Philequity Corner (September 3, 2007)
By Joseph L. Ong

We Believe

Last week's market action best summarizes the overwhelming positive response from investors with regard to the 2nd quarter 2007 economic results released last Thursday. The Philippine Stock Exchange Index jumped 3.5 percent on the day of the announcement and 1.4 percent the following day as figures from the National Statistical Coordination Board showed that the Philippine economy grew at its fastest pace in nearly 20 years.

Gross Domestic Product (GDP) grew 7.5 percent in 2nd quarter of 2007 from a revised 7.1 percent growth in 1st quarter 2007, well on track to meet the full year target of 6.1 to 6.7 percent. This propelled the recently battered Philippine Stock Exchange Index to 3,365.29 as of Friday's close, up 4.9 percent week-on-week.

The 7.5 percent GDP growth was greatly appreciated for the following reasons:

1. It affirms the general positive direction of the economy following a long streak of positive quarterly growth. Moreover, this is the first time in nearly 20 years that we have achieved growths above 7 percent, putting our growth a notch higher and into new territory.

GDP Growth Quarterly (%)

Source: NSCB

2. The expansion is broad-based, with strong contribution from the vibrant Services sector which grew 8.4 percent and a revitalized Industry sector which expanded 8 percent. The most notable increases from the Services sector came from Finance (+11.8%), Transportation, Communication & Storage (+9.8%), Private Services (+8.6%) and Trade (+8.4%). Meanwhile, growths in Mining & Quarrying (+33.3%) and Construction (+21%) led the Industry sector.

3. It highlights the positive effects of the fiscal reforms which have brought the country to a new growth phase. The gains from these reforms have provided headroom for the

government to expand spending in infrastructure and social services needed by the poor. As ADB puts it in their 2006 Annual Report, *"The significance of the success with fiscal consolidation goes beyond contributing to macroeconomic stability. It has the potential to be the tipping point that moves the Philippines onto a path of accelerated growth performance in the medium term."*

4. In our previous articles (see "*Economic Growth: Antidote to Poverty*," *The Philippine Star* Aug. 7, 2006 and "*Investing With Social Relevance*", *The Philippine Star* April 23, 2007), we have harped on the need for higher growth rates in order for the economic benefits to trickle down to the poorer segment of our economy. While the effect may not be instantaneous, we believe that our long term objective of a more inclusive growth that will eventually ease poverty is slowly coming into fruition.

No longer the sick man of Asia

The Philippines is no longer the sick man of Asia. With GDP growth of 7.5 percent in the 2nd quarter of 2007, the Philippine economy is now expanding faster than most of its ASEAN counterparts and approaching the pace set by Singapore and Vietnam. More importantly, the Philippines registered the most improved growth rate this year among the Asian countries tabulated below.

Selected Asian Countries (GDP year-on-year Growth)

	2004	2005	2006	1Q07	2Q07
China	10.1	10.4	10.7	11.1	11.6
India	7.5	8.4	9.4	9.1	9.3
Singapore	8.8	6.6	7.9	6.4	8.6
Vietnam	7.8	8.4	8.2	7.7	8.0
Philippines	**6.4**	**4.9**	**5.4**	**7.1**	**7.5**
Hong Kong	8.6	7.5	6.8	5.7	6.9
Indonesia	5.0	5.7	5.5	6.1	6.3
Malaysia	6.8	5.0	5.9	5.5	5.7
Taiwan	6.1	4.0	4.6	4.2	5.1
Korea	4.7	4.2	5.0	4.0	4.9
Thailand	6.3	4.5	5.0	4.3	4.1

Source: ADB, NSCB

Possible Re-rating

Initially spurred by the government's pump-priming efforts, we are confident that the improved infrastructure and social services would accelerate growth and development in more areas of the country. This would then create more opportunities for businesses and employment, increase consumption, encourage private sector investments and eventually improve corporate earnings.

Thus, despite the perennial naysayers, political and external setbacks (particularly the US sub-prime housing crisis), we believe that the current growth pace is sustainable. And given the ability of the Philippines to surprise both on the fiscal front and now on the growth front, we are convinced that a re-rating on the Philippines and its stock market is not far-fetched.

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