BUSINESS CONFIDENCE REPORT
Quarter IV, 2013 - Quarter I, 2014

FINANCIAL OUTLOOK
- 90% of businesses in Misc. Manufacturing
- 89% of Misc. Manufacturing of businesses expect to maintain or increase their workforce over the next year.

PRODUCTION LEVELS
- 100% of firms in east Trinidad expect
- 89% of Misc. Manufacturing of businesses say 71% of food processing firms intend to improve within 12 months.

LOCAL ECONOMY
- 56% of businesses say
- 27% of businesses in Misc. Manufacturing of all business people
- 78% of Misc. Manufacturing companies

CONRAINTS TO BUSINESS
- 100% of firms in east Trinidad expect

WORKERS EMPLOYED
- 90% of Misc. Manufacturing of businesses in Misc. Manufacturing say

CAPITAL INVESTMENT
- 100% of firms in east Trinidad expect
BUSINESS CONFIDENCE INDEX (BCI)

Results Q4 2013-Q1 2014

INTRODUCTION

The key rationale of the BCI lies in its value as a leading indicator of economic activity to complement the lagging indicators currently used by policymakers in Trinidad and Tobago.

A survey-based quarterly measure of corporate confidence was first introduced by the Arthur Lok Jack Graduate School of Business (Lok Jack GSB) in 2003. The index was widely used until the project was discontinued in 2006.

This report revives the business confidence index as a collaborative effort between the Central Bank of Trinidad and Tobago and the Lok Jack GSB. The pivotal innovation is the use of a diffusion index.

THE DIFFUSION INDEX1

The BCI is a Diffusion Index: BCI = p – n, where p (n) is the percentage of positive (negative) survey responses. By definition, the index ranges from -100 to +100. Positive values indicate an optimistic outlook, with the level of optimism increasing as the index approaches +100. Negative values are similarly interpreted, and 0 indicates neutrality.

BUSINESS OUTLOOK

The sentiment of the local business community as at the end of the survey period is one of cautious optimism in the outlook for business activity and the strength of the economy within the next 6-12 months. This first index serves as the benchmark for comparison with future quarterly surveys.

TARGET AND COVERAGE

The business confidence survey was disseminated to local business leaders over the period December 2013 – January 2014. Large, medium and small firms were chosen from all major economic sectors and geographical regions.

The survey explored the short-term business community outlook along six dimensions: Financial Performance, Production, Capital Investment, Employment, the Local Economic Environment and the Global Economic Environment.

Response Rate: 99%

1 See Appendix 1 for a thorough examination of the computation and interpretation of the BCI as a Diffusion Index.


**Sector Indices**

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

Hotels, Guest Houses and Chemical Manufacturers have the greatest confidence in the outlook for business activity. Firms in the Government and Printing sectors are the least confident.

Confidence indices for all economic sectors were positive, indicating an overall optimistic outlook on the part of the local business community.

Confidence was strongest among firms in the Hotels/Guest Houses sector, with a BCI reading of +52 recorded for the survey period. Chemical and Miscellaneous Manufacturers also maintained a positive outlook, with BCI readings of +47 and +43 respectively recorded this quarter.

Firms in more traditional industries were less optimistic about prospective conditions for business activity, with firms in the Printing and Government sectors recording BCI levels of +20 and +22, respectively.

**Chart 1**

BCI By Economic Sector

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

The business community in the East (Trincity, Piarco, Arima, etc.) adopted the most optimistic outlook of all regions, with a BCI of +53 for the survey period.

Businesses in the North (Port of Spain and environs) were second, with a BCI reading of +41. Other regions recorded BCI levels between +30 and +40. Firms in Tobago were the least confident in the short-term business outlook.

**Chart 2**

BCI By Region
**SIZE INDICES**

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

*Medium-sized businesses have the most positive expectation about short-term prospects for business activity.*

Firms employing 50 to 249 persons recorded a BCI of +48, the highest level of any business size. Large firms (with 250 or more employees) were the least confident, with a BCI reading of +32.

**BUSINESS OUTLOOK INDICES**

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

*The business community is most confident in the prospects for improved financial performance in the short term. 75% of all respondents indicate that they expect their financial outlook to improve over the next 12 months.*

42% of respondents expect the local economy to improve within 6 months. The outlook brightens over the 12 month horizon, with 56% of respondents anticipating an improved local economy over that period.

52% of respondents plan capital investments in the next 6 months.

90% of respondents expect to maintain or increase their work force within the next 12 months.

Overall, respondents expected short-term improvements in all business outlook dimensions. Specifically, the business community was confident that the financial performance of their businesses would improve within 6 to 12 months. BCI readings of +58 and +66, respectively were recorded, indicating a high level of optimism.

In addition, firms were optimistic that their production levels would increase in the next 6 to 12 months. BCI readings of +50 and +59, respectively, were recorded for these dimensions.

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

Businesses were guardedly optimistic about the state of the local and global economies within the next 6 months. BCI readings were +23 and +26, respectively. Confidence did, however, improve with a 12-month outlook.
FINANCIAL OUTLOOK INDICES (Questions 2a-b)
Report on business confidence with respect to the financial outlook, by sector, region and business size

100% of respondents in the Agriculture, Entertainment and Miscellaneous Manufacturing sectors expect their financial outlook to improve within 12 months.

Businesses in the East are the most confident about the short term financial outlook, while firms located in the south are the least optimistic.

Medium-sized businesses have the most positive expectations about their financial outlook. 81% of firms employing 50 to 249 employees indicate that they expect the financial outlook to improve within 12 months.

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 unanimously optimistic that their production levels will increase in the short term.

89% of respondents in the Miscellaneous Manufacturing sector and 80% of firms in the Entertainment sector indicate that they expect production levels to increase within the next 6 months.

100% of firms located in the East expect production levels to increase in the next 12 months.

Firms of all sizes have higher expectations of increasing production levels within the next 12 months than within the next 6 months.
78% of respondents in the Miscellaneous Manufacturing sector indicate that they intend to undertake additional capital investment within the next 6 months.

Firms located in the East are by far the most optimistic about the prospect of increasing capital investment activity in the short run.

Results indicate that large firms have the strongest expectation of increasing capital investments within the next 6-12 months.

80% of respondents in the Hotel industry and 71% of Food Processors indicate that they expect to hire more workers within the next 12 months. On average, only 46% of all respondents expect to hire more workers over the same period.

Firms located in the east of Trinidad and in Tobago are the most confident that they will employ more workers in the short term. On the other hand, only 27% of the firms in the central region have this expectation.

Large firms appear less likely than other firms to increase their head count in the next 6-12 months.
**LOCAL ECONOMY (Questions 7a-b)**
Report on business confidence in the prospects for the local economy, by sector, region and business size

Hotels and Guest Houses have the highest level of confidence that the local economic environment will improve within the next 6-12 months.

Firms in Tobago and the South of Trinidad are least confident in the outlook for the local economy within 6-12 months.

Medium-sized firms have higher BCI readings than firms of any other size, indicating a significantly greater confidence in the prospects for the local economy in the short term.

**GLOBAL ECONOMY (Questions 8a-b)**
Report on business confidence in the prospects for the local economy, by sector, region and business size

Hotels and Guest Houses appear to have a more positive outlook for both the local and global economies than firms in other sectors.

In general, the business community is confident about the prospects for improvement in the global economy, with firms in Tobago being the most optimistic.

Large firms are significantly less optimistic about global economic prospects than the small or medium firms.
By far, businesses perceive the economic environment as the most significant constraint to their business activity in the survey period. The business community cited the suppressed economic environment as the major factor inhibiting their ability to do business. Shortage of skilled labour, lack of financing and competition were also cited by a significant number of firms.

Chief among the constraints cited in the “Other” category were the prevalence of corruption, the lack of transparency, the threat of criminal activity and insufficient enforcement of laws and regulations.

Some firms also cited a lack of unskilled labour, a poor work ethic among employees and inability to obtain sufficient foreign currency from authorized dealers as major hindrances to the task of conducting business.

The business community is almost unanimously pessimistic concerning the ease of doing business in Trinidad and Tobago over the period 2013. Firms in Tobago hold the strongest negative view, while firms in the Central region are only marginally pessimistic.

Small and medium firms appear to have encountered greater difficulty in doing business than the larger firms.
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 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 +37 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.”
Business Confidence Survey - Q2 2014 [Apr-Jun 2014]

Please complete and return to us by June 30 2014, to ensure prompt release of results

PLEASE CHECK THE MOST APPROPRIATE ANSWERS

BUSINESS PERFORMANCE / OUTLOOK (your organisation's financial performance)

1a. Financial Performance - compared to 6 months ago
   - Better
   - Worse
   - No Change

1b. Financial Performance - compared to 12 months ago
   - Better
   - Worse
   - No Change

2a. Financial Outlook - over the next 6 months
   - Better
   - Worse
   - No Change

2b. Financial Outlook - over the next 12 months
   - Better
   - Worse
   - No Change

3a. Production Levels - Outlook over the next 6 months
   - Higher
   - Lower
   - No Change

3b. Production Levels - Outlook over the next 12 months
   - Higher
   - Lower
   - No Change

4a. Planned Capital Investments in the next 6 months?
   - Yes
   - No
   - Not Sure/Don't Know

4b. Planned Capital Investments in the next 12 months?
   - Higher
   - Lower
   - Not Sure/Don't Know

5a. Workers Employed - Outlook over the next 6 months
   - Increase
   - Decrease
   - No Change

5b. Workers Employed - Outlook over the next 12 months
   - Increase
   - Decrease
   - No Change

6a. Major constraints to your business operations over the next 6 months (select all that apply)
   - Economic Environment
   - Insufficient Demand
   - Shortage of Skilled Labour
   - Financing
   - Shortage of Unskilled Labour
   - Crime/Corruption
   - NO CONSTRAINT
   - OTHER (please specify)

6b. Expand on your response to Question 6a. What do you think are the major constraints to your business operation?

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ECONOMIC ENVIRONMENT

7a. Outlook for the Local Economy in the next 6 months
   - Positive
   - Negative
   - No Change

7b. Outlook for the Local Economy in the next 12 months
   - Positive
   - Negative
   - No Change

8a. Outlook for the Global Economy in the next 6 months
   - Positive
   - Negative
   - No Change

8b. Outlook for the Global Economy in the next 12 months
   - Positive
   - Negative
   - No Change
CURRENT PULSE

The recent upsurge in crime that has gripped Trinidad and Tobago in 2014 is a significant source of concern to the entire populace, including the Government, households and the private sector. If this trend continues, do you foresee that your business will be adversely affected by the crime situation within the next 6 months?

☐ Yes  ☐ No  ☐ Not Sure/Don't Know

Please indicate the sector to which your organisation belongs (select one choice only)

☐ Agriculture  ☐ Food Processors and Drinks  ☐ Distribution  ☐ Hotels & Guest Houses
☐ Energy & energy-related industries  ☐ Printing & Publishing  ☐ Education  ☐ Transport/Storage/Communication
☐ Assembly & related industries  ☐ Textiles/garments/footwear  ☐ Government  ☐ Personal Services
☐ Wood & related products  ☐ Miscellaneous Manufacturing  ☐ Finance/Insurance/Real Estate  ☐ Entertainment
☐ IT Sales and Services  ☐ NGO  ☐ Security Services  ☐ Maritime Services
☐ Chemicals & non-metallic minerals  ☐ Construction  ☐ OTHER____________________________________________________

Please indicate the number of workers employed by your organisation.

☐ Less than 5  ☐ 5-49  ☐ 50-249  ☐ 250 and over

We would appreciate it if you provide us with your contact details, keeping in mind that the responses remain confidential.

Salutation:  ☐ Mr.  ☐ Ms.  ☐ Mrs.  ☐ Dr.  ☐ Prof.

Name: __________________________________________

Position: _________________________________________

Company: _________________________________________

Address: _________________________________________

Phone: ___________________________________________

Email: ___________________________________________

For Central Bank of Trinidad and Tobago and the Arthur Lok Jack Graduate School of Business use only

Interviewer Code:_________________________________________

Administration Method:  ☐ Mail  ☐ Online  ☐ Face to Face  ☐ Email

☐ Other (please specify)_ _________________________________