

INDUSTRY CONCERN ABOUT HIGH COST OF RAW MATERIALS & HIGH UTILITY PRICES

High cost of raw materials overtake cost of credit for the first time in four quarters, as the topmost challenge limiting growth of businesses in Ghana. This is a worrying development as increasing cost of raw materials renders businesses operating in the country less competitive. High utility prices moved from 10th position in Q1 to 2nd position in Q2. This may be largely due to the increases in utility prices in June, 2010.

OVERALL PERCEPTION OF THE BUSINESS ENVIRONMENT

Less than 50.0% of Business Executives operating in Ghana are optimistic that the overall business environment would improve in the third quarter of 2010, according to the Association of Ghana Industries (AGI) 2nd Quarter Business Barometer (BB). The survey was conducted from June 21 to July 2, 2010.

Only 46.0% of CEOs interviewed expect the business environment to improve in the third quarter of 2010, compared with 66.7% in the second quarter of 2010. The optimism of these CEOs is based on an expected improved market, availability of private sector projects and continuous decline of inflation in the next quarter.

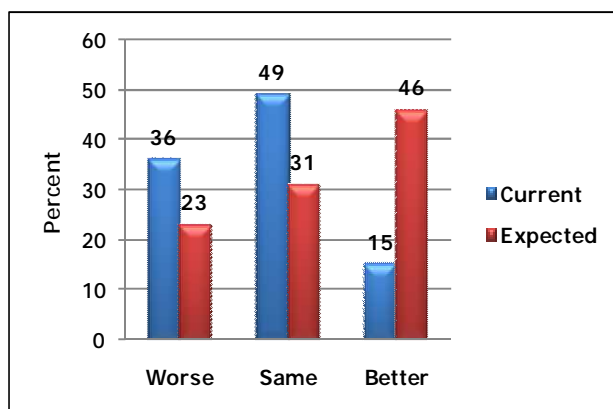


Fig. 1 Overall Business Performance for Q2 2010

However, a significant proportion (23.0%) of the respondents expects the business environment to worsen because of increase in utility prices, declining purchasing power of consumers and lack of market.

OVERALL MAJOR CHALLENGES

High cost of raw materials (11.3%), high utility prices (11.1%) and cost of credit (11.1%) are the top three challenges facing businesses operating in Ghana. Access to credit for the first time in four quarters

dropped from the top three to the sixth position, whilst inflation did not show up at all in the top ten.

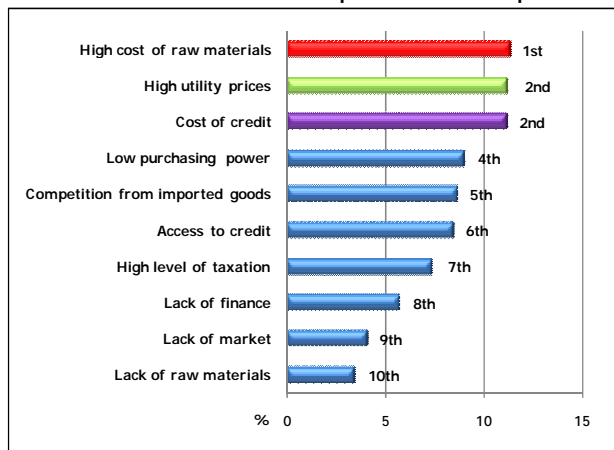


Fig. 2 Overall Major Challenges for Q2 2010

This development is consistent with the happenings in the economy as inflation has declined from 13.3% (March 2010) to 9.5% at the end of June, 2010.

SECTOR CHALLENGES

- ü **Agriculture:** High cost of raw materials, access to credit and cost of credit are three major factors limiting growth of the sector.
- ü **Construction:** Access to credit, cost of credit and low purchasing power emerged as the top three challenges facing the sector.
- ü **Manufacturing:** The sector's major challenges are high utility prices, high cost of raw materials and competition from imported goods.
- ü **Service:** High utility prices, high level of taxation and cost of credit were identified as key challenges hindering growth of the sector.

TABLE 1: CHALLENGES BY SIZE

Size	Challenges		
	1 st	2 nd	3 rd
SMEs	Cost of Credit	Low Purchasing Power	High Cost of Raw Materials
Large	High Utility Prices	Cost of Credit	Competition from Imported Goods
African Giants	High Utility Prices	Competition from Imported Goods	High Cost of Raw Materials

Cost of credit remains the number one challenge for SMEs. However, a high utility price is the major concern of African Giants and Large firms.

COMPARISON: Q1 2010 and Q2 2010

Quarter 2 2010 (Q2) and Quarter 1 2010 (Q1) present a comparison of business performance, over the last two quarters.

ü Current business environment

Figure 3, compares the overall current business perception of Q2 and Q1.

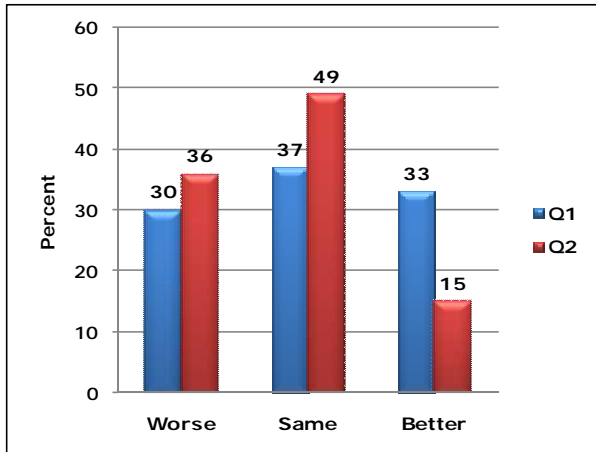


Fig. 3 Current Business Performance

The figure shows that, CEOs of businesses are less confident in Q2 (15.0%) than Q1 (33.0%). To buttress this point, whilst 36% of CEOs perceive the current business environment as worse in Q2, only 30% felt same in Q1.

ü Expected business performance

The business community was more optimistic in Q1 (66.7%) than Q2 (46.0%) in predicting the next quarter's business performance.

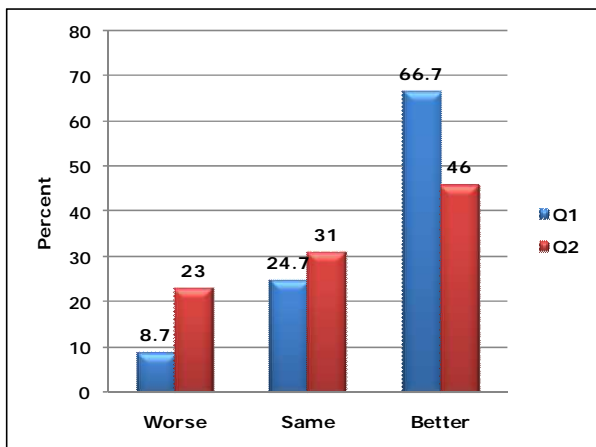


Fig. 4 Expected Business Performance

Only 8.7% of CEOs expected business performance to be worse in Q1 compared with 23% in Q2.

Again, more CEOs (31%) are of the view that, business performance will remain same in Q2 than Q1 (24.7%) in the next quarter.

ü Challenges

Figures 5 and 6 present the major challenges for Q1 2010 and Q2 2010.

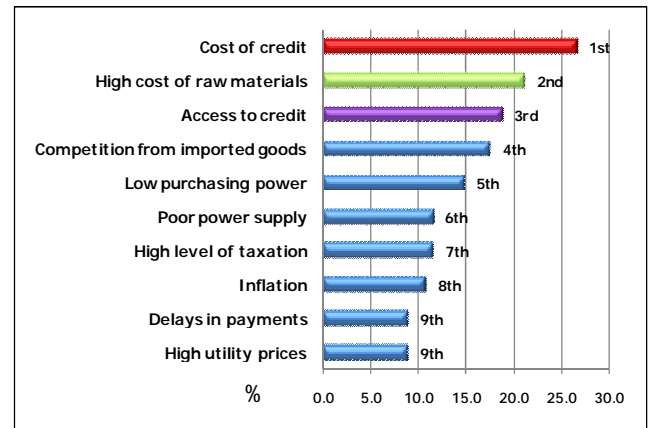


Fig. 5 Major Challenges for Q1 2010

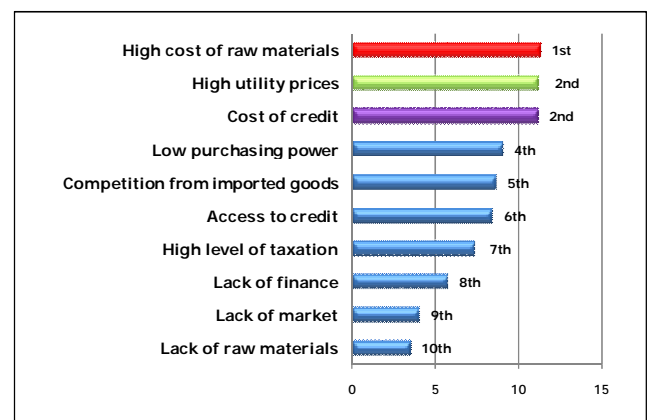


Fig. 6 Major Challenges for Q2 2010

Whilst high cost of raw materials swapped the first position with cost of credit, high utility prices moved from 10th position in Q1 to 2nd position in Q2. This may be largely due to the increases in utility prices in June, 2010.

THE AGI BB INDICATOR (BBI)

The AGI BBI which measures the level of confidence in the business environment recorded a negative value (-0.21) for the first time since June 2009. This shows that confidence in the economy was very low over the period under discussion.

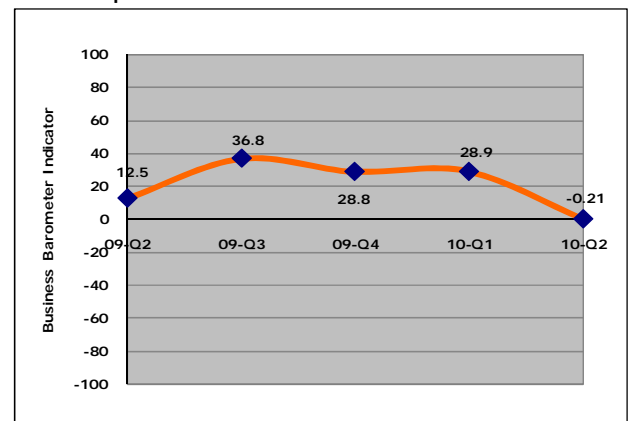


Fig. 7 AGI BBI