Minister Shinzo Abe in Davao City in January 2017, among other tourism activities.

Among the region's provinces, Davao del Norte came in second with tourist arrivals of 104,695, followed by Davao oriental with 39,084, and Compostela Valley with 33,633. Davao del Sur received a lower number of tourist arrivals in Q1 2017 with 15,409, while no arrivals were recorded for Davao Occidental likely as a result of a lack of data being a newly-created province.

Value of tourist receipts for the quarter in reference was at PhP5.867 billion, which was slightly lower by 2 percent from the PhP5.997 billion recorded in Q1 2016.

Agriculture

Crops and Fruits

Palay production in Davao Region for the quarter remained at almost similar levels with 122,458 MT, marginally higher by 1,083 MT from the 121,375 recorded in Q1 2016. Davao del Sur remained the top palay producer in the Region with 51,750 MT, followed by Davao del Norte with 35,846 MT. Davao Oriental and Compostela Valley both produced palay at almost 16 thousand metric tons. As for area harvested, there were approximately 29,2273 hectares where palay was produced during the quarter, with little change from the 30 thousand hectares of area harvested in Q1 2016.

Production of corn grew to 53,305 MT, or 26.5 percent higher than the 42,125 MT of corn produced in Q1 2016. Davao del Sur produced the largest volume of corn in the Region at 25,197 MT, easily outproducing all other provinces which produced below 9,000 metric tons. The main reason for the increase in corn production was the larger area harvested for the crop, from 32,080 hectares in Q1 2016 to 37,417 hectares in Q1 2017.

For other major commercial and priority crops, slight production increases for the quarter were noted for abaca (0.46%), rubber (4.7%), cacao (6.4%), and palm fruit (13%). Coconut production declined slightly by 8.7 percent, while coffee decreased by 3.2 percent. Sugarcane production notably dropped by 53.7 percent, from 239,138 MT in Q1 2016 to 110,325 MT in Q1 2017. The fall in production coincided with the slump in global and domestic prices for sugar, as demand shifted to high fructose corn syrup (HFCS). Commercial use of HFCS is on the upsurge with cheap imports of the sweetener from China, leading to lower prices and production in natural sugar.

Overall production of fruits for the quarter was retained at Q1 2016 levels. The first quarter production level was at 786 thousand MT, or 8 thousand MT higher than in Q1 2016. Banana productions took up 98 percent of total fruit production in the region, and about 37 percent of the total banana production in the country in the first quarter of 2017.

Livestock, Poultry and Fisheries

For swine and cattle, the volume of production reached 39,824 MT and 2,872 MT, respectively, in the first quarter of 2017. These volumes registered growths of 4.2 percent for swine and 1 percent for cattle compared with the volumes in Q1 2016. Consistent demand for these meats in all the Region's provinces during the quarter in review maintained the production levels from Q1 2016.

The same situation describes chicken production at 16,648 MT Q1 2017, posting a marginal difference from the 16,742MT in Q1 2016. Chicken eggs saw a slight production increase by just about 490MT, from 6,294MT in Q1 2016 to 6,784MT in Q1 2017. For fisheries, which includes commercial and municipal fishing, and aquaculture, increased production during the quarter was recorded. Total fisheries production in the region during the quarter rose to 17,940 MT, a 23 percent increase from the 14,569 MT fisheries

production in Q1 2016. Municipal fisheries production recorded the highest increase from 3,658MT in Q1 2016 to 7,569MT in Q1 2017.

The boost in fisheries output was attributed to the overall good weather during the three-month period leading to more frequent fishing trips and higher fish catches. Moreover, the boat distribution program of the Bureau of Fisheries and Aquatic Resources XI to coastal barangays in the Region aided the higher fishery production in the Region.

Other Sectors

Infrastructure Development

For the first quarter of 2017, a total of 63 projects worth PhP3.6 billion were completed by the DPWH XI. Of the 63 projects, 26 were directly managed by the DPWH Regional Office XI, 1 project by the Compostella Valley District Engineering Office (DEO), 9 projects by the Davao del Norte DEO, 6 projects by the Davao del Sur DEO, 7 projects by the Davao Occidental DEO, 4 projects by the 1st and 2nd DEO of Davao Oriental, and 10 projects by the 1st and 2nd DEO of Davao City. Majority of the infrastructure works were road upgrading and widening, while there were also constructions of bridges and drainage systems, among others.

For local infrastructure development, specifically for Davao City, a total of PhP85.7 million worth of local projects were completed in Q1 2017. There were 4 major local projects for the 1st congressional district, and 2 projects each for the 2nd and 3rd congressional districts of Davao City. Among the projects included the construction of a two-storey school building for the Davao City Special School, a two-storey multi-purpose building at the Davao City recreation center, and concreting and construction of various city and other local roads.

Security Management

The Region's crime solution efficiency (CSE) rate for the quarter was at 70.51 percent, which exhibited a minor upward movement from Q1 2016's 69.41 percent. Improvements in CSE for the quarter were recorded for the provinces of Davao del Sur (52.2%), Davao del Norte (76%), Davao Oriental (65.5 %) and Davao Occidental (50%). Compostela Valley's CSE slightly decreased to 47.15 percent in Q1 2017 from 50 percent in Q1 2016. For Davao City, its CSE was virtually the same in Q1 2016 at 82 percent.

A notable decrease was recorded for crime volume from 9,902 crimes in Q1 2016 to 5,926 crimes in Q1 2017, or a 40 percent reduction in crimes, both for index and non-index crimes. For index crimes, a 25 percent decrease in crimes against persons was recorded for Q1 2017, while a 40 percent decline was recorded for crimes against property. For non-index crimes, there was a reduction of 28 percent for reckless imprudence, 46 percent for violation of special laws, and 47 percent for violation of other laws.

The decrease in crimes were attributed to frequent dispatches of mobile patrols in crime-prone areas to deter perpetrators from committing crimes, increased police visibility in places where people converge, especially during peak hours, intensified campaign against illegal drugs, and effective police interventions and information dissemination of Police Community Relation personnel.

Development Prospects

Several multinational and local business process management (BPM) companies are interested to expand their businesses not only in Davao City but also in major cities of the Region. For instance, Gazmen eBusiness Solutions launched a telemarketing contact office in Tagum City in March of this year.

Other foreign investors from Japan, China and the Netherlands are also interested to invest in the power generation, financial intermediary, and car parts manufacturing sectors. The upward trend of foreign investment is expected to continue with the election of former Davao City Mayor Rodrigo R. Duterte as President of the Philippines. His pronouncement about amending the 60-40 constitutional limitation on foreign ownership of businesses is expected to attract more foreign investments.

On agriculture, around 1,000 stakeholders from the multi-billion peso cacao industry is expected to converge in Davao City for the three-day Asia-Pacific Cocoa Conference: Kakao Konek 3 on September 15-17, 2017. The cacao conference is aimed at boosting the local cacao industry in the global value chain. The event will be attended by buyers, traders, and farmers from the Asia-Pacific region, US, and European countries. Aside from cacao, the coffee industry is also given priority for further development. The coffee industry was added to the preferred industries of Davao Region. Particularly, the Regional Development Council XI recognizes the potential of the coffee industry for production growth not only for local consumption but also for export in international markets. At present, Davao Region only ranks second to Sultan Kudarat in coffee production in Mindanao.

On tourism, tourist arrivals in Davao Region is expected to grow with more people showing interest in the roots of President Duterte. To accommodate the demand, DOT XI has conceptualized packages that would cater to the growing number of visitors. The tour, dubbed as *Dutertour*, includes the president's life story, political highlights, policies, key projects, residence and even his favorite eatery in Davao City. There are also plans to tag this tour with other existing packages to key tourist attractions in the Region in order to spill-over tourist growth to other cities and provinces and maximize the tourists' experience. In addition, the tourism sector also expects a growing number of spectators to the Region's major festivals. For instance, the Kadayawan Festival, which is celebrated in August, is expected to attract around 150,000 visitors this year.

Lastly, economic growth in the Region is expected to heighten due to the strong economic policies of the Duterte Administration. The 0-10 point economic agenda of President

Duterte, which puts emphasis on the acceleration of infrastructure, foreign investment, agricultural development, job generation, and tax reforms, is expected to stimulate further economic development.

SOCIOECONOMIC INDICATORS
1st Quarter 2017 vis-à-vis 1st Quarter 2016

ANNEX 1

INDICATOR	2017 Q1	2016 Q1	Increase/ (Decrease), (%)
A. INFLATION RATE (in percent)	3.8	2.7	1.1 ppts
B. EMPLOYMENT (January 2017 labor force survey)			<i>in percentage points, except labor force</i>
1. Employment Rate (%)	94.1%	94.9%	(0.8) ppts
2. Unemployment Rate (%)	5.9%	5.1%	0.8 ppts
3. Underemployment Rate (%)	14.6%	20.10%	(5.5) ppts
4. Labor force	2,106,000	2,051,000	2.68%
C. NEW INVESTMENTS (in Php)			
1. BOI-Registered Project Cost b/	3,948,000,000	938,593,000	320%
2. Value of Private Bldg. Construction a/			
2.1 Residential	1,538,131,000	2,294,719,000	(32.9%)
2.2 Non-Residential (commercial and industrial)	2,165,867,000	1,284,030,000	68%
2.4 Total Value of Private Building Construction	3,863,873,000	3,734,614,000	3.46%
D. FOREIGN TRADE			
1. Exports (in US\$)	363,566,091	216,917,755	67.6 %
1.1 Top Exports (in US\$)			
1.1.1 Banana, including plantains, fresh or dried	104,079,207	113,907,408	(8.6%)
1.1.2 Coconut (copra); crude oil	94,809,659	7,833,770	1,110%
1.1.3 Pineapples, fresh or dried	28,989,808	31,245,846	(7.2)
1.1.4 Gold (including gold plated with platinum) in other semi-manufactured forms	22,619,384	16,760,884	34.9%
1.1.5 Natural rubber	20,181,156	3,262,851	518%
2. Imports (in US\$)	426,780,009	318,759,222	33.8%
2.1 Top Imports (in US\$)			
2.1.1 Medium Oils (lamp kerosene, aviation turbine fuel, lubricating oils, etc.)	66,011,460	19,869,142	232%

INDICATOR	2017 Q1	2016 Q1	Increase/ (Decrease), (%)
2.1.2 Light oils and preparations (motor spirit, premium leaded, unleaded, regular)	34,167,650	16,186,968	111%
2.1.3 Unbleached kraftliner	15,847,148	11,264,611	40%
2.1.4 Semi-chemical fluting paper	15,299,923	14,715,967	3.9%
2.1.5 Other coal; other than anthracite and bituminous coal	13,285,548	15,024,297	(11.5)
E. TOURISM			
1. Domestic Travelers	611,292	621,351	1.61%
2. Foreign Travelers	35,102	39,634	(11.43%)
3. Overseas Filipinos	5,531	5,419	2.06%
4. Total Volume of Tourist Arrivals	651,925	666,404	(2.17%)
5. Total Receipts (in Php)	5,867,325,000	5,997,636,000	2.17%
F. PRODUCTION (in MT)			
1. Palay	122,458	121,375	(7.92%)
2. Corn	53,305	42,125	(6.08%)
3. Banana	775,210.14	767,963.10	0.94
4. Mango	2,612.23	2,688.23	(2.83%)
5. Pineapple	6,575.24	6,483.50	1.41%
6. Durian	4,996.50	4,307.76	15.9%
7. Coconut	450,104.54	489,589.22	(8.06%)
8. Abaca	1,739.47	1,747.55	0.46%
9. Coffee	2,672.53	2,587.14	(3.20%)
10. Rubber	1,805.22	1,724.24	4.70
11. Sugarcane	110,325.55	239,138.52	(53.87%)
12. Cacao	1,106.02	1,039.41	6.41%
13. Pork	39,824	38,215	4.2%
14. Beef	2,872	2,841	1.09%

INDICATOR	2017 Q1	2016 Q1	Increase/ (Decrease), (%)
15. Chicken	16,648	16,742	(0.5%)
16. Fisheries	17,940.69	14,569.60	23.13%
G. Security Management			
1. Crime Solution Efficiency Rate	70.51%	69.41%	1.1 pts
2. Total Crime Volume	5,926	9,902	(40%)