



Palau Business Outlook

1st 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.

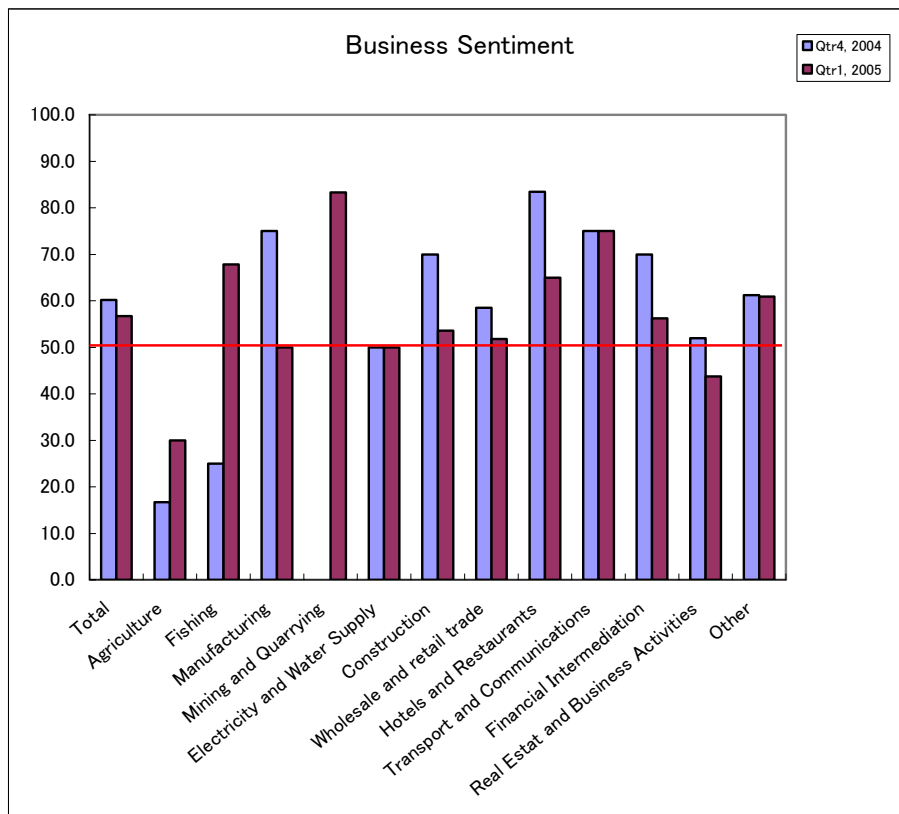
The Office of Planning & Statistics (OPS), under the Bureau of Budget and Planning in the Ministry of Finance, conducted the short-term economic trend survey for the first time in Palau for the 4th quarter of 2004. The survey targeted 10 percent of total registered companies by type of business. The second survey was administered from the beginning to the middle of May, 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 and at the end of the month following the end of each quarter for subsequent surveys. 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 1st quarter of 2005 reflected an UPTREND associated with a sustained high level of economic activity.

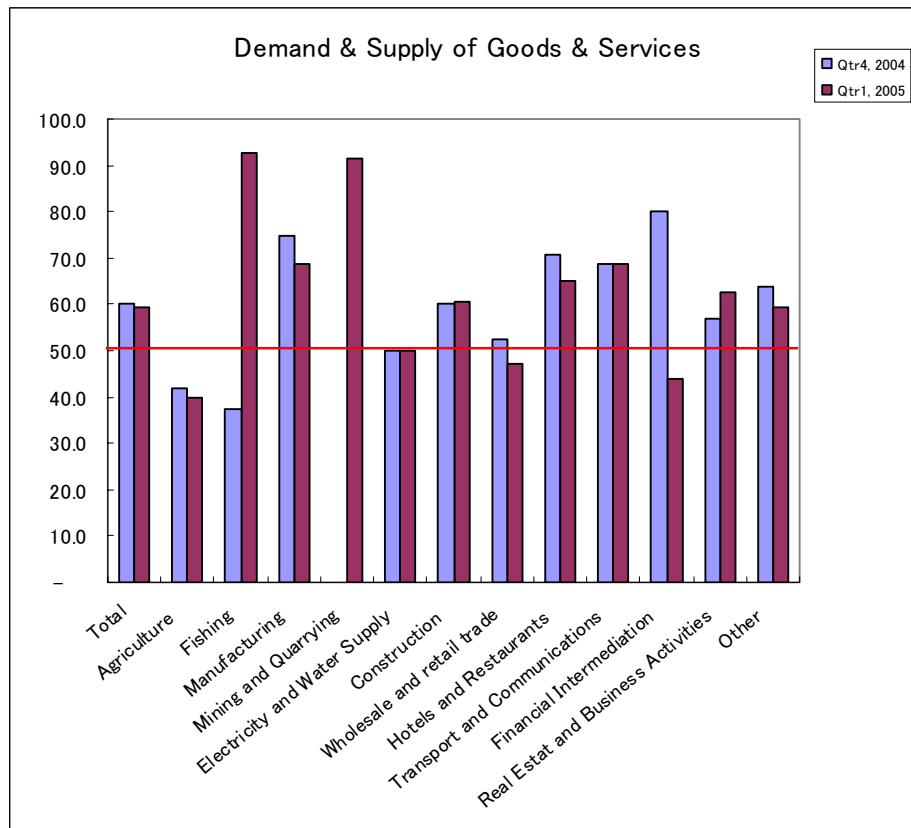
DI for business sentiment was 56.7 points. Particularly, the DI for hotels and restaurants, fishing, transport and communications, mining & quarrying was high at 65.0, 67.9, 75.0 and 83.3 points respectively. Continued strong visitor arrivals and ongoing public and private sector construction projects were significant contributing factors. On the other hand, business sentiment for agriculture indicated a downtrend with the DI at 30.0. The low business sentiment for agriculture related businesses is the availability of cheaper imported vegetables.



DEMAND AND SUPPLY OF GOODS AND SERVICES

Overall demand and supply for goods and services was SUFFICIENT.

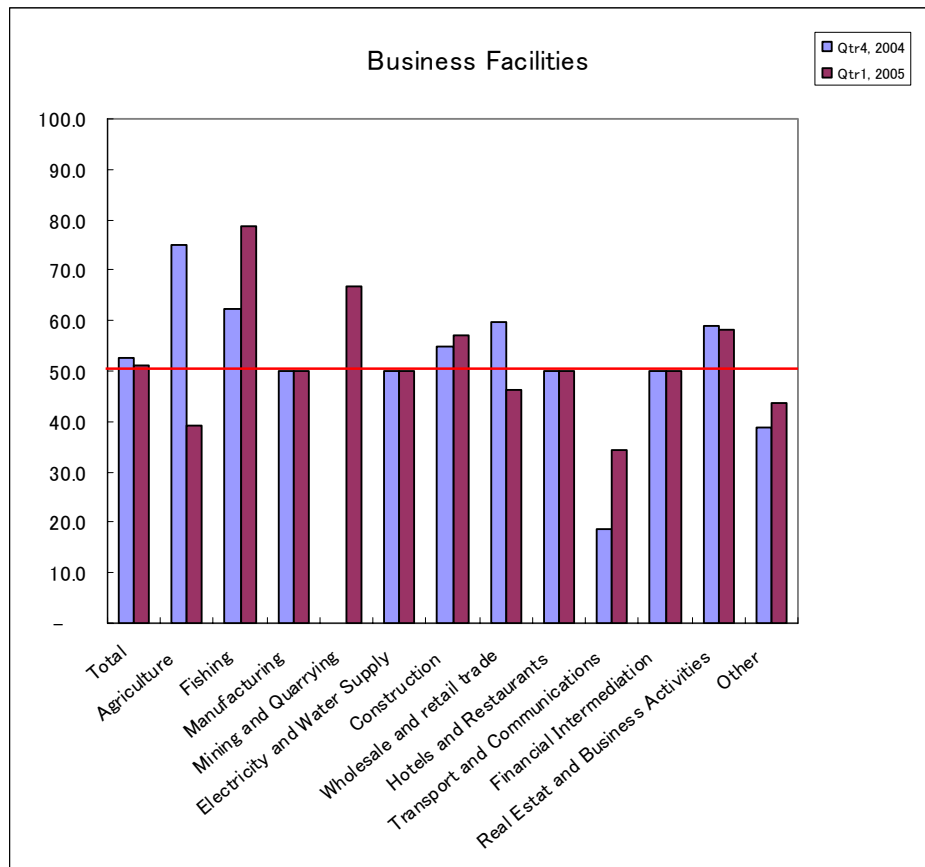
DI for demand and supply for goods and services was 59.4 points. DI for most of businesses was in an uptrend. Particularly, DI for fishing, manufacturing, mining & quarrying, hotels & restaurants and transportation & communications was over 65 points at 92.9, 68.8, 91.7 65.0 and 68.8 points respectively, while DI for agriculture, wholesale & retail trade and financial intermediation was below 50 points at 40.0, 47.3 and 43.8 point respectively.



BUSINESS FACILITIES

Overall capacity of business facilities was SLIGHTLY INSUFFICIENT

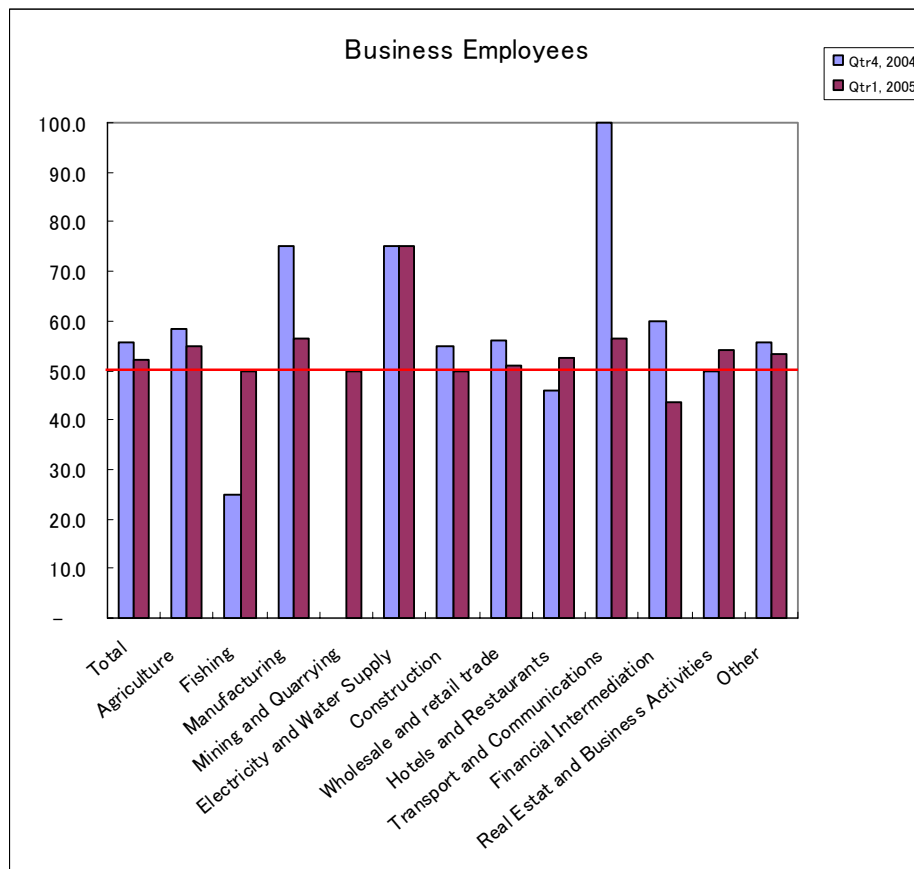
DI for business facilities was 51.0 points. DI for fishing, mining & quarrying, construction and real estate & business activities was over 50 points, 78.6, 66.7, 57.1 and 58.3 points respectively. DI for agriculture and wholesale & retail trade was below 50 points, 39.3 and 46.4 points. On the whole, the result points to positive capital investment in the future.



Business Employees

Overall business employees, or employment, indicate an UPTREND.

DI for employees was 52.2 points. DI for all businesses was over 50 points except financial intermediation. DI for manufacturing, electricity & water supply, hotels & restaurants and transport & communications was 56.3, 75.0, 52.5 and 56.3 points respectively. DI for employment plan in 2005 is 57.4 points. DI for electricity & water supply is very high, 75.0 points. DI for hotels and restaurants and wholesale & retail trade is 55.0 and 57.1 points respectively. The results indicate a positive trend for employment for the year.



Cash Flow

Overall cash flow is SUFFICIENT.

DI for cash flow was 58.7 points. DI for fishing, mining & quarrying, hotels & restaurants, transport & communications and financial intermediation was high, 78.6, 83.3, 67.5, 71.9 and 100.0 points respectively. DI for agriculture and construction was 35.0 and 39.3 points respectively. This result indicates that cash flow for most of businesses is in a favorable situation.

