



Global Recession Impact News (GRIN) and Positioning for the Rebound

Acting Secretary Augusto B. Santos
National Economic and Development Authority

September 8, 2009

GLOBAL DEVELOPMENTS

OECD economies stop contracting

Quarterly GDP Volume Growth
Percentage change on the previous quarter

	2007			2008				2009	
	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
OECD-Total	0.6	0.7	0.6	0.5	-0.1	-0.5	-1.9	-2.1	0.0
European Union	0.5	0.6	0.5	0.7	-0.2	-0.4	-1.8	-2.4	-0.3
Euro area	0.4	0.6	0.4	0.7	-0.3	-0.4	-1.8	-2.5	-0.1
Major seven	0.5	0.6	0.4	0.3	-0.1	-0.6	-1.9	-2.1	-0.1
Canada*	1.0	0.5	0.3	-0.2	0.1	0.1	-0.9	-1.4	..
France	0.4	0.7	0.3	0.5	-0.5	-0.2	-1.4	-1.3	0.3
Germany	0.3	0.8	0.1	1.6	-0.6	-0.3	-2.4	-3.5	0.3
Italy	0.1	0.2	-0.4	0.5	-0.6	-0.8	-2.1	-2.7	-0.5
Japan	-0.2	-0.1	0.8	1.0	-1.1	-1.0	-3.5	-3.1	0.9
United Kingdom	0.6	0.5	0.5	0.8	-0.1	-0.7	-1.8	-2.4	-0.8
United States	0.8	0.9	0.5	-0.2	0.4	-0.7	-1.4	-1.6	-0.3

Source: OECD

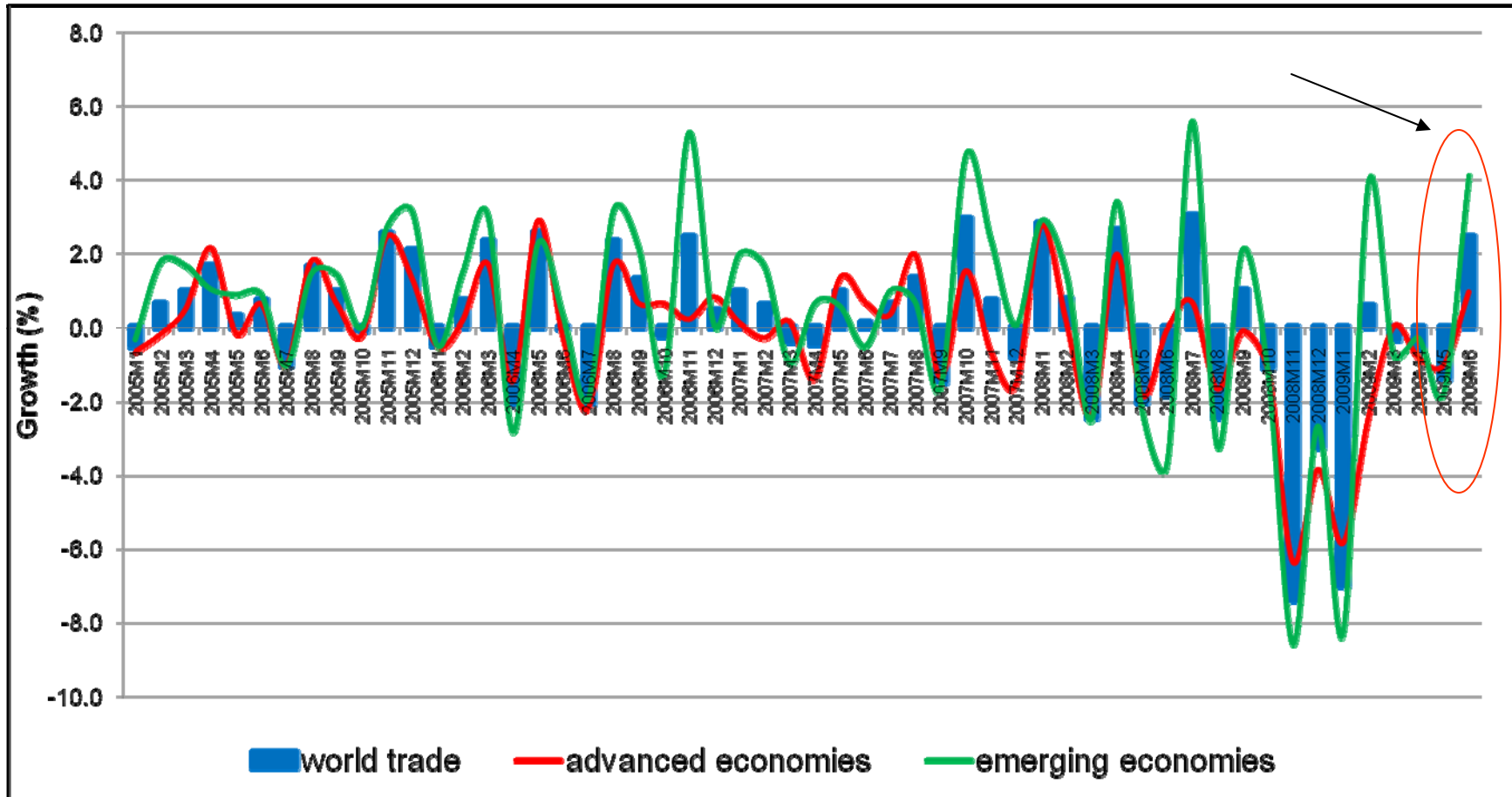
Latin America leaving the recession

- Quarterly survey shows sign of recovery
- Expectations index strongly positive for almost all countries
- Particularly benefited are exporters due to restocking in China, especially of iron ore



World trade picking up

2.5% gain in June biggest in a year



Source: Netherlands Bureau for Economic Policy Analysis

Will the global recession end soon?

Two sides of the argument

BULLISH SIDE

- World trade picks up steam
- US seen to rebound by Q3
- OECD's 0 growth in Q2 after -2.1 in Q1
- Recovery begins in Latin America
- Japan posts first growth after 5 quarters
- Momentum in China and India
- In Middle East, Syria and Egypt still growing

Will the global recession end soon?

Two sides of the argument

BEARISH SIDE

- Unemployment still rising; will constrict spending
- Collapse of asset prices has hit the middle class
- Financial system still severely damaged
- Firms weakened by debt
- Crowding out of private spending
- Risk of oil price hikes
- Perhaps a W-shaped recession

Our view on the recession debate

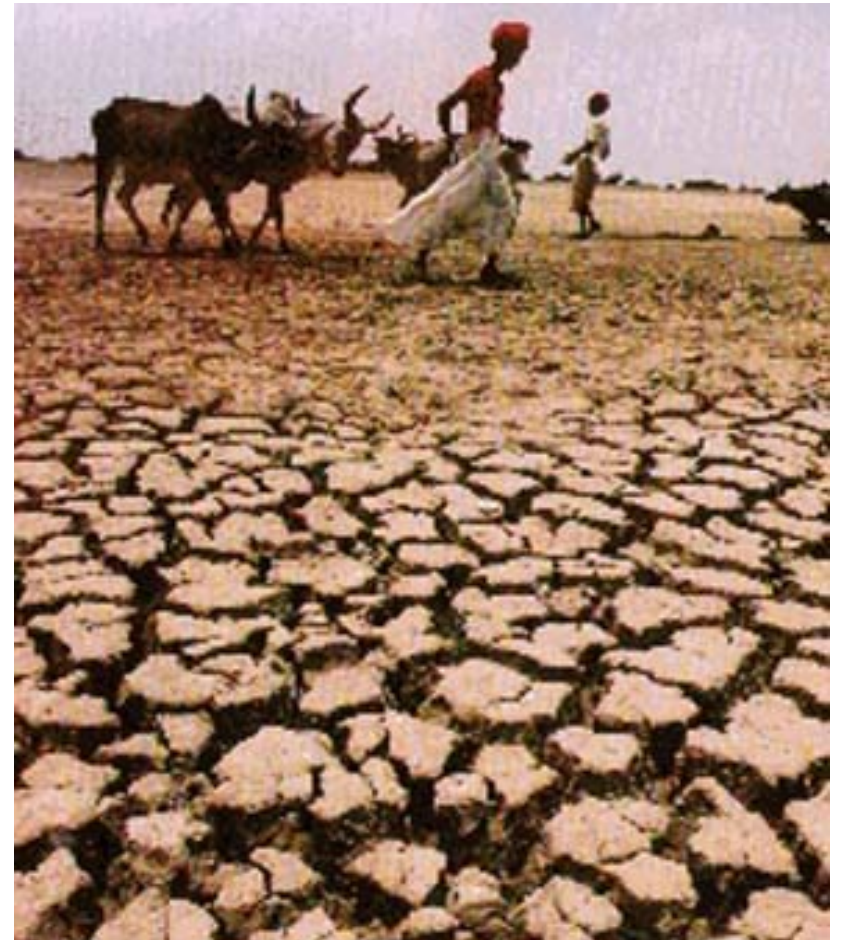
- Two correct statements: (1) the crisis is not over; (2) the worst is over
- World economy in 2010 will truly be an improvement over 2009, but not a huge rebound
- Tepid growth for the Philippine economy of 2.6% to 3.6% in 2010
- We may slash the stimulus, but don't end it yet
- Maintain social protection measures

Drought hits Kenya corn crop

- 3-4 consecutive failed rainy seasons
- Complicated by high fertilizer prices and lingering effects of post-election violence last year
- \$230 million emergency food aid for 3.8 million Kenyans
- UN World Food Program seeks additional aid
- Option to explore: RP could export, even donate, some corn to Kenya, and thus help raise corn prices here

Drought worsens: affects nearly half of India

- 40% of 600 districts affected by drought
- Monsoon season brought 29% less rainfall than normal
- 20 farmers commit suicide
- Rice production could decline by 10%



UN FAO calls for irrigation to avert future food crisis in Asia

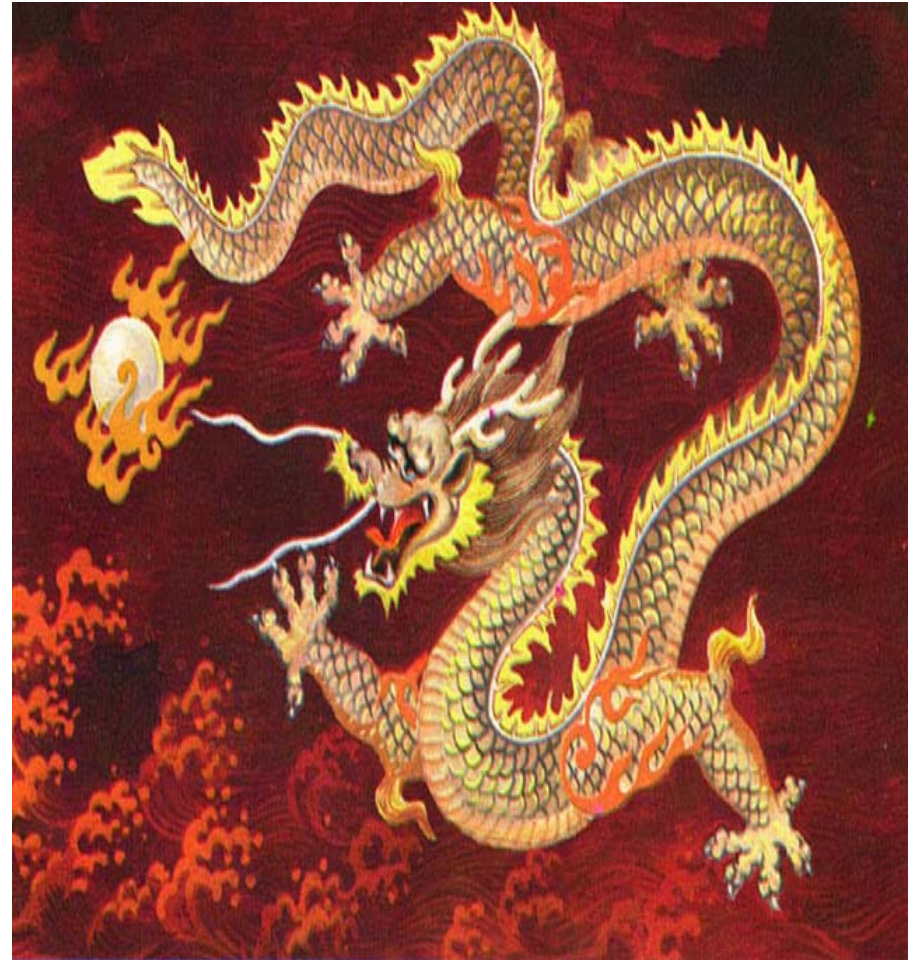
- Demand for food to double by 2050
- Increasingly unpredictable climate
- Water supplies stretched to the limit
- Existing irrigation systems are antiquated:
50-70 years old

UN greatly underestimated cost of global warming, claims study

- British experts say UNFCCC underestimated the annual cost of climate change adaptation: could be 2 or 3 times more
- Adaptation measures include: new flood defenses, transporting water for agriculture, the treatment of an increased range & severity of diseases, replacing buildings and infra affected by rising water levels

China to promote development of low-carbon economy

- Development plans to include boosting green and low-carbon investments
- China reiterates its global role as established by UN Framework Convention on Climate Change (UNFCCC)



LOCAL DEVELOPMENTS

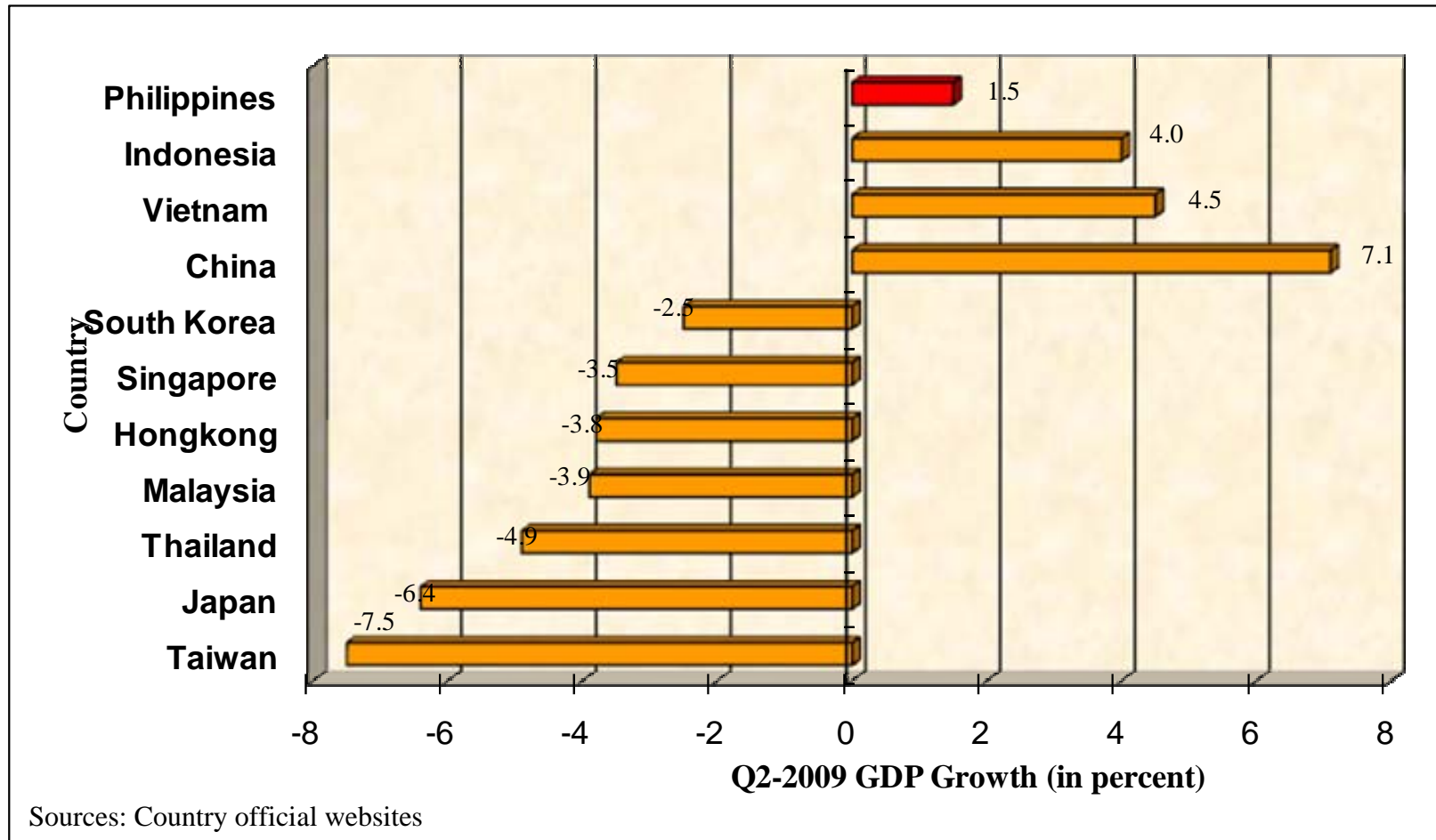
GDP grew by 1.5% in Q2 2009

Year-on-year Growth Rate (in %)

Economic Indicator	2008				2009		1st Semester	
	Q1	Q2	Q3	Q4	Q1	Q2	2008	2009
GNP	6.4	5.3	6.2	6.7	3.1	4.4	5.8	3.8
GDP	3.9	4.2	4.6	2.9	0.6	1.5	4.0	1.0
NFIA	36.2	15.8	22.6	51.2	25.8	29.7	24.5	27.8

Source: NSCB

Philippine growth is respectable



Growth driven by Agri & Services

Year-on-year Growth Rate (in %)

Sector	FY	2nd Quarter		1st Semester	
	2008	2008	2009	2008	2009
GNP	6.2	5.3	4.4	5.8	3.8
GDP	3.8	4.2	1.5	4.0	1.0
NFIA	30.8	15.8	29.7	24.5	27.8
Agriculture, Fishery and Forestry	3.2	4.9	0.3	3.8	1.3
Industry	5.0	4.0	-0.3	3.4	-1.3
Services	3.3	4.0	3.1	4.6	2.5 ¹⁷

Source: NSCB

Industry dragged by manufacturing

Year-on-year Growth Rate (in %)

Sector	FY	2nd Quarter		1st Sem	
	2008	2008	2009	2008	2009
Industry	5.0	4.0	-0.3	3.4	-1.3
Mining & Quarrying	1.9	-13.7	21.4	-3.2	20.5
Manufacturing	4.3	6.1	-7.2	4.3	-7.4
Construction	7.8	2.3	16.9	-0.4	15.8
Electricity, Gas & Water	7.3	6.6	2.9	7.9	1.8

Source: MSCG

Services expanded modestly

Year-on-year Growth Rate (in %)

Sector	FY	2nd Quarter		1st Sem	
	2008	2008	2009	2008	2009
Services	3.3	4.0	3.1	4.6	2.5
TCS	4.2	3.9	1.7	4.7	3.6
Trade	1.2	2.8	3.0	2.0	1.8
Finance	2.5	1.0	1.8	6.5	1.5
ODRE	5.7	7.5	3.4	7.3	2.1
Private Services	4.9	6.0	2.8	5.9	2.7
Govt Services	5.5	5.3	7.7	5.2	4.5

Source: NSCB

Demand side: strong growth in government consumption

Year-on-year Growth Rate (in %)

Item	FY	2nd Quarter		1st Sem	
	2008	2008	2009	2008	2009
Private Consumption	4.7	4.1	2.2	4.6	1.8
Govt. Consumption	3.2	0.0	9.1	-0.1	7.0
Capital Formation	1.7	13.6	-9.8	5.7	-12.4
Exports	-1.9	6.1	-16.0	-0.4	-15.4
Imports	2.4	0.0	-2.7	-1.3	-11.3

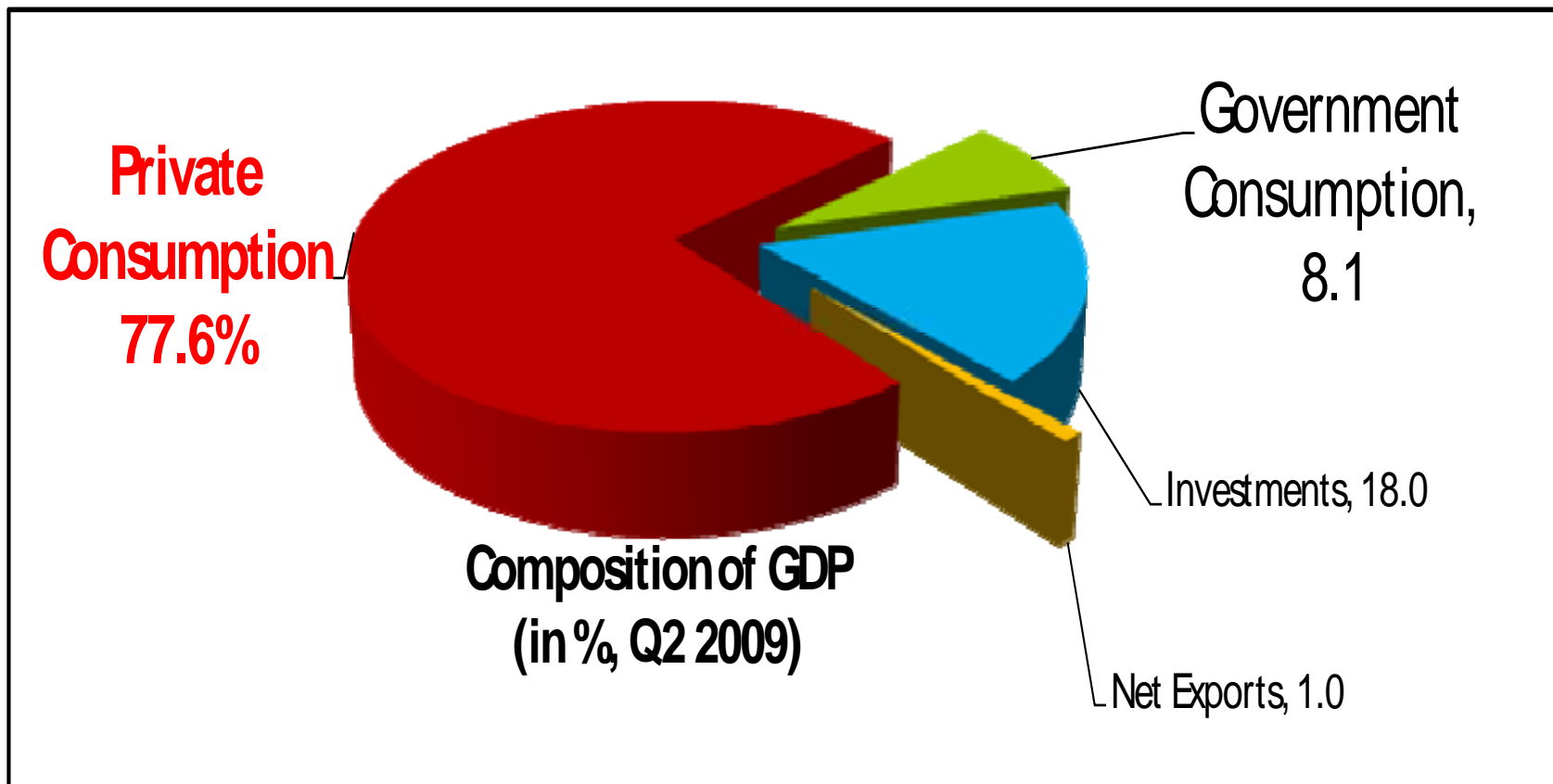
Source: NSCB

Economic Resiliency Plan worked

- GDP Q2 year-on-year growth of 1.5%, quarter-on-quarter growth of 2.4%
- Public construction up by 29.9%
- Government consumption up by 9.1%
- Unemployment feared to rise due to the crisis. It actually **fell** due to CLEEP: from 8.0% in April 2008 to 7.5% in April 2009
- OF remittances still defy gravity

To sustain growth, must boost consumer confidence

$$\text{GDP} = \text{C} + \text{I} + \text{G} + (\text{X} - \text{M})$$



Address the “fear factor” to fuel private consumption

- Pre-crisis private consumption growth of 4 to 6 percent. 2009 Q2: only 2.2 percent.
- Spending held back by fear due to crisis
- Deliver the message repeatedly: The global crisis is not over, but the worst is over
- Spending on advertising is a tiny cost compared to the usual infrastructure pump-priming

Recommendations

1. Expect tepid growth in 2010 for the world and the Philippines. Hence maintain social protection measures and a (smaller) stimulus package.
2. Explore the option of exporting corn to Kenya
3. Monitor if India's drought will have an impact on global rice prices

Recommendations

4. Irrigation programs should consider the 2050 water shortage scenario and the need to upgrade antiquated facilities.
5. Research on official policies of other countries, like China, to develop their green industries
6. Bolster consumer confidence to boost private consumption – 78 percent of GDP. Deliver the message repeatedly: The global crisis is not over, but the worst is over. Advertise.



THANK YOU