

BUSINESS CONFIDENCE REPORT

Quarter IV, 2013 - Quarter I, 2014

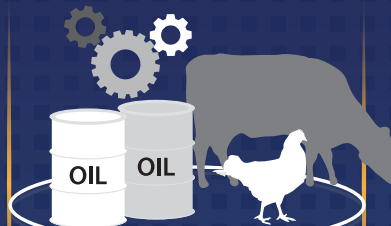
WORKERS EMPLOYED



FINANCIAL OUTLOOK



PRODUCTION LEVELS



LOCAL ECONOMY



CAPITAL INVESTMENT



CONSTRAINTS TO BUSINESS



CENTRAL BANK OF TRINIDAD & TOBAGO



www.central-bank.org.tt/

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.

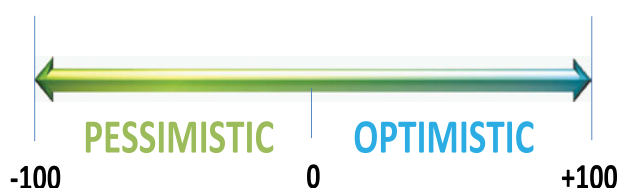
TARGET AND COVERAGE

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.

Response Rate: 99%

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.

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.

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

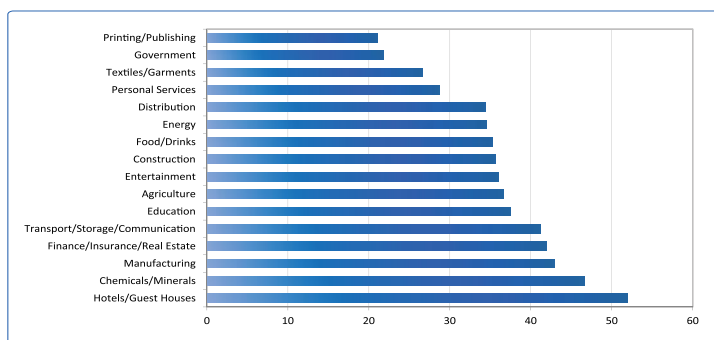
Hotels, Guest Houses and Chemical Manufacturers have the greatest confidence in the outlook for business activity. Firms in the Government and Printing sectors are the least confident.

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



REGIONAL INDICES

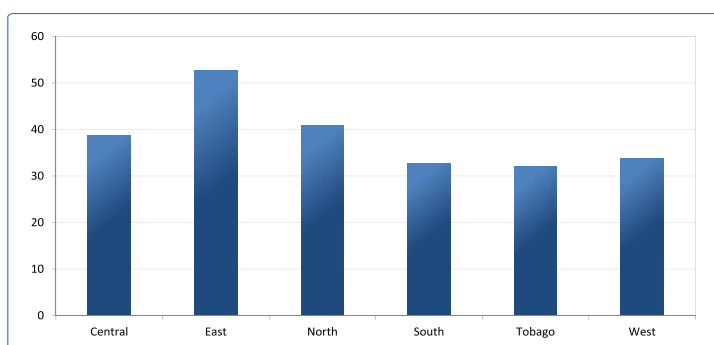
Report on the overall confidence of the business community by geographical region

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



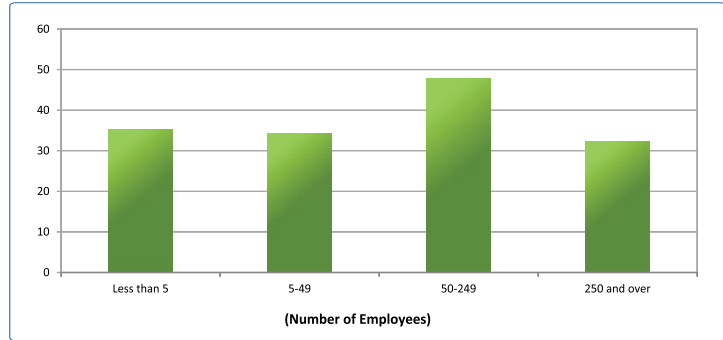
SIZE INDICES

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.

CHART 3
BCI By Business Size



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.

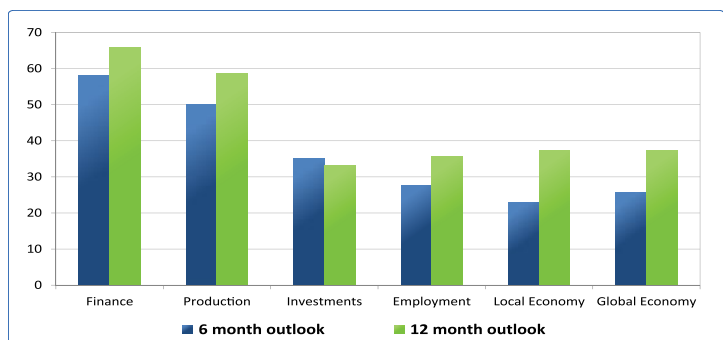
Overall, respondents expected short-term improvements in all business outlook dimensions. Specifically, the business community was confident that the financial performance of their businesses would improve within 6 to 12 months. BCI readings of +58 and +66, respectively were recorded, indicating a high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

CHART 4
BCI by Business 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.

CHART 5
Financial Outlook: BCI by Region

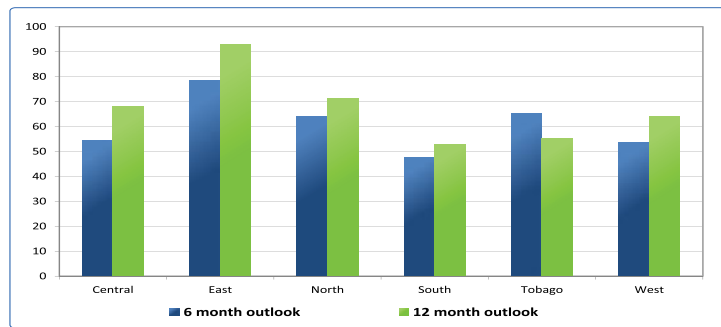
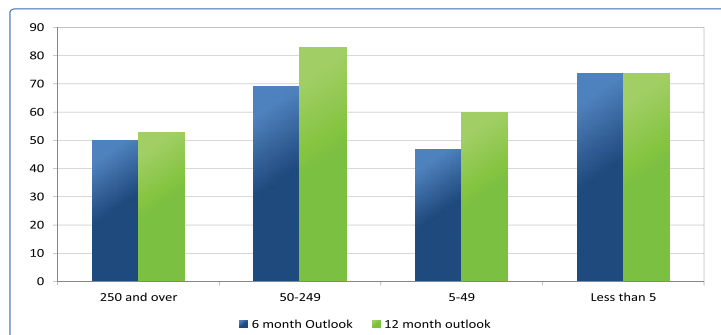


CHART 6
Financial Outlook: BCI by Size



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.

CHART 7
Production Levels: BCI by Region

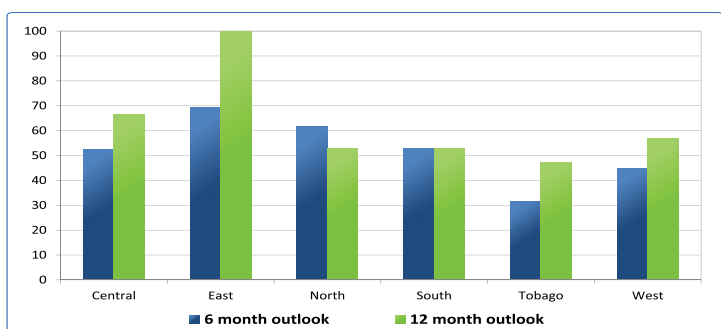
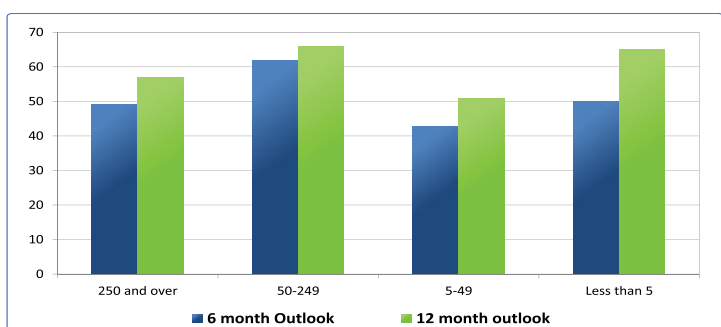


CHART 8
Production Levels: BCI by Size



CAPITAL INVESTMENT (Questions 4a-b)

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

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.

CHART 9
Capital Investment: BCI by Region

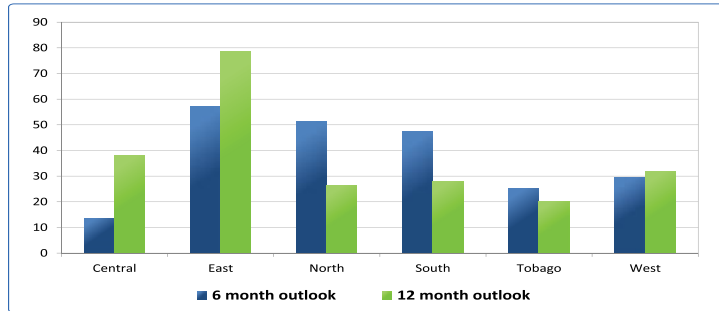
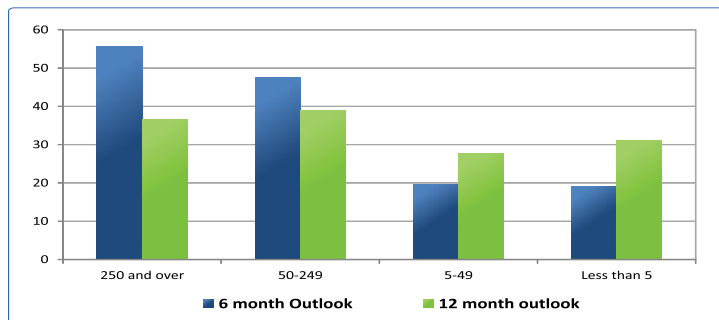


CHART 10
Capital Investment: BCI by Size



WORKERS EMPLOYED (Questions 5a-b)

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

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.

CHART 11
Workers Employed: BCI by Region

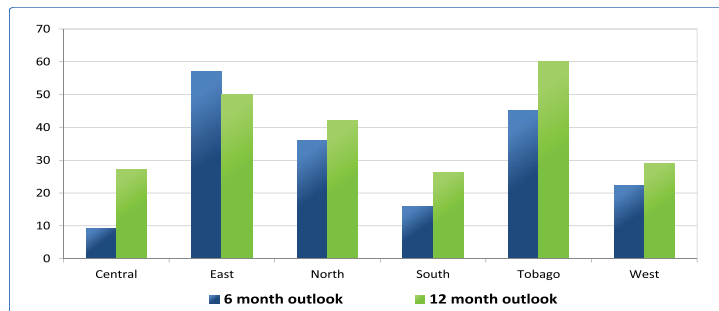
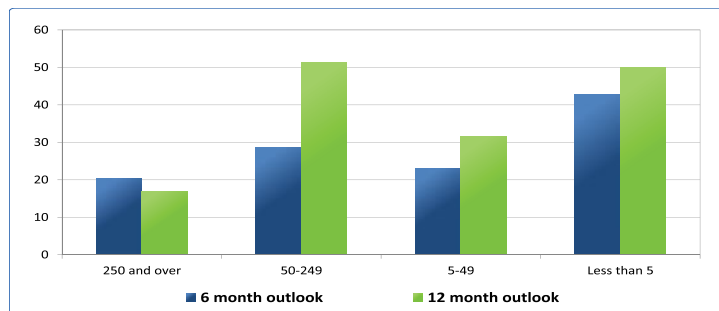


CHART 12
Workers Employed: BCI by Size



LOCAL ECONOMY (Questions 7a-b)

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

CHART 13
Local Economy: BCI by Region

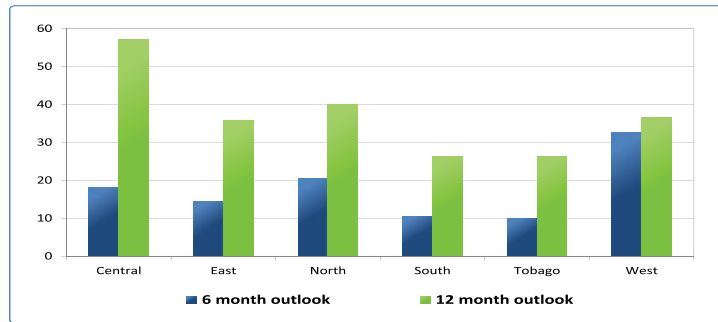
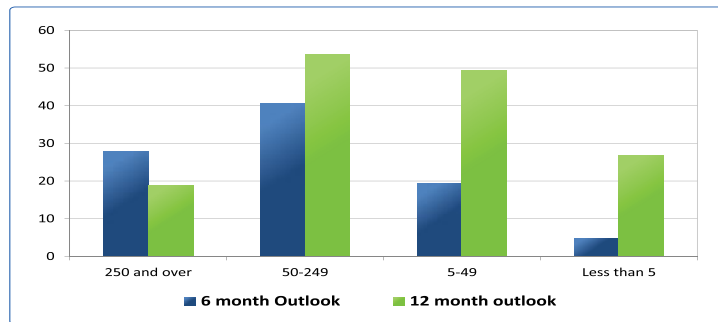


CHART 14
Local Economy: BCI by Size



GLOBAL ECONOMY (Questions 8a-b)

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

CHART 15
Global Economy: BCI by Region

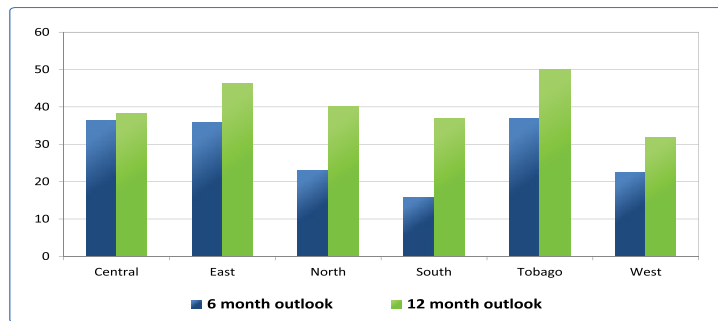
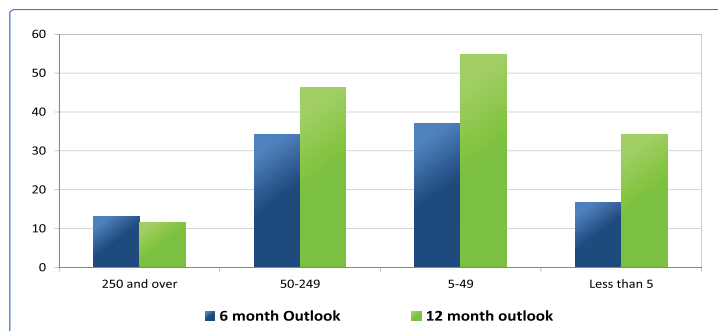


CHART 16
Global Economy: BCI by Size



CONSTRAINTS TO BUSINESS (Question 6)

Report on factors hindering business activity in Trinidad and Tobago

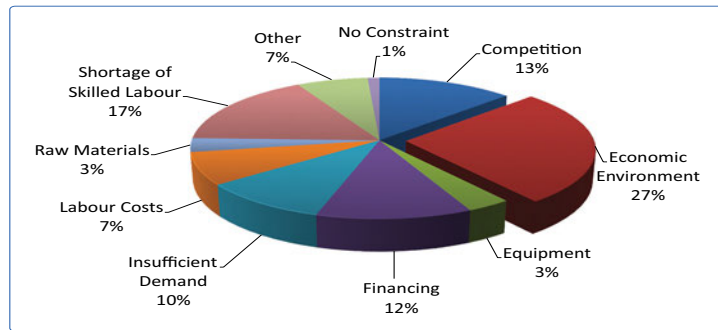
By far, businesses perceive the economic environment as the most significant constraint to their business activity in the survey period.

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.

CHART 17
Constraints to Business



EASE OF DOING BUSINESS (Current Pulse Question)

Report on business confidence concerning the ease of doing business in Trinidad and Tobago

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.

CHART 18
Ease of Doing Business By Region

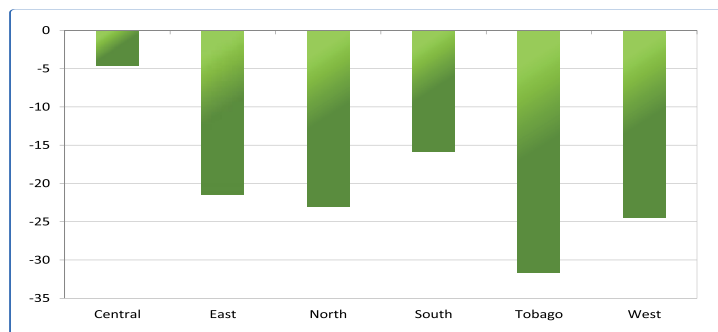
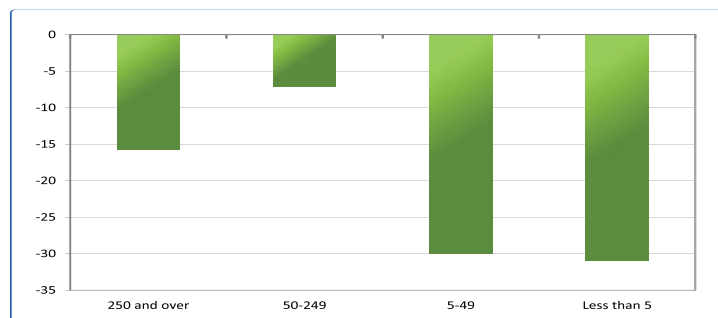


CHART 19
Ease of Doing Business By Size



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 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

2a. Financial Outlook - over the next 6 months

Better Worse No Change

3a. Production Levels - Outlook over the next 6 months

Higher Lower No Change

4a. Planned Capital Investments in the next 6 months?

Yes No Not Sure/Don't Know

5a. Workers Employed - Outlook over the next 6 months

Increase Decrease No Change

6a. Major constraints to your business operations over the next 6 months (select all that apply)

- | | | | |
|---|---|--|---|
| <input type="checkbox"/> Economic Environment | <input type="checkbox"/> Insufficient Demand | <input type="checkbox"/> Competition | <input type="checkbox"/> Labour Costs |
| <input type="checkbox"/> Shortage of Skilled Labour | <input type="checkbox"/> Financing | <input type="checkbox"/> Equipment | <input type="checkbox"/> Raw Materials |
| <input type="checkbox"/> Shortage of Unskilled Labour | <input type="checkbox"/> Crime/Corruption | <input type="checkbox"/> Low Labour Productivity | <input type="checkbox"/> Customs Delays |
| <input type="checkbox"/> NO CONSTRAINT | <input type="checkbox"/> OTHER (please specify) _____ | | |

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

ECONOMIC ENVIRONMENT

7a. Outlook for the Local Economy in the next 6 months

Positive Negative No Change

8a. Outlook for the Global 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

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)

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