



Palau Business Outlook

2nd Quarter 2005

INTRODUCTION

This report summarizes the results of the survey regarding business confidence of public and private business establishments in Palau about the present and future economic climate. The results of the survey are expressed as an index called the Diffusion Index (DI), which can be described as the percentage of the total sample. The DI reflects the overall level of confidence and is used to evaluate the trend of general economic activity. The values of the index range from 0 to 100. Figures over 50 indicate an “Uptrend” and figures below 50 indicate a “Downtrend”.

The DI indicates the directional movement of the economy, but it does not necessarily indicate the scale level of the economy. At present this method is used to measure economic trends in many countries.

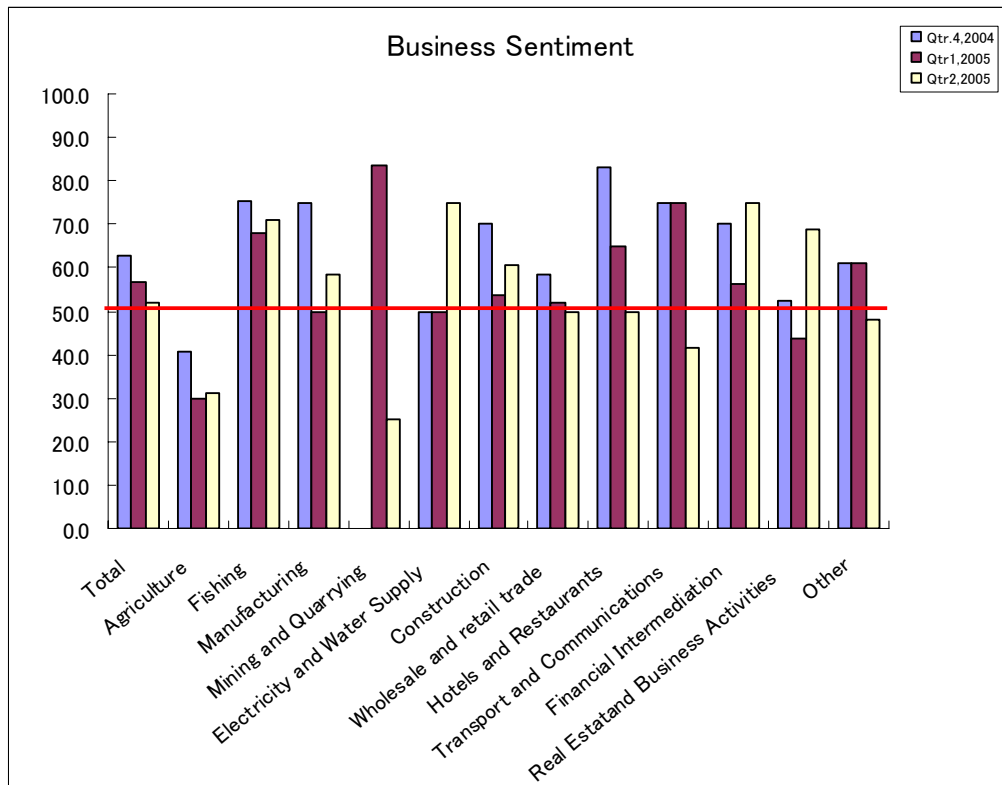
The Office of Planning & Statistics (OPS), under the Bureau of Budget and Planning in the Ministry of Finance, conducted the short-term economic trend survey for the first time in Palau for the 4th quarter of 2004. The survey targeted 10 percent of total registered companies by type of business. The third survey was administered from the beginning to the middle of August, 2005 primarily by email to help facilitate completion. The survey will be conducted every quarter for use in conjunction with planned dissemination of quarterly economic indicators to help monitor economic activity and evaluate economic conditions.

The OPS takes this opportunity to thank the business community of Palau especially those who participated in the survey for taking the time to complete the questionnaire. If you have any questions regarding the survey or suggestions on how we can make it more useful to you, please contact our office. The results of this survey are available at our website www.palau.gov/stats. We also have a direct distribution list. Please let us know if you would like to receive the results directly. Thank you for your support and cooperation.

BUSINESS SENTIMENT

Overall business sentiment in the 2nd quarter of 2005 reflected an UPTREND associated with a sustained high level of economic activity. It showed an uptrend for three consecutive quarters.

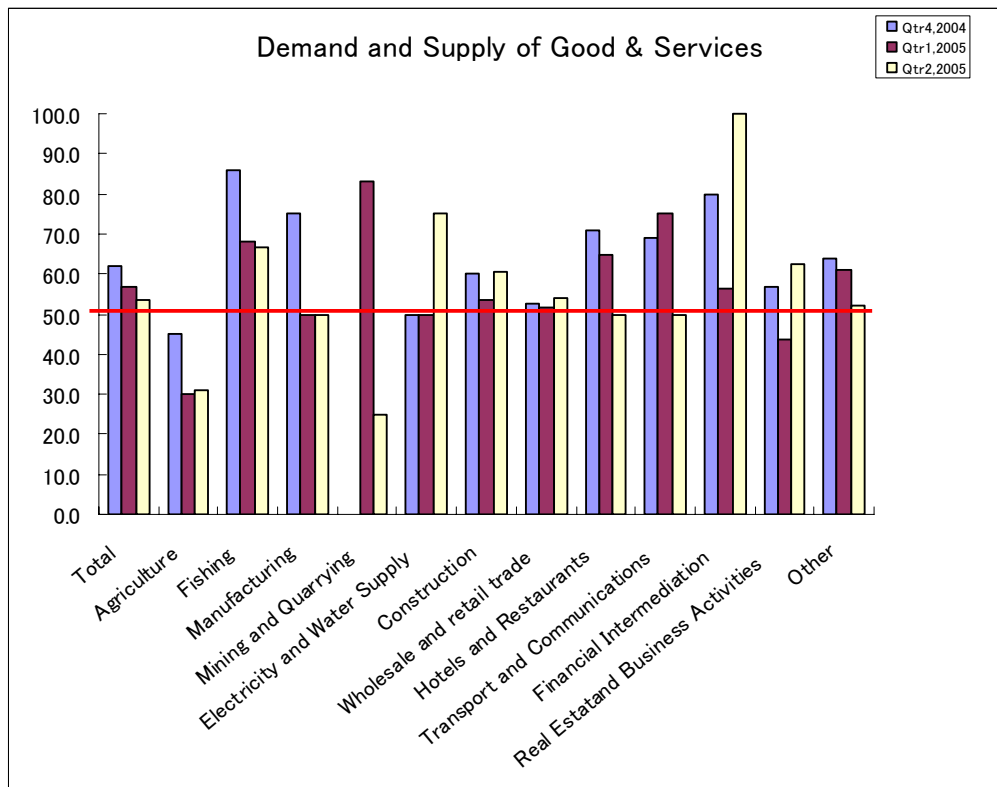
DI for business sentiment was 52.0 points. DIs for fishing, manufacturing, electricity & water supply, construction, financial intermediation, real estate & business activities were high at 70.8, 58.3, 75.0, 60.7, 75.0 and 68.8 points respectively. Ongoing public and private sector construction projects and strong consumer confidence were significant contributing factors. On the other hand, the business sentiment for agriculture and mining & quarrying indicated a downtrend with DI at 31.3 and 25.0 points respectively.



DEMAND AND SUPPLY OF GOODS AND SERVICES

Overall demand and supply for goods and services was SUFFICIENT. It showed an uptrend for three consecutive quarters.

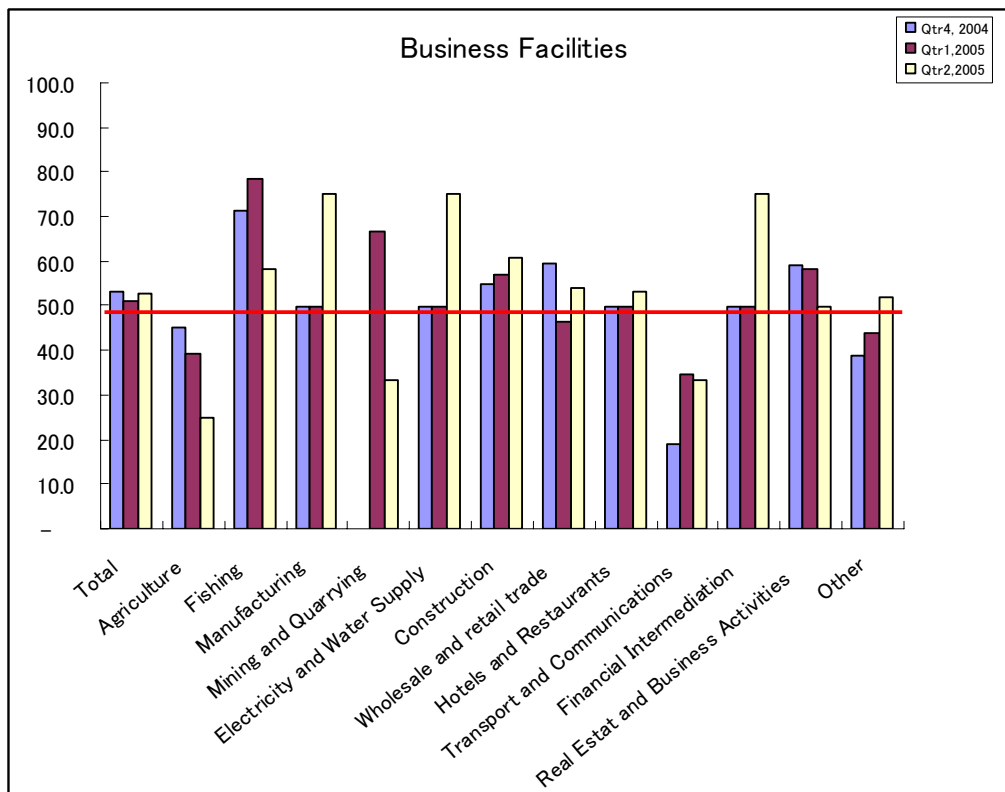
DI for demand and supply for goods and services was 53.7 points. DI for most of businesses was in an uptrend. Particularly, DIs for fishing, electricity & water supply, construction, financial intermediation and real estate & business activities were over 60 points at 66.7, 75.0, 60.7, 100.0 and 62.5 points respectively, while DIs for agriculture and mining & quarrying were below 50 points at 31.2 and 25.0 points respectively.



BUSINESS FACILITIES

Overall capacity of business facilities was an SLIGHTLY INSUFFICIENT. It showed insufficiency for three consecutive quarters.

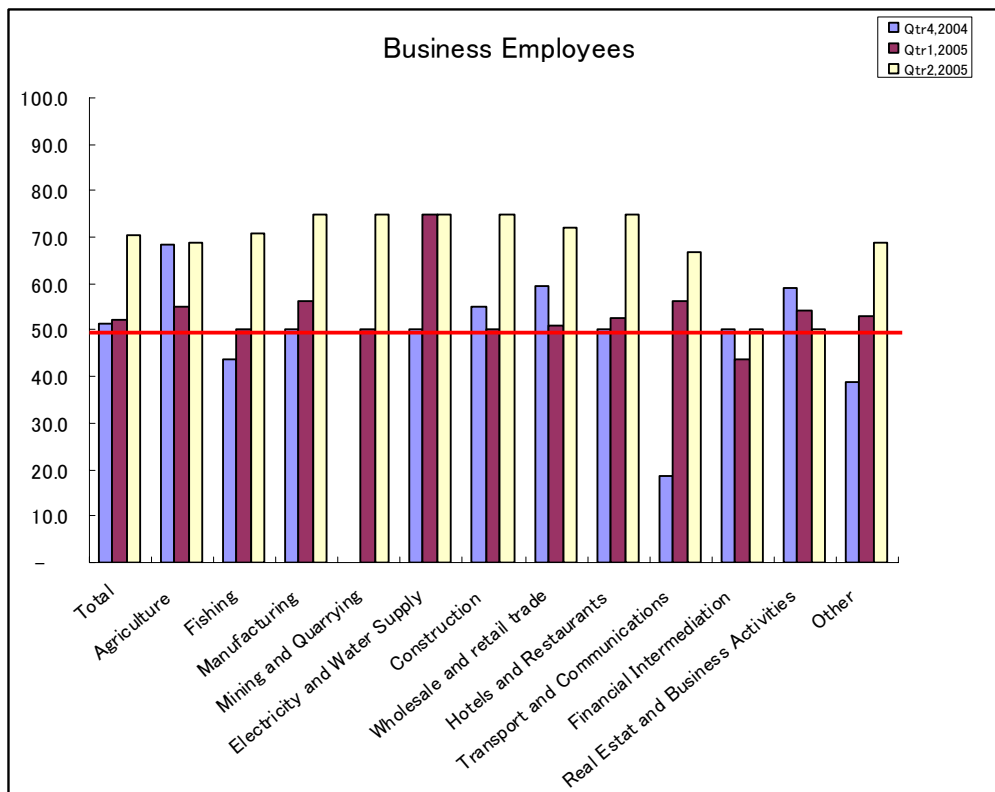
DI for business facilities was 52.7 points. DI for most of businesses was in an uptrend. Particularly, DIs for manufacturing, electricity & water, construction and financial intermediation were over 60 points, 75.0, 75.0, 60.7 and 75.0 points respectively. DIs for agriculture and mining & quarrying were below 50 points, 25.0 and 33.3 points respectively. On the whole, the result shows a positive capital investment in the future.



Business Employees

Overall business employees, or employment, indicate an UPTREND.

DI for employees was 70.2 points. DI for all businesses was over 50 points. DIs for fishing, manufacturing, mining & quarrying, electricity & water supply, construction, wholesale & retail trade and hotels & restaurants were over 70 points, 70.8, 75.0, 75.0, 75.0, 75.0, 71.9 and 75.0 points respectively. DIs for agriculture, transport & communications and other also were high at 68.8, 66.7 and 68.8 points respectively. The results indicate a positive signal for employment for the future.



Cash Flow

Overall cash flow is SLIGHTLY INSUFFICIENT.

DI for cash flow was 48.0 points. But DI for most of major industries was over 50 points. DIs for fishing, manufacturing, electricity & water supply, wholesale & retail trade, hotels & restaurants, financial intermediation and real estate & business activities were high, 62.5, 50.0, 75.0, 50.0, 56.3, 75.0 and 56.3 points respectively. On the other hand, DI for agriculture, mining & quarrying and transport & communications were below 50 points, 12.5, 25.0 and 41.7 points respectively. This result indicates that cash flow for most of businesses is in a favorable situation.

