

LOOKING BACK AT THE QUARTER BEHIND

AN ECONOMIC BRIEFER FOR CAGAYAN VALLEY IN 3RD QUARTER, 2009

The region's momentum gains were maintained in the 3rd quarter of 2009 with important economic areas in a better level vis-à-vis the 3rd Quarter of 2008, despite some weather disturbances and floods limiting some economic activities in the quarter. With over 50% of regional income hinged on the agriculture sector in 2008, the region's economy still finds its strength in its agricultural produce in 2009. Though, there was decrease in the production of Palay due to its vulnerability to weather disturbances, other crops such as corn, and some high-value commercial crops in general, livestock and poultry and fisheries pulled the performance of the agriculture at a better standing as compared to last year's. Aside from agriculture, the region also found strength in its tourism industry which showed tourist arrivals increasing by 3.57% in the 3rd Quarter vis-à-vis last year's. The promotional activities of local stakeholders and LGUs were important to such development.

In this quarter, financial partners were more supportive for growth and development, encouraging productive and income generating ventures through the provision of loans for different industrial purposes to SMES, LGUs, producers, farmers and fisher folks. However, local investors were somewhat daunted on investing in the region as evinced in the decrease in the amount of investment by sole proprietors through business name and the absence of registrant from Cagayan Valley in the Board of Investments, this quarter. Likewise, investors at CEZA were not optimistic enough on investment returns in the quarter as shown in the drop of capital investments despite the growth in the number of locators at the Cagayan Special Economic Zone and Freeport.

Deemed as possible sources of employment and income, the dull investment climate in the region's investment areas was not that influential over the region's macroeconomic standing. With a workforce predominantly in agriculture, the employment standing of the region was more stable in the quarter as compared to last year. Likewise, the implementation of the comprehensive livelihood employment program (CLEEP) in the region helped stabilize employment in the region amidst slowdown in the investments and birth of enterprises.

The improvement in the region's performance was also seen in the people's buying capacity, with inflation dropping to an average of 1.98% in the quarter. The production gains trickled to a lower index on basic food commodities such as rice, corn, meat, fish and vegetables, among others. Equally important in stabilizing inflation in the region was the government's efforts in encouraging lower fuel/oil rates in response to the drop of fuel/oil prices in the world market, this year.

The following subsections provide a more detailed discussion on the performance of the economic sectors and the factors behind the performances.

More Loans Released for Economic Undertakings

The increase in loans implies an increase in economic activity. This signifies intent of investors to expand or to rebound from loss and that more development projects are to be financed. In the quarter under review, more loans were granted by government financing institutions.

Land Bank of the Philippines

Outstanding loans in the bank increased by 10.35%, from Php4.23 Billion as of September 30, 2008 to Php4.67Billion as of September 30, 2009. While outstanding balance in Batanes and Cagayan decreased by 9.73% (from Php81.07Million as of September 30, 2008) and 2.27% (from Php877.93Million as of September 30, 2008), the outstanding loans in the other provinces of the region increased by an average of 27.7%. The increase in loan portfolio can be attributed to the expansion of credit assistance by accredited cooperatives and rural banks, benefiting small farmers and fisher folks. The province of Isabela continued to hold the biggest share in Outstanding loan balance at 61.80% as of September 30, 2009 with the province leading the region in food and agri-related products , infrastructure development and services.

On the purpose of the bank's outstanding loans in the region, 19.65% were on SMEs at Php917.202Million as of September 30, 2009. The region's figure, however, decreased by 19.24%(from Php1.14Billion as of September 30, 2008) due to partial and full-payment of loans on cut-off date. This, in a way, was a good sign for the region because SMEs were more liquid signifying good returns to investment. Meanwhile, outstanding loans on Small farmers and fisher folks (Php2.189Billion as of September 30, 2009), constituting 46.90% of the total outstanding loans, increased by 28.20% from last year's figure of Php1.707Billion. The increase in outstanding loans was due to the huge loan releases for major economic activities during the period such as to SMES and to farmers/fisherfolks. Likewise, outstanding balance on Livelihood loans increased by 40.52% from Php487.25Million as of September 30, 2008.

Total new loans released for the major economic activities in the region managed to increase by 101.04% from Php858.639 as of September 30, 2008 to Php1.726 Billion this year. This was due to the increase in demand for production and marketing/trading loans. Loans on marketing activities which comprised 60.30% of the production/marketing loans increased by 62.38% from Php641.02 million as of September 30, 2008. On loans released for production purposes, about 24% were on Palay production at Php413.898Million, increasing by 182.96% from Php146.272Million as of September 30, 2008.

Development Bank of the Philippines

The bank refocused on projects with high development impacts. Total Loan released amounted to Php399.15 million in 3rd quarter, 2008, a 115% increase from last year's Php 186 Million. The

increase in loan portfolio was due to the financing and assistance provided on developmental projects especially to LGUs. Loans were also offered to SMEs and those in the private sector to support projects that have high developmental impacts. Loan released in the Bank's Tuguegarao Branch(Php215Million) grew by twelve times as much as the Php17.2 million released in 2008's 3rd Quarter. It also formed 53.89% of the total loans released for the quarter.

Consequently, outstanding loans reached Php1.187Billion as of the end of 3rd quarter, 2009, growing by 16.9% from Php1.017Billion in 2008's 3rd quarter. Specifically, outstanding loans on Small and Medium Enterprises(Php35.5Million in 2009's 3rd quarter), showed a 291% increase from Php9.07 Million in 3rd Quarter, 2008. While comprising 31% of the total outstanding loans in 2009's 3rd Quarter, LGU loans (Php368.67Million) decreased by 11.13%, from Php414.8Million in 3rd Quarter, 2008. Meanwhile, from no recorded value in 3rd Quarter, 2008 outstanding loans to government owned and controlled corporations (GOCCs) reached Php30Million in the 3rd quarter of 2009.

Despite the performance of the bank in the quarter under review, much are still to be done for CY 2009 such as close coordination with local development councils to pursue priority projects, spot private entrepreneurs (with the help of NGOs) for MSME financing especially in poor areas, provision of assistance to OTOP which embodies a comprehensive package of assistance through convergence of development services from local government agencies, NGAs and the private sector and support to DOE (Department of Energy) in promoting energy efficiency and encouraging the private sector to actively participate in energy business opportunities, among others.

More Investors but Controlled Investments

Investments in the region are usually perceived as catalysts for growth, enabling increase in employment and production from the basic sectors such as agriculture. It likewise encourages spending especially on the commodities and basic services in the region. While there are new enterprises/locators formed, actual capital poured in the industries, however, decreased. The decrease in investments would amount to a slowdown in the operations of the enterprises or a decline in the clientele served.

CEZA REGISTERED ENTERPRISES

Due to promotional activities and extensive negotiations with possible investors, locators at the Cagayan Special Economic Zone and Freeport was now at 93, showing a 16.25 increase from only 80 locators as of the 3rd Quarter of 2008. Most of the locators were on interactive gaming support services/service providers (43) accounting for 46.24% of the total registered locators as

of the 3rd Quarter of 2009. Out of the 93 locators in the quarter, 53 are operational vis-à-vis 46 which are operational as of the 3rd Quarter of 2008.

Despite the increase in the number of locators, total capital investment decreased by 12.63% from last year's Php4.199Billion. While number of locators on interactive gaming support services increased by 4.9%, total investment on the industry decreased by 37.24%, from Php2.2 Billion as of September 30, 2008 to Php1.39Billion as of the 3rd quarter of 2009. However, the start up of locators on candle, plastic sacks and plastic bags manufacturing, power generation, trading, gaming operations, internet service provider and data center housing, petroleum products and services, LPG Refilling station, logistics and ship bunkering contributed a total capital investment amounting to Php155Million in the 2009.

While there was decrease in capital investment poured at the different enterprises at CEZA, generated jobs managed to increase by 11.71%, from 5,728 in 3rd Quarter, 2008 to a total of 6,399 as of 3rd Quarter, 2009 with 67.69% of the total on interactive gaming support services/service providers (4,332 in 3rd Quarter, 2009). Employment in the industry showed a 6.15% increase, from 4,081 jobs as of 2008's 3rd quarter to 4,332 jobs in the 2009. Likewise, the start-up of new enterprises at CSEZFP such as manufacturing, power generation and LPG refilling station, among others, contributed to the increase in generated jobs.

Business Name Registration

More sole proprietors were registered in the quarter as shown in DTI's business name registration which covers registration of sole proprietorship. Registered firms stood at 1,633, a 2.16% decrease from 2008's 3rd Quarter figure of 1,669 firms. Significant for the quarter was the increase in registration in Nueva Vizcaya(17.01%) and Quirino (137.5%). Likewise, aside from holding 50.9% of the total registration in the quarter, Isabela's registration (831 firms) grew by 2.59% from its figure of 810 firms in 3rd quarter, 2008.

Trading (860 firms) and Services (560) Industries , combining to about 87% of the total registered firms in the quarter, dropped by 9.9% (from 954 firms in 3rd Quarter, 2008) and 1.9% (from 571 firms in 3rd quarter, 2008), respectively during the quarter. Meanwhile, registered firms in manufacturing and agriculture increased by 35.9% and 100%, respectively.

Total investment generated from the region's sole proprietors dropped by 26.96%, from Php700Million in 3rd Quarter, 2008 to only Php511.25Million in 2009's 3rd quarter. While number of registered firms increased in the provinces of Isabela, Nueva Vizcaya and Quirino, total investment generated from the provinces declined by 30.38%, 16.98% and 14.38% respectively in the 3rd quarter of 2009.

Investments in the industries of trading (Php 259Million) and Services (Php162.6 Million) decreased by 35.48% and 28.3%, respectively in the quarter. The increases in investment along manufacturing (6.41%), agri-based production (48.5%) and construction (34.48%), summing to a total share of only 17.36% of the investment generated, were not able to offset the decreases along trading and services.

The decrease in registration led to a 21.76% decrease in employment generated during the quarter, from 4,900 in 3rd quarter, 2008 to 3,834 in the quarter. While decreasing slightly by 0.75%, about 59% of the employment generated through BNR was in Isabela at a figure of 2,257 in the quarter. Of the major industries in the region, most of the employment were in Trading (1,727) and Services (1,343), combining to 80 % of the total employment generated. Employment in these industries, however, declined by a total of 28.8%.

Partnerships and Corporations Under BOI

Based on BOI registered enterprises, no investment in the region was registered for the 3rd Quarter of 2009 vis-à-vis 3 firms registered in 3rd Quarter, 2008, with total project cost amounting to Php 567.17Million and generating a total of 389 jobs. The global recession could have deterred investors to pursue their investment plans in 2009. This then calls for a review of local conditions and intensive promotions to improve the performance.

More Stable Agriculture despite Palay Slowdown

The economy of the region was hinged on agriculture, fishery and forestry, with the sector comprising more than 50% of the regional income (GRDP) in 2008. Though palay production decreased in the quarter, other major crops, livestock and poultry managed to post production increases.

Palay

Palay production in the quarter showed a 27.54% decrease, from 524,206MT in 3rd Quarter, 2008 to 379,857 in 3rd Quarter, 2009. The decrease came primarily from Isabela 's production, which though accounting for 67.9% of the region's total production in 3rd Quarter, 2008, decreased by 44.20% in 3rd Quarter, 2009 (from 356,167MT in 2008's 3rd Quarter). Meanwhile, Cagayan's production managed to post a 15.83% increase, from 98,825MT in 3rd Quarter, 2008 to 114,462MT in 3rd Quarter, 2009.

Production in the region was mostly on irrigated farmlands, accounting for 95.4% of the region's total. Consequently however, the 46.21% gain from the region's rainfed areas was not enough to set-off the 29.34% decrease production incurred on irrigated lands.

The most important factor in production is the vastness of the area harvested. Due to the delay in the cleaning and repair of dikes in the region's irrigated farmlands, the region suffered a 30.79% decrease in area harvested along its irrigated farmlands, from 132,704 hectares in 3rd Quarter, 2008 to only 94,861 hectares, this quarter. With irrigated farms comprising over 96% of the total area harvested in 2008, total area harvested for Palay in the region decreased by 28.52% (from 127,960 hectares in 3rd Quarter, 2008), rendering the increase of 32.74% (from 4,744 hectares in 3rd Quarter, 2008) in rain fed areas negligible. The rain fed areas managed to increase due to sufficient and early onset of rainfall in the quarter under review.

However, Palay productivity in the region increased by 1.26% (from only 3.95MT/Ha in 3rd Quarter, 2008). Defined as the ratio of production over area harvested, the region's productivity figure implies that the region was able to produce an average of 4 metric tons for every hectare of land planted. The improvement in productivity can be attributed to the lesser effects of calamities in the year and that more areas were planted with high-yielding varieties, mostly subsidized seeds. Nueva Vizcaya topped the provinces in terms of productivity at 4.08MT/Ha. However, Cagayan showed the biggest increase during the year at 3.81MT/Ha, growing by 4.67% from last year's figure of 3.64MT/Ha.

Corn

Agricultural production in the region was dominantly into corn (637,322MT), growing by 13.42% from 2008's 3rd Quarter figure of 561,930MT. Producing about 68% of the region's total in 3rd Quarter, 2009, production in Isabela managed to increase by 9.07% from last year's 397,090MT. Other provinces in the region, however, contributed their humble shares in production by growing at an average of 22.92%.

The region's corn produce was more on yellow corn, comprising 96% of the region's total in the quarter and growing by 12.25% from last year's figure of 544,996MT. This forms proof on the region's stature as a corn exporter and top supplier of yellow corn for commercial feeds production. Likewise, production of white corn, which is utilized mainly for food, as a rice substitute for human consumption, increased by 50.87% from last year's 16,934MT.

As the most important input in agricultural production, the area harvested in the quarter dictates the production of the commodity. In the quarter, area harvested increased by 13.42% from 561,930 Hectares in 2008's 3rd Quarter. Specifically, areas for white and yellow corn increased by 15.52% (from 8,735 Hectares in 3rd Quarter, 2008) and 0.99% (from 146,662 Hectares in 3rd Quarter, 2008), respectively. While area harvested in Isabela decreased by 2.5%, area harvested in the other provinces of the region managed to increase by an average of 15.22% in the quarter under review.

The regional corn productivity was posted at 3.95MT/Ha in 3rd Quarter, 2009, increasing by 11.42% from the 2008's 3rd Quarter figure of 3.55MT/Ha. BAS report identified the lesser weather disturbances during the reproductive stage of the corn plants as the main factor in the improvement in corn productivity. The adoption and increase usage of fertilizer by farmers was also a factor in the increase of productivity.

High-Value Commercial Crops

The differences in the nature of these crops against weather disturbances rendered production gains to some while others showed production slowdowns. Among the crops with production gains in the quarter are the following:

- Banana and Calamansi with respective production gains of 7.67 % (from 80,643MT in 3rd Quarter, 2008) and 5.62% (from 2,190MT in 3rd Quarter, 2008). Bigger sizes of fruits were produced as these crops were not so much affected by weather disturbances
- Pineapple and Eggplant with production increases of 24.36% (from 9,230MT in 3rd Quarter, 2008) and 3.69% (from 3,173MT in 3rd Quarter, 2008), respectively due to increase in area planted. Moreover, farmers made use of hybrid varieties of eggplant
- Peanut production with an increase of 4% (from 600MT in 3rd Quarter, 2008) due to sufficient soil moisture during pod development
- Cassava with a 38.47% increase in production (from 4,185MT in 3rd Quarter, 2008) due to the presence of market outlets which encouraged increase in area harvested by farmers.

However, the following crops showed decreases in production during the quarter. Most of them are sensitive to excessive water especially during the early stage of fruit or bulb formation.

- Mango production with a 41.91% decrease (from 618MT in 3rd Quarter, 2008) due to rain showers in the flowering stage
- Mongo with a 10.56% decrease in production (from 303MT in 3rd Quarter, 2008) as some farmers shifted to corn due to the early onset of rainfall
- Cabbage and Onion with decreases of 5.28% (from 322MT in 3rd Quarter, 2008) and 8.82% (from 34MT in 3rd Quarter, 2008) due to excessive rainfall during ball formation
- Camote with an 11.47% decrease (from 763MT in 3rd Quarter, 2008) due to decrease in area planted as some Camote farmers shifted to Cassava production.

Livestock and Poultry

Livestock and Poultry production in the quarter under review was on increasing trends except for carabao and duck decreasing by 0.42% (from 2,390MT in 3rd Quarter, 2008) and 2.96% (from 1,283MT in 3rd Quarter, 2008), respectively. The decrease in carabao production can be attributed to decline in slaughtering activities. It should be noted that carabaos in the region were usually raised for farm purposes. As for duck, the region has limited stocks for disposition due to decrease in the inventory of the fowl.

Meanwhile, the favorable price of pork in the market encouraged disposition of fatteners. In turn, production increased by 0.85%, from 16,449MT in 2nd Quarter, 2008 to 16,589MT in 2nd Quarter, 2009. Likewise, based on consumer preference and as substitutes, the decrease in carabao production prompted the 0.51% increase in cattle production, from 2nd Quarter, 2008's figure of 3,120MT. The sustained demand in the region encouraged disposition of goats which show production increasing by 1.38% from 580MT in 3rd Quarter, 2008. Production of chicken increased by 5.4% (from 8,205MT in 2008's 3rd Quarter) coming mainly from the broilers increasing by 5.68% (from 5,314MT in 2008's 3rd Quarter). The sustained demand for chicken in the region encouraged more stockings in commercial farms.

Sustained Fishery Production from Municipal Sources and Aquaculture

The production gains in fisheries in the early part of the year was sustained in the quarter, with production growing by 3.24% from 15,567.60MT in last year's 3rd quarter. While the production was dull in the region's commercial fisheries, production from the municipal waters and aquaculture managed to increase and able to off-set the slowdown from Commercial fisheries which saw production decreasing by 3.84%, from last year's 3rd Quarter figure of 4,075.13MT. The weather disturbances caused rough seas which discouraged fishing days along commercial waters in the quarter.

Meanwhile, the production gains from the region's marine waters and Inland waters pulled production from Municipal Fisheries up by 6.83% (from 7,120.11MT in 3rd Quarter, 2008). Production from marine municipal waters increased by 5.46% (from 4,011MT in 3rd Quarter, 2009) due to the installation of more payaos especially in Cagayan and the occurrence of more fishing days during the quarter. Likewise, production from inland municipal waters increased by 8.60% (from 3,109.14MT in 3rd Quarter, 2008 due to the continuous seeding of tilapia and carp in the region's communal bodies of water. The abundant catch of mollusks and crustaceans in swamps and rivers also contributed to the gains in inland municipal fisheries.

The region's aquaculture was also on the uptrend with production increasing by 4%, from last year's 4,372.36MT. The increase in production can be attributed to newly opened/developed

areas, increased stocking and availability of fingerlings for tilapia, ulang, and pangasius, and that more farmers ventured in fish production due to the high consumer demand.

Low Demand pulled Quarry Production Down

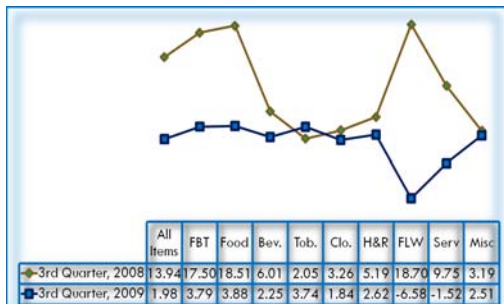
Production of sand and gravel decreased by 12.8%, from 200,590cu.m in 3rd Quarter, 2008. The lesser construction activities which were aftereffects of the frequent rainfalls during the month dulled demand for sand and gravel. Production in Cagayan (108,251.40cu.m), covering about 47% of the total sand and gravel production in 2008, decreased by 61.8% in the 3rd quarter of 2009. Meanwhile, the increase in demand for construction activities in Nueva Vizcaya pulled production in the province up by 118.9 % (from 37,360cu.m in 2008).

After producing 150 cu.m in 2008’s 3rd Quarter, no production of pebbles for Cagayan was recorded in the quarter because no permit was approved in the year. However, production of Boulders in the province almost tripled in the quarter, at 9,082cu.m, due to the approval of an Industrial Permit who was into the export of the commodity. In turn, total boulder production in the region reached 9,895cu.m in 2nd quarter, 2009, showing a 170% increase from 2008’s 2nd Quarter figure of 3,662 cu.m.

Improving Tourism from Domestic Visitors

Tourism in the region flourished in the quarter under review as evinced in the increase in tourists arrivals. The increase in tourists arrivals will lead to higher tourists expenditures in the region especially on hotels/inns, transportation and other services. Tourist arrivals grew by 3.57% from last year’s 3rd quarter figure of 204,603. Constituting over 95% of the regional total in 3rd quarter, 2009, the growth in our tourism industry can be traced from the 3.35% increase in our domestic travelers, from 195,532 in 3rd quarter, 2008 to 202,081, this quarter.

Likewise, foreign tourists increased by 8.35%, from 9,071 in 3rd quarter, 2008 to 9,828 in 3rd quarter 2009. About 54.3% of the foreign tourists came from East Asian countries (China, Hong Kong, Japan, Korea and Taiwan) and grew by 4.51%, from 5,104 in 3rd quarter, 2008 to 5,334 in 3rd quarter, 2009. The intensive promotional activities conducted by stakeholders on the region’s attractions were contributory in the increase of tourist arrivals in the region.



Moreover, the proximity of the gaming activities at CSEZFP may have contributed in the influx of foreign tourists especially from our East Asian Neighbors.

Food and Fuel Pacified Inflation

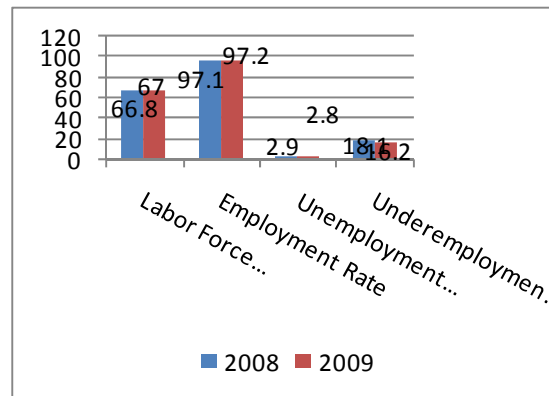
Inflation slowed down in the quarter by 11.96 percentage points from 13.93% in 2008 to 1.97% in

this quarter. While all commodity groups showed declining rates, fuel, light and water (6.53%) and food, beverages and tobacco (3.8%) showed the biggest declines. The sustained increase in regional production slowed down inflation along food, beverages and tobacco, from 17.5% in last year's 3rd quarter to only 3.8% in this quarter. Meanwhile, with the continuous government efforts in lowering down fuel prices in response to the fuel price cuts in the international market, inflation along fuel, light and water went down to 6.53% in the quarter from 18.7% in 3rd quarter, 2008.

Likewise, services and housing and repairs inflation slowed down by 8.23 and 2.57 percentage points, respectively from last year's rates of 9.73% and 5.2%. It can be gleaned that there demand for these commodity groups has slowed down – pulling down consumer index along the commodity groups.

Stable Employment

Based on the July Labor Force Survey, 67 % of the working age population (15 years old and over) participated in the labor force (they are employed or actively looking for work) during the reference period. Out of those who participated in the labor force, 97.2 % successfully landed on jobs from 97.1% in the same period last year. Consequently, unemployment dropped to only 2.8% from 2.9% in 2008. This implies that there were more economic activities during the period leading to a faster job creation and higher demand level for labor. Moreover, the economy in the region has improved its efficiency in the use of manpower resources as underemployment rate dropped to 16.2% from 18.1% in the same period last year.



The implementation of the Comprehensive Livelihood Employment Program (CLEEP), which seeks to give immediate relief to the people and fight poverty through provision of jobs, paved way for the immediate employment of 31,356 individuals in the region as of the end of 2009's 3rd quarter through the generation of 47,220 jobs. There are 27 programs and projects implemented in the region under CLEEP, to date. Included under the program are DPWH's Kanan Program, DOLE's ISLA and TUPAD and DENR's Bantay Gubat, among others. DA's goat and swine dispersal project is still awaiting funding release. To fund the programs under the CLEEP, Php4, 034,747,103.00 has been allocated, out of which 24.48% or P987,650,384.97 has already been utilized.

Looking at the Quarters Ahead

- In the short run, the government and stakeholders' efforts in strengthening production and productivity in the region towards the goal of improving both regional and household income and employment will be obliterated by the damages brought about by typhoons "Ondoy" and "Pepeng". These typhoons will surely become downing factors on our region's agriculture. Estimated damages amounted to Php92,538,670 for crops, livestock and fisheries in the immediate quarters.

In the long run, however, the following can be seen as catalysts for growth and development.

- The launching of the Regional Apiculture Project (Narra Honey Production) in Sanchez Mira, Cagayan which was supported by the Canadian Executive Service (CESO) is a possible source of income for the people. Moreover, it can be a possible venue for investment and employment especially for self-employment. CESO is expressing its desire to sponsor the same project in the Palau Island.
- The Php8.6 Million worth of irrigation projects given by the Japanese Government to fund small community irrigation projects for the upland farmers in Barangays Tidang and Sinapoan of Kayapa and Barangay Antutot of Kasibu, will be an important factor for the increase in the vegetable and fruit production in the province of Nueva Vizcaya.
- The damages brought by the typhoons can be treated as economic stimulus as government and private expenditures for construction and rehabilitation of damaged infrastructures and facilities will rise. Likewise, the higher spending due to the May 2010 elections will also catalyze growth. These in turn, will increase economic activities in the region which, while increasing the output of our basic sectors, will also provide venues for employment. Consequently, the provision of income for the people will induce household spending and will encourage further economic activities from our basic sectors to respond to such demand.