THE AGI BUSINESS BAROMETER

4TH QUARTER 2017

AGI Association of Ghana Industries

SUMMARY REPORT

Business Confidence Declines in Q4, 2017

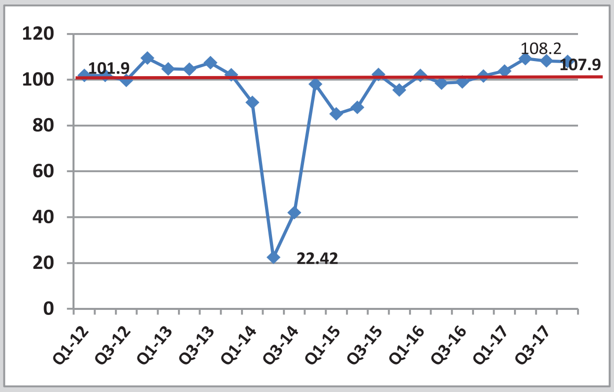
Business confidence dropped marginally for the second time running in 2017 from 108.2 in Q3 to 107.9 points in Q4. Expectations of the yuletide and prospects of high sales during the season did not seem to bring much to bear on business confidence. Often Q4 records an increase in business confidence, but this was not the case this time round. The uncertainties in the business environment coupled with the high cost of electricity might have weakened expectations of Captains of Industry in Q4. They believe the pace of implementation of Government policies could be better.

It is however expected that Q1, 2018 will see much more macro-economic stability and further commitment to fiscal consolidation to ensure sustainable growth of the economy.

The AGI BB Indicator (BBI)

The Business Barometer Indicator (BBI) is an AGI proprietary tool that measures the level of confidence in the business environment and predicts short-term business trends. It is based on the business community's assessment of current economic conditions and perceptions and it simply expresses the state of the business climate numerically in one figure (index) with 100 as the base index. The index is calculated out of "current" business mood and "expectation" of businesses for the future.

Fig.1. AGI Business Confidence Index



Source: Field data

Figure 1 shows the confidence indices as captured over the last six years. The fluctuations recorded over the period reflect an unstable business environment. Q2, of 2014 was an exception, following the coming into force of Government's foreign exchange regulations that impacted negatively on businesses. From Q2 2017, the index did not see any improvement and is likely to follow the same downward trajectory if the factors that impact business confidence remain unchanged. The cedi also yielded to pressure from the major trading currencies during the festive season in Q4, culminating in further decline in business confidence in Q4.

Overall Perception of Business Performance

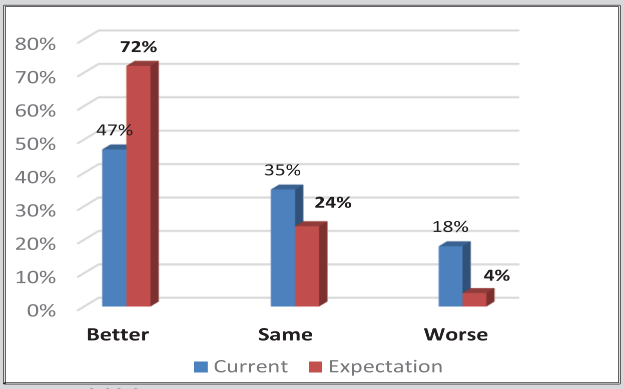
In the fourth quarter, 35 percent of respondents believe their businesses remained the same level while 18 percent of respondents were of the opinion that business performance had worsened. However, 47 percent believe business was better in Q4 than Q3.

Expectations of Q1, 2018 were high. A significant number (72%) of Captains of Industry was optimistic business performance in Q1 will be better in anticipation of Government implementing some of the good policies in the 2018 National Budget. Expectations of electricity tariffs reduction, the tax reforms to ease doing business and stimulate investments might have also fueled the optimism.

24 percent of the respondents expected their business performance to remain the same, while 4 percent feared business performance will worsen in the next quarter.

The overall perception of respondents point to a better business outlook in the next quarter.

Fig. 2 Overall Business Performance for Q4, 2017



Source: Field data

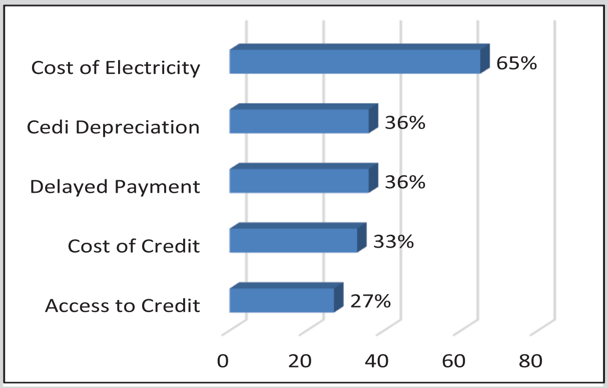
Overall Challenges

From Figure 3, high cost of electricity remains a priority challenge facing industry as has been the case since the beginning of 2017. Source of power generation has a major influence on energy pricing and the high cost of electricity can be ascribed largely to this assertion. A current generation mix of about 70 percent thermal and 30 percent hydro makes power production quite expensive. Captains of Industry feel any further increment beyond current tariff levels will collapse businesses. Anticipation however remains high for a downward review of electricity tariffs.

Though the cedi seems to have stabilized in recent times, there were still issues with forex during the festive season. Respondents who complained of delayed payments were mainly Contractors as has often been the case. Perhaps it is about time Government takes more positive steps towards cushioning local contractors against this recurring trend.

Even though the Bank of Ghana Policy rate had dropped by over 500 basis points from the beginning of 2017, lending rates remain high, hovering over 30 percent. About 1 in 3 respondents opined that cost of credit is still a major difficulty for their business. Similarly, access to credit does not seem to improve according to 27 percent of respondents

Fig. 3 Overall challenges



Source: Field data

Challenges by sector

Sector analysis of challenges in Q4 shows that high cost of electricity is a major challenge common to all three sectors under consideration in the survey.

Table 1: Challenges by Sector

Sector	1st	2nd	3rd
Construction	High Cost of electricity	Cost of Credit	Exchange Rate Volatility
Manufacturing	High Cost of electricity	Multiplicity of Taxes	Cost of Credit
Service	High Cost of electricity	Cost of Credit	Access to Credit

Source: Field data

The construction sector ranked cost of credit and exchange rate volatility as their second and third challenges respectively. The manufacturing sector came under pressure from the multiplicity of taxes imposed at various levels of their value chain, bringing additional cost to local manufacturers. High cost of credit was also common to all three sectors but in different magnitude.The situation was not very different for the Service sector.

Challenges by Size

All but Large companies within the four categories in Table 2 ranked high cost of electricity as their first challenge. This gives credence to the fact that high utility tariffs are still hurting industries. African Giants however, reported influx of imported goods and exchange rate volatility as their second and third challenges in their category. Large companies rated high cost of electricity as their second top most challenge and multiplicity of taxes as the third challenge. Medium size companies were constrained by the multiplicity of taxes and unfair competition on the market. As has always been the case, Small sized companies revealed Access to credit and Cost of credit as their major bottleneck constraining business operations.

Table 2: Challenges by Size

Size	1st	2nd	3rd
African Giants	High Cost of Electricity	Influx of imports	Exchange rate volatility
Large	Cost of Credit	High Cost of Electricity	Multiplicity of Taxes
Medium	High Cost of Electricity	Multiplicity of Taxes	Unfair Competition on the market
Small	High Cost of Electricity	Cost of credit	Exchange Rate volatility

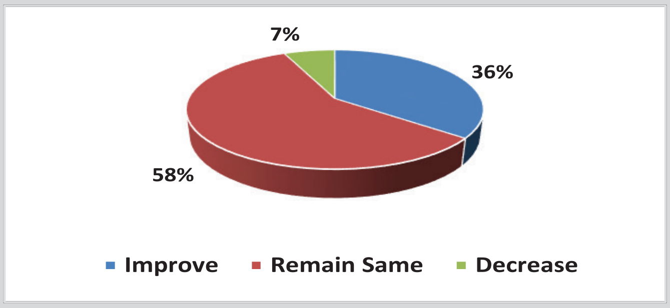
Source: Field data

Employment Expectation

Thirty-six percent of businesses are likely to hire additional staff within the next six months according to the survey. According to 58 percent of respondents, the lack of new investments and uncertainty in the business environment makes it difficult to predict reduction or hiring more staff in the coming months. The effect of business confidence waning is also manifest in the low prospects for employment as 7 percent hinted of a reduction in employment levels.

By comparison the captians of the industry were more optimistic of better prospects for employment in Q4 than in Q3. Overall, employment is likely to see a net increase of 29 percent within the next 6 months which complements Government's "planting for food and jobs" agenda.

Fig. 4 Employment Expectation

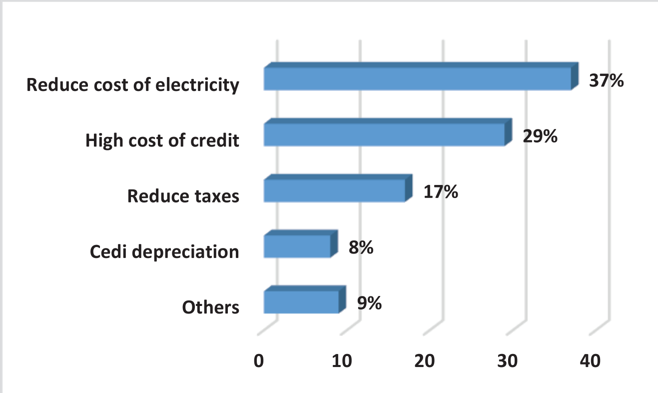


Source: Field data

Number one concern Govt. must address

Figure 5 summarizes the unaided responses to the question regarding the single most important thing that Government should do to help businesses thrive. Among all the challenges that businesses face, high cost of electricity is the biggest burden respondents believe deserves urgent attention from Government. It is interesting how this challenge emerged number one as the survey solicited unaided responses

Fig. 5 What Govt. must address

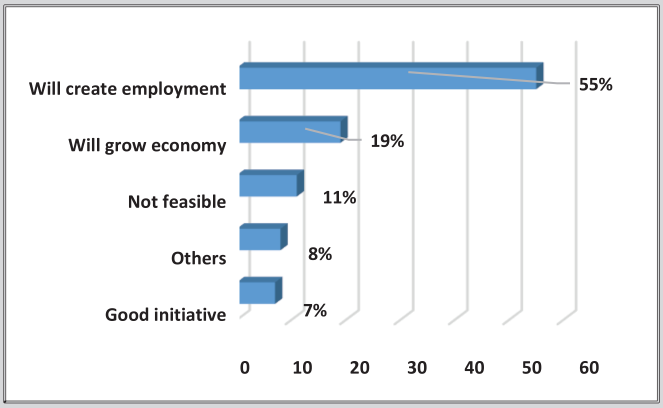


Advocacy on high cost of credit does not seem to yield encouraging results as it keeps emerging in almost every barometer. The complaint about taxes was largely driven by fuel price taxes where its impact is widespread.

Impression of 1D1F

Expectations of Government's One-District-One Factory's (1D1F) job creation prospects remain high looking at Figure 6. About 1 in 10 however think it cannot be done considering the time lapse since its launch. A few others (7%) think it is now a mere political slogan.

Fig. 6 Views about 1D1F



But from the survey, a lot more respondents still held positive views of the 1D1F initiative than its critics, regardless of the time lapse. Chances of this intiative receiving more endorsement remain high if Government expedites action on it.

WE THANK OUR RESPONDENTS FOR THEIR KIND COOPERATION

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