



National Economic and Development Authority

Region XI, Davao City

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3rd Quarter (Q3) 2017 Regional Economic Situationer

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

Macroeconomic Performance

Prices and Inflation

The inflation of basic commodities in Davao Region posted an average of 3.4 percent in Q3 2017, retaining the level recorded during the same quarter in 2016. The relatively steady overall inflation rate reflects the downward price movements in 7 out of 11 commodities being monitored in the CPI. The purchasing power of the peso was 0.63¹.

The average inflation rate of food and non-alcoholic beverages slid to 2.5 percent, lower by 1 percentage point than Q3 2016's food inflation rate of 3.5 percent. The downtrend was brought about by lower prices registered for rice, breads and cereals, milk and eggs, fruits and vegetables, sugar and confectionery, and other food products. On the other hand, higher prices were posted for meat, fish and oils during the quarter. For alcoholic beverages and tobacco, the inflation rate stood at 4.2 percent, which was lower by 4 percentage points from the rate recorded in Q3 2016. This further reflects the dampened demand, particularly for cigarettes, since smoking is banned in public spaces.

Other commodities with lower inflation rates during the quarter were clothing and footwear at 4.5 percent, health services at 4.3 percent, furnishings, household equipment and routine maintenance at 2.3 percent, restaurant and miscellaneous goods and services at 1.6 percent, and recreation and culture at 1.5 percent. Lower prices for these commodities are traceable to lower costs of raw materials, supplies, and services for production during the last several months. On the other hand, commodities with higher inflation rates compared with the previous reference period were housing, water, electricity, and gas, transport, communication, and education. Housing, water, electricity, and gas posted a 6.9 percent growth, higher by 4.3 ppt from the same quarter a year ago. The higher inflation rate for this commodity was mainly driven by price increases in gas and other fuels. Transport, which is

¹ Base Year: 2006

affected by price movements in gas and fuels, posted a 3.6 percent inflation rate, higher by 2.7 ppt from the Q3 2016 rate. Marginal rate increases were also recorded for communication and education during the quarter.

The regional average inflation rate for the period was still very much within the target range of 3 percent for the country, 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 experienced slight downturns based on the July 2017 round of the *Labor Force Survey*. The employment rate stood at 95.3 percent, 0.4 percentage point lower than the 95.7 percent employment rate recorded in the same quarter in 2016. Consequently, unemployment rate increased to 4.7 percent, which was likewise 0.4 percentage point higher than the 4.3 percent rate in July 2016. The Region's total labor force was 2,062,000, including 1,964,000 employed persons, 98,000 unemployed persons, and 346,000 underemployed persons, which translates to an underemployment rate of 17.6 percent, a 1.7 percentage point increase from its July 2016 rate. The labor force participation rate was 59.9 percent, which was lower by just 3.5 percentage points.

Investments

Eleven project commitments were registered with the Board of Investments during the quarter reached PhP 2.29 billion, a 309 percent increase from the PhP559.2 million worth of investment recorded in Q3 2016. The investments made during this quarter were expected to generate 1,605 jobs in the industry sector. The BOI-registered projects covered renewable energy, real estate development, banana export production, and poultry production. Among the large project commitments for the quarter include a PhP763 million economic and low-cost housing project by the 8990 Housing Development Corp., and another PhP412 million economic and low-cost housing project by Primeland Properties Inc. Another major project commitment was a PhP386 million export production investment by the Agrotech Integrated Farms, Inc. These new projects reflect the Region's growing private sector dynamism in both real estate and housing development, as well as agri-business.

Revenue generation

For revenue generation, the Bureau of Internal Revenue Office 19, which covers Davao Region, reported total revenue collections amounting to PhP 4.047 billion, which was PhP119 million pesos lower than the PhP4.23 billion collected during the same quarter of 2016. The bulk of collections came from Davao City at PhP2.8 billion, or 69 percent of the total collection in Region XI.

Davao Region's Economic Growth Drivers

Tourism

Data from the Davao City tourism Office showed that the volume of tourist arrivals for the 3rd quarter of 2017 reached 511,228, a 10 percent increase from the 464,985 tourist arrivals recorded during the same quarter in 2016. Domestic travelers constituted the bulk of tourist arrivals at 468 thousand, followed by 29,282 foreign tourists, and 13,936 *balikbayans*.

The positive performance of the tourism sector in Davao City was credited to the extensive tourism promotions such as the conduct of festivals and events in the city, including the *Kadawayan Festival*, among other MICE events. This, in particular, brought in a total of 185,660 tourist arrivals based on hotel occupancy.

Agriculture

Crops

For major crops, increased production was recorded for palay and corn during the quarter. A 10-percent increase in palay production was recorded for the quarter, from 117,907 MT in Q3 2016 to 132,795 MT. Likewise, corn production rose by 17 percent, from 80,018 MT in Q3 2016 to 93,942 MT in Q3 2017.

Other major industrial and commercial crops, such as cacao and rubber, posted increased production volumes during the quarter. Cacao attained a production volume of 1,577 MT in Q3 2017, a 9.4 percent increase from the output recorded in Q3 2016. The increased cacao production reinforces Davao Region's image as the country's cacao and chocolate capital, producing 80 percent of its total cacao output. For rubber, a slight increase of 3.8 percent was recorded, from 4,111 MT in Q3 2016 to 4,270 MT in Q3 2017. On the other hand, coconut and coffee production posted marginal output declines during the quarter. Coconut production decreased by 2.9 percent, from 472,237 MT in Q3 2016 to 458,351 MT in Q3 2017. Coffee production also decreased by 6.5 percent, from 2,211 MT in Q3 2016 to 2,066 MT in Q3 2017. The decline was caused by the harvests of less berries due to cutting of old and less productive Arabica and Robusta coffee shrubs.

Fruit production posted notable reductions in output volumes during the 3rd quarter of 2017, particularly for durian, lanzones, mangosteen, and rambutan. Durian production decreased by 9.2 percent, from 29,309 MT in Q3 2016 to 26,605 MT in Q3 2017, while lanzones

production decreased by 64.7 percent, from 352 MT in Q3 2016 to 124 MT in Q3 2017. Production volume for mangosteen decreased by 55.7 percent, from 259 Mt in Q3 2016 to 114 MT in Q3 2017, while for rambutan, production volumes fell by 41.5 percent, from 876 MT in Q3 2016 to 511 MT in Q3 2017. The significantly lower output was primarily attributed to the abnormal and excess rainfall, especially during the summer months, causing fruit flowers to fall and preventing fruit maturity. For banana, pineapple, and mango, their production levels increased by a margin of 1 to 3 percent in the 3rd quarter of 2017 as compared with the same quarter a year ago.

Livestock, Poultry and Fisheries

Volume of livestock production, which includes hog (pork) and cattle (beef), increased during the third quarter. Hog production went up by 1.7 percent, from 36,873 MT in Q3 2016 to 37,634 MT in Q3 2017. Cattle production likewise increased to 6,433 MT during the 3rd quarter of 2017, a 3.3 percent increase from the production level recorded in Q3 2016. Poultry production also rose by 2.67 percent in the third quarter of 2017, raising production volume to 17,034 MT in Q3 2017, from 16,590 in Q3 2016.

On the other hand, fisheries production, which includes commercial, municipal fisheries and aquaculture, posted a 22 percent decline during the quarter, from 18,013 MT in Q3 2016 to 13,965 MT in Q3 2017. Commercial fisheries production dropped by 5.4 percent, from 1,018 MT Q3 2016 to 964 MT in Q3 2017. For aquaculture, the volume of production decreased by a large margin of 40.4 percent, from 11,046 MT in Q3 2016 to 6,580 MT in Q3 2017, due to smaller area harvested, particularly in Davao del Sur and Davao Oriental. Moreover, fishery businesses in Davao del Sur, Davao Oriental, and Davao del Norte increased their operations towards municipal fisheries, especially inland municipal fisheries, to evade the negative effects of abnormal rainfall and strong currents experienced during the second and third quarters of 2017.

Micro, Small, and Medium Enterprises

On the promotion of micro, small, and medium enterprises (MSMEs), DTI XI assisted a total of 11,765 MSMEs, a 33-percent increase from the number of MSMEs assisted in Q3 2016. For domestic sales, a total of PhP1.358 billion pesos was generated from DTI-initiated or -assisted events as well as -monitored sales. The bulk of the sales generated was attributed to firm-level monitoring among assisted MSMEs or monitored sales. A total of 29,609 jobs were generated during the period through DTI's assistance to MSMEs, which was 1,309 more jobs than the level recorded in Q3 2016.

Infrastructure Development

For the third quarter of 2017, a total 440 projects worth PhP2.062 billion were completed by the DPWH XI regional and district engineering offices (DEOs). Of the 440 projects, 66 were

directly managed by the Compostella Valley DEO costing PhP416 million, while the Davao del Norte DEO completed 97 projects worth PhP311 million.

The DEO of Davao City completed 114 projects worth PhP499 million, while the Davao Oriental DEOs finished 91 projects worth PhP455 million. In Davao del Sur, 61 projects were completed with a total project cost of PhP317 million, while 10 projects worth PhP14.9 million were completed in Davao Occidental during the quarter. The DPWH XI Regional office directly managed and completed 1 project worth PhP47 million during the quarter.

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

Public Safety and Order

The Region's crime solution efficiency (CSE) rate increased from 70.37 percent in Q3 2016 to 73.63 percent in Q3 2017, slightly up by 2.9 percentage points. Improvements in CSE rates were recorded in the provinces of Davao del Sur, Davao del Norte, and Davao City. Significant reductions were also recorded for total crime volume, with both index and non-index crimes decreasing from 7,899 in Q3 2016 to 5,393 in Q3 2016, which was fewer by 2,496 crimes, or a reduction by 31 percent. The drop in crime volume was recorded in all provinces in the region, as well as Davao City. In Davao City alone, there was almost one thousand fewer crimes committed during the reference period, which was partly attributed to the implementation of the Oplan Integrated Revitalized Operation of Neighborhood-Watch for the Mega City (Iron City), an anti-criminality program of the Davao City Police Office.

For the government's anti-illegal drugs campaign, the Philippine Drug Enforcement Agency XI reported during the quarter that 103 barangays in the Region had been cleared of illegal drugs. The number represented 19 percent of 538 barangays in the region that were classified as drug-affected.

The improvement in crime solution efficiency rates, as well as the comprehensive decline in crime volume during the quarter, were attributed to the increased dispatching of police foot, bike, and combat mobile patrols in crime-prone areas, maximum deployment of police personnel to increase police visibility in public spaces where pedestrian traffic is frequently heavy, intensified campaign against illegal drugs and illegal gambling, effective policy interventions and information dissemination by the Police Community Relations, and regular case review on the PNP-Committee on Legal Action and homicide cases under investigation (HCUI).

Development Prospects

Private sector dynamism in Davao Region remained strong in the third quarter of 2017 and is likely to continue with strong growth derived from higher investments in key economic

sectors in the next months and in 2018. Real estate development, particularly in Davao City, is most promising. Although the joint venture agreement between the City Government of Davao and Mega Harbour Port and Development Inc., known as the Davao Coastline and Port Development Project, was terminated by the Davao City government, there is still a considerable list of investors that plan to or are already investing in Davao City.

Among the upcoming mixed-use commercial real estate development include the Azuela Cove, a 25-hectare property development venture in Lanang by the Ayala Corp and Alcantara Corp., the Davao Park District by Megaworld Corp., the Matina Golf Township, Dusit Thani Hotel, and the Aeon Towers. There will also be 2 big-ticket infrastructure projects to be implemented by DPWH XI in Davao City, the 44-km Davao City Bypass Road that will connect Panabo City and Toril, Davao City, and the Davao City Coastal Road, which will begin from Matina Aplaya to Sta. Ana Pier. Furthermore, there are 487 infrastructure projects throughout the Region, worth approximately PhP 11.7 billion, that are targeted for completion by the DPWH XI in the 4th quarter of 2017. Moreover, a grant for a feasibility study of the proposed 23-kilometer Davao City Expressway was signed between the governments of the Philippines and China.

In the agriculture sector, key development prospects were noted for the cacao and banana industries, among others. During the quarter, Davao Region was hailed as the chocolate capital of the Philippines, especially as the Davao Region accounts for 80 percent of cacao production in the country. With this new title, it bodes well for the more than 20,000 farmers who have so far benefited from the opportunities offered by the cacao industry. There are also more than 100 chocolate processors in the Region, and more than 100 cacao nurseries with a combined production capacity of more than 10 million seedlings, and 10 cacao training facilities. The Department of Agriculture is also assisting Davao City and other local government units in the region in cacao production through its *Investment in Rural Enterprise and Agriculture and Fisheries Productivity* program under the Philippine Rural Development Program. For MSME development, six additional *Negosyo Centers* in the region will be launched, while an additional three shared service facility will be established in the fourth quarter of 2017. Moreover, through the DTI XI's brand equity development program, 15 local brands will be launched in the coming quarter.

For the banana industry, while hit by security threats and cases of economic sabotage, it continues to be a competitive industry, with banana companies strengthening their security units and a proposed Banana Industry Development Act (BIDA) being finalized to strengthen the banana industry in the region and in the Philippines. The legislative proposal aims to create a Banana Industry Development Council (BIDC) that will oversee the affairs of the entire banana industry.

One of the biggest business events during the quarter, the 4th Davao Investment Conference was the most well-attended of the 4 conferences, with more than 580 local and foreign business delegates and investors, resulting to 18 business matching. Some of the companies that showed interest in possible future investments in the city included Energy Development Corporation, Phoenix Petroleum, Anflocor Group of Companies (Tadeco), Hi-Tech Lighting Corporation, Enny's Leather, Regalo Tiles (Indonesia), PT Audie Building

Industry (Indonesia), Oriental Mindoro Investments, Pilipino Banana Growers and Exporters Association, ABC Banana, First Global Data Corporation, TanChong Malaysia Group of Companies, Asian Naturenergy Corporation, and Rejoice Family Foods Corporation. Another investor, Air Asia, also attended the conference and unveiled its newest direct flight route, the Davao-Kuala Lumpur route, during the event.

The continued anti-criminality campaign is expected to remain stringent as Martial Law remains in effect. For the anti-illegal drugs campaign, the PDEA aims to clear at least 30 percent of the 1,162 barangays in Davao Region by yearend, and maintain 100 percent coverage in the next three years.

SOCIOECONOMIC INDICATORS
3rd Quarter 2017 vis-à-vis 3rd Quarter 2016

ANNEX 1

INDICATOR	2017 Q3	2016 Q3	Increase/ Decrease, (%)
A. INFLATION RATE (in percent)	3.4%	3.4%	-
B. EMPLOYMENT (July 2017 survey)			
1. Employment Rate (%)	95.3%	95.7%	(0.4 ppt)
2. Unemployment Rate (%)	4.7%	4.3%	0.4 ppt
3. Underemployment Rate (%)	17.6%	15.9%	0.80 ppt
4. Labor force	2,062,000	2,132,000	(70,000)
5. Labor force participation rate	59.9%	63.4%	(3.5 ppt)
C. INVESTMENTS (in Php)			
1. BOI-Registered Project Commitments b/	2,294,560,000	559,200,000	309%
D. AGRICULTURAL PRODUCTION (in MT) *			
1. Palay	132,795	117,907.00	9.41
2. Corn	93,942	80,018.00	17
3. Banana	918,970	907,500	1.26
4. Mango	5,134	5,069	1.28
5. Pineapple	4,071	3,950	3.07
6. Durian	26,605	29,309	(9.2)
7. Mangosteen	114	259	(55.7)
8. Lanzones	124	352	(64.7)
9. Coconut	458,351	472,237	(15.2)
10. Coffee	2,066	2,211	(6.5)
11. Rubber	4,270	4,111	(3.8)
12. Cacao	1,577	1,441	9.4
13. Hog	37,534	36,873	1.79
14. Cattle	6,433	6,227	3.30

INDICATOR	2017 Q3	2016 Q3	Increase/ Decrease, (%)
15. Chicken	17,034	16,590	2.67
16. Commercial Fisheries	962	1,018	(5.49)
17. Municipal Fisheries	6,423	5,948	7.9
18. Aquaculture Fisheries	6,580	11,046	(40.4)
E. Public Order and Safety			
1. Crime Solution Efficiency Rate	73.6%	70.3%	3.3 pts
2. Total Crime Volume (Index and Non-index)	5,393	7,899	2,506
F. MSME Development			
1. No. of MSMEs Assisted	11,765	8,745	25.6%
2. Domestic Sales Generated	PhP 1.358 Million	PhP 1.142 Million	18.9%
3. Jobs Generated	29,609	28,302	4.6%
G. Revenue Generation			
1. Total Revenue Collections	PhP 4,047,531,625	PhP 4,238,657,480	(4.5%)

Source: PSA XI, PNP XI, Davao City, DTI XI, DPWH XI, BOI-Davao