



Republic of Palau

Short-Term Economic Trend Survey

4th Quarter 2004

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”.

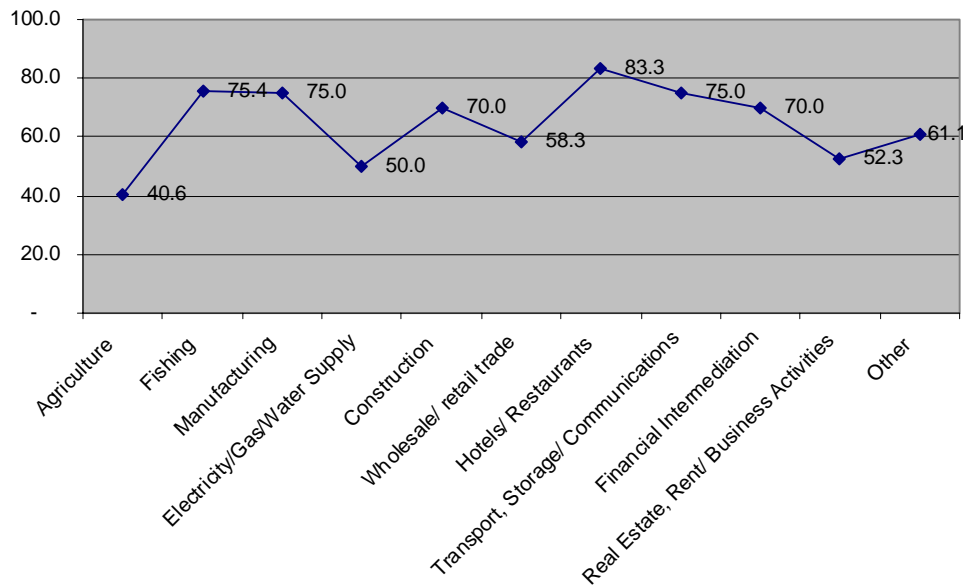
The DI indicates the directional movement of the economy, but it does not necessarily indicate the scale level of the economy. At present this method is used to measure economic trends in many countries.

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 survey was administered from the middle to the end of January 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 4th quarter of 2004 reflected an UPTREND associated with a sustained high level of economic activity following the 9th Festival of Pacific Arts in the 3rd quarter with the filming of the popular U.S. television series “Survivor” and continued strong visitor arrivals.



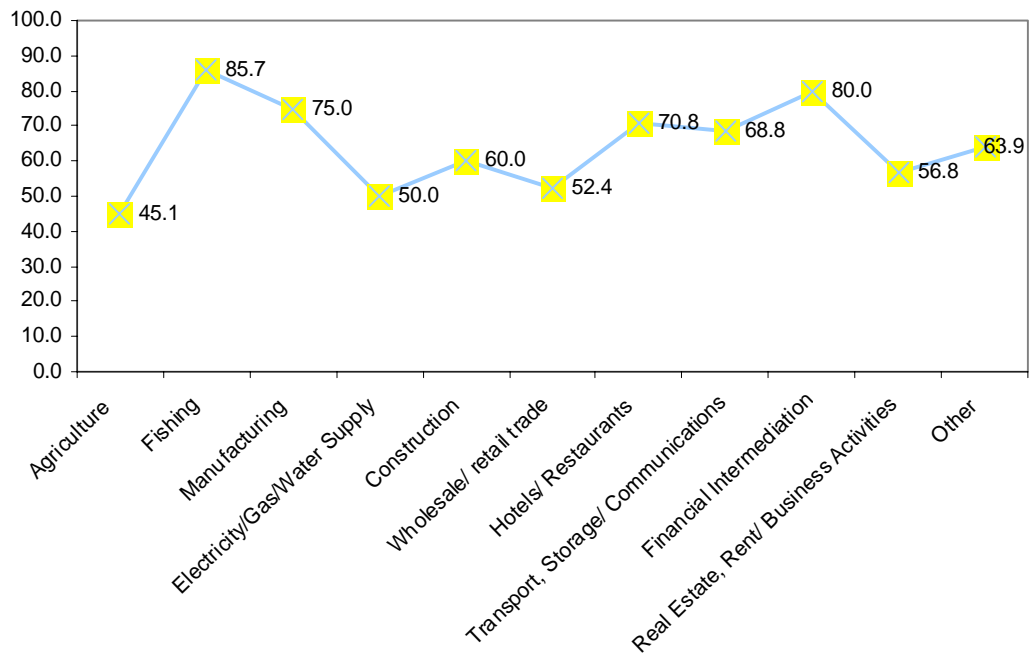
In general, business sentiment as reflected by the DI for the 4th quarter of 2004 was 62.8 points. Particularly, the DI for hotels and restaurants; fishing; transport, storage and communications; manufacturing; and construction was very high at 83.3, 75.4, 75.0, and 70.0 points respectively. Continued strong visitor arrivals and ongoing public and private sector construction projects as well as the filming of the Survivor television series were significant contributing factors. On the other hand, business sentiment for agriculture, hunting and forestry indicated a downtrend with the DI at 40.6. The low business sentiment for agriculture related businesses is the availability of cheaper imported vegetables.

Overall business sentiment for the 1st quarter of 2005 is 59.3 points reflecting a continued uptrend. Continued strong visitor arrivals and construction including preparations for the South Pacific mini-games are believed to be the primary factors contributing to the positive outlook.

DEMAND AND SUPPLY OF GOODS AND SERVICES

Overall demand and supply for goods and services was SUFFICIENT.

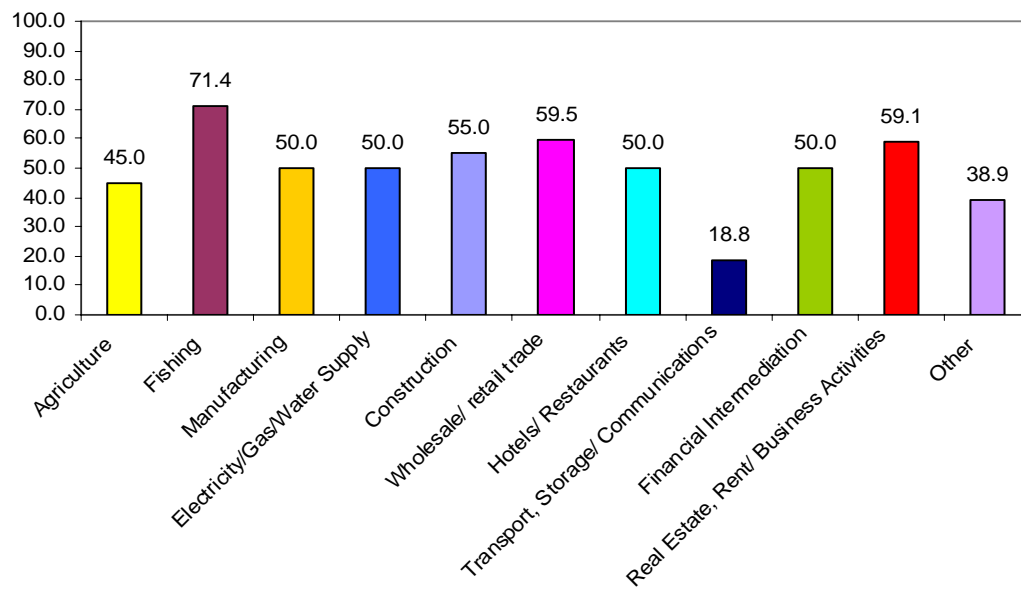
DI for demand and supply for goods and services was 62.1 points. DI for most of businesses was in an uptrend. Particularly, DI for manufacturing, other businesses, real estate, rent/business activities, financial intermediation and transportation was over 70 points at 85.7, 80.0, 75.0, and 70.0 points respectively, while DI for fishing and agriculture, hunting and forestry were below 50 points at 50.0 and 45.1 points respectively.



BUSINESS FACILITIES

Overall capacity of business facilities was SLIGHTLY INSUFFICIENT

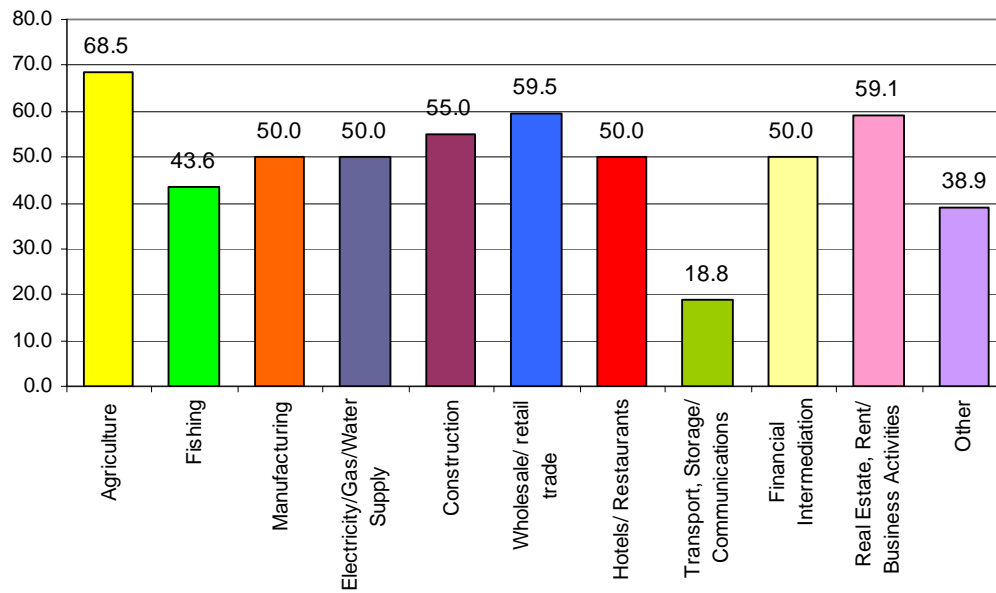
DI for business facilities was 53.0 points. .DI for most of businesses was just over 50 points. Only fishing was over 60 points, respectively 71.4 points. DI for transport, storage and communications was 18.8 points. On the whole, the result points to positive capital investment in the future.



BUSINESS EMPLOYEES

Overall business employees, or employment, indicate an UPTREND.

DI for employees was 51.6 points. DI for all businesses was over 50 points except fishing, other businesses and transport, storage and communications. DI for agriculture, hunting and forestry was 68.5 points respectively. DI for employment plan in 2005 is 57.7 points. DI for electricity, gas and water supply, and manufacturing is very high, 75.0 points respectively. DI for hotels and restaurants is 50.0 points. The results indicate a positive trend for employment for the year.



CASH FLOW

Overall cash flow is SUFFICIENT.

DI for cash flow was 53.9 points. Manufacturing, financial intermediation, hotels restaurants, and fishing were high, 100.0, 80.0 and 75.0 points respectively. DI for agriculture was 33.5 points. This result indicates that totally cash flow for most of businesses is in a favorable situation.

