



National Economic and Development Authority

Region XI, Davao City

NEDA Regional Office XI | NEDA-RDC XI Center | Km. 7, Bangkal, Davao City 8000
Tels. +63 (82) 296-0160 to 64 | e-mail: nedaroxi@nedaxi.net

2nd Quarter (Q2) 2017 Regional Economic Situationer

The CY 2017 Second 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.

Prices and Inflation

Price movements of basic commodities in Davao Region posted an average of 2.9 percent in second quarter of 2017, 0.3 percentage point lower than the level recorded in same quarter in 2016. The slight decrease in the regional inflation could be attributed to higher inflation rates of electricity, gas and other fuels and water supply services. The purchasing power of the peso was 0.63.

By commodity group, inflation decelerated for 7 commodities, while 4 commodities experienced higher prices during the quarter. Food and non-alcoholic beverages posted a 2.5 percent inflation rate, lower by 1.1 ppt from the same quarter of 2016, while clothing and footwear saw a 1.4 ppt decreased in inflation, from 6.2 percent in Q2 2016 to 4.8 percent in Q2 2017. Inflation rate for furnishings and household equipment was at 2.6 percent, lower by 1.7 ppt from the 4.3 percent inflation rate in Q2 2016. For recreation and culture, a lower inflation rate of 1.5 percent was recorded for the quarter, lower by 1 ppt from Q2 2016, while prices for education changed very little with an inflation rate of 2.6 percent, just 0.2 ppt lower from its inflation rate in Q2 2016. Restaurant, miscellaneous goods and services had an inflation rate of 4.2 percent during the quarter, lower by 2.1 ppt from the rate in Q2 2016.

The biggest drop in inflation rate was for alcoholic beverages at 4.8 percent, which is a reduction of 3.1 ppt from the 7.9 percent inflation rate recorded in the same quarter in 2016. The lower inflation rate in alcoholic beverages and tobacco may be attributed to lower demand of these products, amidst regulations on smoking and drinking.

On the other hand, mark ups in prices were observed for 5 commodities. Inflation rate for housing, water, electricity, gas and other fuels climbed to 5.9 percent, higher by 2.7 ppt from the 3.2 percent rate in Q2 2016. The main driver of the higher inflation rate is attributed to energy costs, which continued to rise during the second quarter due to supply constraints and higher electricity generation costs. Global oil prices declined due to weak demand for imported oil from the United States and global oil surplus. The price

movements in petroleum and other fuels directly affected price movements in transport services, which posted an inflation rate of 3.2 percent during the quarter, higher by 2.1 ppt from its rate in Q2 2016. Other commodities that recorded higher, but marginal prices during the quarter include health at 4.4 percent, lower by 0.2 ppt from its Q2 2016 rate, and communication at 1.25 percent inflation rate, which is a 0.9 ppt lower from the rate in the same quarter in 2016..

Overall, the 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 improved based on the April 2017 round of the Labor Force Survey. The employment rate rose to 95.1 percent, 0.4 percentage point higher than the 94.7 percent employment rate in the same quarter the previous year. Consequently, unemployment rate declined to 4.9 percent, 0.4 percentage point lower than the 6.0 unemployment rate in the same quarter in 2016.

The services sector, particularly in retail and trade, as well as services, especially in manufacturing and construction, continue to generate a large chunk of employment opportunities, as well as absorb a considerable number of job seekers. The massive activities in construction and real estate have provided a reliable source of jobs in 2017.

The labor force participation rate increased, from 62.0 percent in Q2 2016 to 64 percent in Q2 2017, with the increase partly due to the regular movement of young people from school to the job markets. This movement increased the total labor force of Davao Region from 2.071 million in the second quarter of 2016 to 2.197 million in the second quarter of 2017.

However, the Region's underemployment slightly increased to 17.3 percent, which is higher by 0.7 percentage point from the same quarter in the previous year. This means that during the quarter there is an increase of employed persons seeking more working hours, as well as work with better remuneration.

As a continuing program of the government to increase employment in the Region, the Department of Labor and Employment conducted 9 Job Fairs during the second quarter of 2017. The job fairs assisted over 5,300 job applicants during the quarter.

Investments

BOI project commitments for the second quarter of 2017 amounted to PhP 1.377 billion, and is expected to generate more than 7,000 jobs. Three of the four projects are under real estate activities, with Filinvest Land Inc., pouring in PhP 567 million. Another real estate developer, GCW9 Land Inc., will be investing PhP 359 million on for an economic and low-cost housing project in Davao City. In agriculture, SL Agritech Corp. is investing in palay production in Matanao, Davao del Sur with an investment of PhP 450 million. As in previous quarters, investments in real estate have been on the uptrend due to the growing population of Davao City, where demand for housing is soaring. Investments from the 1st and 2nd quarters of 2017 bring total investment inflows to PhP 5.35 billion.

The total value of private building construction grew by 29 percent, from PhP 3.76 billion in Q2 2016 to PhP4.5 billion in Q2 2017. The more substantial growth under this sector was in non-residential construction, which significantly grew to PhP2.93 billion in Q2 2017, 72 percent higher than PhP1.70 billion recorded in the same quarter in 2016. The upbeat investment in commercial construction could partly be attributed to the government's promotion of industrialization in Davao City and other cities of Davao Region. Davao City is also one of the most competitive cities in the country, allowing investors an easy entry into the growing consumer base of Davao.

As for Davao City, the City Business Bureau issued business permits to 6,467 businesses during the second quarter of 2017, which is a 13.5 percent increase from the 6,129 businesses in the same quarter in 2016. 10 new major business establishments during the second quarter with total investments amounting to PhP392.1 million. These major investments were in real estate, retail and merchandise, shipping services, finance and insurance, and general engineering and construction.

Tourism

Partial report from the Department of Tourism XI recorded the total volume of tourists for the second quarter of 2017 at 591,094 tourists, which is fewer by 240 thousand tourists from data of the same quarter in 2016. Bulk of the tourist arrivals are in Davao City, with 80 percent or 473,735 tourists. This is followed by Davao del Norte with 68 thousand, and Davao Oriental at 31 thousand. Davao del Sur took in 11,814 tourists, while Compostela Valley recorded 5,475 tourist arrivals. No data is available from Davao Occidental.

Of the total volume of tourist arrivals, 543,692 were domestic travelers, while 35,321 were foreign travelers, and 12,081 were overseas Filipinos. Volume of domestic travelers experienced a decline of 30 percent in Q2 2017 as compared with the same quarter in 2016. a 13 percent decline was also recorded for foreign travelers. However, the volume of overseas Filipino arrivals in the Region increased by 105 percent during the quarter.

For value of tourist arrivals, the second quarter of 2017 recorded total receipts of PhP5.319 billion, which is lower by PhP2.1 billion from the same quarter a year ago. The second quarter 2017 tourism data, however is a partial report. The lower figures in tourist arrivals and receipts is due to incomplete submissions from concerned LGUs. However,

declines may be attributed to the declaration of Martial Law in Mindanao, prompting issuance of several travel warning advisories by embassies that discouraged travel to Mindanao. The reason may be linked to the lower tourism performance of the Region, as whole. In fact, after the war in Marawi erupted and Martial Law was implemented, the tourist arrivals in Davao City in June 2017 declined by 17.4 percent, further suggesting that the negative impact on tourism was felt the Region.

Agriculture

Crops and fruits

Palay and corn production increased by 16 percent in the second quarter of 2017, from 64,346MT in Q2 2016 to 74,890MT in Q2 2017. Production of these crops increased in Davao City and all the Region's provinces during the quarter. Higher production volumes of these major crops was attributed to sufficient rainfall, and absence of climatic shocks.

Coconut, coffee, and rubber registered slightly lower production volumes during the quarter, declining by 2.3 percent, 4.57 percent, and 10.3 percent, respectively, during the second quarter of 2017. Cacao, on the other hand, increased its production volumes by 24 percent, from 1,043 MT in Q2 2016 to 1,294 MT in Q2 2017. Higher cacao production is attributable to increased area planted with cacao in Davao City and Compostela Valley to meet growing domestic demand for chocolates.

Fruit production hovered at near similar levels in the second quarter of 2017 as compared with second quarter of 2016. Production levels increased by just 1.21 for banana and 4.9 percent for durian in Q2 2017. However, mango and pineapple production volumes decreased by only 1 percent and 4.6 percent, respectively. In the case of banana production, the strong demand for banana in countries such as Japan, pacified any immediate negative impact of the New People's Army's attacks on companies linked to banana exporting, such as the Lapanday Foods Corp. and the Lorenzo Farms.

Livestock, poultry, and fisheries

Production levels of pork and beef in the second quarter of 2017 stood at almost similar levels as those in same quarter in 2016. For pork, production levels grew less than one percent, from 35,999 MT in Q2 2016 to 36,175 in Q2 2017, while beef production grew at a marginal rate of 3.3 percent, from 6,227 MT in Q2 2016 to 6,433 in Q2 2017. Production of chicken declined by 6.7 percent during the quarter. Slightly higher demand for fish and aquaculture products, raised production levels by 10 percent during the quarter, from 11,073 MT in Q2 2016 to 12,180 in Q2 2017.

The lack of any sharp movements in production levels in agriculture suggests that demand for agricultural products were sustained in the quarter. Moreover, there was no climatic

disruptions during the quarter, which helped production plans of private businesses to stay on course.

Infrastructure Development

For the second quarter of 2017, a total 192 projects worth PhP4.037 billion were completed by the DPWH XI regional and District Engineering Offices (DEOs). Of the 192 projects, 20 are directly managed by the DPWH Regional Office XI with a cost of PhP2.34 billion. Compostella Valley DEO completed 28 projects costing PhP65.2 million, while the Davao del Norte DEO completed 13 projects worth PhP36.8 million.

The District Engineering Office of Davao City completed 21 projects worth PhP167 million, while the Davao Oriental DEO finished 48 projects worth PhP211 million in the second quarter of 2017. In Davao del Sur, 29 projects were completed with total project costs of PhP114 million, while 20 projects worth PhP721.4 million were completed in Davao Occidental during the quarter. The higher proportion of infrastructure investment in Davao Occidental, as compared with other provinces, is due to high infrastructure requirements needed for a newly created province.

The projects of DPWH XI throughout the region included a wide variety of construction projects, from road concreting and widening, to bridge construction and repair, school buildings, drainage systems and canals, among others.

For local infrastructure development, specifically for Davao City, some PhP90 million worth of local projects were completed in Q2 2017. There were 4 major local projects for the 2nd congressional district, and 1 project each for the 1st and 3rd congressional districts of Davao City. Among the projects include the construction of a two storey school building for the Davao City S.I.R. Elementary School, road concreting, and urban greening program projects, such as fabrication and installation of steel railings.

Security Management

The Region's crime solution efficiency (CSE) rate increased to 73.89 percent in the second quarter of 2017, 7.13 percentage points higher from the Q2 2016 CSE rate of 66.76 percent. Among the Region's provinces, only Davao Occidental improved its CSE from 34.7 percent in Q2 2016 to 59.6 percent in Q2 2017. The rest of the provinces recorded lower crimes solution efficiency rates during the second quarter of 2017. Davao City, where bulk of the crimes are recorded, exhibited the highest CSE in the second quarter of 2017 at 90.19 percent, or 15.5 percentage point increase from the same quarter a year ago.

For total crime volume, a decrease was recorded during the quarter, from 8,740 crimes in Q2 2016 to 6,568 in Q2 2017, a 24 percent reduction in crime volume. All of the Region's provinces, and Davao City recorder a lower crime volume during the quarter. In the second

quarter of 2017, 601 fewer crimes was recorded in Davao City, 628 fewer crimes in Davao del Sur, 371 fewer crimes in Davao del Norte, 275 fewer crimes in Compostela Valley, 115 fewer crimes in Davao Oriental, and 181 fewer crimes in Davao Occidental.

While total crime volume decreased, there were still major crime incidents that affected the Region during the quarter. These were mostly NPA attacks on large private companies in Davao City, such as the Lapanday Foods Corp, Macondry Plastic Plant, and the Lorenzo Farms. These were categorized as terror acts. Swift police operations were conducted immediately afterwards to ensure safety of civilians, and arrest perpetrators.

The improvement in crime solution efficiency rates, as well as the comprehensive decline in crime volume during the quarter, were attributed to the following: increased dispatch of mobile patrols in crime prone areas, increased police visibility in public spaces where pedestrian traffic is frequently heavy, intensified campaign against illegal drugs, and effective policy interventions and information dissemination by the Police Community Relations.

Development Outlook

Government infrastructure spending is expected to sustain an upward trajectory in the third quarter of 2017, similar with the rest of the country. A total of 136 infrastructure projects by DPWH XI with an estimated cost of PhP 6 billion are targeted for completion in the third quarter. For Davao City, several investments worth PhP471 million are expected to take off in the following quarter, including hotel expansions, a subdivision project, and an agricultural feeds plant. Further investments in real estate, manufacturing, and other industrial sectors, as well as in services, are also foreseen register gains in the following quarters, especially with the issuance of Executive Order 22, series of 2017, which extends the provision of incentives on capital equipment. Specifically, EO 22 exempts business enterprises from paying duties on imported capital equipment. This shall effectively lower importation and business costs of private companies in the Region and spur investments on priority investment sectors such as agro-processing, logistics, energy, healthcare services, mass housing, and climate change-related projects, among others.

The NEDA Board approval of the Mindanao Railway Project Phase 1 Tagum-Davao-Segment also buoyed business confidence and increased the investment potential of Davao Region. The cost of the Phase 1 project is PhP35.9 billion and will be implemented by the Department of Transportation with completion targeted in 2022. The railway will have three stations in Davao City and five other stations to be located in Tagum, Carmen, Panabo, Sta. Cruz and Digos City. The railway project seeks to facilitate greater connectivity and boost tourism, trade, and overall economic dynamism in Davao Region.

Another development on trade was the much-anticipated launch of the Davao-General Santos-Bitung shipping route in April 2017, wherein President Rodrigo Duterte and Indonesian President Joko Widodo led the unveiling of the new roll-on roll-off trade route

as a milestone achievement in the historic trade relations between the Philippine and Indonesia. The new shipping route is expected to increase trade exchanges in consumer goods and raw materials between the two countries, wherein more Indonesian products will be sold in Philippine supermarkets and vice versa. Moreover, the increased trade through this route is also seen to boost job generation, expand business opportunities, especially for small and medium enterprises in Davao Region, and lower trade costs between the two countries.

For services, ICT and business process outsourcing is forecast to strengthen in 2017 as a new cyberpark is targeted to be opened in the third quarter of 2017. Robinsons Land Inc. will be opening 1.2-hectare cyberpark, which will feature several buildings that will cater to tenants in the ICT and BPO industries, and even financial services. The expansion of Robinson's properties in Davao City is a response to the aggressive demand of IT-based companies for prime real estate in commercial areas in Davao City.

For agriculture, particularly banana, export production capability may dampen in the third quarter of 2017 onwards, due to the massive losses of Lapanday Foods Corp. (LFC), which is a significant player in the banana industry. LFC suffered an estimated PhP2 billion in losses from the NPA-perpetrated attacks on its boxes and plastics factories. Banana exporters may face shortage of materials for their exports products. On a related matter, the Tagum Agricultural Development Co. (TADECO), a major banana producer and exporter is currently facing a legal dispute, with the possibility of the invalidation of a longstanding agreement with the Bureau of Corrections (BuCor) for the use of the latter's 5,308.36 hectares of land for banana farming at the Davao Penal Colony in Panabo City, Davao del Norte. The possible termination of the lease agreement may have a detrimental effect on banana production in the Region, which could lead to lower export performance of this top export commodity.

However, with the war on terrorism in Marawi City and the declaration of Martial Law, the Region's performance in key economic sectors may dampen, especially in tourism and allied industries. While travel warning advisories excluded Davao City, the effect on tourism may still be felt since Davao city is a major point of entry for tourists throughout Mindanao. As an impact of martial law, lower hotel occupancy rates may be expected in the next two quarters and fewer visitors, especially foreign tourists, is anticipated in the third quarter, even with the Kadayawan festival set to be celebrated. According to the Davao City Investment Promotion Office, investor sentiment is still positive, despite the Marawi crisis and Martial Law, given that no investment commitments were cancelled in the second quarter of 2017, nor was there any reports of any investors backing out in Davao City. With limited trade exchanges between Lanao del Sur and Davao Region, it is anticipated that the negative impact will be limited. Besides, the improved peace and public security in Davao Region and in Mindanao may even increase business confidence. In fact, it has been reported that it is "business as usual" in Davao City and Davao Region.

SOCIOECONOMIC INDICATORS
2nd Quarter 2017 vis-à-vis 2nd Quarter 2016

ANNEX 1

| INDICATOR | 2017 Q2 | 2016 Q2 | Increase/ Decrease, (%) |
|--|---------------|---------------|---|
| A. INFLATION RATE (in percent) | 2.9 | 3.2 | (0.3 ppt) |
| B. EMPLOYMENT (April 2017 labor force survey) | | | <i>in percentage points, except labor force</i> |
| 1. Employment Rate (%) | 95.1% | 94.7% | 0.4 ppts |
| 2. Unemployment Rate (%) | 4.9% | 5.3% | (0.4 ppts) |
| 3. Underemployment Rate (%) | 17.3% | 16.6% | 0.7 ppts) |
| 4. Labor force | 2,197,000 | 2,071,000 | 6% |
| C. NEW INVESTMENTS (in Php) | | | |
| 1. BOI-Registered Project Cost | 1,377,470,000 | 5,896,566,000 | (76.6%) |
| 2. Value of Private Bldg. Construction | 4,851,501,000 | 3,761,315,000 | 28% |
| 2.1 Residential | 1,560,863,000 | 1,791,753,000 | (12%) |
| 2.2 Non-Residential (commercial and industrial) | 2,937,951,000 | 1,702,827,000 | 72.5% |
| 2.3 Others (additions, alterations, repairs) | 352,687,000 | 266,736,000 | 32.2% |
| E. TOURISM | | | |
| 1. Domestic Travelers | 543,692 | 785,125 | (30.7%) |
| 2. Foreign Travelers | 35,321 | 40,624 | (13%) |
| 3. Overseas Filipinos | 12,081 | 5,877 | 105% |
| 4. Total Number of Tourist Arrivals | 591,094 | 831,626 | 28.9% |
| 5. Value of Tourist Arrivals (in Php) | 5,319,846,000 | 7,484,634,000 | 28.9% |
| F. PRODUCTION (in MT) | | | |
| 1. Palay | 74,890 | 64,346 | (23.4%) |
| 2. Corn | 23,907 | 36,819 | (13.7%) |
| 3. Banana | 917,230 | 906,293 | 1.21% |
| 4. Mango | 42,030 | 42,428 | (0.94%) |
| 5. Pineapple | 11,256 | 11,803 | (4.64%) |

| INDICATOR | 2017 Q2 | 2016 Q2 | Increase/ Decrease, (%) |
|-----------------------------------|------------|------------|-------------------------------|
| 6. Coconut | 466,655 | 477,957 | (2.3%) |
| 7. Rubber | 2,120 | 2,366 | (10.3%) |
| 8. Durian | 4,274 | 4,071 | 4.9% |
| 9. Coffee | 1,397 | 1,464 | (4.5%) |
| 10. Cacao | 1,294 | 1,043 | 23.8% |
| 11. Hog/Pork | 36,175 | 35,999 | 0.49% |
| 12. Cattle | 6,433 | 6,227 | 3.3% |
| 13. Chicken | 16,354 | 17,537 | (6.4%) |
| 14. Fisheries | 12,180 | 11,073 | 10% |
| J. Public Security | | | |
| 1. Crime Solution Efficiency Rate | 73.8% | 66.7% | (0.57 pts) |
| 2. Total Crime Volume | 6,568 | 8,740 | (26.6%) |