



USDA Foreign Agricultural Service

GAIN Report

Global Agriculture Information Network

Template Version 2.09

Voluntary Report - public distribution

Date: 6/15/2007

GAIN Report Number: RP7034

Philippines

Solid Wood Products

Construction Sector Update

2007

Approved by:

Emiko Purdy
U.S. Embassy

Prepared by:

Perfecto G. Corpuz

Report Highlights:

Good fiscal management and increased GRP and private sector construction spending in 2007 are expected to provide opportunities for increased exports of U.S. solid wood products during the year. Marketing efforts are suggested towards certain GRP infrastructure projects for softwood lumber, and the high-end business process outsourcing offices and residential housing segment for hardwood veneer and plywood.

Includes PSD Changes: No
Includes Trade Matrix: No
Unscheduled Report
Manila [RP1]
[RP]

Despite lower-than-expected agricultural output, Philippine GDP growth rate in 2006 reached 5.4 percent, up from the revised 5.0 percent GDP expansion the previous year. The expansion was attributed to double-digit export growth and strong consumption fuelled by record-level overseas remittances last year estimated at \$13 billion. For 2007, GDP growth rate was upgraded to 6.1-6.7 percent from 5.7-6.5 percent due to an expected surge in investments. Official GNP growth projection for the year, on the other hand, was raised to 6.2-7.1 percent from the original target of 6.0-6.9 percent in 2007. Projected inflation rate for this year was recently pared down to 3.5-4.0 percent from 4.3-4.8 percent by the Bangko Sentral ng Pilipinas (BSP) due to the strong Peso. The official GRP inflation target for 2007 is 4-5 percent. The positive adjustments in projected growth and inflation rates reflect the increased optimism by investors over the growth prospects of the country after an improvement in its fiscal situation. The country's budget deficit in 2006 reportedly shrank to P62.2 billion (\$1.26 billion) or roughly one percent of GDP, the lowest since 1998 when the gap was at P53 billion (\$1.08 billion). For the first quarter of 2007, GDP grew by 6.9 percent, surpassing the GRP's conservative forecast range of 5.3 to 6.1 percent, and the fastest rate in 17 years.

According to the National Economic and Development Authority (NEDA), by keeping interest rates and the fiscal deficit low, the country has not only stabilized the economy but has also gained some fiscal savings to take on priority infrastructure spending this year. The GRP reportedly plans to spend about P600 (\$12.9) billion starting this year until 2010, with infrastructure projects such as highways, ports and airports high in the priority list. The GRP intends to prioritize infrastructure spending this year to further pump-prime the economy in a bid to generate a better investment climate. In general terms, the United States and Japan are major investors in the Philippines.

The GRP's priority infrastructure projects form part of the GRP's Comprehensive and Integrated Infrastructure Program (CIIP), and is found in the following link. The CIIP contains the priority infrastructure projects through 2010 and had invited development partners in investing in some of the projects. The projects contained in the link are appropriate for a Purely Private Investment (i.e., Build-Operate-and-Transfer or BOT), Public-Private Partnership (i.e., joint venture), and Purely Public Investment undertaking.

http://www.neda.gov.ph/progs_prj/ciip-2006-2010/CIIP%20Critical%20Proj%20for%2022%20May%202007%20Cabinet%20Presentation.pdf

These projects represent positive prospects for increased U.S. softwood and treated lumber exports in the next 3 years. The type of project and the funding source for the project will largely determine the use of solid wood products in Philippine infrastructure projects identified by NEDA. The participating investor is expected to have much influence in determining the type and origin of materials to use in heavy infrastructure projects.

For private construction, last year, an estimated 91,000 private buildings were constructed based on permits granted by the Local Building Official (LBO) allowing the construction of a specific project in conformity with the Philippine National Building Code. While the number of permits issued in 2006 declined compared to the previous year's level, the value of the buildings constructed increased. The cost of building, and/or adding and altering structures, also increased during the period with residential homes continuing to dominate overall building construction in 2006. Housing demand is expected to remain firm in the next 3-5 years owing to the growing Philippine population with a considerable housing backlog expected to make housing construction a major concern of the GRP.

Number, Floor Area, and Value by Type of Private Building Construction:

(Value in billion Pesos, floor area in thousand sq.m.)												
Year	Residential			Non-Residential			Additions/Alterations			TOTAL		
	No.	Floor Area	Value	No.	Floor Area	Value	No.	Floor Area	Value	No.	Floor Area	Value
2004	71,918	8,543	50	11,187	5,747	40	19,536	588	10	102,641	14,878	99
2005	81,853	9,665	59	13,619	6,140	40	22,793	639	10	118,265	16,444	109
2006	63,838	7,808	51	14,086	6,025	51	12,808	820	9	90,732	14,653	111

Note: Figures for 2004 and 2005 are based on previous preliminary data and may vary from current official figures.

Source of Basic Data: National Statistics Office

Generally, commercial banks offer fixed-rate housing loans and charge 10-12 percent interest rate payable up to 20 years. Some GRP financial institutions have recently offered more liberal terms with loan maturity reaching 30 years with interest rates within 6-12 percent per annum. Terms are usually flexible depending on the amount of the loan. The Home Development Mutual Fund, more popularly known as Pag-IBIG Fund, was created on June 1978 and is the GRP agency that seeks to provide shelter for the growing number of workers/members through savings. Pag-IBIG late last year reduced its interest rate to only 6 percent per annum for loans up to P300,000 (\$6,450) and 7 percent for loans up to P500,000 (\$10,750). Previous interest rates for these loan packages were 9 percent and 10 percent, respectively. A sample of Pag-IBIG's monthly amortization plan for several loan amounts may be viewed at:

http://www.pagibigfund.gov.ph/mt_calc.htm

The demand from OFW families for Philippine homes is also on the rise, indicating a growing portion of remittances going into housing investments, including high-end condominiums. The Bangko Sentral ng Pilipinas (BSP) is expecting remittances from OFWs to reach \$14.7 billion this year, \$600 million higher than its earlier estimate. The figure represents remittances coursed through formal channels and easily would be higher, if it took into account remittances through informal means. According to the BSP, in December 2006, OFWs sent \$1.32 billion, the highest-ever in a month. The average monthly remittance level sent in 2006 was reportedly \$1.063 billion, roughly 20 percent higher than the \$890.75 million monthly average remittances sent in 2005. Property developers have taken notice, including those that traditionally focused on the higher end of the housing market, and have increasingly gone into housing development projects targeting the rapidly growing OFW market segment.

A summary of residential building construction starts, floor area and value of construction in 2006 is provided in the following two tables. Last year, the number of residential building construction and its corresponding floor area declined from the previous year's level, although its value modestly appreciated. Single-type residences remained the dominant housing unit built. However, only residential condominium construction grew in terms of number, floor area and value of construction among all other components of residential building construction. Residential condominiums also had the highest cost per square meter in 2006, increasing close to three times the cost per square meter in 2005.

Number of Residential Building Construction Started, Floor Area and Value of Constructions, by type of Building: 2005 & 2006
--

(in sq.m. and P1,000)									
	Single			Duplex/Quadruplex			Apartment/Accessoria		
	No.	Floor Area	Value	No.	Floor Area	Value	No.	Floor Area	Value
1st Q 2006	13,833	1,741,540	19,374,209	683	64,988	391,125	1,755	150,382	947,762
2nd Q	14,684	1,735,443	10,708,185	319	50,461	300,420	2,501	227,526	1,385,787
3rd Q	11,302	1,324,881	8,417,204	367	53,201	354,955	1,143	130,163	655,900
4th Q	13,833	1,741,540	10,374,209	683	64,988	391,125	1,755	150,382	947,762
TOTAL	53,652	6,543,404	48,873,807	2,052	233,638	1,437,625	7,154	658,453	3,937,211
1st Q 2005	15,765	1,670,972	9,463,743	1,184	80,757	414,494	1,036	125,211	668,137
2nd Q	16,499	1,979,579	11,318,894	484	61,591	384,592	1,787	185,156	999,495
3rd Q	12,996	1,526,226	9,068,961	1,195	103,641	622,909	2,474	224,588	1,283,312
4th Q	13,864	1,649,187	9,946,326	292	50,695	278,406	1,764	319,422	3,544,009
TOTAL	59,124	6,825,964	39,797,924	3,155	296,684	1,700,401	7,061	854,377	6,494,953

	Residential Condominium			Others			Total		
	No.	Floor Area	Value	No.	Floor Area	Value	Value	Floor Area	Value
1st Q 2006	25	85,363	1,006,751	421	16,717	2,096,217	22,054,534	53,944	334,687
2nd Q	22	58,200	671,051	378	17,904	2,117,948	13,335,379	46,318	269,936
3rd Q	15	208,119	2,534,317	294	13,121	1,747,982	12,168,209	31,618	205,833
4th Q	25	85,363	1,006,751	421	16,717	2,096,217	13,054,534	53,944	334,687
TOTAL	87	437,045	5,218,870	1,514	64,459	8,058,364	60,612,656	185,824	1,145,143
1st Q 2005	3	8,506	71,757	431	18,419	1,976,930	11,193,158	91,484	575,027
2nd Q	5	45,049	510,139	595	19,370	2,375,363	13,828,693	103,988	615,573
3rd Q	11	87,448	747,128	453	17,129	2,013,427	12,148,181	71,524	425,871
4th Q	1	7,989	65,207	462	16,383	2,094,617	14,284,941	67,324	450,993
TOTAL	20	148,992	1,394,231	1,941	71,301	8,460,337	51,454,973	334,320	2,067,464

Source of Basic Data: National Statistics Office

A significant portion of non-residential building construction in 2006 was for commercial structures, which expanded in number, floor area and value. Since remittances from OFWs continue to drive personal consumption, they also provide firm business support for the sprouting shopping malls in cities and provincial urban centers. In addition, steady and firm growth by the expanding business process outsourcing (BPO) industry, enhanced increased office space demand. Last year, condominiums and offices topped commercial building construction starts in terms of number, floor area and the value of construction. These buildings are likely being led by the construction of call centers using foreign funds.

Number of Commercial Building Construction Started, Floor Area and Value of Construction, by Type of Building: 2005 & 2006 (in sq. m. and P1,000)									
	Banks			Hotels/Motels			Condominium/Office bldg.		
	No.	Floor Area	Value	No.	Floor Area	Value	No.	Floor Area	Value

2006		Area			Area			Area	
1st Q	59	13,827	88,187	44	71,635	610,784	595	443,294	4,434,691
2nd Q	54	14,956	96,913	45	55,608	454,102	1,585	658,964	7,341,414
3rd Q	59	18,669	111,234	57	179,872	2,979,278	243	382,893	3,312,016
4th Q	63	16,983	116,655	59	43,993	308,168	1,975	378,399	3,680,890
TOTAL	235	64,435	412,989	205	351,108	4,352,332	4,398	1,863,550	18,769,011
2005									
1st Q	42	15,049	87,101	39	74,476	428,830	204	106,126	701,566
2nd Q	40	97,281	759,838	57	48,366	254,418	240	306,235	3,118,019
3rd Q	45	39,436	303,969	47	40,124	279,743	263	356,797	2,398,551
4th Q	48	9,016	77,949	46	26,043	214,083	932	446,657	3,386,400
TOTAL	175	160,782	1,228,857	189	189,009	1,177,074	1,639	1,215,815	9,604,536

		Store			Others			Total	
	No.	Floor	Value	No.	Floor	Value	No.	Floor	Value
2006		Area			Area			Area	
1st Q	605	189,333	799,754	616	167,522	956,255	1,919	885,611	6,889,671
2nd Q	713	200,699	1,307,608	619	169,218	1,101,594	3,016	1,099,445	10,301,631
3rd Q	496	161,567	1,131,425	565	262,639	1,971,757	1,420	1,005,640	9,505,710
4th Q	576	265,740	2,059,686	705	237,538	1,575,569	3,378	942,653	7,740,968
TOTAL	2,390	817,339	5,298,473	2,505	836,917	5,605,175	9,733	3,933,349	34,437,980
							9,733	3,933,349	34,437,980
2005									
1st Q	481	105,604	458,318	642	146,629	732,405	1,408	447,884	2,408,220
2nd Q	546	122,845	664,136	707	267,567	1,191,765	1,590	842,294	5,988,176
3rd Q	517	182,862	829,281	708	179,542	1,009,917	1,580	798,761	4,821,461
4th Q	588	234,461	1,229,194	582	186,864	1,339,212	2,196	903,041	6,246,838
TOTAL	2,132	645,772	3,180,929	2,639	780,602	4,273,299	6,774	2,991,980	19,464,695

Source of Basic Data: National Statistics Office

A noted Filipino economist reportedly has noted that after rapid double-digit growth in the past, real estate and property development has overtaken communications as the growth leader in the services sector. He adds that in the fourth quarter of 2006, the real property sector posted a significant 22.7 percent growth in real terms, and is currently the highest-growing services sub-sector. While the overall sector's growth indicates positive prospects for U.S. solid wood sales, certain niches provide the best opportunities. Particularly, these include heavy infrastructure projects of the GRP for softwood and treated lumber, and the high-end residential housing segment and BPO offices (including call centers) for wooden hardwood interiors. Competition from regional wood sources, mainly from Malaysia and Indonesia, is expected, however.