

BUSINESS CONFIDENCE INDEX

4.2
DECREASE

Fruitful Summer for Georgian Agriculture !

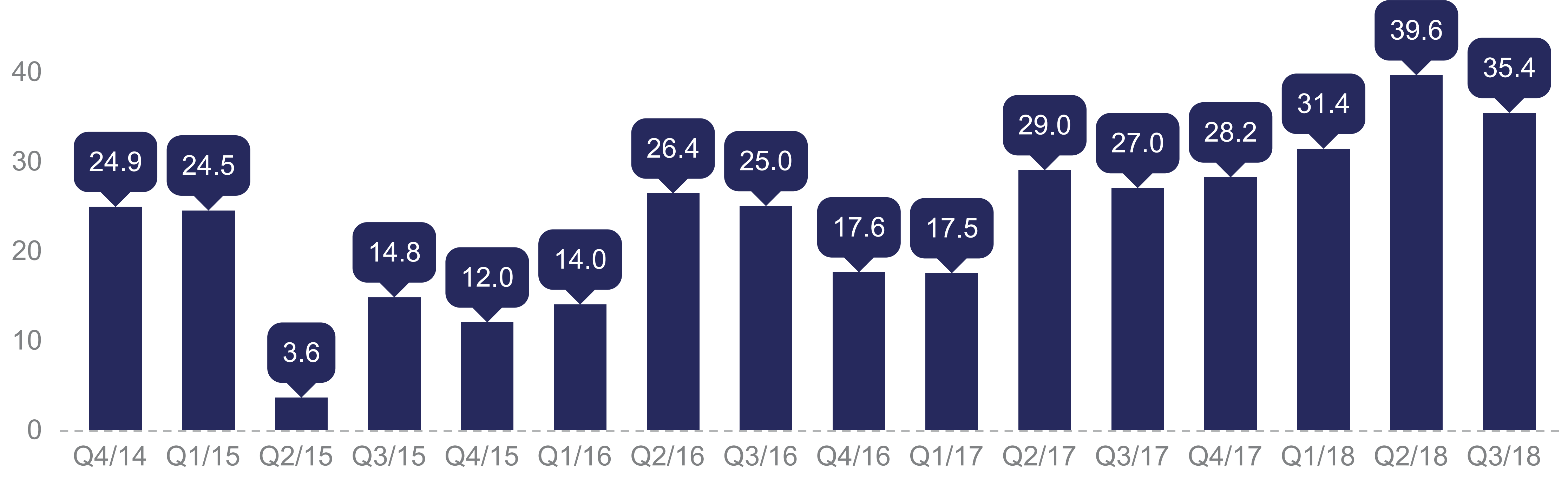
Q3 2018

Participating Companies

<p>Large</p>  <p>35</p>	<p>SMEs</p>  <p>95</p>
--	---

SURVEY HIGHLIGHTS

Business Confidence Index (BCI)



- After three consecutive quarters of improvements, BCI in the third quarter of 2018 has worsened, dropping to 35.4 index points, which is an 4.2 index point loss over the previous quarter. The BCI drop is based on lowering expectations and worsening of past performance in many business sectors. Compared to other sectors, manufacturing assessed their past performance and expectations the most pessimistically. In contrast, the agriculture sector is the most positive, reflecting a high season in production.
- The Past Performance Index, which reflects businesses' assessment of their own economic performance in the previous quarter, showed a downward trend, decreasing by 3.4 points in Q3 2018.
- Business optimism about the overall economy decreased slightly, reaching 64.2 index points. Other than manufacturing, the retail trade and financial sectors have contributed the most to this decrease in business optimism.
- The Sales Price Expectation Index decreased moderately, still standing higher than last year's expectations. Businesses in the service and construction sectors predict high price increases in the next quarter.
- Expectations and past performance worsened for both large businesses and SMEs.
- For large-sized firms, the main factors that continue to limit business activities are access to finance, space and equipment, while SMEs chose access to finance and lack of demand as the main limiting factors for further business development.

* The Business Confidence Index is measured on a scale of [-100; 100] points. The size of the index indicates a weighted balance between the respondents giving positive and negative replies. A confidence index of 100 would indicate that all firms in the sample reported a positive outlook. An index of zero would indicate that the weighted balance of positive and negative views reported by firms is about equal or, alternatively, that all firms reported no change in the current business situation (for more details, see the methodological notes).

Overall, the BCI lost 4.2 points compared to Q2 2018. Expectations in the private sector in Georgia decreased by 2.8 percentage points, and dropped to 64.2 index points (up from 67.0 points in Q2). Business performance over the past three months decreased, reaching nearly 38.2 points (decreasing from 41.6), indicating a downturn in production/turnover/sales. The synergy of worsening performance in the past three months and lower expectations have led to a drop in overall BCI.

The BCI index worsened in manufacturing (-36.2), retail trade (-10.1), financial (-36.2), and other (-4.2) sectors. The construction, agriculture and service sectors improved by 16.4, 13.4 and 4.7 points, respectively.

BCI QoQ change by sector

Sectors	Q3/18		Change
Manufacturing	16.8	▼	-36.2
Construction	37.2	▲	16.4
Retail Trade	25.1	▼	-10.1
Service	48.4	▲	4.7
Agriculture	29.8	▲	13.4
Financial	14.5	▼	-36.2
Other	17.6	▼	-4.2

SME



Q3/18
6.7

Change
▼ **-5.9**

Large



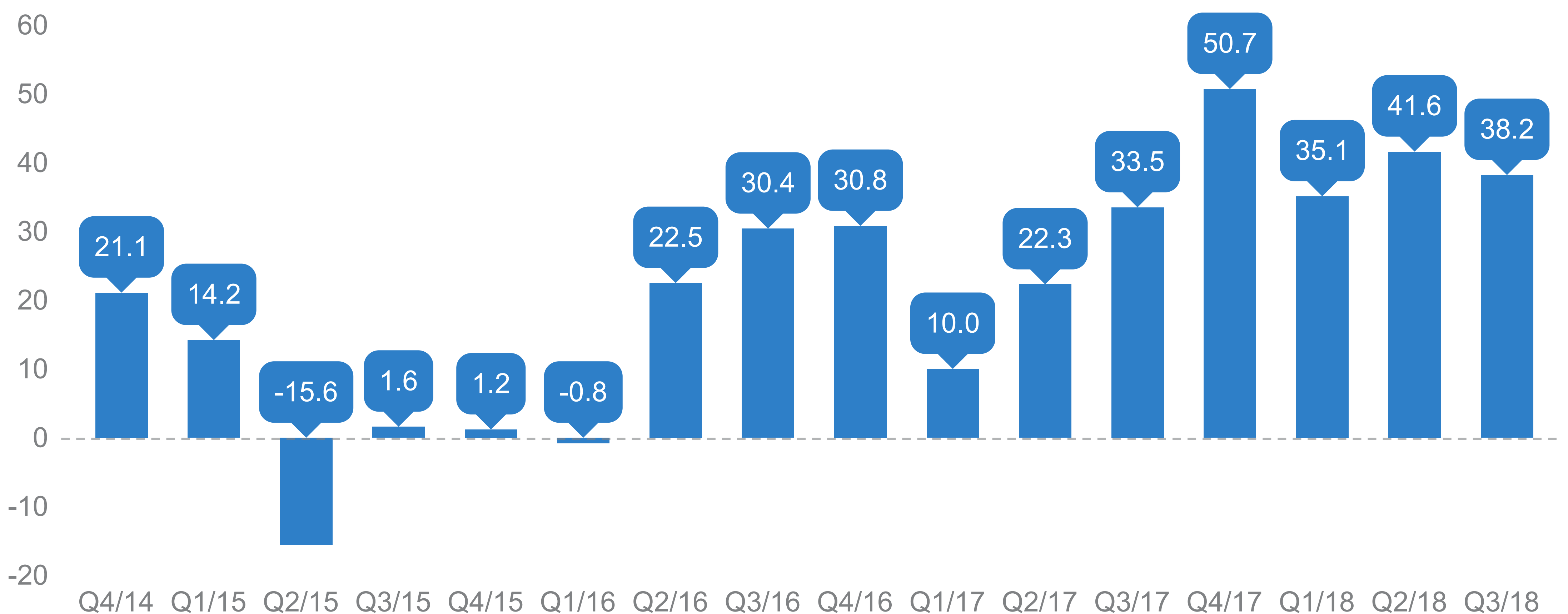
Q3/18
40.7

Change
▼ **-3.8**

Business confidence in the third quarter of 2018 decreased for both large firms (-3.8) and SMEs (-5.9). Both types of firms expressed less optimism and had weaker performance, which resulted in a decrease of -4.2 index in overall BCI.

It should be noted that the BCI results presented here may be overestimated, as the survey only covers businesses currently operating, and not those that have already exited the market. Firms still in operation are more likely to have a negative outlook to some extent

Production/Turnover/Sales Past 3 Months



Businesses' actual performance decreased by -3.4 compared to the second quarter of 2018. In the Q3 2018 reporting period, sales (production or turnover) of the 130 firms surveyed decreased from 41.6 (Q2 2018) to 38.2 (Q3 2018).

Past 3 Months QoQ change by sector

Sectors	Q3/18	Change
Manufacturing	36.6	-46.7
Construction	56.2	27.0
Retail Trade	34.5	1.5
Service	42.0	-1.8
Agriculture	71.6	86.1
Financial	-4.2	-52.9
Other	4.1	-45.0

A significant increase in performance was observed in the agriculture (+86.1) and construction (+27.0) sectors. Significant improvement means that in these sectors, the weighted balance between positive and negative responses decreased compared to the previous quarter. In the remaining sectors, production/turnover/sales for the past three months worsened: financial (-52.9), manufacturing (-46.7), service (-1.8) and others (-45.0) sectors.

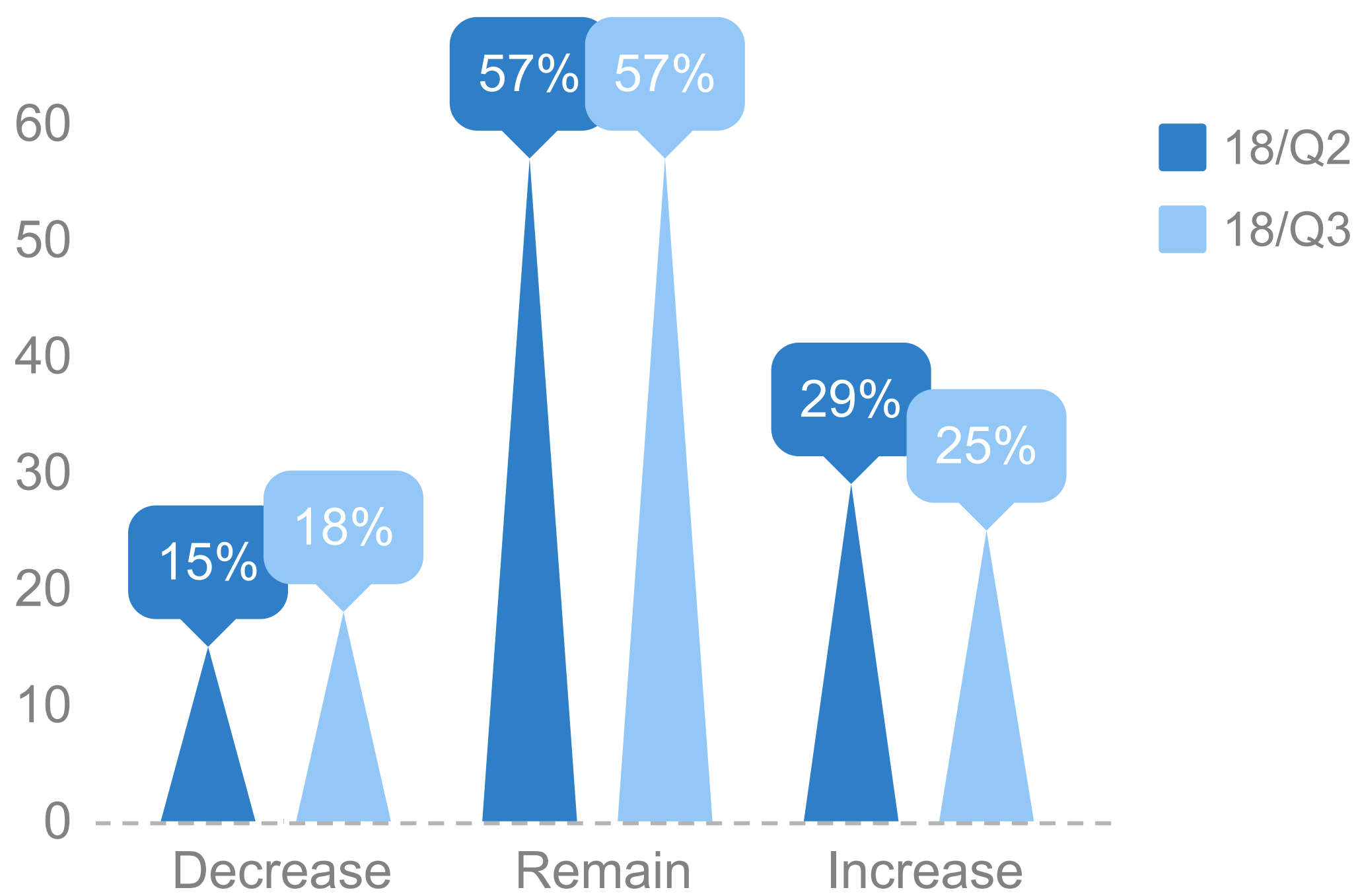
The negative developments in many sectors outweighed the significant positive performance of the three positive sectors, and led to an overall decrease in business performance.



Business activities decreased for both large businesses and SMEs. For large firms, business activity indicators dropped by 1.4 points and stopped at 46.3 in Q3 2018; for SMEs, the same indicator dropped by 6.4 and reached -4.3 over the same period.

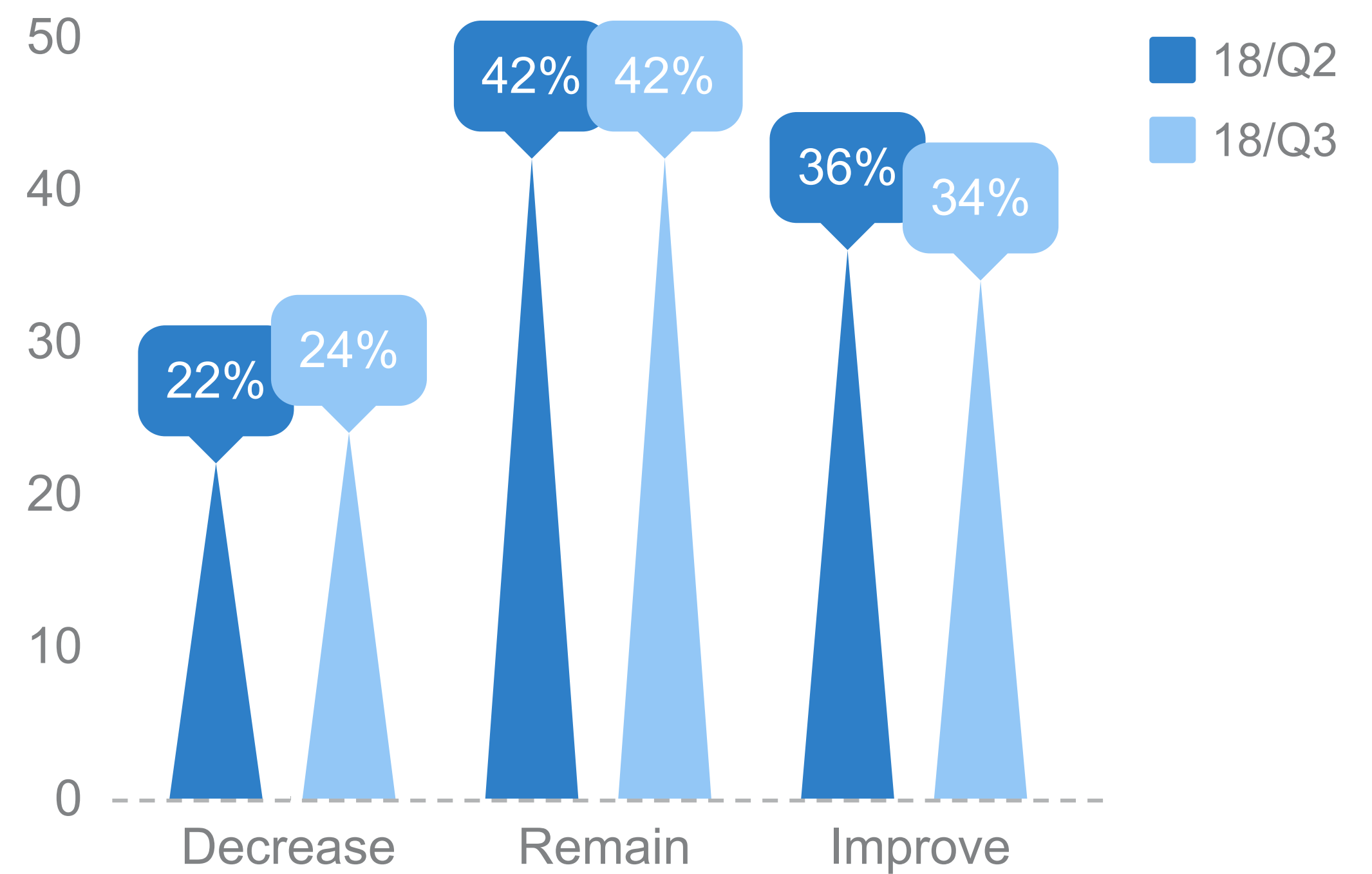
** This indicator describes the activities of businesses in April, May and June

How has your firm's total employment changed over the past 3 months?



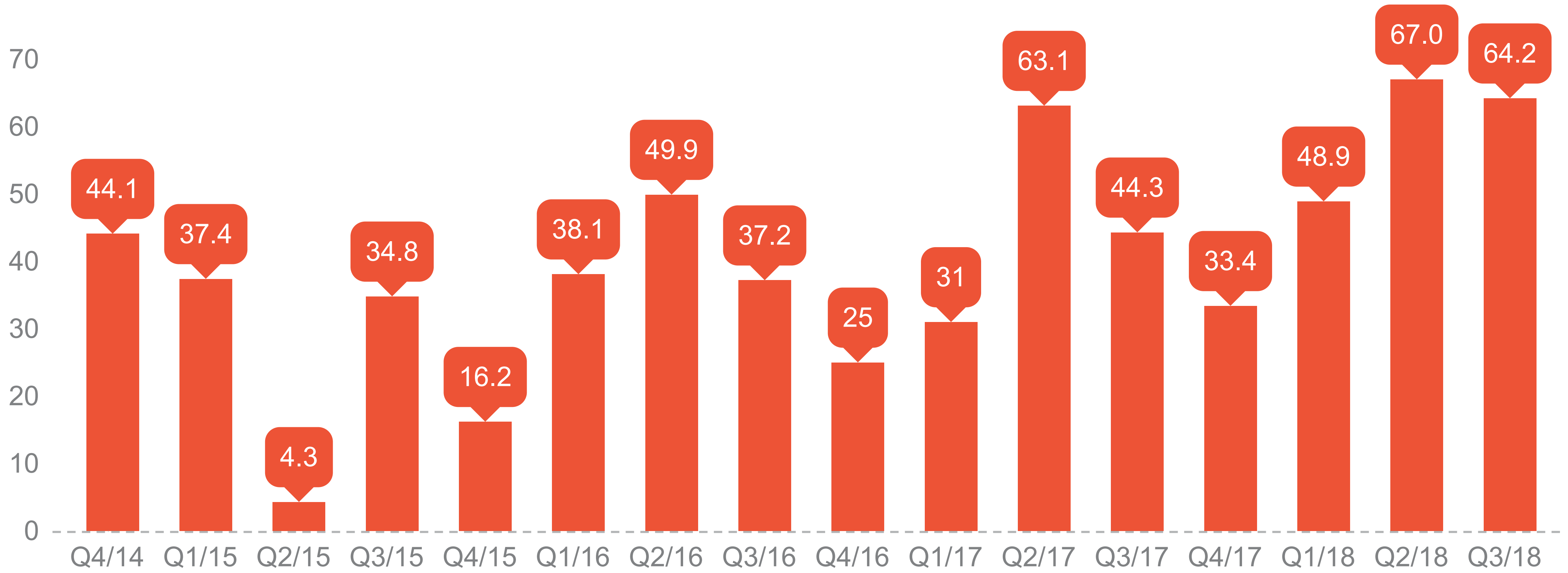
Compared to the previous quarter, a lower share of surveyed firms (57%) stated that employment remained the same over the past three months. Less businesses reported an increase and more decreases in employment.

How has your business activity developed over the past 3 months?



Moreover, 42% of firms claimed that their business activities remained unchanged over the past three months, while 34% of participants stated that they had improved their performance, and 24% stated the decline.

Expectations Index



The Expectations Index decreased by 2.8 index points in the third quarter of 2018. Expectations about the next three months improved for the agriculture (47.0), construction (2.9) and service (4.1) sectors. The highest decrease was reported in the manufacturing and retail trade sectors (for more information, see Appendix 1).

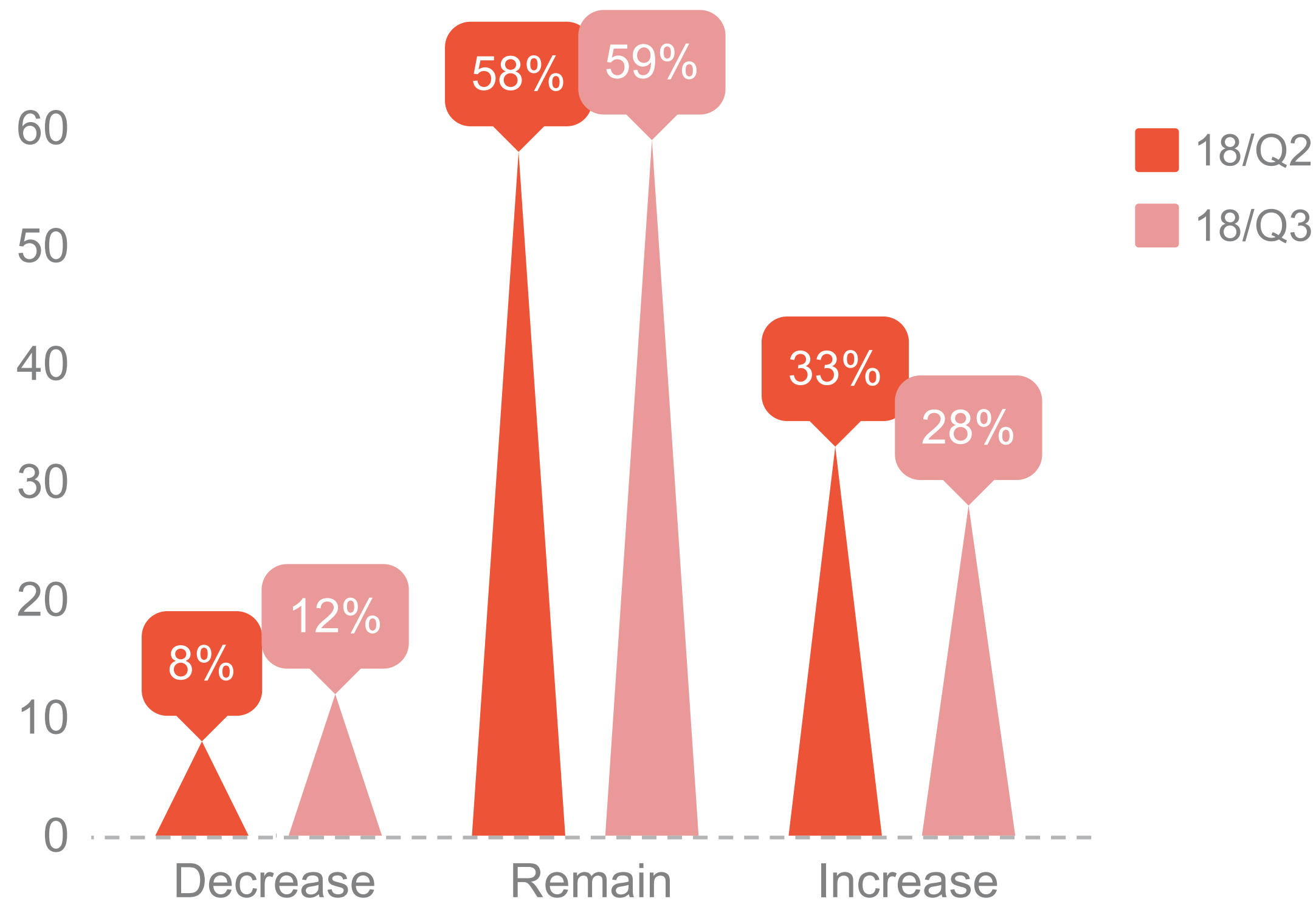
Expectations QoQ change by sector

Sectors	Q3/18	Change
Manufacturing	63.4	-27.6
Construction	37.9	2.9
Retail Trade	59.7	-17.3
Service	75.6	4.1
Agriculture	77.2	47.0
Financial	43.8	-12.0
Other	8.1	-43.9

As one can see from the table, business expectations for the three-month period July through September 2018 decreased for both large size and SME firms.

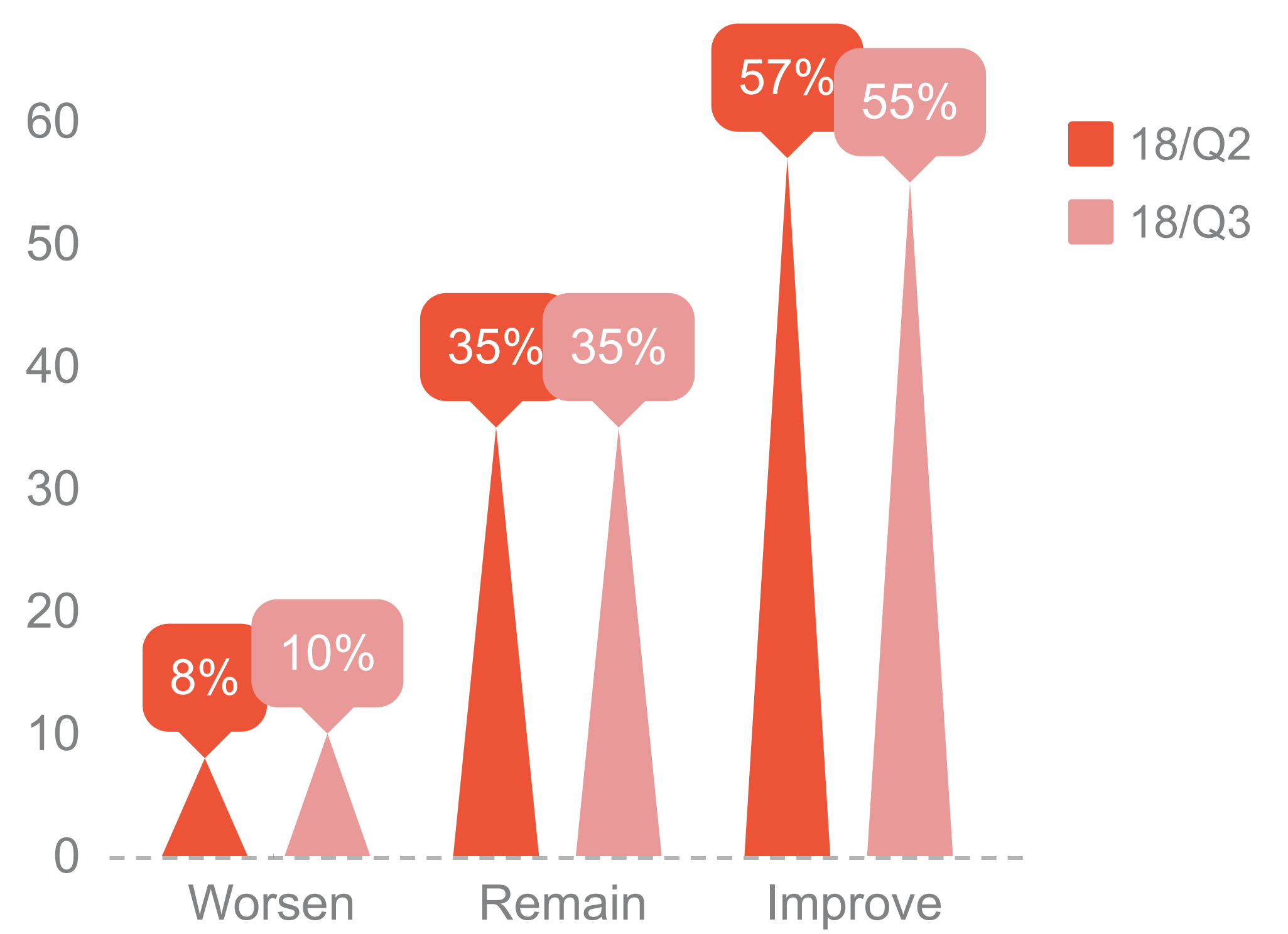


How do you expect your firm's total employment to change over the next 3 months?



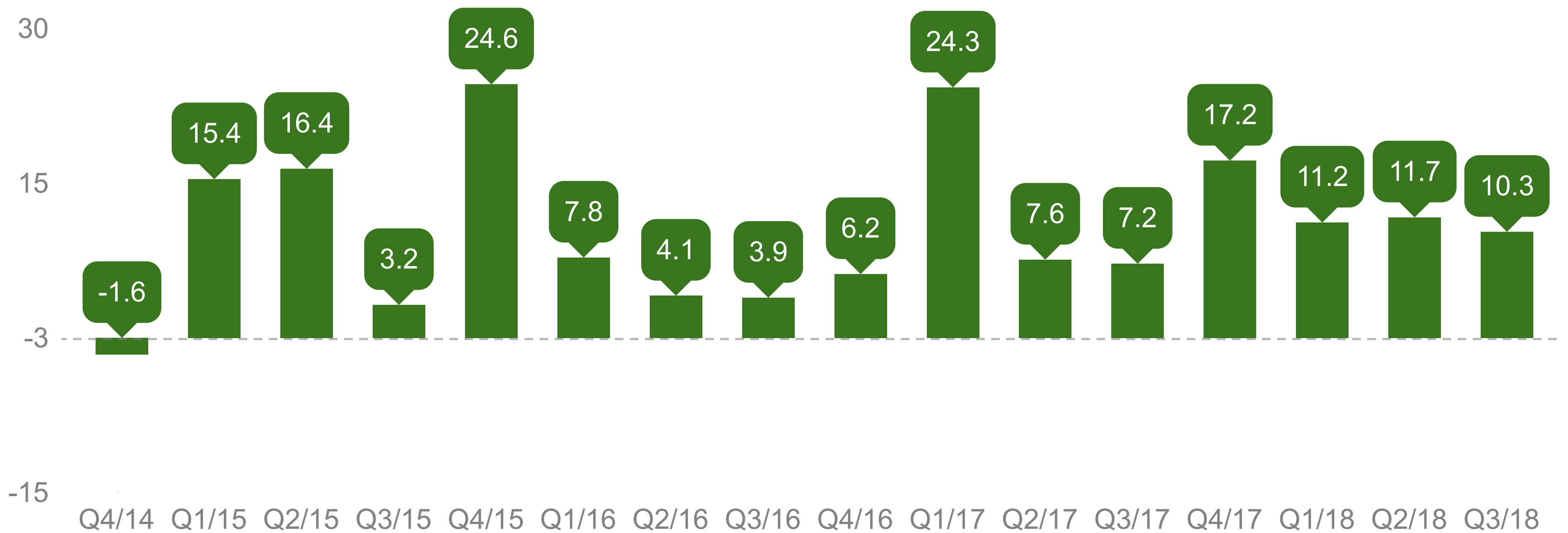
The majority (59%) of surveyed businesses do not expect any changes in employment over the next three months. Furthermore, 28% of firms stated that they would employ more employees in the future.

How do you expect your business condition to change over the next 3 months?



55% of the surveyed firms expected that the economic condition of their businesses would improve over the next three months, and 35% did not expect any changes in the future, while a lower share of businesses expect their business conditions to worsen.

Sales Price Expectations



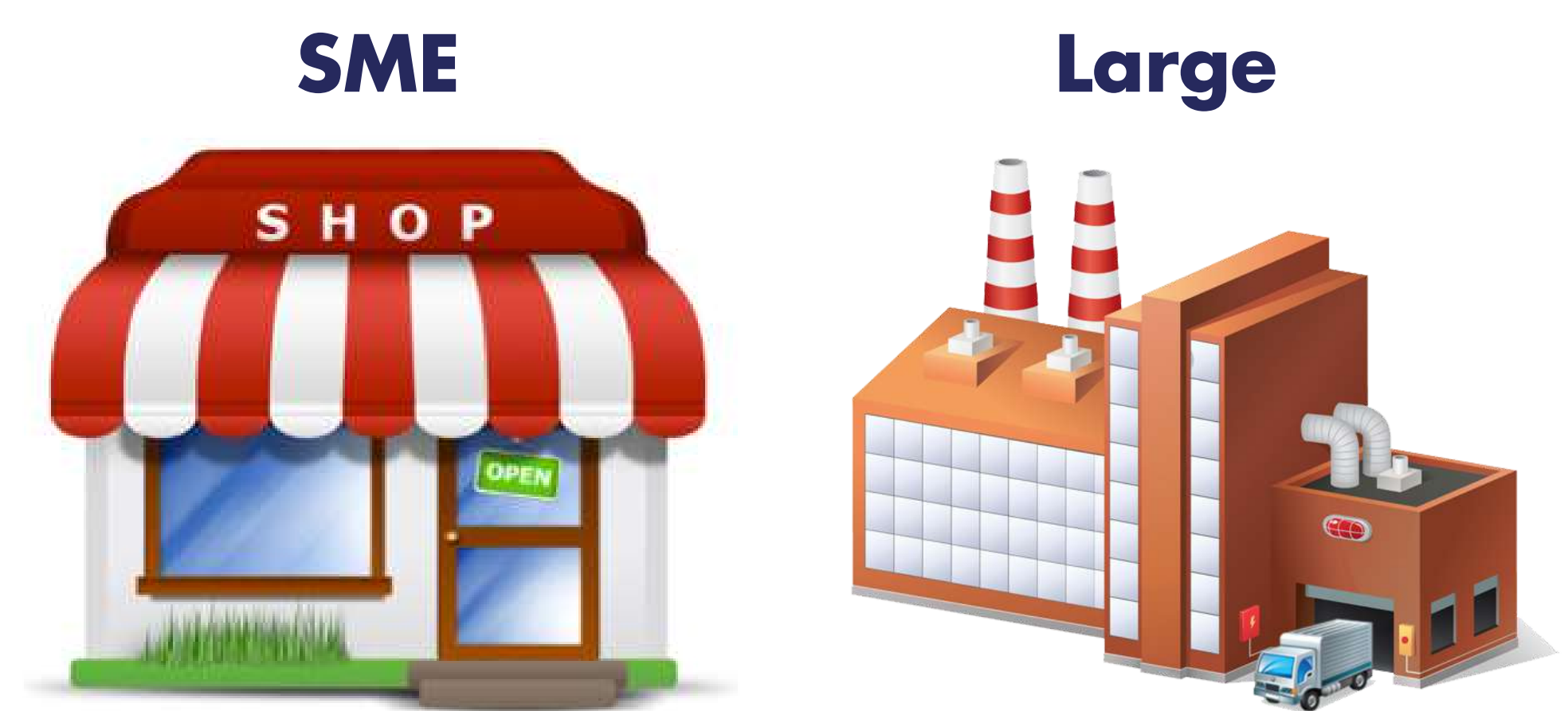
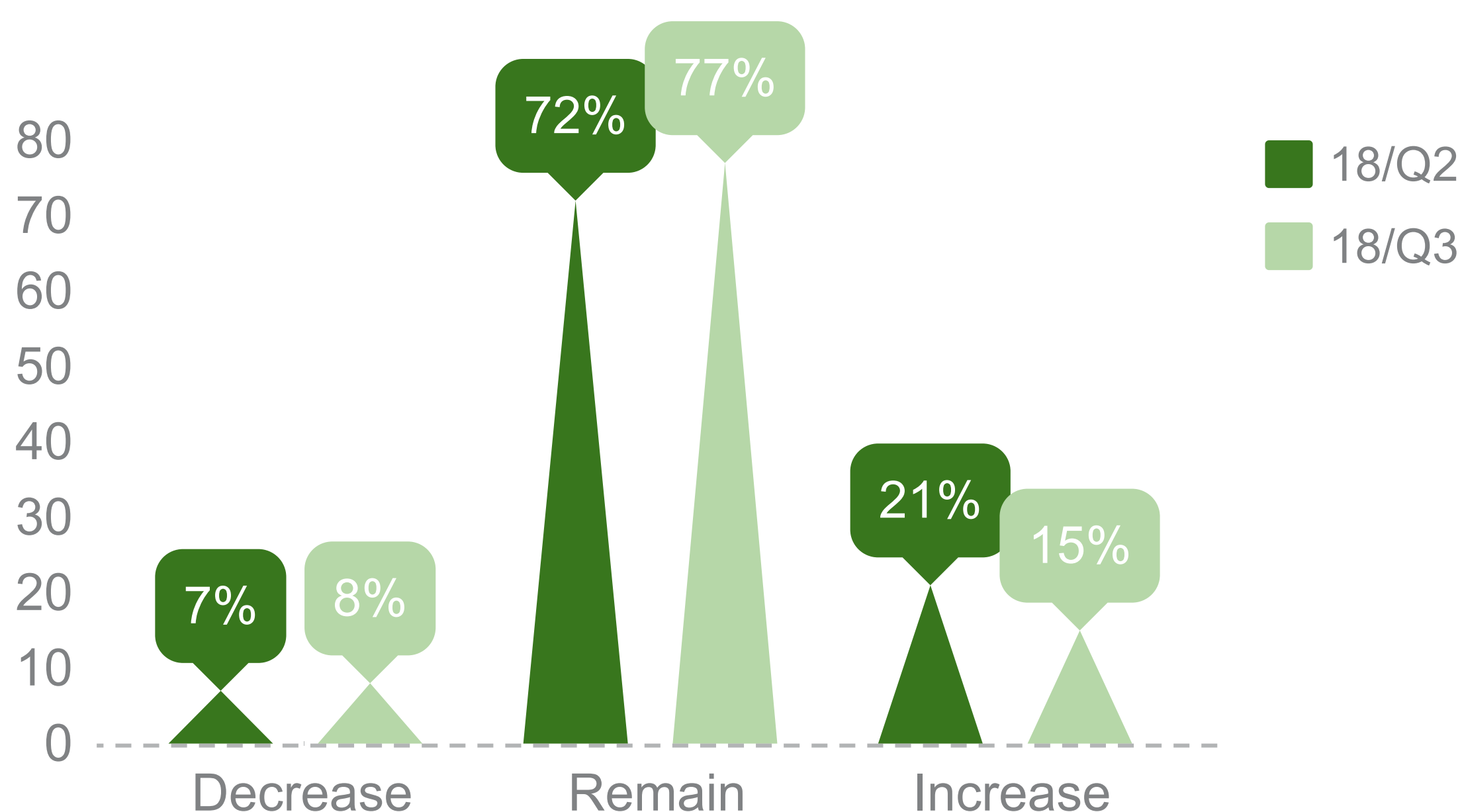
The Sale Price Expectation Index decreased from 11.7 points (Q2 2018) to 10.3 points (Q3 2018). The decrease in the Index is driven by a significant drop in the manufacturing, retail trade and agriculture sectors. The manufacturing sector expects a noticeable decrease in prices over the next three months, while the service and construction sectors expect an increase (for more information, see Appendix 1).

The overall Sales Price Expectations Index decreased for large companies and increased for SMEs.

Sales price QoQ change by sector

Sectors	Q3/18	Change
Manufacturing	-13.5	-55.7
Construction	37.9	4.6
Retail Trade	-12.4	-11.8
Service	18.4	9.7
Agriculture	5.7	-8.9
Other	62.5	69.8

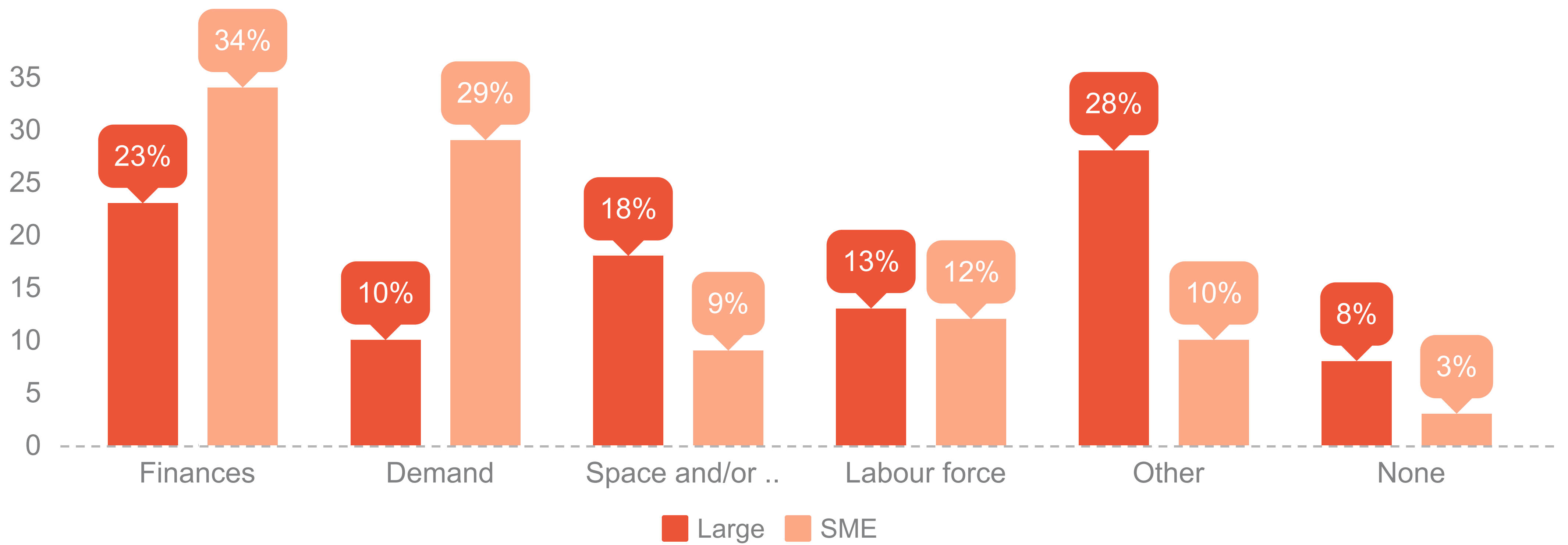
How do you expect the prices you charge to change over the next 3 months?



Q3/18	Change	Q3/18	Change
6.7	2.5	11.2	-2.5

The majority (77%) of all surveyed firms are not going to change the prices they charge over the next three months. Only 8% of firms expect to decrease prices, and 15% expect to increase prices in the future.

WHAT ARE THE MAIN FACTORS CURRENTLY LIMITING YOUR BUSINESS? Quarter 3, 2018



A low level of consumption activities and lack of access to financing continue to be two of the most significant obstacles for businesses. From a total of 130 firms participating in the survey, 23% of large sized firms and 34% of SMEs noted that lack of access to finance was their main obstacle. Meanwhile, 10% of large firms and 29% of SMEs chose lack of demand as the main limiting factor for further business development.

Methodology

The ISET Policy Institute, working in partnership with the BIA (Business Information Agency) and the International Chamber of Commerce in Georgia (ICC), implemented the Business Confidence Survey beginning in December 2013, and publishes the Business Confidence Index (BCI) on a quarterly basis.

Business confidence for Georgia is measured by seven sector-specific indices focusing on: 1) services, 2) retail trade, 3) agriculture, 4) manufacturing industry, 5) financial services 6) construction and 7) other sectors. For each sector, confidence is measured through a simple survey instrument targeted at top business executives.

Answers obtained from the surveys are aggregated in the form of “balances.” Balances are constructed as the difference between the percentage of respondents giving positive and negative replies.

Using this method, a confidence index of +100 would indicate that all survey respondents were much more confident about future prospects, while -100 would indicate that all survey respondents were much less confident about future prospects.

Variable **Value**

Positive **+1**

Neutral **0**

Negative **-1**

The methodology for compiling the indices is based on the Joint Harmonised EU Programme of Business and Consumer Surveys.

DEFINITIONS

- The Business Confidence Index is calculated as a weighted average of the balances deduced from all answers about production/sales/turnover, competition, order books, volume of stock, demand evaluation, operation costs, profit, employment, and sales price setting.
- The Expectations Index is calculated based on two questions: production/sales/turnover for the next three months, and employment plans for the next three months.
- A large*** firm is one with a yearly average of over 100 people employed, or a yearly average turnover exceeding 1.5 million GEL.
- Small firms are those with an average of fewer than 20 people employed for over a year and an annual average turnover of less than 0.5 million GEL.
- Medium firms are those that are neither large nor small.

For the BCI Methodology, click [here](#)

For the BCI Data, click [here](#)

*** The size of the company is defined according to the Main Indicators' Calculation Methodology of Business Statistics (http://geostat.ge/cms/site_images/_files/georgian/methodology/business/BS_metodologia.pdf).

Distribution of Participating Firms by Sector and Size

Table 1 - Distribution of firms participating in the BCI survey

Sectors - Number of firms	18/Q3	18/Q3	18/Q2	18/Q2
Manufacturing	12	9%	14	6%
Construction	12	9%	31	13%
Retail Trade	30	23%	48	20%
Service	46	35%	94	40%
Agriculture	12	9%	16	7%
Financial	12	9%	22	9%
Other	6	5%	11	5%
Source: BCI Survey Data	130	% share	236	% share

Table 2 - Distribution of industries by turnover

Sectors	% in total turnover
Manufacturing	10%
Construction	8%
Retail Trade	17%
Service	47%
Agriculture	7%
Financial	9%
Other	3%
Source: GeoStat	

Sectors - Number of firms by size	18/Q3	
	Large	SME
Manufacturing	5	7
Construction	7	5
Retail Trade	7	23
Service	10	36
Agriculture	1	11
Financial	4	8
Other	1	5
Source: BCI Survey Data	35	95

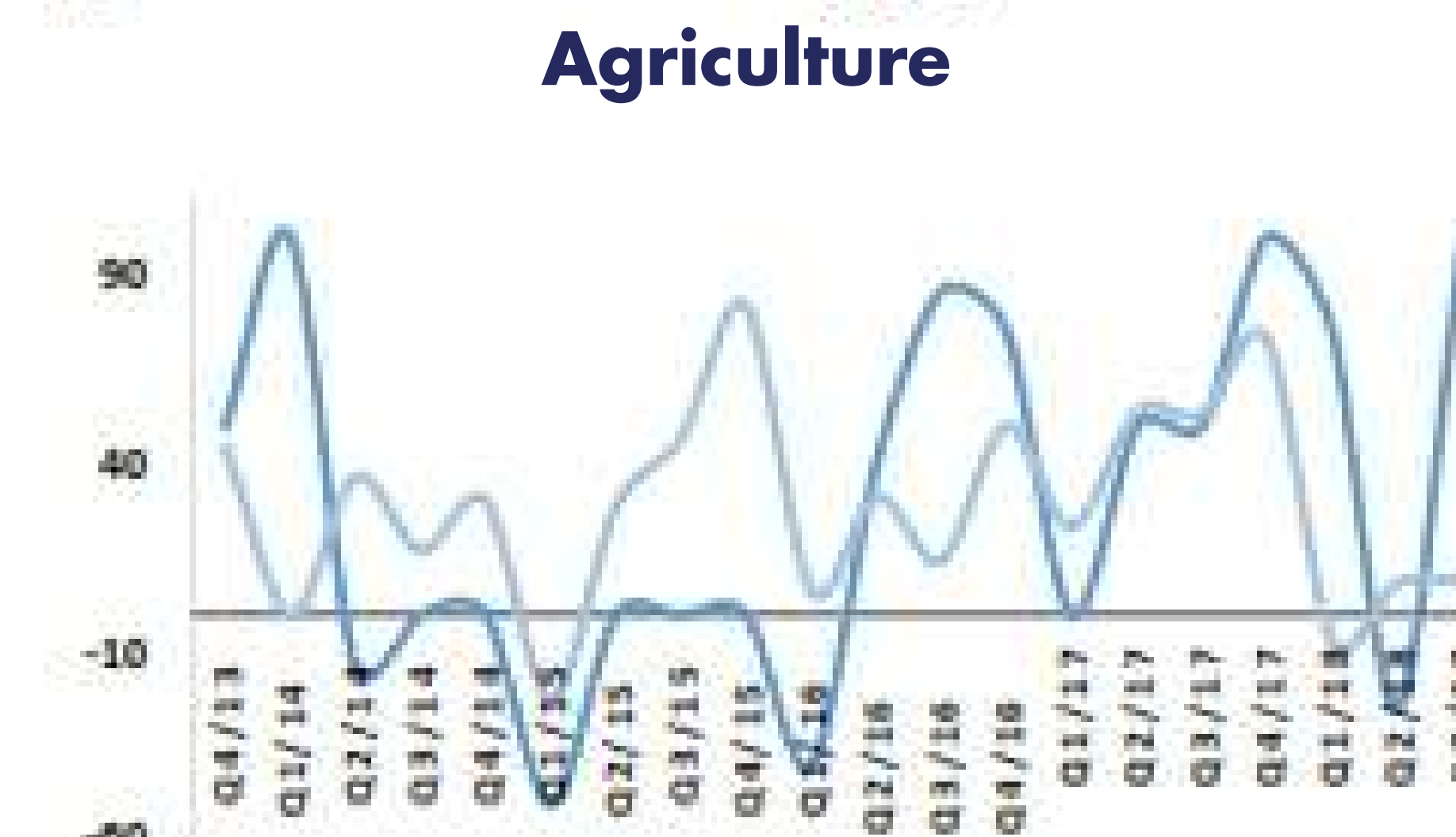
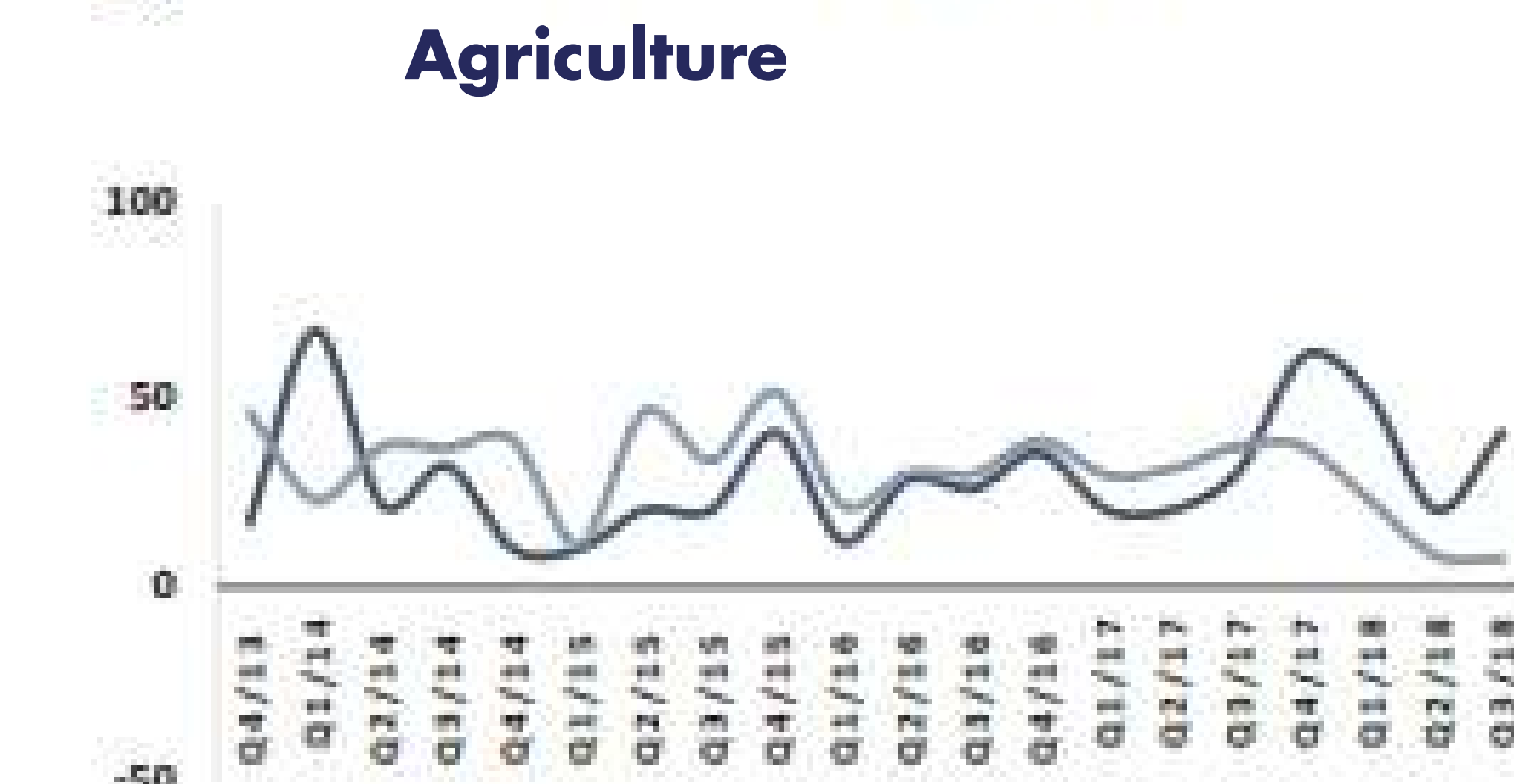
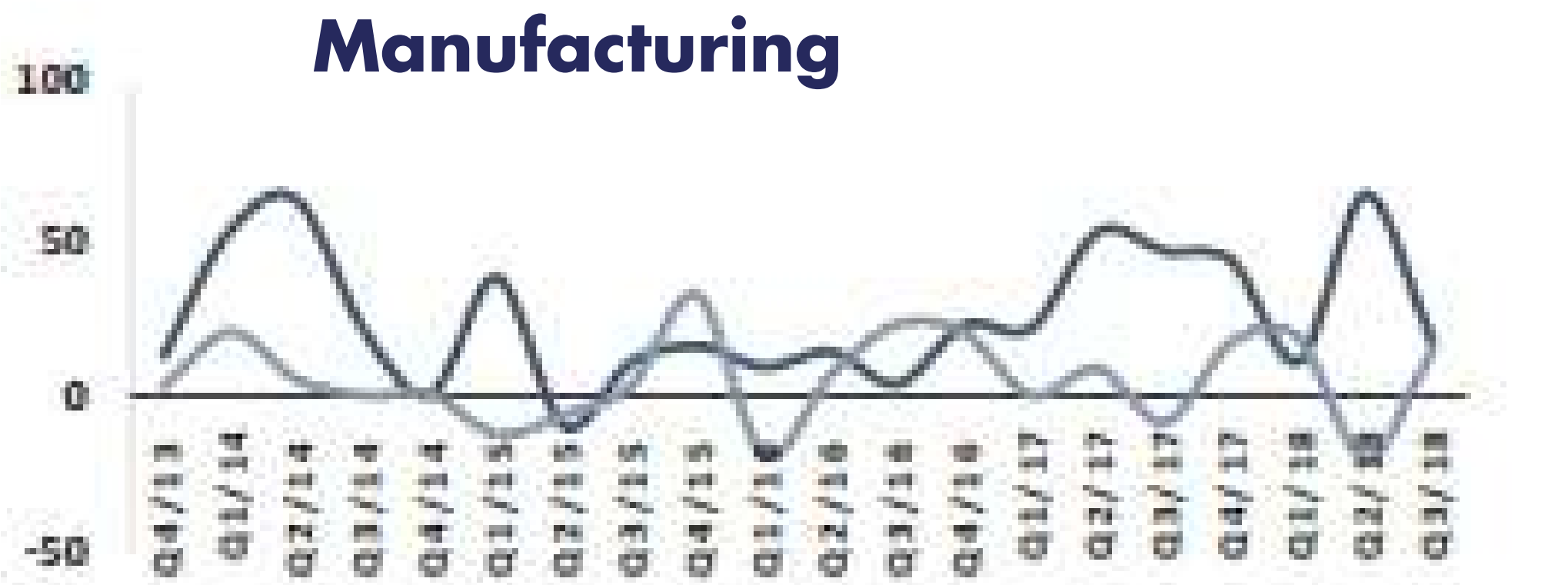
Maximum number of firms participating in the survey	
2016	Q2
Large	SME
104	266

The number of firms participating in the BCI survey in Q3 2018 was 130. This is a decrease of -45% compared to the previous quarter's level of participation. Despite the decrease in the number of participating firms, the distribution of the participating firms across sectors remained stable and was well-aligned with the distribution of firms in the economy (as depicted in Tables 1 & 2 above). Although the distribution of the firms in our sample are well-aligned, we still use turnover weights to correct for small differences between our shares (share of the number of participating firms) and economy turnover shares, even by company size.

APPENDIX 1 – BCI, Production/Turnover/Sales, Expectations, Sales Expectations by Sectors and Sizes

Overall BCI

Sales/Production/Turnover for past 3 months

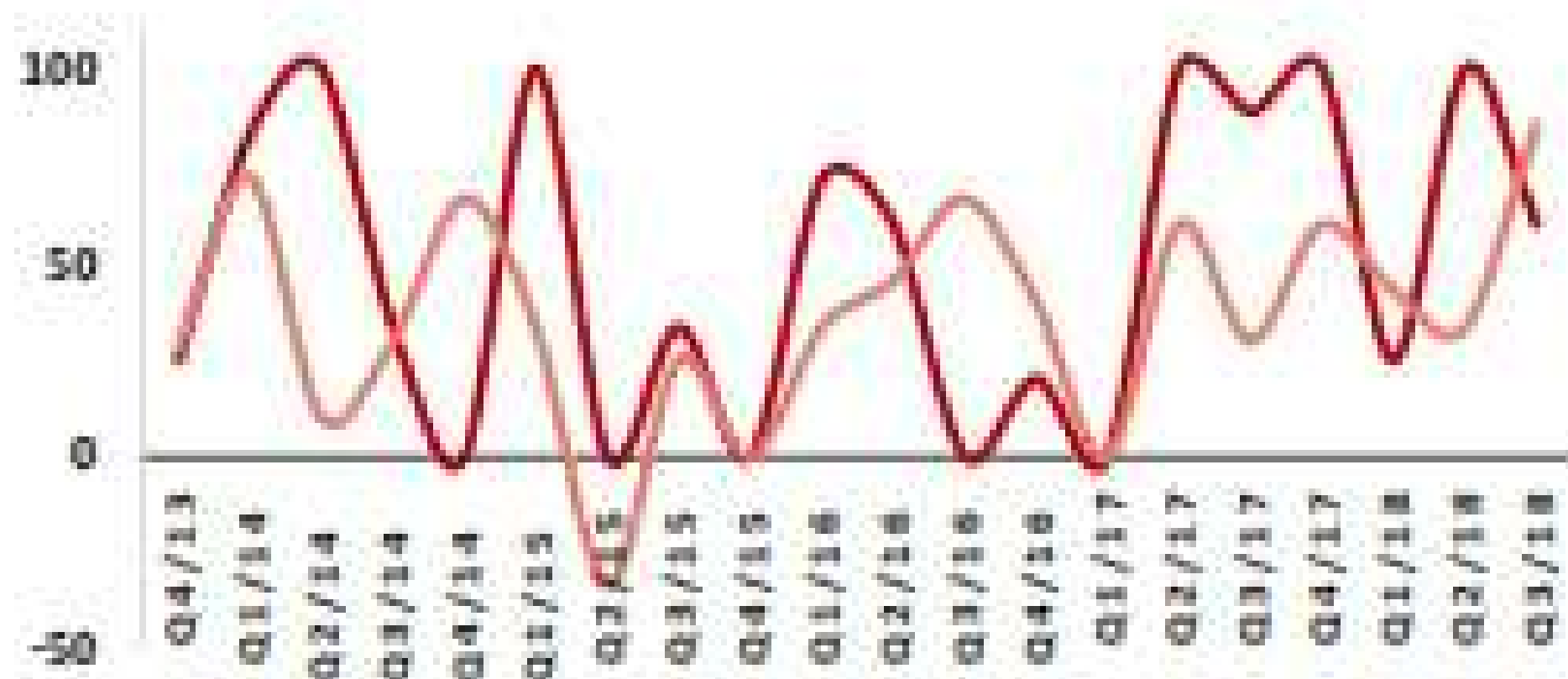


— LARGE — SME

— LARGE — SME

Expectations Index

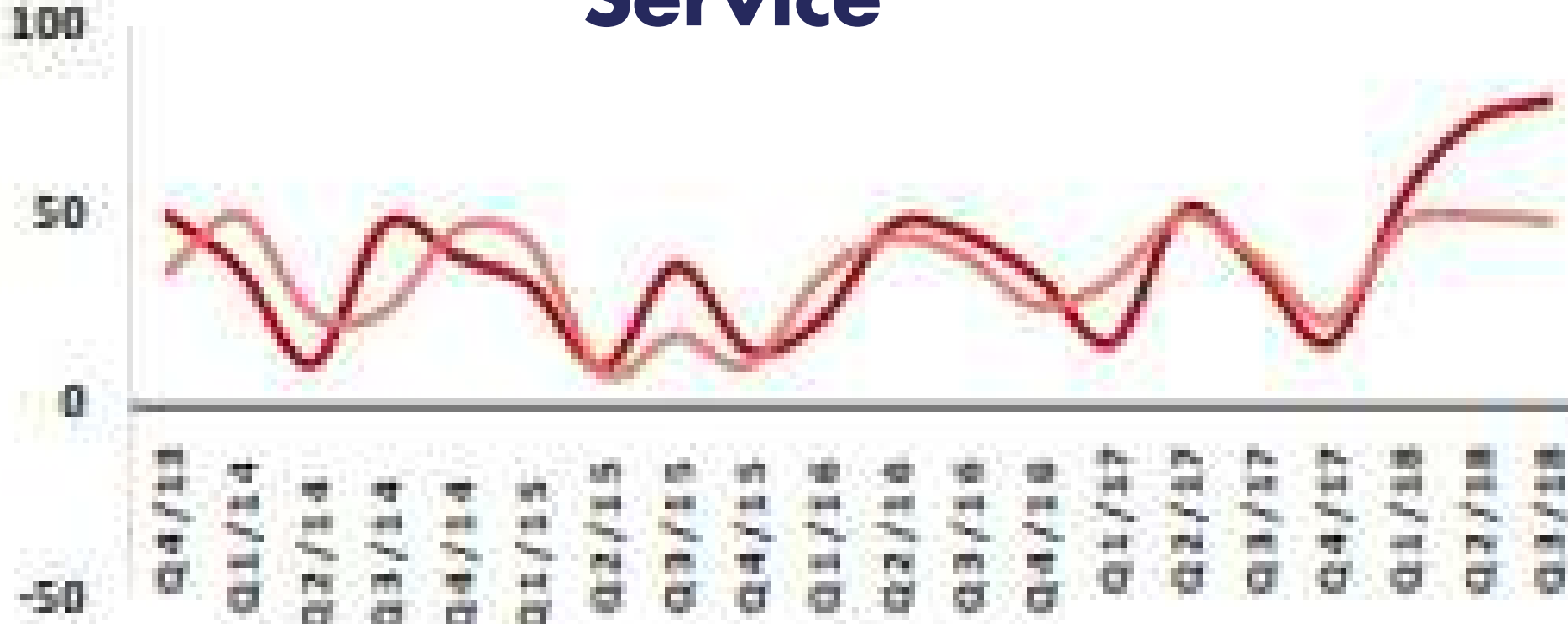
Manufacturing



Retail Trade



Service



Agriculture



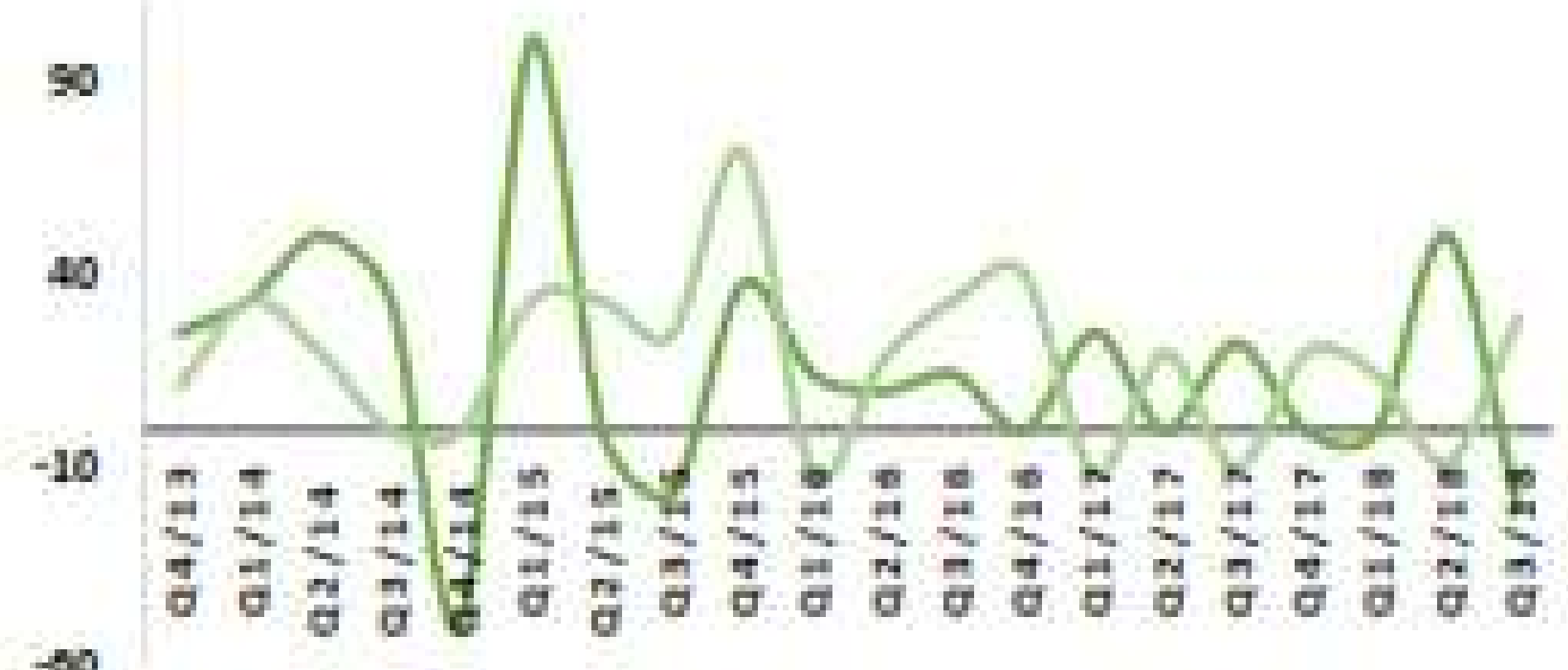
Financial



— LARGE — SME

Sales Price Expectations Index

Manufacturing



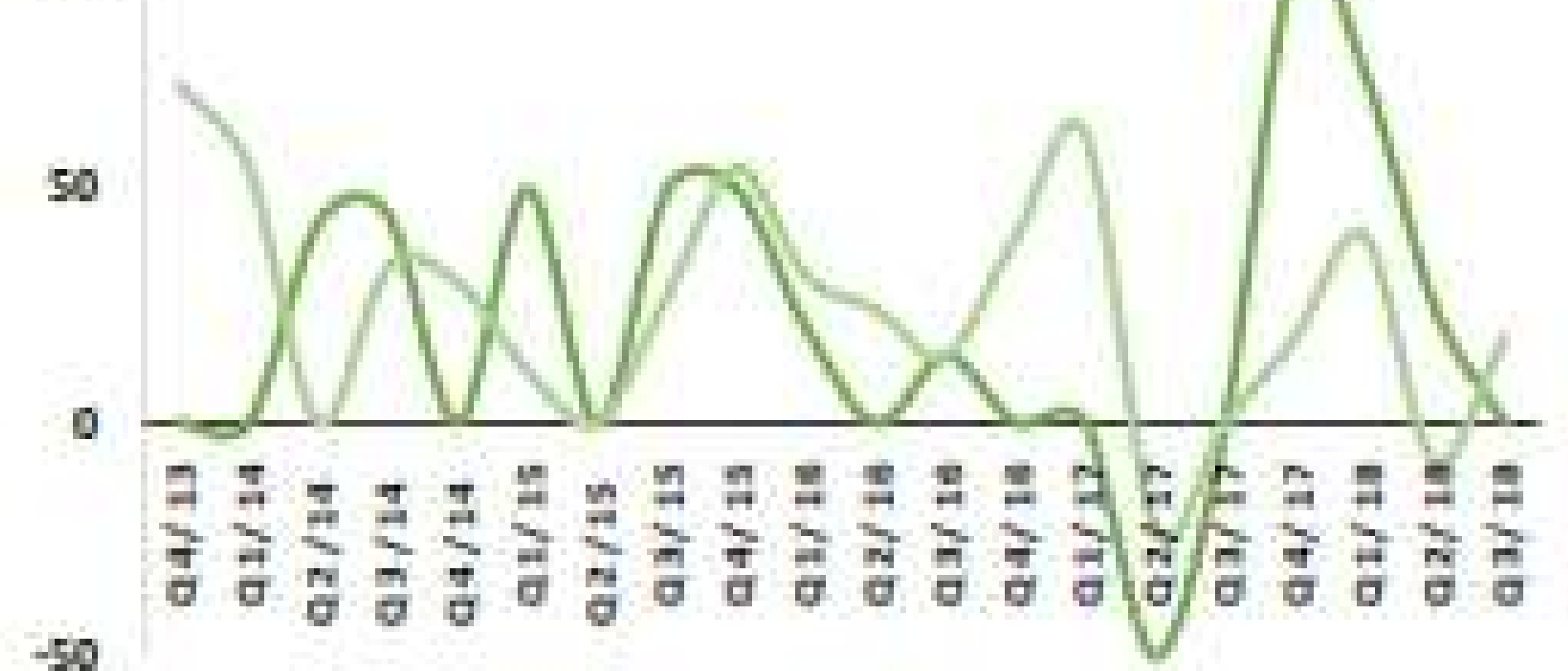
Retail Trade



Service



Agriculture



— LARGE — SME

Contact person:

Olga Azhgibetseva
Senior Researcher
Private Sector Development Research Center
ISET Policy Institute
o.azhgibetseva@iset.ge
Tel: +995 322 507 177 (ext. 220)

<http://iset-pi.ge/index.php/en/business-confidence>
Published: 01/05/2018