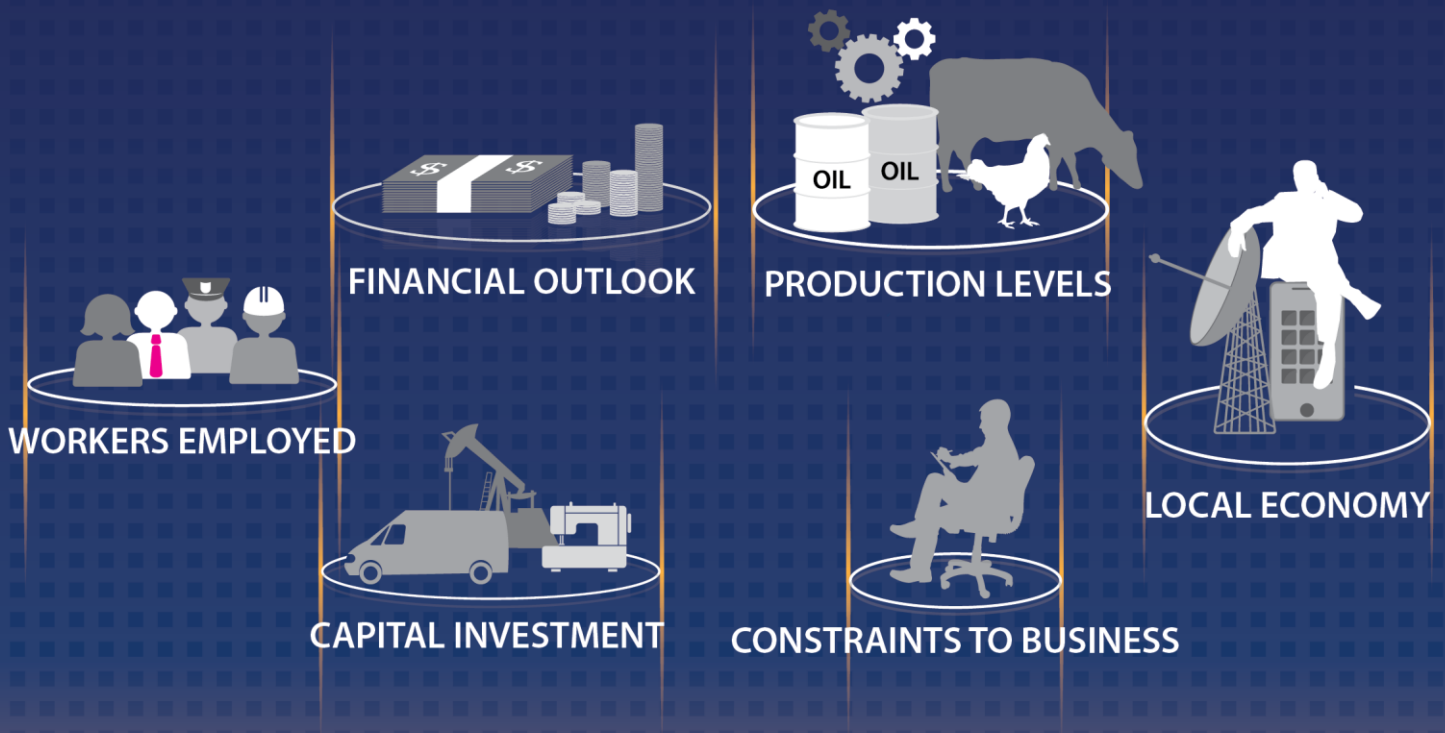


# BUSINESS CONFIDENCE REPORT

Quarter III 2014



CENTRAL BANK OF  
TRINIDAD & TOBAGO



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# **BUSINESS CONFIDENCE REPORT**

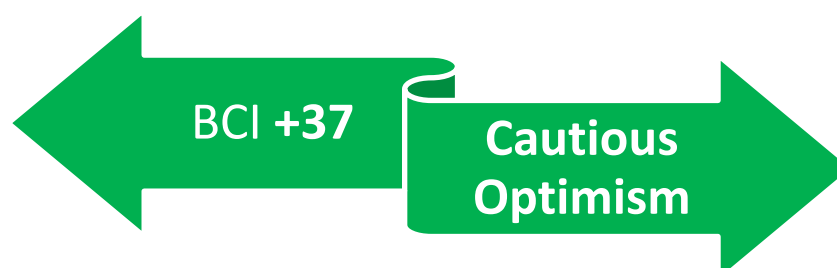
## **September 2014**

### **INTRODUCTION**

The current Business Confidence Report represents the third cycle of the Business Confidence Survey conducted by the Central Bank in conjunction with Arthur Lok Jack Graduate School of Business and covers the quarter ending September 2014. Local business leaders were surveyed over the period August/September 2014 on a wide range of issues, including their sentiments on the current and future business environment. Firms were drawn from various economic sectors, geographic regions and represented firms of various sizes.

### **BUSINESS OUTLOOK**

For the quarter ending September 2014, the outlook of the local business activity improved slightly over the preceding June quarter but remained cautiously optimistic. The Business Confidence Index (BCI) stood at +37 in the third quarter of 2014 compared with +32 in the second quarter.



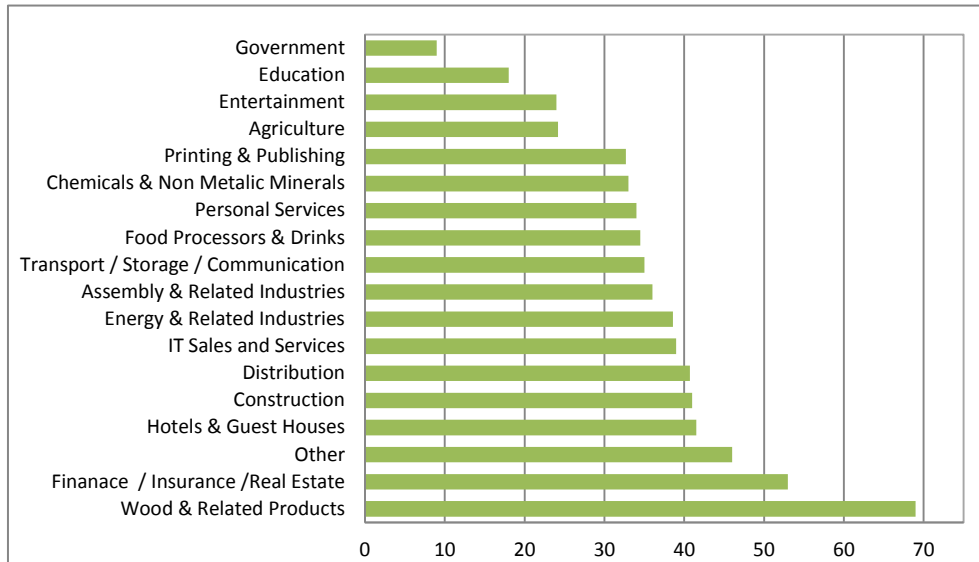
### **SECTOR INDICES**

Firms in the Wood and Related Products sector indicated the highest degree of confidence in the outlook for business activity, while the Government sector recorded the lowest level of confidence in business activity.

Confidence levels for all sector groupings varied widely, but were all positive for the quarter ended September 2014 (Chart 1).

Confidence was strongest among firms in the Wood and Related Products sector, which had a BCI index value of +69. The Finance, Insurance and Real Estate sector and the Hotels and Guest Houses sectors also reported fairly robust confidence levels measuring +53 and +42, respectively. The Chemical and Non-Metallic Industries sector continued to show wide volatility between quarters swinging from -33 in the quarter ending June 2014 to +33 in the current third quarter.

**CHART 1**  
**BCI by Economic Sector**



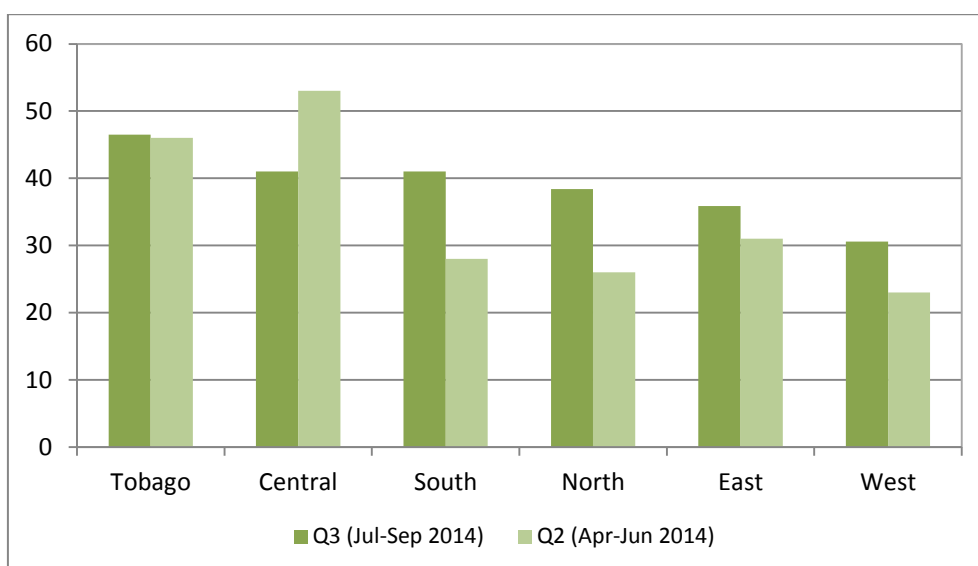
## REGIONAL INDICES

Business sentiment for all regions throughout Trinidad and Tobago was fairly optimistic, with businesses in Tobago and Central Trinidad having the highest confidence in short-term business activity. In contrast, businesses in the East and West Trinidad had relatively lower levels of business confidence.

Business confidence in North and South Trinidad were comparable and approximated the national average of roughly +37.

With the exception of the Central region, businesses were generally more optimistic in the third quarter of 2014 than in the second quarter (Chart 2).

**Chart 2**  
**BCI by Region**

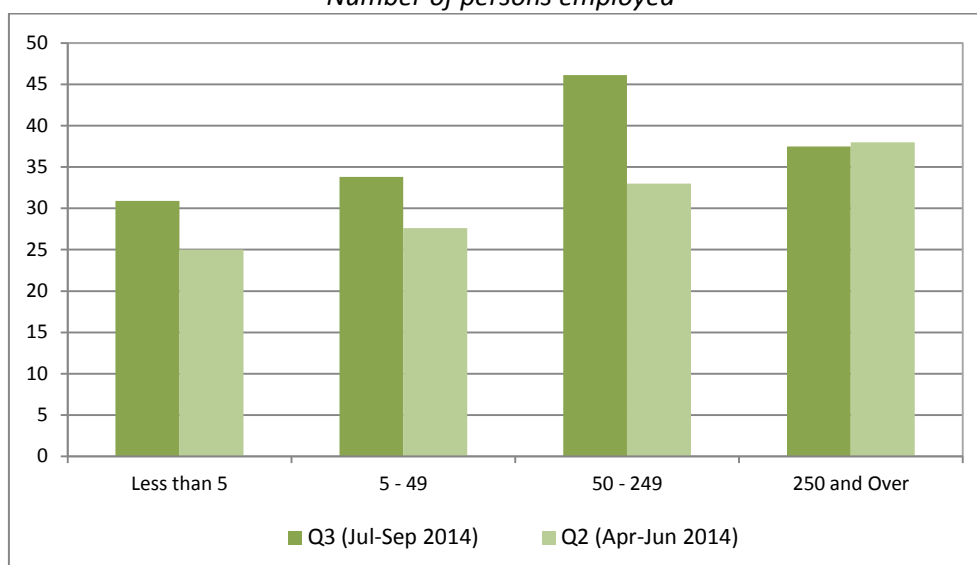


## SIZE INDICES

Larger firms were more positive about short-term prospects for business activity than smaller firms (Chart 3).

While business confidence increased with firm size in the second quarter of 2014, the pattern was less discernible in the third quarter. In fact, medium-sized firms (50-249 employees) recorded the highest level of optimism, surpassing even large firms with 250 or more employees. The level of confidence was similar, at just below the national average of +37, for both small (5-49 employees) and micro enterprises (fewer than 5 employees).

**Chart 3**  
**BCI by Size**  
*Number of persons employed*



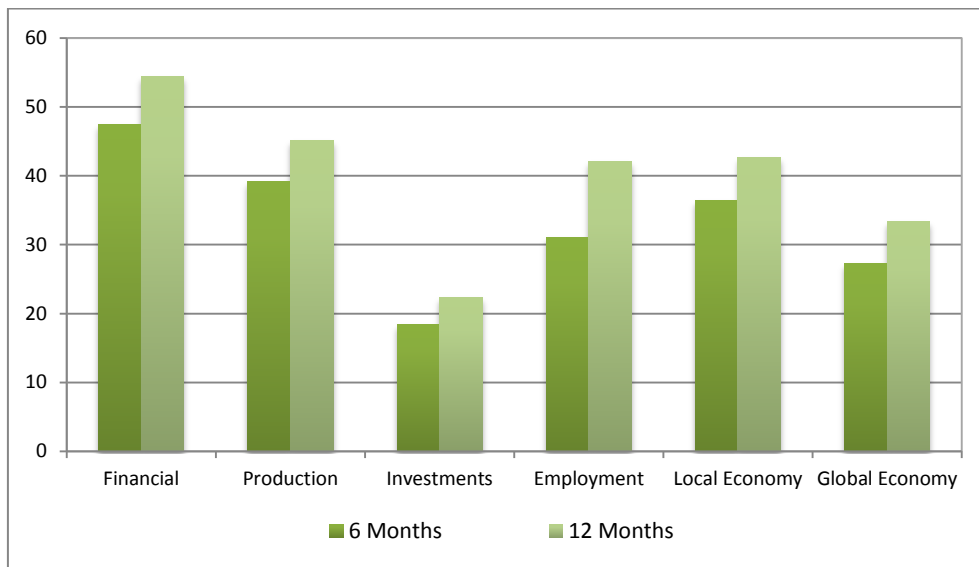
## BUSINESS OUTLOOK INDICES

Among the various dimensions surveyed, businesses maintained the highest degree of optimism in respect of Financial Performance, although the proportion of firms with this view has been declining since the survey began. More than half of business firms were optimistic about their financial performance in September 2014 compared with 66 percent in the second quarter of 2014 and 75 percent in the first quarter.

The level of confidence in short-term business activity stabilized across several dimensions after declining between the first and second quarters of 2014. For example, the BCI for the 6-month Financial Outlook moved from +58 to +48 between the first and second quarters, but remained largely unchanged by the end of the third quarter of 2014. Similarly, the BCI reading for Production between the last and the current quarter remained unchanged at +39. The corresponding BCI for quarter one 2014 was +50.

The level of optimism for the Employment and Local Economy dimensions were quite similar, reading +43 for the 12-month outlook. However, there was some optimism about the outlook for the Global Economy. Among all dimensions, the level of optimism was the lowest for the Investment Outlook (Chart 4).

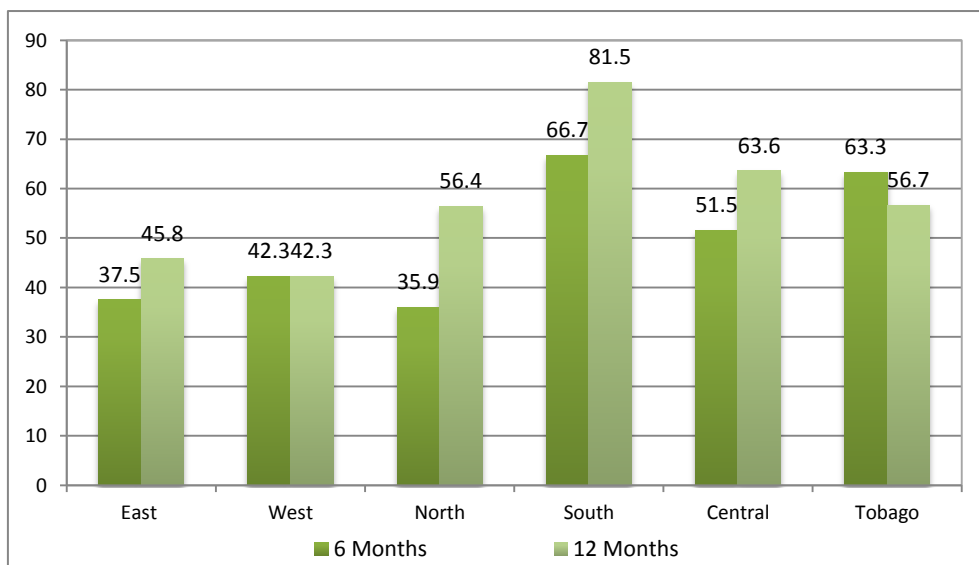
**Chart 4**  
**BCI by Business Outlook**



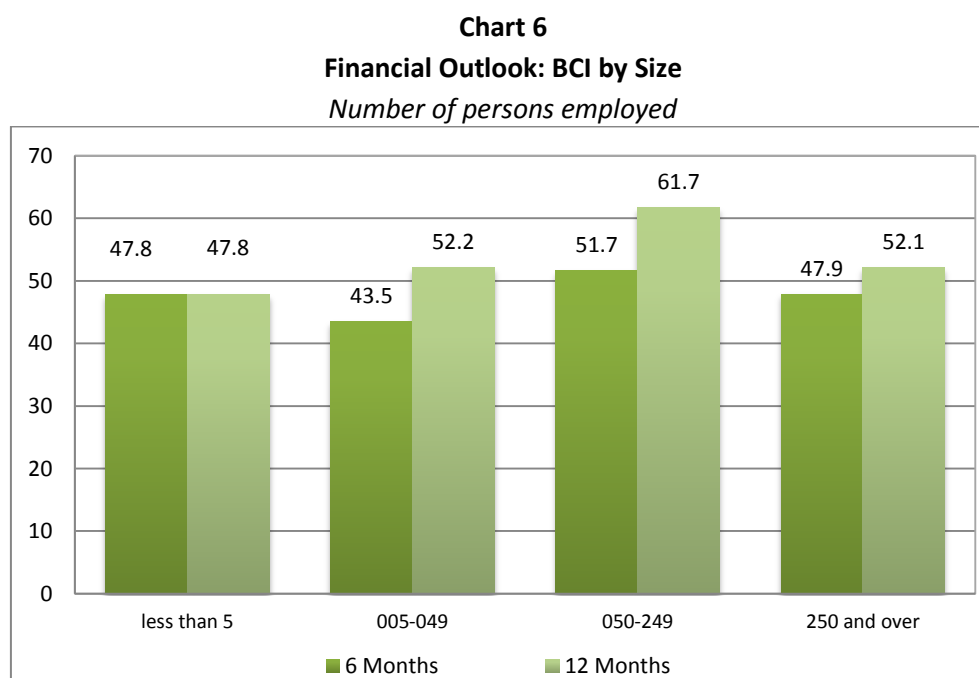
#### **FINANCIAL OUTLOOK INDICES (Questions 2 a - b)**

Regarding the Financial Outlook, the most optimistic firms were from Miscellaneous Manufacturing, Finance, Insurance and Real Estate, and Chemical and Non-Metallic Minerals, where in each case, more than 4 out of 5 firms were positive regarding the next 12-month outlook.

**Chart 5**  
**Financial Outlook: BCI by Region**



Businesses in the South region were the most optimistic about their financial outlook. Those in the East and West regions were the least optimistic and also showed little difference between the 6-month and 12-month outlook. Tobago and the Central region both had BCI values above the national average (Chart 5).



For Financial Outlook, the BCI was similar for firms irrespective of size. The medium-sized firms, however, showed a slightly higher confidence score than firms of other sizes (Chart 6).

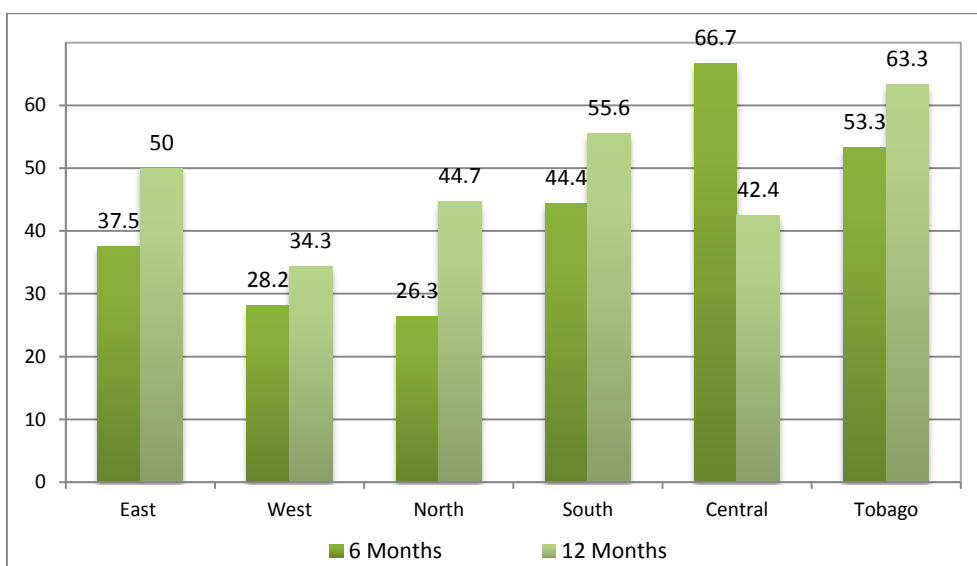
### PRODUCTION LEVELS (Questions 3 a - b)

The expectation for increased production levels was highest in Assembly and Related Industries (89 percent), Hotels and Guest Houses (78 percent) and Transport Storage and Communication (75 percent). By contrast, Printing and Publishing, Government and Energy, all had less than 50 percent of businesses planning to increase output.

Notably, none of the sectors had negative (pessimistic) BCI readings in the quarter ended September 2014. This represents a strong turn around for the Construction sector, for which the second quarter was moderately pessimistic (BCI -25 for the 6-month outlook and -38 for the 12-month outlook).

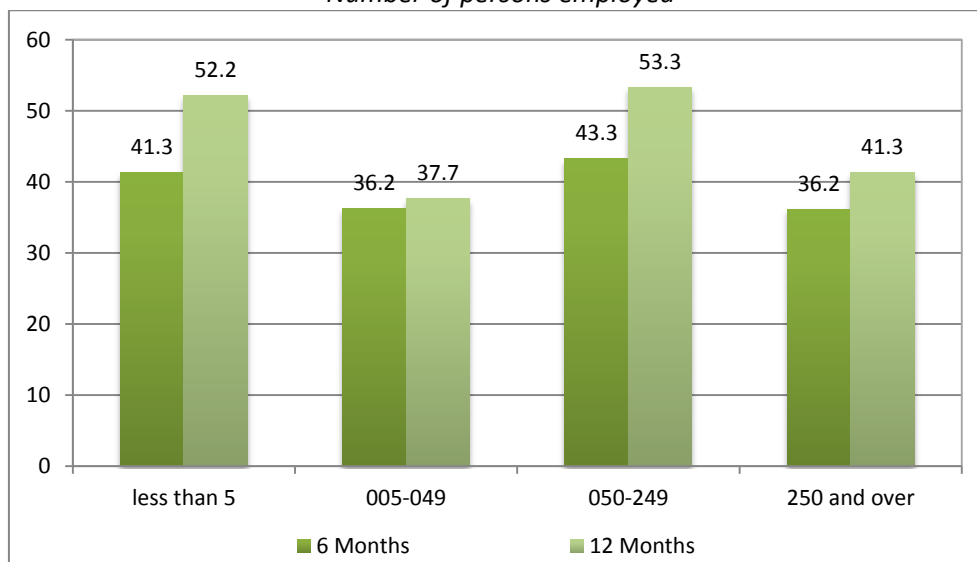
Firms from South and Tobago had the highest BCI for the production outlook, +68 and +63, respectively. The lowest BCI value was in respect of the West, which had a BCI value of +28 for the 6-month outlook (Chart 7).

**Chart 7**  
**Production Levels: BCI by Region**



In respect of production levels, while previous quarters showed the BCI increasing with firm size, this was not evident in the third quarter of 2014. Micro enterprises reported production levels similar to medium-sized firms and small firms had a very similar BCI to very large enterprises (Chart 8).

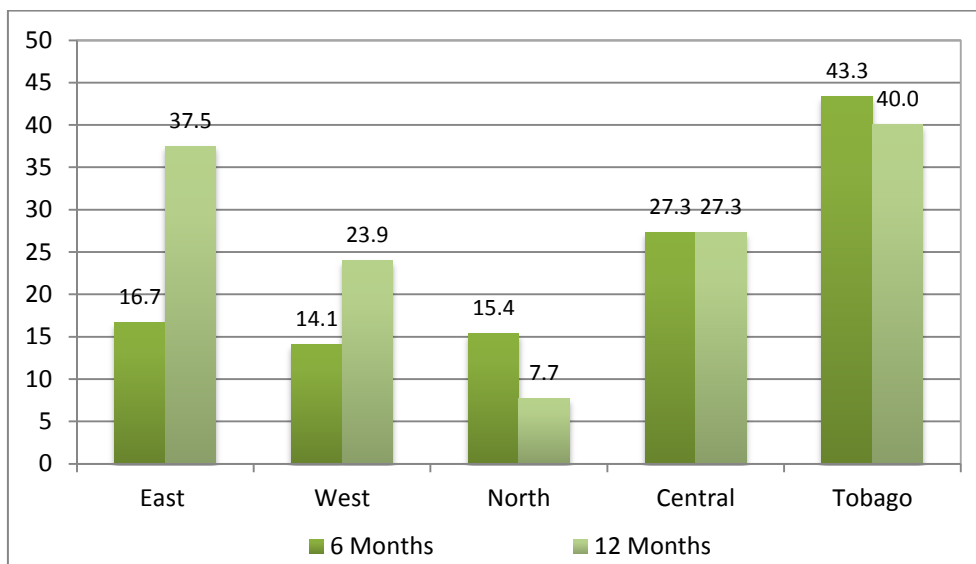
**Chart 8**  
**Production Levels: BCI by Size**  
*Number of persons employed*



## CAPITAL INVESTMENT (Questions 4 a - b)

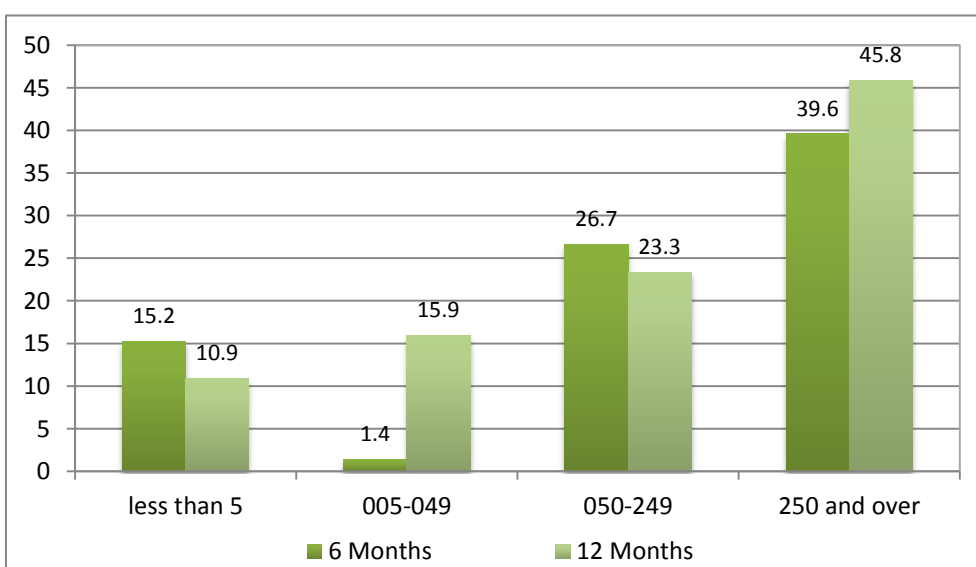
Nearly 40 percent of all firms planned to undertake capital investments over the next 12 months. For firms in the Food Processors and Drinks sector, 62 percent planned capital investments in the next 12 months, while the corresponding figure for the Construction sector was 56 percent.

**Chart 9**  
**Capital Investment: BCI by Region**



On a regional basis, Tobago appears most inclined to undertake capital investment over the coming year. Tobago recorded a BCI for capital investment +43.3 over the next 6 months and +40 for the next 12 months. The next closest region is the East with a BCI of +38 for the 12-month outlook (Chart 9).

**Chart 10**  
**Capital Investment: BCI by Size**  
*Number of persons employed*

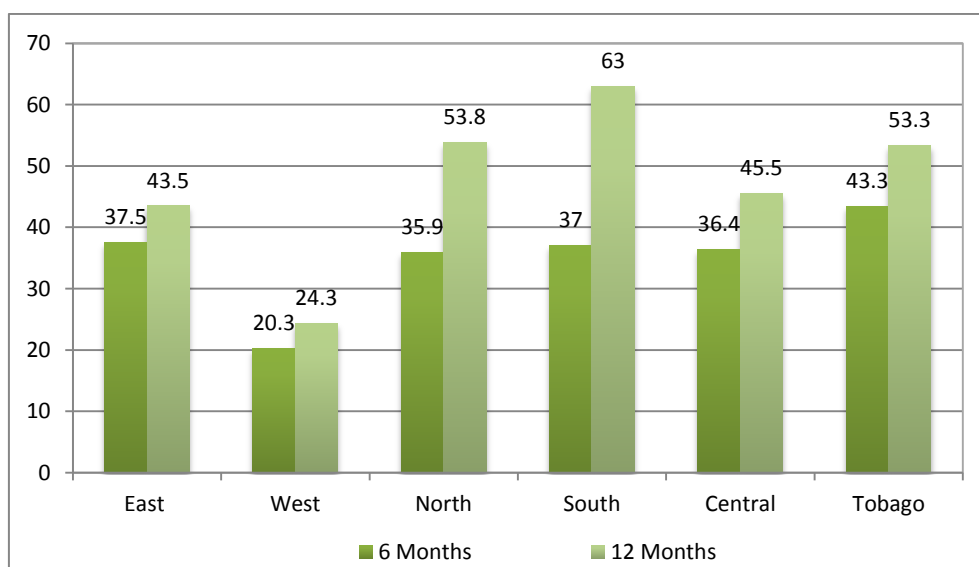


Larger firms appeared more predisposed to undertake capital investments. Half of large firms (250 or more employees) planned investments within the coming year, while the proportion of planning investments in the coming year for medium, small and micro enterprises ranged between 35 percent and 38 percent (Chart 10).

#### WORKERS EMPLOYED (Questions 5 a - b)

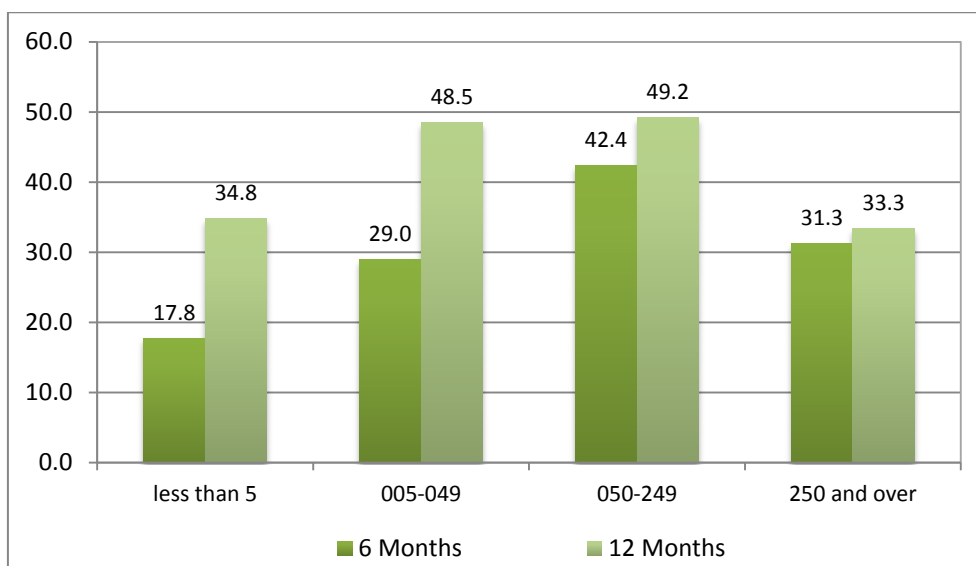
Overall, nearly half of firms surveyed planned to increase their workforce over the next 12 months. The two sectors with the highest inclination to increase employment over the next 12 months were from Miscellaneous Manufacturing (62 percent) and Personal Services (57 percent). Of the sectors surveyed, more than 40 percent indicated they were likely to increase staff in the next 12 months.

**Chart 11**  
**Workers Employed: BCI by Region**



The BCI for the employment outlook was fairly robust for all geographic areas except the West. For all regions, the outlook for the next 12 months was better, significantly so in some cases, than the outlook for the next 6 months. The South region led with a BCI of +63, followed by the North with +58 and Tobago with +53 (Chart 11).

**Chart 12**  
**Workers Employed: BCI by Size**  
*Number of persons employed*

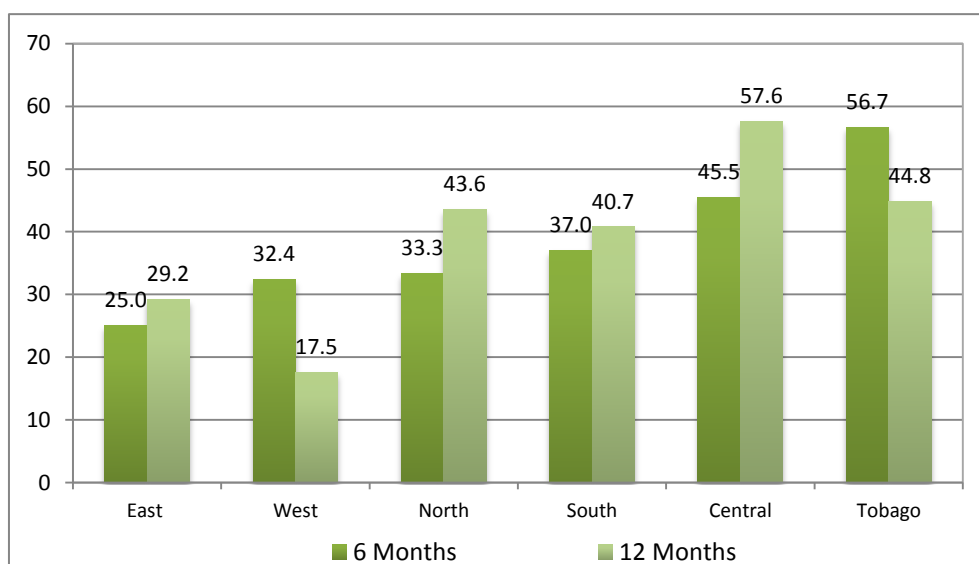


Half of firms of all sizes, with the exception of those with less than 5 employees, planned to hire staff over the coming year. The BCI for small and medium size firms were higher than other firms and measured roughly +49 (Chart 12).

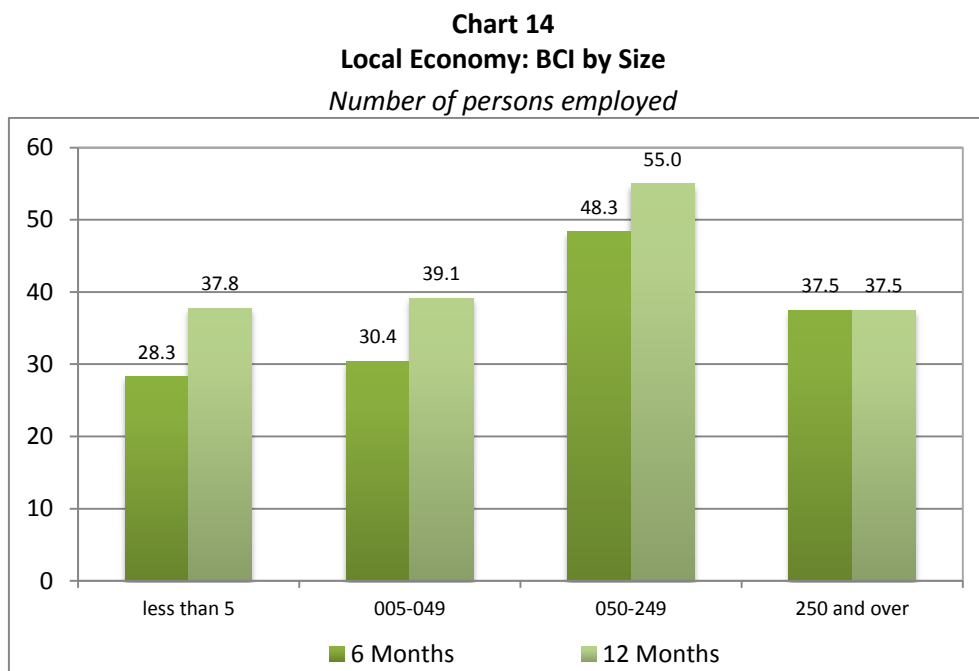
#### LOCAL ECONOMY (Questions 6 a - b)

Firms reported a very favourable outlook for the local economy. Overall, 54 percent of the firms felt positive about the prospects for the local economy. Distribution, Personal Services, Transport Storage and Communication, Finance Insurance and Real Estate all gave a high positive rating on the outlook for the local economy.

**Chart 13**  
**Local Economy: BCI by Region**



Regionally, North, South, Central and Tobago recorded high BCIs on the outlook for the local economy over the next 12 months. The indices ranged from a low of +33 in the North to +58 in Central. The East and West regions remained under +33, but were positive nonetheless (Chart 13).

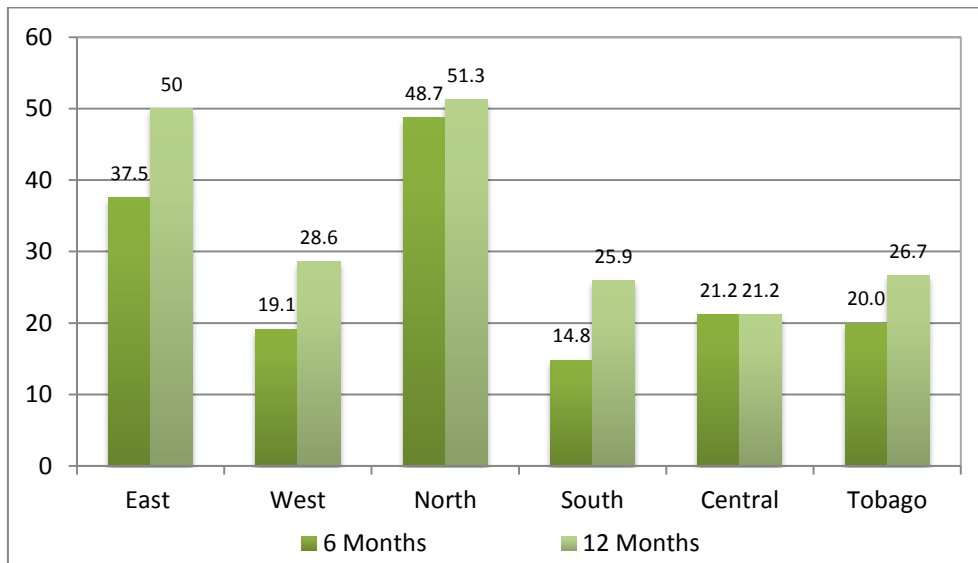


Medium-sized firms had the most positive outlook for the local economy. Measured by the BCI, medium size firms had a value of +55, a clear indication of the strong optimism with which they viewed the local economy in the coming 12 months (Chart 14).

#### **GLOBAL ECONOMY (Questions 7 a - b)**

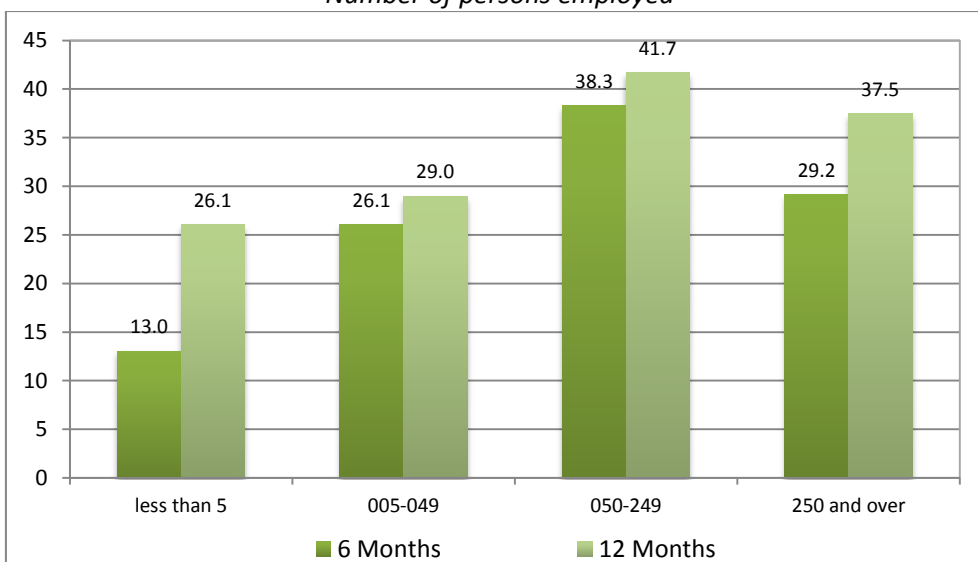
Almost half of all respondents had a favourable view of the outlook for the global economy, however, this varied widely across sectors. Only 13 percent of firms in the Entertainment sector had a favourable view on the outlook for the global economy. On the other hand, all firms in the Wood and Related Products sector and 71 percent of firms in the Personal Services sector had a positive view on the outlook for the global economy.

**Chart 15**  
**Global Economy: BCI by Region**



Analyzed by region the trend reversed. Whereas for the local economy, the employment outlook and financial outlook the South, Central and Tobago regions had a more optimistic perspective and East and West regions were less so, on the global economy the trend was the opposite (Chart 15).

**Chart 16**  
**Global Economy: BCI by Size**  
*Number of persons employed*

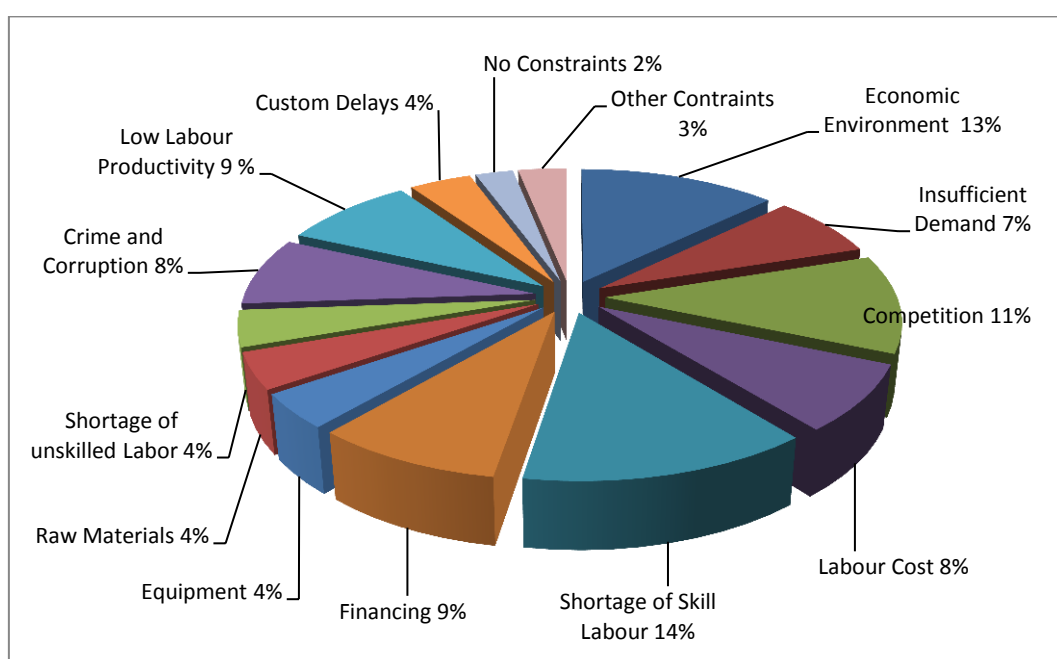


Viewed by firm size, larger firms were more optimistic about the outlook for the global economy than smaller firms. The average BCI for medium and large firms was +37, whereas for small and micro enterprises it was +24 (Chart 16).

### CONSTRAINTS TO BUSINESS (Question 6)

One of the significant constraints to businesses identified was the shortage of skilled labour (14 percent). This was followed by the economic environment as the next most important constraint to business activity (13 percent). While 11 percent identified competition from other businesses as a major constraint to their activities, roughly 1 in 5 businesses identified financing, labour cost or insufficient product demand as their key constraint, respectively (Chart 17).

**Chart 17**  
**Constraints to Business**



### THE EFFECT OF INTERNET PURCHASES ON BUSINESS (Current Pulse Question)

Some 17 percent of reporting firms felt that Internet purchases will negatively affect their business, while 66 percent felt that it would positively impact their businesses. The rest did not know or were unsure of how the trend toward Internet purchasing might affect their business.