THE AGI BUSINESS BAROMETER
2nd QUARTER 2016

SUMMARY REPORT

BUSINESS CONFIDENCE DROPS IN Q2, 2016

Business confidence dropped to an index of **98.5** according to the AGI Business Barometer for Q2, 2016. The improved businesses confidence that began the year seemed to have frizzled out, falling below the 100 base index. Even though the survey results for the previous quarter re-affirmed the importance of power in boosting business confidence, the current high utility prices seem to have eroded the gains.

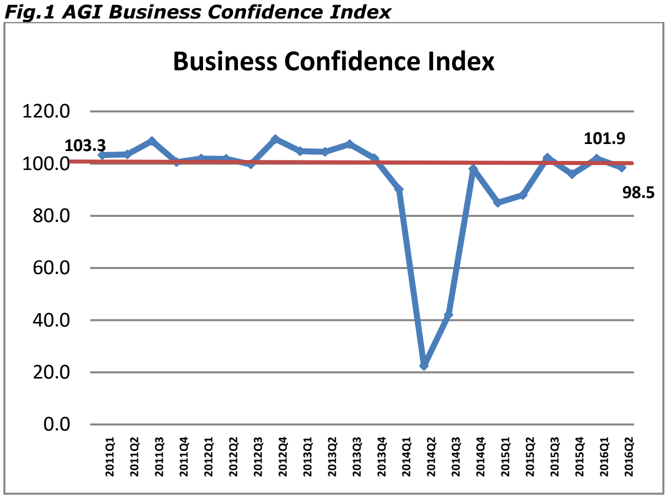
Taxes that bear sunset clauses are being maintained. Perhaps it is about time policy makers re-examine the uses to which taxes are put and possibly a review of the current tax regime in order not to undermine the competitiveness of local businesses.

The cedi remained relatively stable against the dollar in Q2. Measures adopted by the Central Bank to reduce the exchange rate swings and volatility ought to be maintained. It is likely that the businesses which reported cedi depreciation as a challenge in Q2 have not recovered from previous effects of the depreciation. Lending rates continue to be driven by policy rate, currently kept at 26%.

Businesses expect that Q3 and Q4, 2016 will see much more stable macro-economic conditions and 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 trend. It is based on AGI'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 "expectations" for the future.
*The Business Confidence Indices featured in Fig. 1 are adjusted at the end of each year to eliminate seasonal effects associated with **time series.***

Fig.1 AGI Business Confidence Index



Source: Field data

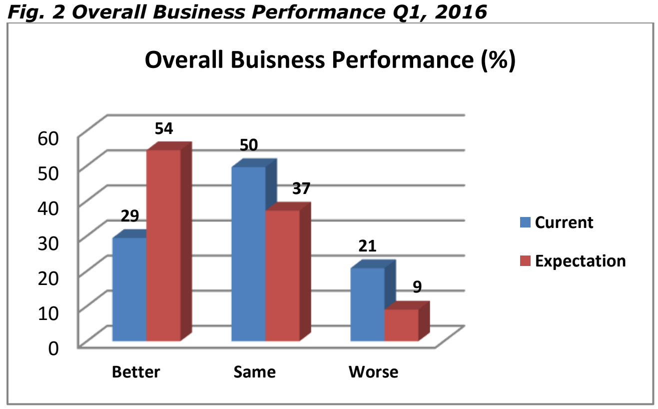
As featured in Figure 1, Q2 2016 recorded a drop in the confidence index from 101.9 in Q1 to 98.5 Business confidence has generally remained quite unstable over the last three years. The indices show fluctuations over the past twelve months.

This does not reflect a predictable business environment, devoid of the perennial challenges as being experienced.

Since 2014, business confidence index rose above the base index (100) on only two occasions as evident in the graph. Q2, 2014 saw the worst dip and deviation from the confidence index trajectory and it is worth noting that the foreign exchange regulations introduced by the central bank in 2014 largely accounted for such dramatic dip.

Overall Perception of Business Performance
From Figure 2, many more businesses rated Q2 as better compared to those who rated it as worse. Further analysis revealed that the business situation in Q2 was much better for the Construction sector than any of the sectors. One in two businesses believes nothing has changed in the business environment. Among the 54%who expect an improved business climate within the next six months, the Service sector is most optimistic while Manufacturers see little prospects of an improved climate in the coming months.

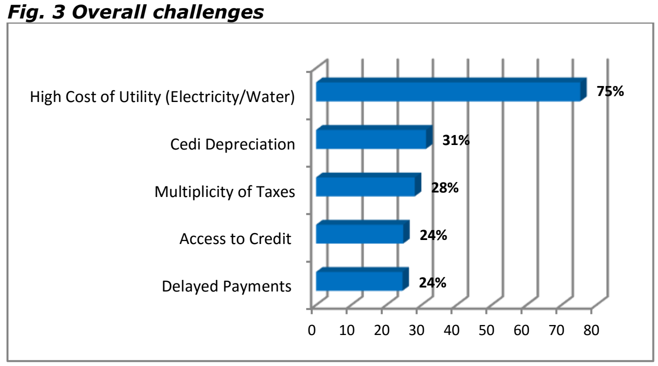
Fig. 2 Overall Business Performance Q1, 2016



Source: Field data

Overall Challenges
Interestingly, Q2 recorded same bottlenecks as in Q1 in almost the same magnitude. Availability of power to businesses was not an issue in Q2. Rather the high cost of utility regarding water and electricity emerged once again as the most pressing issue among all the challenges businesses faced in Q2. The survey revealed widespread agitation over such high electricity costs which do not look sustainable, according to the CEOs surveyed.

Fig. 3 Overall challenges



Source: Field data

Access to credit and the Multiplicity of Taxes have assumed entrenched positions among the top challenges that have stifled business for the past six months.

Challenges by size of business

High Cost of Utility once again stood out prominently across all the firms surveyed, and did not only emerge as a common challenge, but also occupied the number one position in order of magnitude. It is worth noting that SMEs are often worst affected by the bottlenecks that impact on businesses. Results of the survey confirm the difficulty "Small" size businesses have in assessing credit. The large and African Giants came under pressure from the influx of imported goods which hitherto has not been the case.

Table 1: Challenges by size

Size	Challenges		
	1st	2nd	3rd
Small	High Cost of Utility	Access to credit	Cedi Depreciation
Medium	High Cost of Utility	Cedi Depreciation	Multiplicity of Taxes
Large	High Cost of Utility	Influx of imported goods	Cedi Depreciation
African Giants	High Cost of Utility	Influx of imported goods	Cedi Depreciation

Source: Field data

Challenges by sector

Table 2: Challenges by sector

Sector	Challenges		
	1st	2nd	3rd
Manufacturing	High Cost of Utility	Cedi Depreciation	Multiplicity of Taxes
Service	High Cost of Utility	Cedi Depreciation	Multiplicity of Taxes
Construction	High Cost of Utility	Delayed Payments	Access to credit

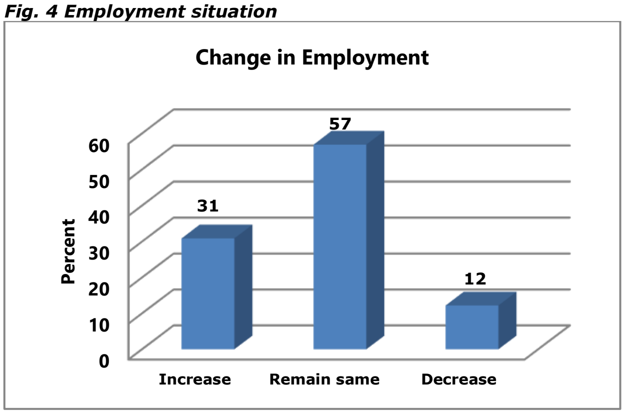
Source: Field data

It is not surprising that the high cost of utility ran through all the sectors as well. There were however divergent reports on Cedi Depreciation. While majority of the Service and Manufacturing sector said exchange rate volatility had been subdued, others said it is too early to rule out depreciation of the cedi. Delayed payments remains a major bottle neck to the Construction sector as this keeps emerging.

It is doubtful if the targeted GDP growth rate of 7% for Industry for 2016 is achievable, considering the persistent challenges.

Employment Situation

Fig. 4 Employment situation



Source: Field data

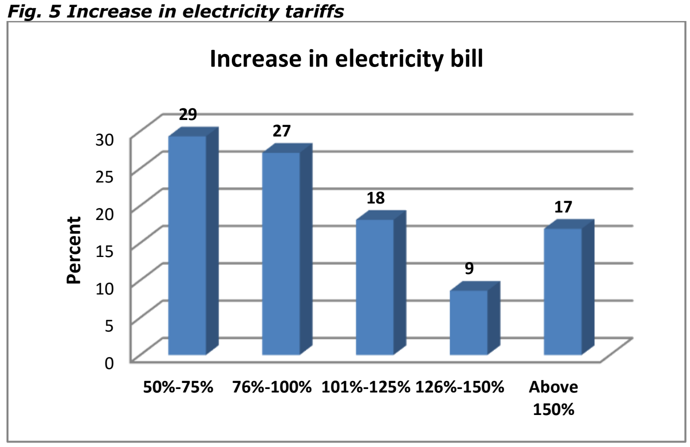
The employment situation remained the same in Q2 as in Q1. While most (57%) businesses feel they will maintain the same workforce, few (12%) of them project cutting jobs in the next 6 months if the current challenges persist.

Further analysis indicates that the Manufacturing sector will suffer a lot more job losses than other sectors of about 13.5%. In essence 69% are less optimistic about hiring within the next six months. The policies and institutions to create incentives to hire job seekers don't seem to make any difference. Job opportunities will however be coming from about one-third of employers who said they will hire more workers in the coming months.

Electricity Tariff Increment

Contrary to the approved electricity tariff increment of 59.2%, as many a 71% said they experienced increments of over 75% as depicted in Fig. 5 and this possibly explains the agitations for a review of the tariffs. Most of the extreme cases of increments of over 150% came from the Construction sector and the big firms referred to as the African Giants

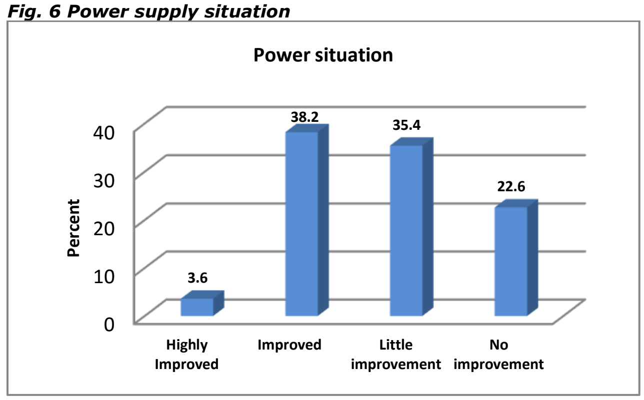
Fig. 5 Increase in electricity tariffs



Source: Field data

It was not surprising that the tariff levels precipitated the need for transparency and further investigation into the Utilities' billing system in Q2. Even though businesses are hopeful that the correction of the anomaly in the electricity billing software, as announced, will reflect in the new bills in Q3, taxes on utility tariffs summing up to about 27% still remain a major concern. Captains of Industry believe Government must seriously re-consider less expensive sources for power generation if local businesses are to remain competitive.

Fig. 6 Power supply situation



Source: Field data

Power supply improved in Q2 as reported by nearly 80% of the respondents as evident in Figure 6. The frequent power outages virtually disappeared. This was not the case previously. But this came at a higher cost. Among those who said there has not been improvement in power supply, Manufacturers dominate probably because their operations depended more on electricity. A good majority of the 22.6% who had not seen improvement in power supply were cases of low voltage and power fluctuations that equally disrupt business.