Philequity Corner (10/02/2006)
By Ignacio B. Gimenez

Typhoon Milenyo closes financial markets

Not in recent memory has the nation's capital seen a typhoon of unprecedented proportions. And for the first time since the 1987 "Siege of Makati" coup attempt, the Philippine Stock Exchange was forced to close for two straight business days. This time, not by force of tanks and ammunition, but by gale-force winds which toppled trees and power lines and heavy downpours which left widespread flooding and damage throughout Metro Manila and most of Luzon.

Typhoon Milenyo (Xangsane), which had maximum winds of 130 kilometers per hour, was the worst typhoon that hit Luzon since Rosing (Angela) in 1995 and Loleng (Babs) in 1998.

Worst Typhoons of Luzon (1970 to Present)

NAME	DATE	HIGHEST WIND SPEED	DEATHS	DAMAGE (in Pbn)
? MILENYO (Xangsane)	September 26-29, 2006	130 kph	61 (?)	1.212 (?)
1. ROSING *(Angela)*	October 30-November 4, 1995	260 kph	936	10.829
2. LOLENG *(Babs)*	October 15-24, 1998	250 kph	303	6.787
3. SENING *(Joan)*	October 11-15, 1970	275 kph	768	1.89
4. SISANG *(Nina)*	November 23-27, 1987	240 kph	979	1.119
5. KADIANG *(Flo)*	September 30-October 7, 1993	130 kph	576	8.752
6. YONING *(Skip)*	November 5-8, 1988	230 kph	217	2.767
7. UNSANG *(Ruby)*	October 21-28, 1988	215 kph	157^	5.636
8. ILIANG *(Zeb)*	October 7-18, 1998	260 kph	75	5.375
9. HERMING *(Betty)*	August 7-14, 1987	240 kph	200+	2.066
10. KADING *(Rita)*	October 25-27, 1978	185 kph	444	1.9

Source: www.typhoon2000.ph

Widespread devastation
The Philippines is one of the most typhoon-prone countries in the world, experiencing 25 to 30 typhoons every year. But because of our country's large geographical size, typhoons typically are localized only to a small part or region, such that their impact on national economic performance is often not that significant. In Typhoon Milenyo's case, however, the damage was widespread, punctuated by a direct hit on Metro Manila and a Luzon-wide blackout.

According to the National Disaster Coordinating Council (NDCC), a total of 185,023 families spread across 7 regions, 17 provinces, 14 cities and 1,377 barangays were affected. The NDCC also listed a total of 61 persons dead, 81 persons injured and 69 missing. The damage to public and private property was so extensive that the City of Manila, the Provinces of Cavite and Antique, and the Municipality of San Roque in Northern Samar were all declared under a State of Calamity.

Economic impact
The physical impact of Typhoon Milenyo was immediately visible: blown-away roofs and smashed windows, downed power lines and trees, and wreckage of giant billboards obstructing

major thoroughfares. In economic terms, however, the full brunt of Typhoon Milenyo may take some time to assess.

For such disasters, impacts to the economy are commonly categorized as direct costs, indirect costs and secondary effects:

Direct Costs	Indirect Costs	Secondary Effects
damage to:	**damage to:**	**impact on:**
buildings, power lines, towers	flow of goods and services	overall and sectoral GDP
plants and crops	lower output from damaged assets and infrastructure	balance of trade
inventories (finished, intermediate, and raw materials)	loss of earnings	public finances and debt levels
		prices, inflation and employment

Direct costs relate to physical damage to capital assets, which the NDCC (as of 6pm Saturday) estimated to have ruined more than 13,000 houses and damaged properties amounting to P1.2 billion (infrastructure – P318 million, agriculture – P311 million, livestock – P21 million, and fisheries – P238 million).

It is difficult to gauge the indirect costs brought by the typhoon at such an early stage. But the business disruptions alone caused by the Luzon-wide blackout and the breakdown in communication and transportation could easily run to billions of pesos. Not to mention the two business days wherein banks, malls, shops and restaurants were closed.

Even harder to measure are the secondary effects which often refer to lagged measures of economic performance. Major disasters, such as super typhoons, often disrupt the government's short-term economic program - since most of the time these events result in substantial realignment in spending plans, adjustments in economic targets and shifts in economic policy. Thankfully, the government is well ahead of its fiscal stabilization targets and therefore well prepared to address the recessionary effects of the recent disaster shock.

Agriculture and power sectors – among the worst hit
The agricultural sector, most obviously, is the worst hit. Six out of the seven regions affected by the typhoon are predominantly agricultural regions with an average share of agriculture to GDP of 23 percent, which is higher than the national average of 14.3 percent.

	% of Agriculture to GDP
Philippines	**14.3%**
Regions affected by Typhoon Milenyo	
NCR	0.0%
Region III - Central Luzon	18.1%
Region IVA - CALABARZON	33.6%
Region IVB - MIMAROPA	18.3%
Region V - Bicol	20.1%
Region VI - Western Visayas	20.2%
Region VIII - Eastern Visayas	27.7%
Average (excluding NCR)	**23.0%**

Source: NSCB

Also severely affected is the power sector as Milenyo damaged power plants and transmission lines. As of 5pm Saturday, Meralco reported 100 percent power restoration in its North Area distribution (except for some parts of Quezon City). However, 31 percent of its circuits in its Central Area distribution and 47 percent in its South Area distribution are still out.

Boon for construction and banking

While the damage to agricultural crops and public infrastructure (bridges, farm-to-market roads, etc) will surely make a dent on GDP growth in the fourth quarter, we see these more as a short-term blip rather than a serious long-term problem. In the best-case scenario, we expect to see the massive infrastructure spending program budgeted for next year to kick in earlier than expected. In that case, the expected 4th quarter slowdown could be alleviated thanks to the stimulative effects of reconstruction spending.

Indeed, some industries will benefit once the rebuilding process begins. Natural disasters historically have also been a boon to banks because they will be lending and speeding up the processing of loans to aid in the rebuilding. Obviously, the clear winners are construction and building materials/cement companies because of the construction-led boom that usually follows such disasters.

Some economists even argue that the eventual net impact of such disasters may even be positive. This is the case when significant opportunities for upgrades to infrastructure and technology is involved, spawning growth through what Joseph Schumpeter calls a process of *creative destruction*.

Man and markets: both fragile and resilient at the same time

Unexpected natural calamities such as the recent typhoon may affect the stock market in the short term. But as we have shown in a previous article (The Resilience of Man and the Markets - July 24, 2006), markets have the ability to shrug off the short-term effects of such momentous "non-economic" events. So although we may see some correction in the Philippine market this week, we expect it to quickly recover just as the Indonesian, Thai and Indian markets easily overcame the miseries brought by the Indian Ocean Tsunami in 2004.

And while Typhoon Milenyo was not as devastating as the tsunami, the 1990 Philippine earthquake or the 1991 Pinatubo eruption, it reminds as of how powerful nature can be and how fragile mankind is in the face of such enormous forces of nature. In the end, however, we are all comforted by the relentless determination of man to claim its place, to reclaim what has been taken and to carry on against all odds.

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