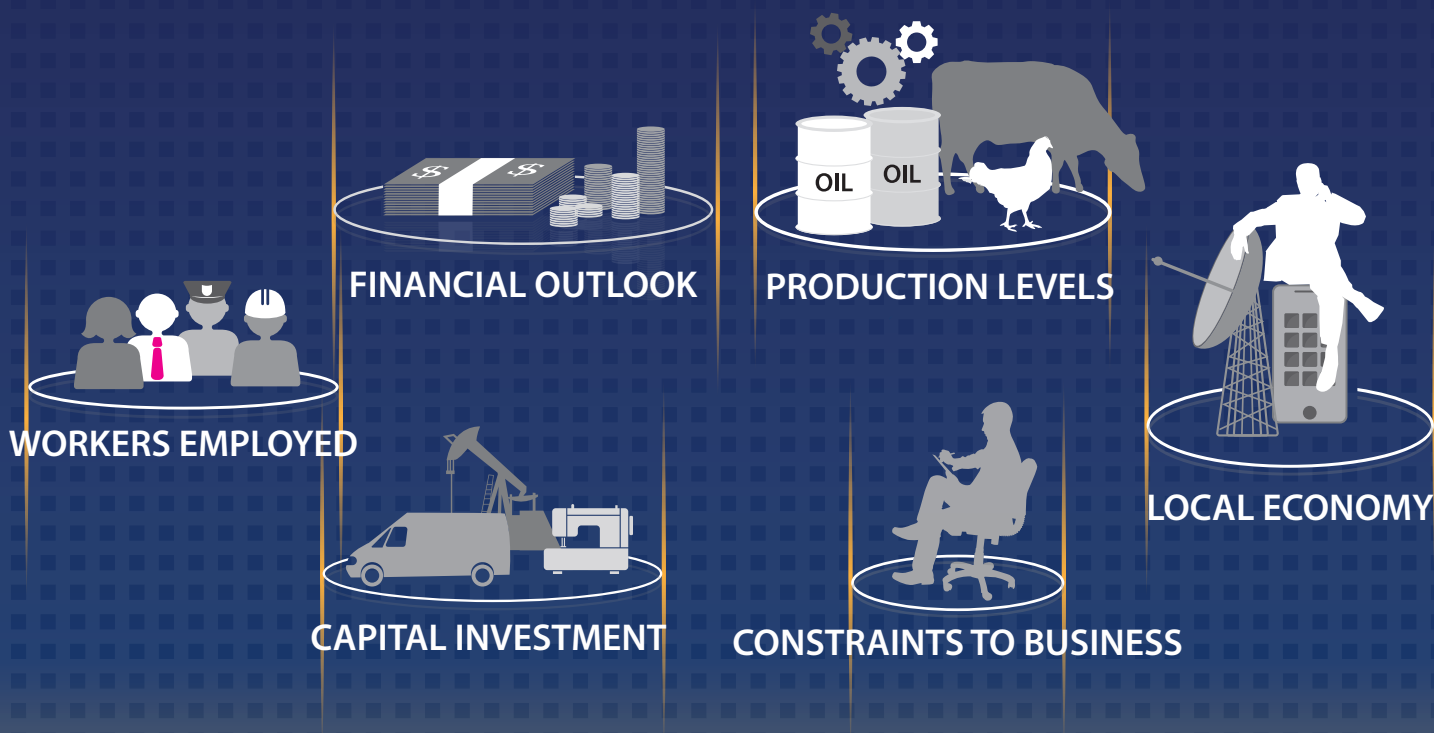


BUSINESS CONFIDENCE REPORT

Quarter II, 2014



CENTRAL BANK OF
TRINIDAD & TOBAGO



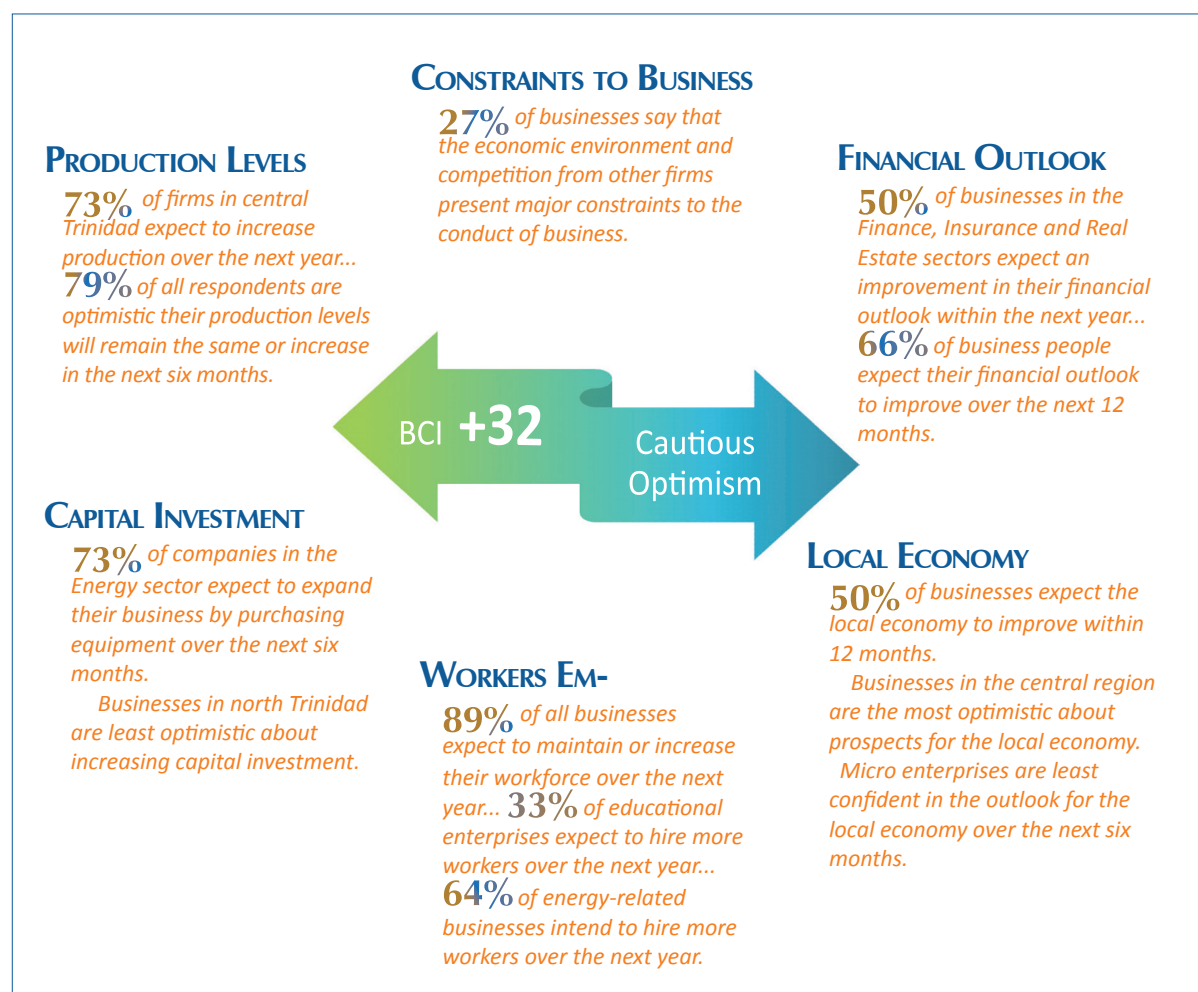
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BUSINESS CONFIDENCE REPORT (BCR)

JUNE 2014

BUSINESS OUTLOOK

At the end of the second quarter of 2014, **the local business community remains cautiously optimistic in its outlook for business activity** and the strength of the economy for the next 6-12 months. However, optimism has slightly declined, as indicated by a fall in the Business Confidence Index (BCI) from +37 in the first quarter of the year to +32 in the second quarter.



SECTOR INDICES

Report on the overall confidence of the business community by economic sector

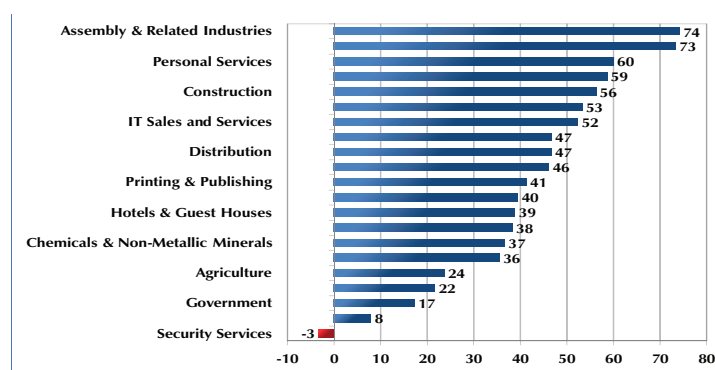
Producers of wood and related products have the greatest confidence in the outlook for business activity. Chemical manufacturers are decidedly pessimistic.

Confidence indices for all but one of the economic sectors were positive in the second quarter of 2014 (Chart 1).

Confidence was strongest among firms producing wood and related products, while printing and publishing firms were significantly more optimistic. On the other hand, chemical manufacturers had a drastic turnaround in their outlook, recording a BCI of -33 (decidedly pessimistic) compared to +47 recorded in the first quarter.

Textile producers and construction firms remained marginally optimistic.

CHART 1
BCI by Economic Sector



REGIONAL INDICES

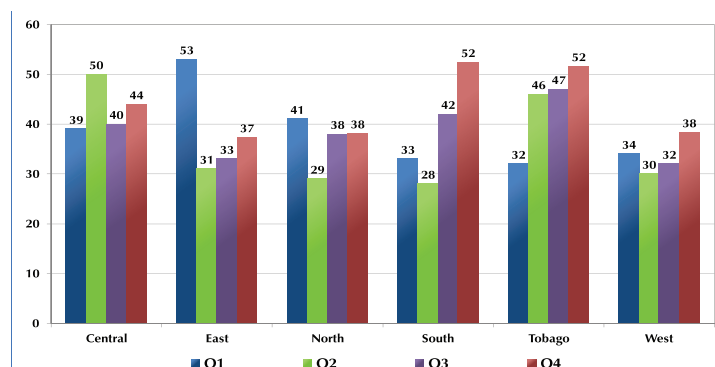
Report on the overall confidence of the business community by geographical region

Businesses in all regions of Trinidad and Tobago are optimistic about the business and economic outlook in the short-term, with firms in the Central region being the most confident.

The business community in central Trinidad was the most confident in prospects for business activity, while there was a significant decline in optimism among businesses in the north.

There was a strong increase in optimism among businesses in Tobago. A BCI of +46 was recorded for the second quarter, up from +32 in the previous quarter (Chart 2).

CHART 2
BCI by Region



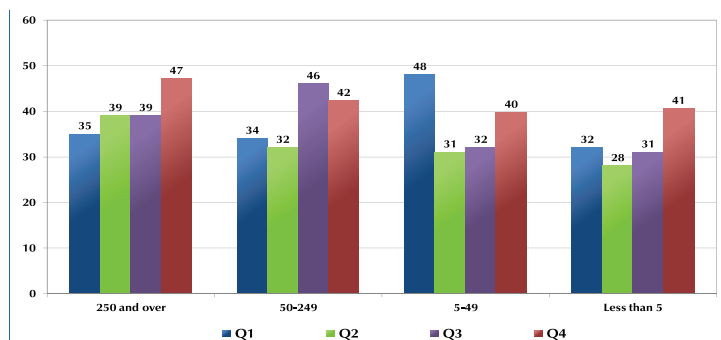
SIZE INDICES

Report on the overall confidence of the business community by business size (number of workers employed)

Firms employing more than 250 persons had the highest confidence level of the four business sizes. This was a strong improvement from the previous period, when large businesses recorded the lowest level of optimism. Optimism in the other three business size categories declined in the second quarter (Chart 3), with micro businesses recording the lowest BCI, at +28.

Large firms have the most positive expectations about short-term prospects for business activity.

CHART 3
BCI by Business Size
Number of persons employed



BUSINESS OUTLOOK INDICES

Report on the confidence of the business community across six business outlook dimensions

The business community continues to have the highest degree of optimism concerning financial performance in the short term. 66% of firms indicate they expect their financial outlook to improve over the next 12 months, compared with 75% as at the end of the first quarter.

Overall, firms continued to be less optimistic across all business outlook dimensions in the second quarter of 2014. Specifically, business confidence in the 6-month financial outlook recorded a BCI of +48, down from +58 in the first quarter.

A BCI reading of +39 was recorded for production levels expected within the next 6 months, compared to +50 recorded in the first quarter.

Firms were less confident (though still optimistic) that they would increase their capital investments and employ more workers in the short term.

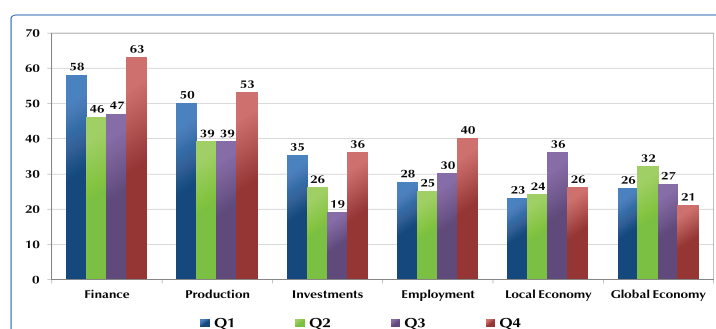
Respondents are least confident about the prospects for the local economy, with only 42% of respondents expecting improvements in the local economy within 6 months (Chart 4).

There was increased business confidence in prospects for the local and global economies over the next 6 months. In the case of the local economic outlook, the increase in optimism was marginal. Confidence in the global economic outlook, however, increased markedly, with a BCI measurement of +32, compared to +26 recorded in the first quarter.

44% of respondents expect to increase capital investments in the next 6 months, down from 52% in the first quarter.

89% of respondents expect to maintain or increase their work force within the next 12 months, compared to 90% in the first quarter.

CHART 4
BCI by Business Outlook



FINANCIAL OUTLOOK (Questions 2a-b)

Report on business confidence with respect to the financial outlook, by sector, region and business size

100% of companies in the Agriculture and Wood Products sectors expect their financial outlook to improve within the next 12 months.

Businesses in Tobago are the most confident about the short term financial outlook, a significant improvement from the first quarter, where they were the least confident.

Among firms located in north Trinidad, confidence in the 6-month financial outlook waned drastically (Chart 5), with the BCI measuring only +21, down from +64 in the first quarter.

Large businesses are the most optimistic about their financial outlook. 66% of firms employing 250 or more employees expect the financial outlook to improve within 12 months (Chart 6).

CHART 5
Financial Outlook: BCI by Region

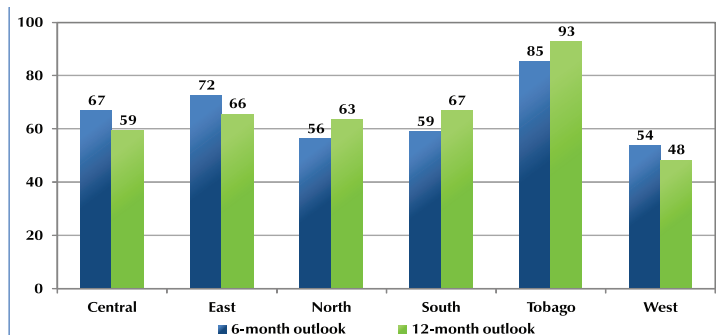
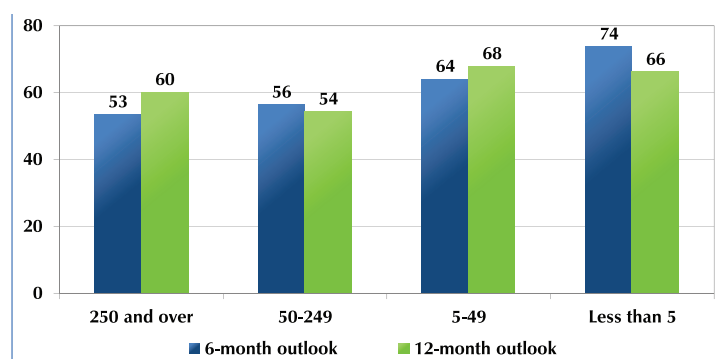


CHART 6
Financial Outlook: BCI by Size
Number of persons employed



PRODUCTION LEVELS (Questions 3a-b)

Report on business confidence with respect to prospects for production levels, by sector, region and business size

Chemical Manufacturers are neutral (BCI of 0) with respect to production levels expected within 6-12 months. This is a significant change from the first quarter, when BCI was recorded as +100 (unanimous optimism).

Construction firms are decidedly pessimistic about the prospects for production levels in the short term. BCI readings are -25 and -38 for the 6- and 12-month outlook, respectively. Firms in Tobago have the highest level of confidence in the prospects for production in the short term, a marked increase in optimism since the first quarter (Chart 7).

Large firms are more optimistic than medium and small firms, especially with respect to the 12-month outlook for production levels (Chart 8).

CHART 7
Production Levels: BCI by Region

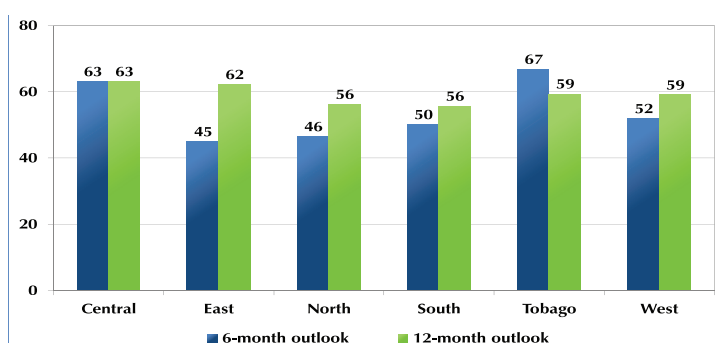
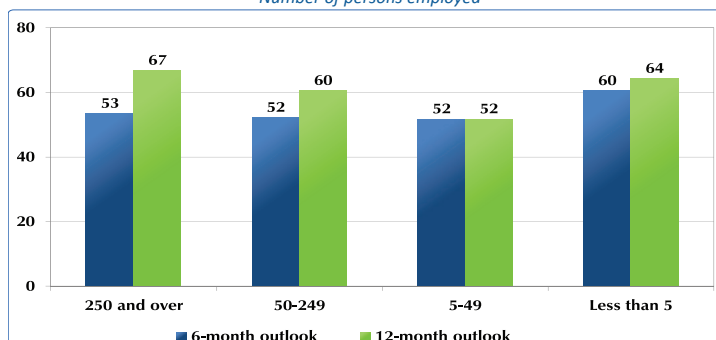


CHART 8
Production Levels: BCI by Size
Number of persons employed



CAPITAL INVESTMENT (Questions 4a-b)

Report on business confidence with respect to planned capital investments, by sector, region and business size

100% of firms in the agriculture and wood products sectors indicate they expect to undertake additional capital investment within the next 12 months.

Firms located in south Trinidad and in Tobago are the most optimistic about the prospect for increasing capital investment activity in the next 12 months (Chart 9).

Large firms have the strongest expectation of increasing capital investments over the next 6 months. However, the level of optimism increases with a 12-month outlook (Chart 10).

CHART 9

Capital Investment: BCI by Region

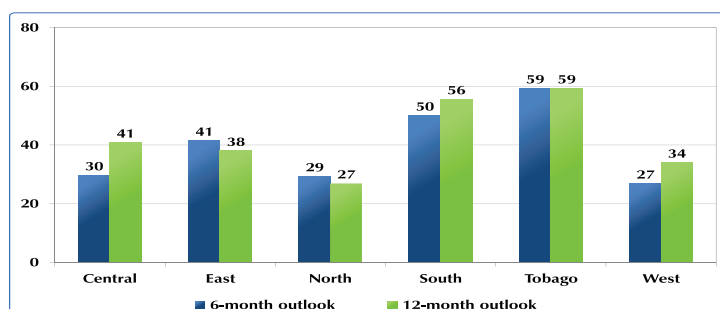
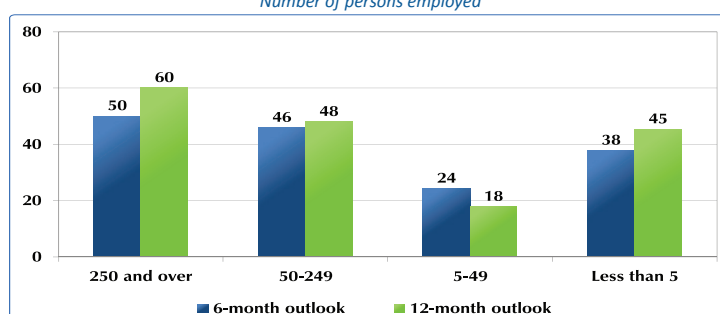


CHART 10

Capital Investment: BCI by Size
Number of persons employed



WORKERS EMPLOYED (Questions 5a-b)

Report on business confidence with respect to changes in headcount, by sector, region and business size

83% of firms in the Education industry and 63% of firms in the Construction industry indicates they expect to hire more workers within the next 12 months. By comparison, 45% of all firms expect to hire more workers over the coming year.

Firms located in Tobago and in central Trinidad are the most confident that they will employ more workers in the next (6) months (Chart 11).

Large firms remain least confident that they will increase their headcount in the next 6-12 months (Chart 12).

CHART 11

Workers Employed: BCI by Region

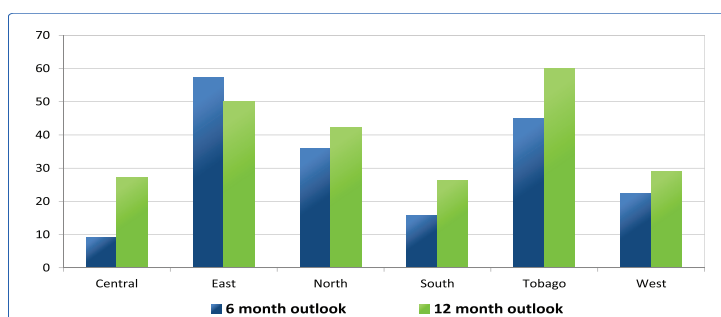
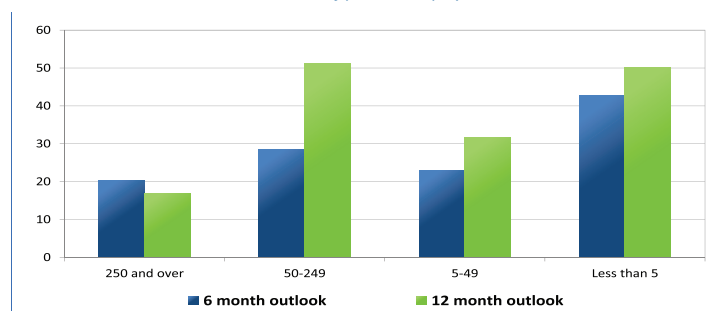


CHART 12

Workers Employed: BCI by Size
Number of persons employed



LOCAL ECONOMY (Questions 7a-b)

Report on business confidence in the prospects for the local economy, by sector, region and business size

Printers and Publishers are most optimistic that the local economic environment will improve within the next 6-12 months.

Firms in the Chemical, Textile and Maritime sectors do not expect conditions in the local economy to improve within 6 months. Firms in all other sectors are cautiously optimistic.

Firms in south Trinidad are least confident in the 6-month outlook for the local economy, but decidedly optimistic in the outlook over the next 12 months (Chart 13).

Large firms have the highest level of optimism in the prospects for the local economy in the short term (Chart 14).

CHART 13
Local Economy: BCI by Region

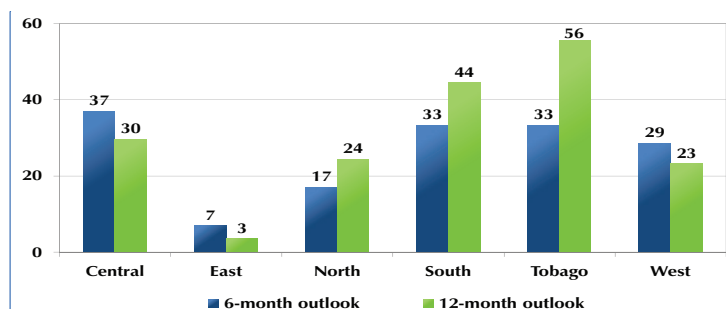
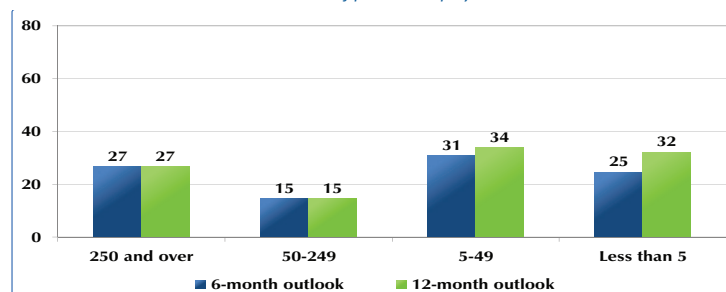


CHART 14
Local Economy: BCI by Size
Number of persons employed



GLOBAL ECONOMY (Questions 8a-b)

Report on business confidence in the prospects for the local economy, by sector, region and business size

Security firms and firms producing textiles and garments are unanimously optimistic about the prospects for the global economy within the next year. They are closely followed by Non-Governmental Organizations and firms providing maritime services.

The business community is confident about the prospects for improvements in the global economy, with firms in central Trinidad being the most optimistic (Chart 15).

Small firms appear to be the least optimistic about global economic prospects than firms of other sizes (Chart 16).

CHART 15
Global Economy: BCI by Region

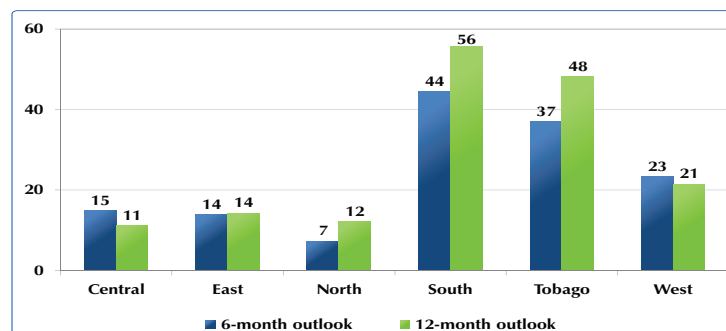
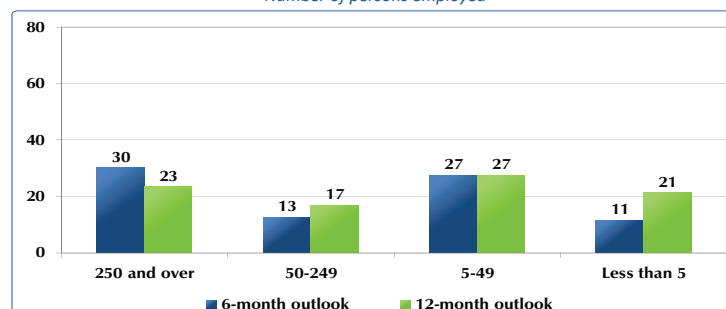


CHART 16
Global Economy: BCI by Size
Number of persons employed



CONSTRAINTS TO BUSINESS (Question 6)

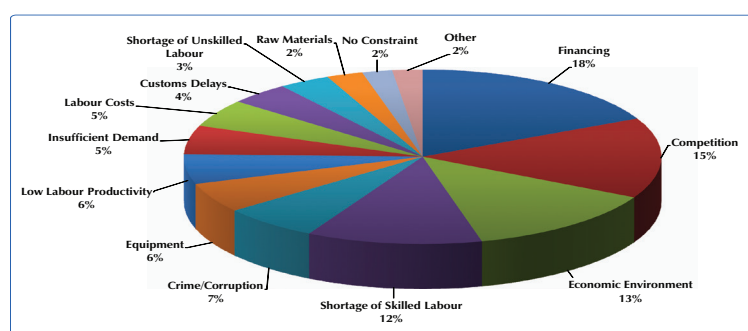
Report on factors hindering business activity in Trinidad and Tobago

The business community perceives the muted economic environment and competition as the major constraints to business activity in Trinidad and Tobago in the second quarter of 2014.

In the second quarter of 2014, the business community again cited the economic environment as the primary constraint to local business activity. However, several other factors were put forward as major constraints. Chief among them was increased competition from other local firms. Consumers seem to be more discriminating in their purchasing behavior, paying closer attention to slight differences in price and quality. As a result, competition has increased among local firms, placing downward pressure on prices, and adversely affecting profit margins.

Lack of financing and a shortage of skilled labour were also cited as constraints on business activity (Chart 17).

CHART 17
Constraints to Business



THE IMPACT OF CRIME (Current Pulse Question)

Report on business confidence concerning the impact of crime on business in Trinidad and Tobago

The business community believes the crime situation is having an adverse effect on business activity.

Firms in south of Trinidad are the most pessimistic, while firms in Tobago are close to neutral about the possible impact of crime on their business activity (Chart 18).

Small and medium firms appear to be more pessimistic about the impact of crime than large firms (Chart 19).

CHART 18
Impact of Crime: BCI by Region

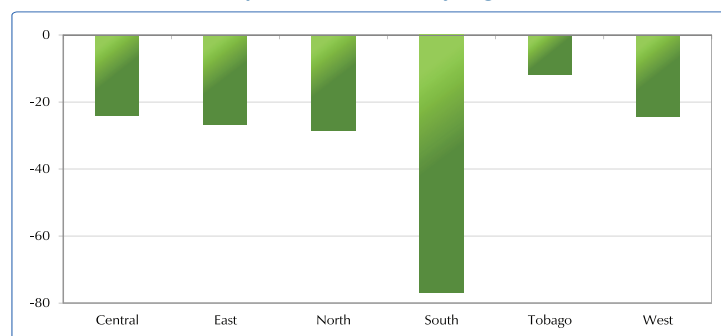
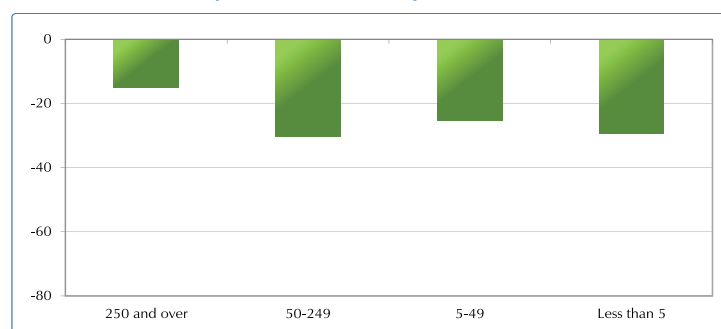


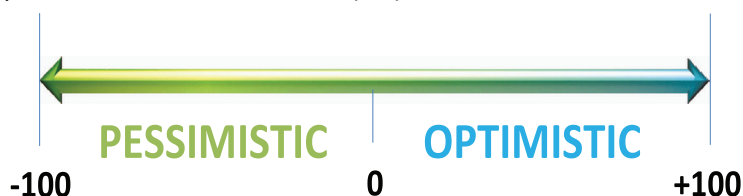
CHART 19
Impact of Crime: BCI by Business Size



APPENDIX 1

THE BCI AS A DIFFUSION INDEX: COMPUTATION AND INTERPRETATION

Confidence is measured by the Business Confidence Index (BCI), a diffusion index measured on a range from -100 to +100.



For the purposes of this report, the Business Confidence Index (BCI) measures the overall confidence of a given group of survey respondents from the business community. Specifically, the BCI measures:

- Whether the group is generally optimistic or pessimistic.
- The strength of that group's optimism (pessimism).

Consider the following hypothetical scenario.

The Central Bank of Trinidad and Tobago administers a one-question survey to 100 businessmen and collects responses from all of them. The survey question is:

How do you expect your number of employees to change within the next 6 months?

☐ Increase ☐ Decrease ☐ No change expected

We assume that if a businessman answers "Increase", he/she is optimistic about business conditions in the next six months. The businessman who answers "Decrease" is assumed to have a pessimistic outlook, and the businessman who answers "No change expected" is assumed to be neutral.

To measure confidence for the whole group, compute the BCI as:

**The percentage of businessmen who answered "Increase" MINUS The percentage who answered "Decrease" OR
The percentage of optimistic businessmen MINUS The percentage of pessimistic businessmen**

Scenario 1: A unanimously optimistic group (BCI = +100)

Suppose all (100%) of the businessmen answered "Increase" and none (0%) answered "Decrease".
i.e., suppose all the businessmen were optimistic, and none were pessimistic.
In this scenario, the BCI would be $100 - 0 = +100$ (positive 100)

Scenario 2: A unanimously pessimistic group (BCI = -100)

Suppose none (0%) of the businessmen answered "Increase" and all (100%) answered "Decrease".
i.e., suppose none of the businessmen were optimistic, and all were pessimistic.
So, the BCI would be $0 - 100 = -100$ (negative 100)

Scenario 3: A cautiously optimistic group (BCI = +10)

Suppose 50% of the businessmen answered “Increase” and 40% answered “Decrease”.

In this case, the percentage of optimists is only slightly larger than the percentage of pessimists. Logically, this group is classified as optimistic overall, but not as optimistic as the group in Scenario 1.

In this case, the BCI is $50 - 40 = +10$

Examination of other scenarios reveals a definite pattern. If the BCI is positive, the group is interpreted as being an optimistic group. The level of optimism increases as the BCI increases toward 100. If the BCI is a negative, the group is considered pessimistic. The level of pessimism increases as the BCI tends toward -100. If the BCI is zero, then the optimistic and pessimistic contingents are the same size, and the group as a whole is considered neutral.

On page 1 of the report, a BCI of +32 was recorded for all the respondents over all the questions in the BCI survey. This number is positive, but it's closer to 0 than to 100, so the business community in Trinidad and Tobago is said to be “cautiously optimistic”.

