

**2010 DAVAO REGION SOCIOECONOMIC PERFORMANCE
AND
2011 DEVELOPMENT OUTLOOK**

I. ECONOMIC DEVELOPMENT

1. Agricultural Production

Agriculture sector posts sluggish growth

During the first 3 quarters of 2010, majority of the region's agricultural products exhibited declines over their 2009 levels, except for banana, pineapple, durian, abaca and fish products.

Palay production reached 306,263 metric tons, down by 8.8 percent over its year-ago level due to the decrease in yield and area harvested, resulting from the dry spell during the first and second quarters of the year and pest infestations in the Provinces of Compostela Valley, Davao del Norte and Davao del Sur. Similarly, corn production dipped by 13 percent due to the decrease in area harvested as a consequence of crop shifting from corn to mango and coconut in Davao Oriental and banana in Davao del Norte.

Fruit production posted flat growth with banana up by only 2.1% and pineapple by 0.2%, except for durian which grew by a hefty 78.3%. Banana production was affected by the dry spell in Davao del Sur and the closure/rehabilitation of the Marsman farm in Mawab, Compostela Valley. Pineapple production was also affected by the dry spell in Compostela Valley, Davao del Norte and Davao City while areas planted to pineapple were shifted to banana in Davao del Sur. Continuous expansion of areas planted to banana has been experienced in Davao del Norte and Davao City. Davao region remains the country's top banana producer.

On the other hand, industrial crops such as coconut, rubber, coffee, cacao and sugarcane registered production drops of 1.4%, 0.8%, 3.8%, 0.8% and 46.5%, respectively. Coconut production was affected by the biological tree stress factor that results to a 2 to 3 year cyclical harvest. Despite the lower production, the price of copra resecada, however, zoomed to P40 per kilo in October from a mere P16 per kilo in January of 2010 due to the surge in the demand from Europe, United States, China and Korea as Indonesia, the world's largest producer of coconut products, has shifted to exporting palm oil instead of coconut oil from copra.

Rubber production was affected by the dry spell in Davao del Sur and Compostela Valley, as well as the rehabilitation of rubber farms in Davao del Norte. Coffee and cacao production were also affected by the dry spell in Davao del Sur and Compostela Valley and the cutting of old trees in Davao City and Davao del Norte. Sugarcane production was less due to decreased area harvested in Davao del Sur that resulted to no milling activities during the second quarter of 2010.

2. Investments

Investors' confidence remain strong

In 2010, investors' confidence in the region remained strong as investments in private construction hit P8 billion, while project commitments hit the P4 billion level. The bulk of these investments in the region was poured into the construction of shopping malls, hotel and condominiums/dwelling units mostly located in Davao City. The city is established as Mindanao's favorite investment destination for the country's top real estate developers, as well as its premier trade and services center.

The total value of private building construction was sustained at the same P8 billion level as 2009 (P8.8 billion). The bulk or 65% went to the construction of commercial establishments such as shopping malls (e.g. SM-North), condominium-hotels, and expansion of schools and hospitals in the region; while 35% of the investments was poured into the construction and expansion of medium-rise and high-end dwellings or residential units that reached P2.3 billion.

In 2010, Foreign Direct Investments or FDI in terms of the value of paid-up capital reached P15 million, a flat 0.7% growth over its 2009 level. The bulk of these investments was poured in by the Dutch, Chinese and Koreans to real estate and wholesale trade activities, respectively. On the other hand, the value of paid-up capital of local corporations in similar endeavors such as real estate and renting activities (39%) and wholesale and retail trade (12%) reached P251.1 million. This figure reflected a decline of 31.8% over the 2009 level of P368.8 million.

The infusion of project commitments continued to strengthen as project costs registered with the Board of Investments-Davao Extension Office reached P4.2 billion. This is a remarkable improvement of 228.1% over its 2009 level of P1.3 billion. The highest cost for a single registration was P1.9 billion, intended for the manufacture of concrete reinforcing steel bars in Panabo City. Aside from this, the other top 3 project commitments registered in 2010 were for the following investment areas: a) 100 MW Oil-Fired Power Barge (P1.2 billion, Compostela Valley Province); b) construction of mass housing units (P297.5 million, Davao City); and c) expansion of mass housing (P140.8 million, Davao City).

3. Foreign Trade

3.1 Exports

Balance of trade is achieved but trade surplus narrows significantly

The region continued to enjoy a favorable balance of trade with the value of exports surpassing the value of its imports. However, its trade surplus has significantly narrowed to only about US\$3.7 million compared to its 2009 surplus level of US\$137.5 million. In fact, the region experienced trade deficits during the 2nd and 3rd quarters of 2010.

During the first 3 quarters of 2010, the total value of exports reached US\$ 559.9 million. This figure was a 3% improvement over the same period in 2009 (US\$544.1 million). The increase was mainly due to higher value in the shipments of natural rubber, coconut (copra) and gold during the period. The region contributes 32% of the total Mindanao exports, second to Northern Mindanao's 35%.

Fresh banana remained the region's top export, earning US\$223.2 million and comprising about 40 percent of its total exports. However, its value in 2010 was down by 16% than in 2009 due to lesser volume of shipments. In contrast, coconut (copra) exports rebounded and ranked second with US\$152.4 million. The Davao region remained the country's top exporter of banana. In Mindanao, Region X followed second with US\$ 3.9 million and Region XII placed third with US\$571,000.

Among the non-traditional exports of the region, gold (in semi-manufactured form) retained its no. 7 rank among the top ten commodities with a total value of US\$19 million in 2010 compared to the same period in 2009 at US\$14.5 million, reflecting a remarkable 29% improvement. Other emerging non-traditional exports included petroleum oils/waste oils at US\$5.3 million; and copper ores and concentrates at US\$4 million. Both commodities are exported by companies located in Davao City.

3.2 Imports

Rice imports up by 98%

During the first 3 quarters of 2010, the total value of import shipments in the region reached US\$556.2 million, significantly higher by 36.8% than the 2009 level of US\$406.6 million. This is the first time in years that the region experienced a double-digit growth rate in its imports.

Rice was the top import commodity with US\$124.7 million in the first 3 quarters of the year. The region imported 98.4% more rice in 2010 than in 2009 (US\$62.9 million). Rice imports have consistently topped the rankings in the last four years.

Among the top ten imports, the value of uncoated kraft paper and paperboard, a raw material for packaging material, ranked second with US\$67.9 million, increasing by 44.3% over the same period the previous year. Other imports of the region were agricultural inputs such as fertilizers and fungicides; and raw materials for the manufacturing sector such as ethylene polymers, and petroleum oils, among others.

4. Labor and Employment

Employment generation slightly contracts

The infusion of more investments in the region that will translate to or sustain productive employment is still wanting, as reflected in the region's employment rate of 94.1% which was lower by 0.3 percentage points for July 2010 over its 2009 level. Consequently, the unemployment rate was up by 0.3 percentage points, from 5.6% to 5.9%. The number of employed persons reached 1,689,000, lesser by 19,000 compared to its 2009 level of 1,708,000. The bulk (781,000) or 46.2% was absorbed by the Services sector, particularly the wholesale and retail trade, and transport, storage and communications subsectors. The Agriculture, Fishery and Forestry (AFF) sector employed 668,000 persons or 40%, while the Industry sector provided jobs for 240,000 persons or 14.2% of the total number of employed persons in the region.

Further, the region was unable to provide full employment as indicated in its underemployment rate of 23.9%, reflecting an increase of 2 percentage points over the same period last year. Labor Force Participation rate was pegged at 65.5% in July which is a decline of about 0.6 percentage points over the 2009 level of 66.1%.

The Department of Labor and Employment (DOLE) XI reported that they have facilitated placement of jobs through their *Jobs Fair* program and referrals to walk-in clients of their Public Employment Service Offices (PESO) that provided jobs to 31,275 applicants in 2010.

In terms of the displacement of workers, a total of 2,471 workers were temporarily retrenched or permanently terminated. Out of this, 512 workers lost their jobs due to economic reasons which were primarily because of the companies' decision to reorganize or downsize; while the majority or 1,959 of these workers were terminated due to non-economic reasons such as reaching the end of their contracts or completion of projects as in the case of construction workers; and temporary retrenchment for workers from the plywood manufacturing company that underwent repair/general maintenance. These displaced workers will have an opportunity to renew their job contracts after six months.

Minimum wage has been set at P286 per day based on Minimum Wage Order No. 16 issued in September 2010. The region achieved a significant 47 percent compliance to Minimum Wage Orders in 2010, compared to the 2009 level of 23%. DOLE has targeted a 60% compliance rate of business establishments in 2011.

5. Prices and Inflation

Davao Region's inflation rate further decelerates

In 2010, the region's average inflation rate was 4.1 percent, slightly lower than the 4.7 percent registered in 2009. The lower annual inflation rate was due to the slower increases in the costs of housing and repairs, clothing and food, particularly rice, compared to their 2009 levels.

Unfortunately, the 4.1% rate was slightly higher than the national average of 3.8 percent for the same period. However, the region's average rate was within the range of the national target of 3.5%-5.5%.

Monthly inflation remained at single digit levels throughout the year. The highest was recorded in January at 5.5 percent and the lowest was in December at 3.1 percent. The uptrend in inflation in January was attributed to the increased price of oil in the world market buoyed by hopes for stronger global demand, but the regional inflation rates remained subdued throughout last year due to the stable prices of food, particularly rice; housing and clothing.

Based on its value in year 2000, the purchasing power of the peso in the region for 2010 was only P0.58, and compared to its 2009 level, inflation eroded the value of the peso by 3.3%. Davao City and Davao del Norte, having the higher cost of living than the rest of the region, were at par with the regional average of P0.58 in both years. Since the computation of the purchasing power of the peso is pegged at the consumer price indices, the lower cost for housing and repairs, clothing and food had influenced the level of the purchasing power of the peso for the region.

6. Tourism

Tourism sector sustains same level of performance

In 2010, the tourism sector's performance was rather flat as reflected in the volume of visitor arrivals in Davao Region.

During the first 3 quarters of 2010, the region recorded 671,603 visitor arrivals. This figure reflects a sluggish growth of 1% over the same period the previous year. A slight decline in the number of domestic travelers was noted while the number of overseas Filipinos and foreign tourists inched up. The sector earned the region P8.2 billion in tourist receipts, almost the same level as 2009 at P8.1 billion.

Among the visitors, domestic travelers comprised the bulk at 92.3% share, followed by the overseas Filipinos or Balikbayans at 7.7% and foreign travelers at an improved share of 7% compared to its 2009 share of 2%.

Among foreign tourists, the Americans accounted for the highest number of arrivals, followed by the Japanese and the Koreans.

II. HUMAN DEVELOPMENT

1. Health

The health status of the population of Davao Region in 2009 showed an improvement compared to 2008. Among infants, mortality rate improved from 10 deaths per 1,000 live births in 2008 to only 8 deaths per 1,000 live births in 2009. Similarly, deaths among children under 5 years have been reduced to 13, from the 14 deaths registered in 2008. Access to health services has improved as reflected in the proportion of fully immunized children in ages 9-11 months which was pegged at 88.7%, and 64% of all births have been attended by skilled health personnel. Despite the improvements, efforts to significantly reduce the deaths of mothers during pregnancy and delivery are still wanting as reflected in the maternal mortality rate (MMR) at 121 deaths per 100,000 live births, an increase from the 105 deaths recorded in 2008.

In 2009, the major causes of death among all ages in the region were heart diseases, pneumonia, cerebrovascular diseases, malignant neoplasm, accidents, diseases of the arteries and digestive system, hypertensive diseases, and respiratory tuberculosis.

2. Education

A better performance was noted in public schools. In SY 2010-2011, there is a marked improvement in enrollment in public elementary level over the SY 2009-2010 level of 656,071 pupils while private enrollment was pegged only at 35,902, down by 19%. In SY 2009-2010, both participation and cohort survival rates positively grew by 4.7 and 4.9 percentage points, respectively.

The situation in the public secondary level was similar as it has significantly improved in terms of enrollment level, participation and survival rates. Enrollment (245,000) increased by 7%, participation rate (40%) by 1.8 percentage points while survival rate (56.1%) was even better by 6.1 percentage points.

The progress in both public elementary and secondary levels has been attributed to the successful implementation of the following programs: a) No-collection of fees policy; b) Optional wearing of uniforms; c) Child-friendly school system; d) Brigada Eskwela Plus; e) Oplan Balik Eskwela; and f) Intensified School Feeding Program

Improvements have also been noted in tertiary education. In 2009, the enrollment level was up by 6.6% while the number of graduates was impressively up by 36%.

3. Poverty

Table 1. **Poverty Incidence Among Families**
All Regions, Philippines
2006 and 2009

REGION	2006	2009	Increase/ Decrease
PHILIPPINES	21.1	20.9	
Region IV-B MIMAROPA	34.3	27.6	(6.9) ↓
Region VII – Central Visayas	33.5	30.2	(3.2) ↓
Region I – Ilocos	20.4	17.8	(2.6) ↓
CAR- Cordillera Autonomous Region	18.6	17.1	(1.5) ↓
Region II – Cagayan Valley	15.5	14.5	(1.1) ↓
NCR – Metro Manila	3.4	2.6	(0.8) ↓
Region XI – Davao Region	26.2	25.6	(0.6) ↓
Region V - Bicol	36.1	36.0	(0.1) ↓
Region III – Central Luzon	12.0	12.0	0.1
Region X – Northern Mindanao	32.7	32.8	0.2
Region IV-A CALABARZON	9.4	10.3	0.9
Region XII – SOCCSKSARGEN	27.1	28.1	1.0
ARMM - Autonomous Region in Muslim Mindanao	36.5	38.1	1.7
Region VI – Western Visayas	22.1	23.8	1.7
Region VIII – Eastern Visayas	31.1	33.2	2.1
Region IX – Zamboanga Peninsula	34.2	36.6	2.4
Region XIII – CARAGA	36.9	39.8	3.0

Source: National Statistical Coordination Board (NSCB)

Latest available data reveal that the incidence of poverty among families in Davao Region was 26.2% in 2009, a decline of 0.6 percentage points over the 2009 level of 25.6%. However, the magnitude or number of poor families increased by 2.5%, from 220,707 in 2006 to 226,284 in 2009.

The region is the only region in Mindanao that saw a decline in the poverty rate and one of only 8 regions in the country that posted such decline.

III. MAJOR INFRASTRUCTURE PROGRAMS AND PROJECTS

In 2010, Davao Region embarked on several major infrastructure projects that would strengthen the economic linkages of the Davao Region to the rest of the country. Two (2) ODA-assisted projects with a total value of P3.21 billion were completed in 2010. These two projects were the: a) Maramag-Bunawan 230 kV Transmission Line project with counterpart funding from the Calyon Facility of France and completed in October; and the b) Panabo II

Potable Water Supply (PWS) Package 2 with counterpart funding from the Asian Development Bank (INFRES).

The Maramag-Bunawan project which is a 230 Kv transmission network, initially energized at 138 Kv level, will serve as the transmission corridor from Northern to Southern Mindanao through which power generated by the Agus Hydroelectric Power Complex and the Pulangi IV Hydroelectric Plant can be transmitted. The completion of this project strengthens the existing transmission system ensuring stability, reliability and efficiency of power supply in the Mindanao Grid.

In terms of national funding, the total cost of road, schoolbuildings, flood control facilities, and water system projects completed in 2010 came up to P3.5 billion. The breakdown per province/city is as follows: a) Davao Oriental (P951.9 million) with the largest single project for the rehabilitation and improvement along Surigao-Davao Coastal Road, Boston Section valued at P200 million; b) Compostela Valley (P479.1 million) with the largest single project being the concreting of Nabunturan-Mainit Park Road valued at P79.8 million; c) Davao del Norte (P854.7 million) with the largest being the rehabilitation and improvement along Daang Maharlika; d) Davao del Sur (P828.5 million) with largest single project being the construction/improvement of the Davao del Sur-Sarangani Coastal Road, Jose Abad Santos Haybio-Glan Boundary Section, Jose Abad Santos valued at P100 million; and e) Davao City (P338.6 million) with largest single project being the concreting along Davao-Bukidnon Road, Mintal section.

IV. DEVELOPMENT OUTLOOK FOR 2011 AND BEYOND

Given the performance of the regional economy in 2010, where most sectors, particularly services and industry, were able to sustain growth, the export sector rebounded, and the better performance of the social sector, it is expected that all these sectors will continue to be strong and perform even better in 2011 given the opportunities that will arise from the continued recovery of the global economies; the prevailing strong investors' confidence that is expected to translate to more productive employment and capital formation; and the strengthened partnership with the private sector as the government shifts to "investment-led growth".

For 2011, the investment prospects are as follows: a) Hydro by HEDCOR and 200 MW Coal-Fired Power Plants by the Aboitiz Power Corporation (P8 billion, Compostela Valley, Davao Oriental and Davao City); b) Coconut processing (P500 million); c) Food Complex (P500 million, a PPP project in Toril, Davao City); d) Low-cost housing (P315 million, Davao City and Davao del Norte); e) Packaging plant (P270 million, Panabo City); f) Banana plantation (P250 million, Compostela Valley and Davao Oriental); g) Construction (P20 million, Davao City); h) Banana Chips processing (P3 million, Davao Oriental); i) ICT-BPO (P6 million, Davao City; and j) Rubber plantation (P150 million, Davao del Sur and Davao del Norte). Other project commitments that are still being firmed up include the establishment of IT and Industrial Parks in Panabo City, fast-craft operation in Davao del Sur, convention center in Davao city, coffee plantation in Davao del Sur, and a 2,000-hectare pineapple plantation in Bansalan, Davao del Sur.

In particular, the ICT sector, with its Business Process Outsourcing (BPO) and software engineering design industries, are booming in the region with more than 60 BPO companies in Davao City alone. Davao City was named as "*the best outsourcing location in the Philippines outside of Metro Manila, Metro Cebu and Metro Clark in 2010*". Recent negotiations have resulted to the establishment of a BPO company that would initially produce 200 call center seats; the collaboration of a Singaporean IT company with Davao software outsourcing companies; and the transfer of a high-tech gadgets factory from China

to Davao by Australian investors. The industry's potential is so vast that the Davao ICT sector is expected to provide 150,000 jobs and generate investments of US\$1.25 billion by 2016.

The mining sector is expected to take advantage of the following: a) sustained high world market prices of gold and metals; and b) reforms in the mining sector such as the **streamlining of the permitting system** and the implementation of the **"use it or lose it"** policy where the DENR-MGB has been directed to cleanse its records of non-moving mining applications and non-performing mining contracts. It was expected that by December 2010, about 50% of the total pending applications should have been finally acted upon. This will open about 5 million hectares (in the entire country) of potential mineralized areas for serious investors. This reform shall partially address the concern raised by the Regional Development Council XI on the fast tracking of the approval of mining exploration permits.

The region shall also take advantage of the opportunities being offered under the "Public-Private Partnership (PPP) program particularly in providing the infrastructure support to incoming BPO companies and manufacturing companies.

Despite the opportunities at hand, Davao Region faces major challenges that may impact negatively on the regional economy if not adequately addressed: a) increasing price of oil in the world market; b) "jobless growth". This phenomenon exists through the fact that the high level of investments have not been fully translated into productive employment; c) flat growth for the tourism sector despite Davao Region's reputation as the preferred destination and a retirees' haven; d) sluggish growth of the agriculture sector despite its absorption of 40% of the total employment; and e) narrowing trade surplus despite strong export sector.

In summary, the region continues to enjoy high investors' confidence as evidenced from the emerging investment areas identified by the Board of Investments and the region has proven that it has recovered from the global crisis and will be sustained by its strong services sector, particularly its trade and private service subsectors; its robust properties market; its strengthened position in e-services, particularly in BPOs and software engineering, and more important, is the continued partnership of the private sector and the LGUs in ensuring sustained investments and reforms in government. Further, formal peace talks between the government and MILF has recently resumed thus increasing the prospects for lasting peace and economic development in Mindanao.

Given these, the Davao Region's economy is targeted to grow by 7.2% in 2011, within the range of the country's Gross Domestic Product (GDP) growth forecast of 7.0-8.0%.