

BUSINESS CONFIDENCE REPORT

Quarter IV, 2014

WORKERS EMPLOYED



FINANCIAL OUTLOOK



CAPITAL INVESTMENT



PRODUCTION LEVELS



CONSTRAINTS TO BUSINESS



LOCAL ECONOMY




CENTRAL BANK OF
TRINIDAD & TOBAGO



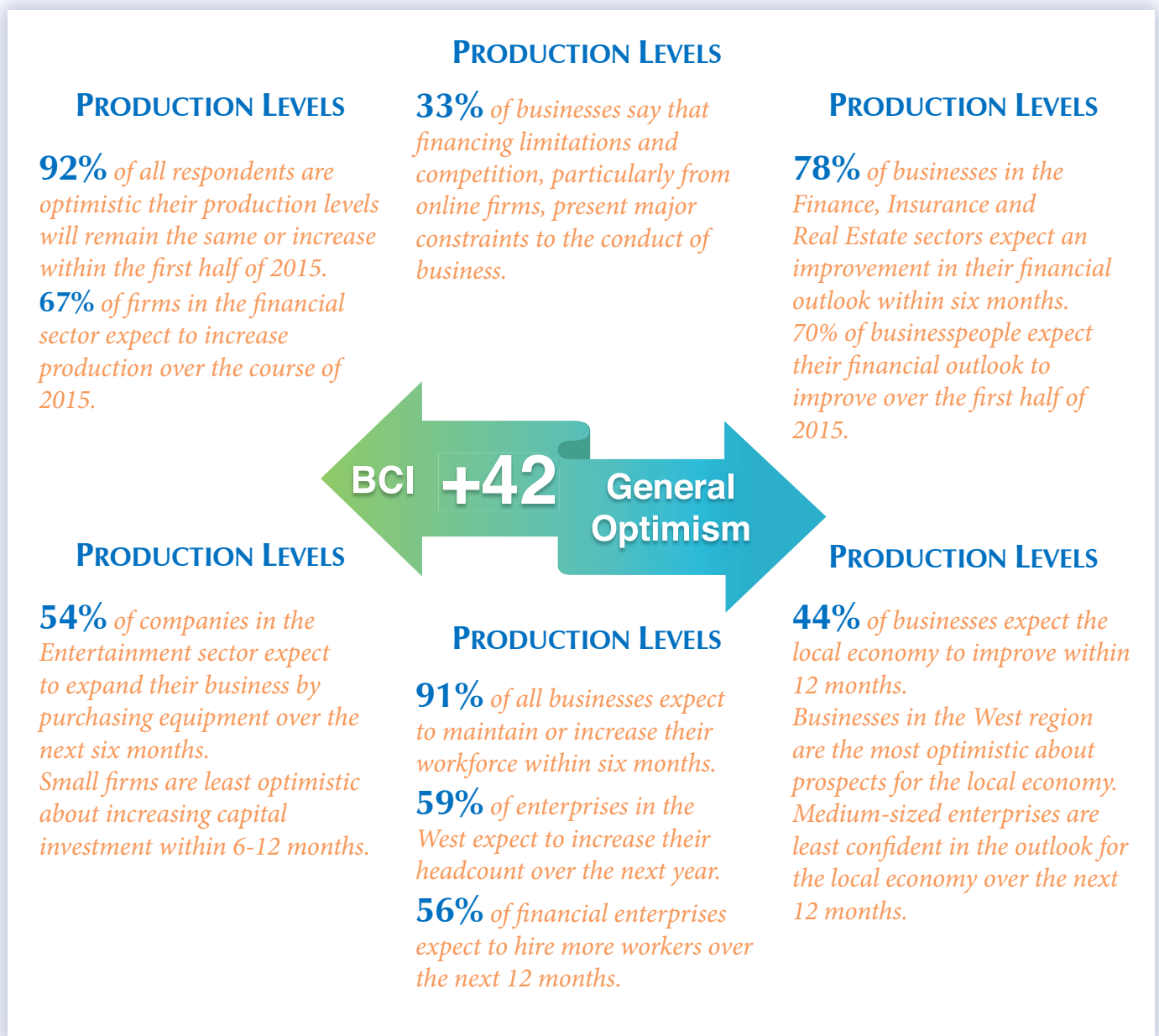
www.central-bank.org.tt/

90% 100% 89% 27% 75% 89% 56% 27% 89% 78% 100%

Business Confidence Report

Quarter 4 2014

As of the fourth quarter of 2014, there was general optimism within the local business community in the outlook for business activity and the strength of the economy within the next 6-12 months. Optimism increased over the quarter, with a recorded BCI of +42, up from a BCI of +37 recorded in the third quarter of the year. The general increase in optimism occurred despite the initial fall in the price of oil and the tensions in Europe and the Middle East, possibly in anticipation of the Carnival season, to be followed by general elections later in 2015.



SECTOR INDICES

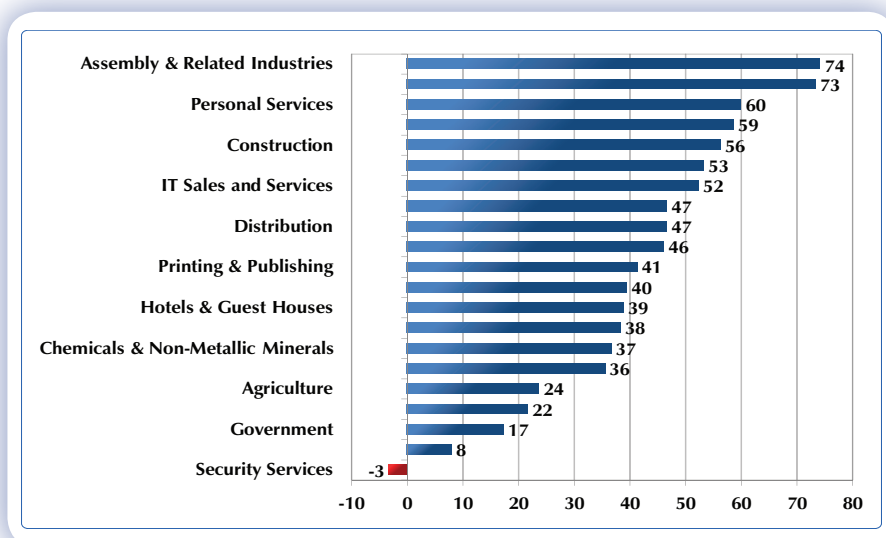
Report on the overall confidence of the business community by economic sector

Assembly and Energy firms have the greatest confidence in the outlook for business activity. Businessmen are optimistic in general, with only security companies registering a neutral outlook.

Confidence indices for all but one of the economic sectors were positive (Chart 1), indicating an overall optimistic outlook on the part of the local business community.

Confidence was strongest among assembly firms, with a BCI reading of +74 recorded for the survey period. 83% of respondents in this sector reported an improvement in their performance compared to 12 months prior, and 100% of respondents expected to increase production and hire more workers within the next six months. Confidence among energy and energy-related firms climbed consistently throughout 2014, with the BCI standing at +73 in the fourth quarter. This upward trend in optimism also occurred within the firms in the Personal Services, IT Sales and Distribution sectors

CHART 1
BCI by Economic Sector: Fourth Quarter 2014



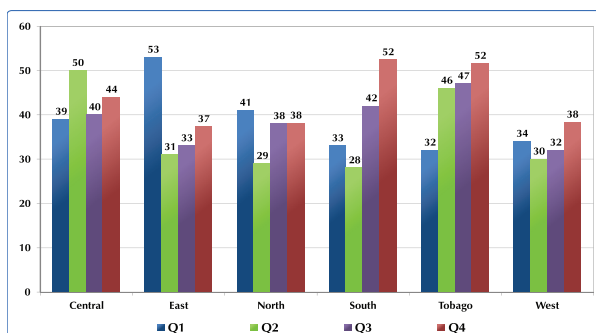
REGIONAL INDICES

Overall confidence of the business community by geographical region

Respondents are optimistic about the business and economic outlook in the short-term, with firms in the South and Tobago being the most confident in the fourth quarter.

Firms operating in the South and in Tobago became more confident over the course of 2014, each recording a BCI of +52 in the fourth quarter, up from +33 and +32 respectively in the first quarter (Chart 2). Firms in the West and North maintained a cautiously optimistic stance during the year, citing as hindrances the downward trend in energy prices, the muted economic environment, a shortage of skilled labour, crime and a perception of corruption.

CHART 2
Quarterly BCI by Region: 2014
(6-month outlook)



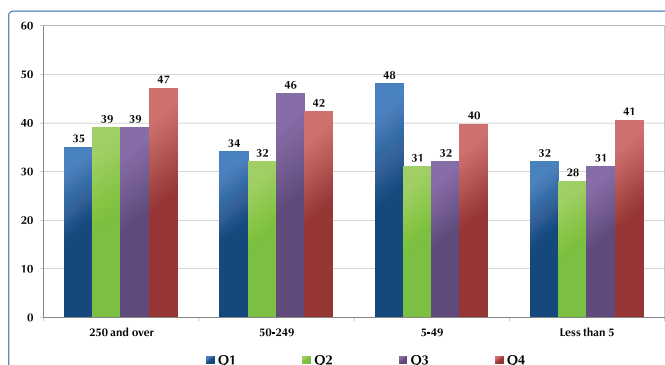
SIZE INDICES

Overall confidence of the business community by business size (number of workers employed)

In the reporting period, as throughout the year, large firms have the most positive expectations about short-term prospects for business activity.

Firms employing more than 250 persons recorded a BCI of +47, the highest level of any business size, up from +39 in the previous quarter (Chart 3). Small and micro firms sustained a significant increase in optimism in the fourth quarter, continuing a nine-month upward trend.

CHART 3
Quarterly BCI by Size: 2014
(6-month outlook)



BUSINESS OUTLOOK INDICES

Confidence of the business community across six business outlook dimensions

The fourth quarter of 2014 saw the highest levels of optimism for the year with respect to financial prospects, production increases, investment prospects and headcount increases (Chart 4).

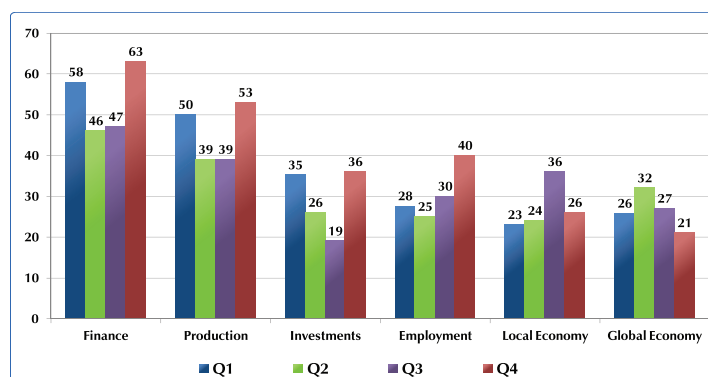
Respondents were least confident about the prospects for the global economy, with only 39% of respondents expecting improvements in the global economy within six months.

Overall, respondents continued to be optimistic across all business outlook dimensions, although in the fourth quarter there was some decline in optimism concerning the local and global economic outlook, due in large part to the escalating tensions in the energy markets with the decline in oil prices, along with the depressed economic outlook and tensions in Europe.

Nevertheless, a BCI reading of +63 (high optimism) was recorded for financial prospects expected within the next six months, compared to +47 recorded in the third quarter. Though financing constraints were identified as the biggest hindrance to business activity (page 8), it appeared that businesses expected that situation to improve significantly within the first half of 2015.

Firms were less confident (though still optimistic) that they would increase their capital investments and employ more workers in the short term. 48% of respondents expected to increase capital expenditure in the first half of 2015, with the same percentage expecting to hire more workers in the same period.

CHART 4
Quarterly BCI by Business Dimension: 2014
(6-month outlook)



FINANCIAL OUTLOOK (Questions 2a-b)

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

100% of respondents in the Personal Services sector and 78% of respondents in the Finance, Insurance and Real Estate sector expect their financial situation to improve in the first six months of 2015.

Businesses in Tobago continue to have the highest level of optimism concerning the short term financial outlook. Businesses in the West recorded the lowest optimism levels for the quarter, yet these levels were an improvement over indices recorded in the third quarter.

Small and micro businesses had the most positive expectations about their financial outlook. 75% of firms employing less than 50 workers indicated that they expected the financial outlook to improve within six months.

CHART 5
Financial Outlook: BCI by Region

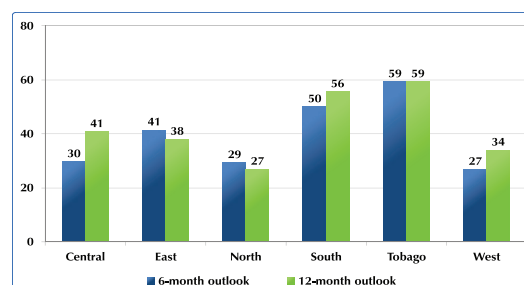
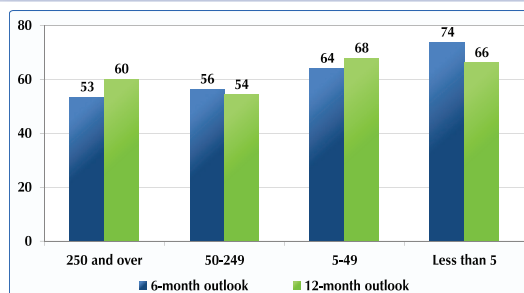


CHART 6
Financial Outlook: BCI by Business Size



PRODUCTION LEVELS (Questions 3a-b)

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

Businesses in the Assembly, Energy and Transport sectors were decidedly optimistic about the prospects for increased production levels within the first six months of 2015. BCI levels for these sectors were +100, +88 and +88, respectively.

Firms in Tobago continued to record the highest level of confidence in the prospects for production in the short term.

Firms of all sizes were generally confident in the prospects for increased production in the course of 2015.

CHART 7
Production Levels: BCI by Region

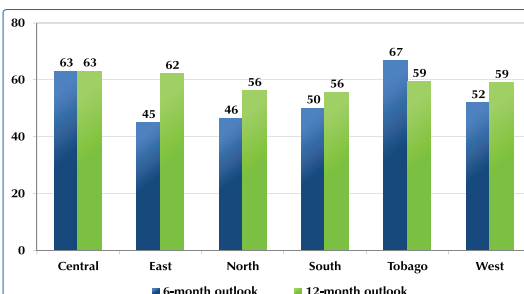
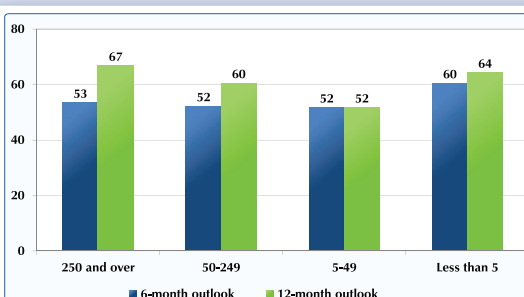


CHART 8
Production Levels: BCI by Business Size



CAPITAL INVESTMENT (Questions 4a-b)

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

86% of respondents and IT sector indicate that they expect to undertake additional capital investment within the next six months.

Firms located in the South and in Tobago continue to be by far the most optimistic about the prospect of increasing capital investment activity in the next 6-12 months. 94% of respondents in the South and 96% of those in Tobago expect to maintain or increase capital expenditure in the first six months of 2015.

Large firms continue to have the strongest expectation of increasing capital investments within the next six months, with 90% of respondents expecting to maintain or increase capital expenditure within a six-month period from the fourth quarter of 2014.

WORKERS EMPLOYED (Questions 5a-b)

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

100% of firms surveyed in the Assembly, Distribution and IT sectors indicate that they will either maintain or increase their work force within the first half of 2015. 91% of all respondents expect to keep or increase their headcount over the same period.

Firms in all regions and of all sizes entertained a higher expectation of increasing headcount in the next 12 months than in the next six months. This is consistent with the expectation that the local and global economies would rebound somewhat by the end of 2015, but not significantly within the first half of the year

CHART 9
Capital Investment: BCI by Region

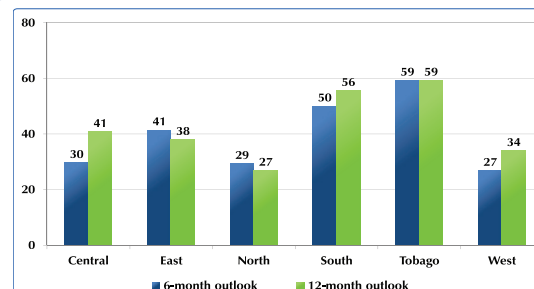


CHART 10
Capital Investment: BCI by Business Size

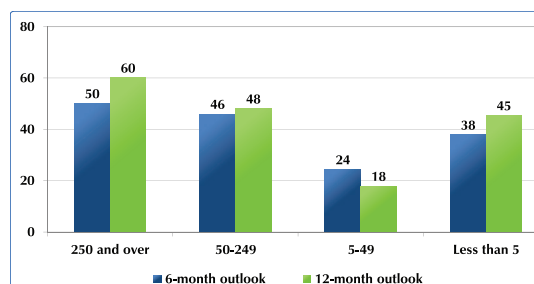


CHART 11
Headcount Changes: BCI by Region

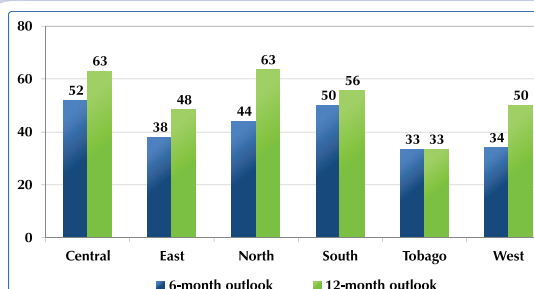
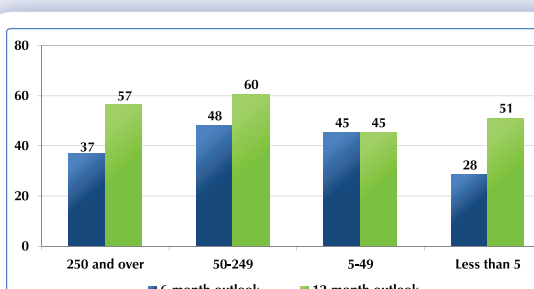


CHART 12
Headcount Changes: BCI by Business Size



LOCAL ECONOMY (Questions 7a-b)

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

As at the fourth quarter of 2014, 85% of respondents in the Finance sector expect the local economy to remain the same or improve in the first six months of 2015.

Firms in East Trinidad are only marginally confident in the 6-12 month outlook for the local economy. Firms in the South and Tobago are generally optimistic. In particular, the positive outlook of businesses in Tobago is consistent with an expectation that hotel rooms would be fully booked over the Carnival and Easter periods.

Firms of all sizes are cautiously optimistic about the short term outlook for the local economy in 2015.

CHART 13
Local Economy: BCI by Region

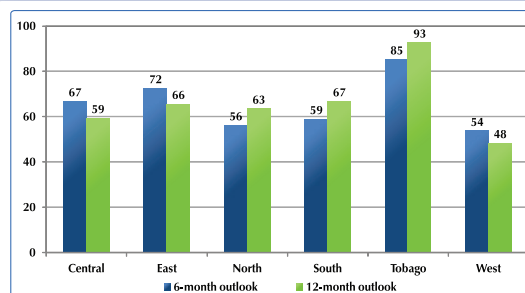
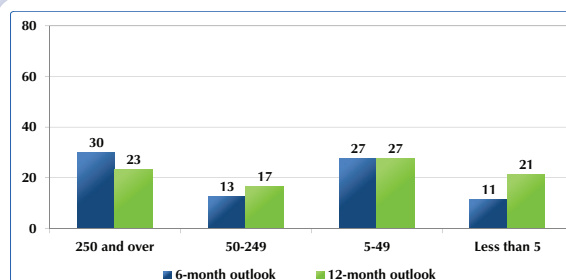


CHART 14
Local Economy: BCI by Business Size



GLOBAL ECONOMY (Questions 8a-b)

Business confidence in the prospects for the global economy, by sector, region and business size

83% of respondents in the Manufacturing sector and 63% of those in the Finance sector expect conditions in the global economy to remain the same or decline in the first half of 2015. This outlook is consistent with the downward trend in oil prices, the continuing uncertainty surrounding the fate of the European Union, and the economic slowdown in China.

Businesses in all regions except the South and Tobago had a neutral or marginally optimistic outlook for the prospects of the global economy within the 6-12 months following the end of 2014

Firms of all sizes were only marginally or cautiously optimistic about the global economic outlook for 2015.

CHART 15
Global Economy: BCI by Region

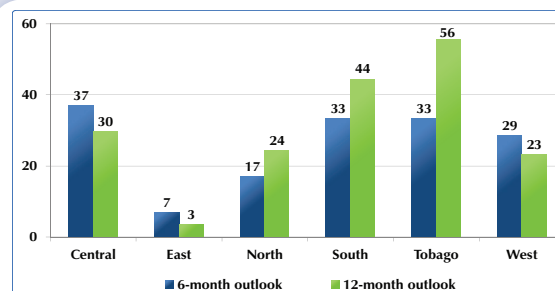
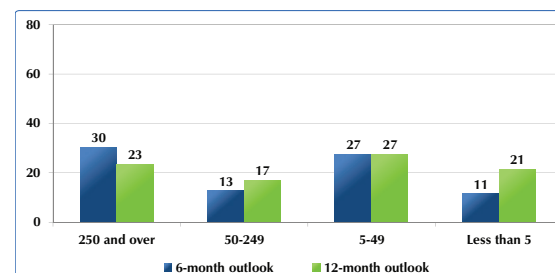


CHART 16
Global Economy: BCI by Business Size



CONSTRAINTS TO BUSINESS (Question 6)

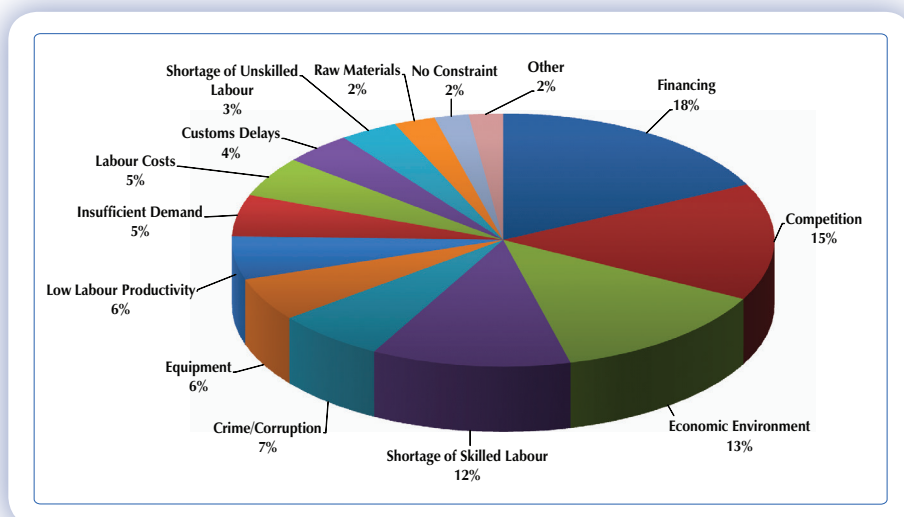
Factors hindering business activity in Trinidad and Tobago

In the fourth quarter of 2014, the business community perceived financing constraints and competition as the major hindrances to business activity in Trinidad and Tobago.

In the fourth quarter, financing constraints supplanted the economic environment as the most significant factor cited by the business community as hindering local business activity. Respondents pointed to difficulties in attracting venture capital, limited access to overdraft privileges, and inability to secure sufficient loans for purchase of equipment and raw materials. Competition was also cited as a major deterrent to business activity, particularly competition from local and foreign firms selling products on the Internet, as well as from the foreign expos that regularly display their wares locally. Other respondents indicated that in some areas the markets had become saturated, with many firms selling almost identical items and coming into direct competition with each other for market share. In such an atmosphere, the downward pressure on retail prices is adversely affecting profit margins.

The economic environment and shortage of skilled labour were also cited as factors placing a heavy constraint on business activity. Some respondents were of the view that government demand for skilled labour for large construction projects has crowded out private sector enterprises as far as the availability of skilled labour is concerned.

CHART 17
Constraints to Business



THE IMPACT OF THE EBOLA OUTBREAK (Current Pulse Question)

Business confidence concerning the impact of the Ebola outbreak on local business during the Carnival season

The business community was not particularly concerned about the possible impact of the Ebola outbreak on their ability to conduct business, particularly during the Carnival season. BCI values were positive in all categories. Tobago was the least optimistic, given that its mainstay is tourism, an industry particularly vulnerable to fallout from the Ebola outbreak

December 2013 saw the start of the deadliest Ebola outbreak ever recorded. The highly contagious and deadly disease ravaged parts of West Africa, eventually killing over 10,000 people, primarily in the three hardest-hit countries, Liberia, Sierra Leone and Guinea. At the height of the epidemic, there was worldwide concern about the spread of the virus. In Trinidad and Tobago, this concern was reflected in misgivings about the risk posed by the influx of tourists expected during the upcoming Carnival season. In October 2014, there was some disquiet among the general public concerning the possible cancellation of the Carnival celebration as a result. There was also the possibility that fear of infection might severely reduce tourist arrivals, even if the Carnival festivities proceeded as planned. In this context, the Q4 survey asked respondents to gauge the possible impact of these uncertainties on their short-term business activity.

CHART 18
Impact of the Ebola Risk: BCI by Region

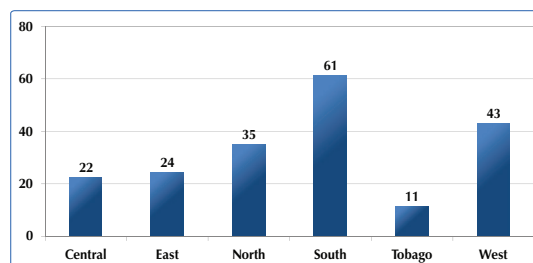
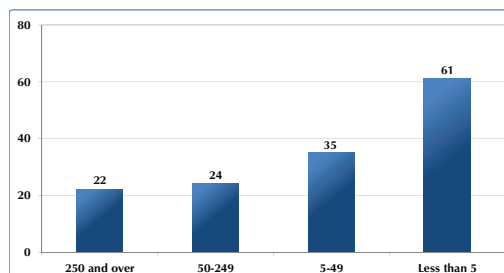


CHART 19
Impact of the Ebola Risk: BCI by Business Size



APPENDIX 1

The BCI as a Diffusion Index: Computation and Interpretation

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 six 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 +42 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 "generally optimistic".

BUSINESS CONFIDENCE REPORT

Quarter IV, 2014