THE AGI BUSINESS BAROMETER
3RD QUARTER 2016

AGI Association of Ghana Industries

SUMMARY REPORT

BUSINESS CONFIDENCE IMPROVES MARGINALLY IN Q3, 2016

Business confidence improved marginally, according to the latest AGI Business Barometer survey for Q3, 2016. From an index of 98.5 in Q2, business confidence improved marginally to 99.0 in Q3, 2016. This is likely as a result of the relative stability of the cedi and the fact that businesses are expectant of increased business activity characteristic of the last quarter of the year.

The Q3 results indicate High Cost of Utility, delayed payments, access to credit, multiplicity of taxes and unfair competition featuring strongly as the top five challenges facing businesses in Ghana. In Q2 high cost of utility was the topmost challenge and was reflected again in Q3 as the topmost challenge, however, multiplicity of taxes which was then third challenge in Q2 swapped places with Access to Credit in Q3. In Q3, delayed payments rose from fifth position to second position which shows the magnitude of inability to pay for jobs that have been delivered to various private and public institutions.

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 simply expresses the state of the business climate numerically in one figure (index) with 100 as the base index. It is calculated out of "current" business mood and "expectations" for the future.

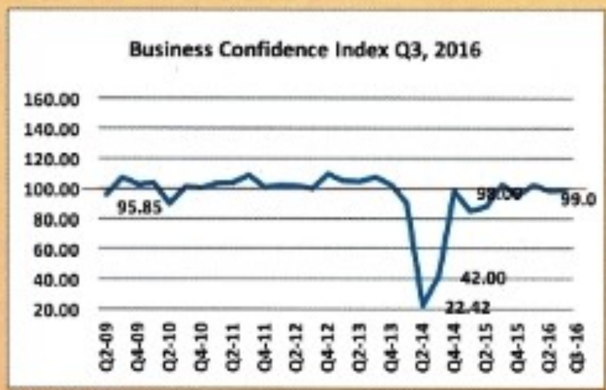

Fig. 1 AGI BBI

Fluctuations in the graph reflect the uncertainty in the business environment over the six year period. As a result of daunting economic challenges business sentiments slumped in Q2 slightly, improving to 99.0 points reflecting a slow return of business confidence in the economy.

Overall Perception of Business Performance

The third quarter perception of business performance indicates that 45% of respondents believe their businesses operated at the same level. 24% of respondents were of the opinion that business performance had worsened.

However, 31% of respondents indicated their businesses performed better than normal.

Fig. 2 Overall Business Performance for Q3, 2016

In terms of expectations for business performance for the next quarter, 37% of respondents expect their businesses to perform at the same operating level. 57% expect to perform better and 6% are of the opinion that their business performance would worsen. Overall, the perception of respondents points to an improved business performance in the next quarter.

Overall challenges

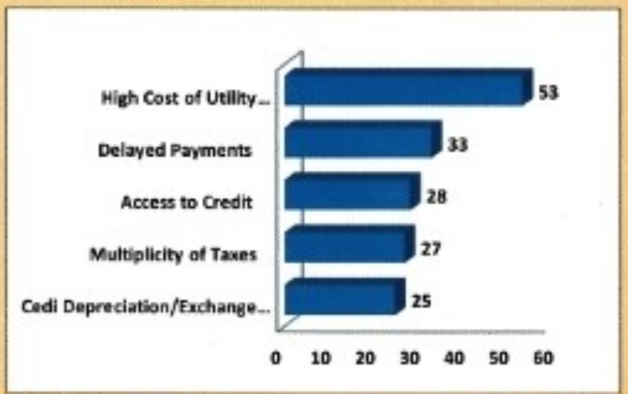

Fig. 3 Overall challenges

The Q3 results show that high cost of utility (electricity/ water) remains a priority challenge facing industry as was the case in Q2. This is as a result of the over 59% increment in electricity tariffs, raising a lot of concerns from companies. Delayed payments featured in second position.

Access to credit does not seem to improve as it featured prominently in Q3 as a good number of businesses lack the internal capacity or conditions for accessing credit. Multiplicity of taxes is an issue that is affecting operations of industries appreciably and has been of concern to industry over a period of time. Though the cedi seems to have stabilized, there are still issues with forex which has been a persistent challenge to companies.

Challenges by Sector

Sector analysis of challenges shows that multiplicity of taxes came first for the manufacturing sector followed by high cost of utilities (electricity/water) as a result of the increases in tariffs for water and electricity. The manufacturing sector ranked Influx of imports third, signaling the threat of such influx during the Christmas festive occasion in Q4.

Table 1: Challenges by Sector

Sector	1st	2nd	3rd
Manufacturing	Multiplicity of Taxes	High Cost of Utilities (Electricity/ Water)	Influx of Imported Goods
Service	High Cost of Utilities (Electricity/ Water)	Multiplicity of Taxes	Delayed Payments
Construction	Delayed Payments	Cost of Credit	High Cost of Utilities (Electricity /Water)

Source: Field data

The Service sector ranked high cost of utilities (electricity/water) as a priority challenge. The Service sector again ranked multiplicity of taxes and delayed payments as second and third challenges respectively. The construction sector identified delayed payments as their first challenge. This is because in the absence of advance payments for jobs executed, they have to pre-finance construction works. Cost of credit was ranked as a second challenge with high cost of utilities (electricity/water) ranked as a third challenge.

Table 2: Challenges by size

Size	1st	2nd	3rd
African Giant	High Cost of Utilities/(Electricity/Water)	Cedi Depreciation/ Exchange Rate Volatility	Cumbersome Port Procedures
Large	High Cost of Utilities (Electricity/Water)	Influx of Imported Goods	Cedi Depreciation/ Exchange Rate Volatility
Medium	High Cost of Utilities (Electricity/Water)	Delayed Payments	Access to credit
Small	High Cost of Utilities (Electricity/Water)	Delayed Payments	Access to credit

Source: Field data

The rankings by size are as shown in Table 2.

African Giants, Large, Medium and Small Companies all ranked high cost of utilities (Electricity/Water) a first priority challenge. The reason is attributed to increases in the electricity and water tariffs this year. Electricity and Water are basic for both manufacturing and provision of services. Indeed, businesses are very sensitive to changes in electricity tariffs and therefore any slitht change in tariffs levels impacts them significantly.

African Giants reported Cedi Depreciation/exchange rate volatility as a second priority challenge with large companies indicating influx of imported goods as a second challenge. Medium and small scale companies saw delayed payments as a challenge and ranked it in second position.

Both Medium and small scale companies indicated access to credit as a third challenge. This is because these categories of companies more often than not find it difficult to access credit. African Giants saw cumbersome port procedures as a third challenge whilst large companies reported cedi depreciation/exchange rate volatility as a third challenge.

Employment Expectation

As many as 61% of companies would neither reduce nor increase their workforce for the next six months. As a result of challenges they are going through, 9% of companies indicated that they are likely to decrease employment. However, 30% of respondents over the next six months are likely to increase their employment levels. In comparison, the employment situation in Q2 2016 is not markedly different from Q3. This can be explained by the unwillingness of employers to employ in the face of current economic conditions.

Fig. 4 Employment expectation

Change in Electricity Bills

The survey sought to ascertain from respondents whether there were any changes in their utility bills following government's intervention since July 2016. 74% of respondents indicated that there were changes in their bills whilst 26% indicated they had not noticed any changes. Of the percentage that indicated that they had noticed changes, 68% had noticed up to 20% decrease whilst 27% had noticed between 20% to 50% decrease with 5% getting over 50% decrease as shown in Fig 5.

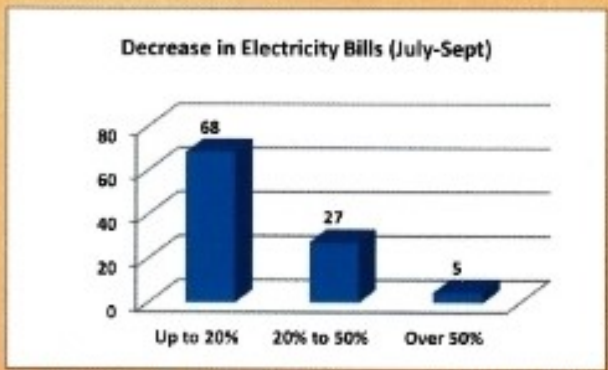

Fig. 5 Decrease in Electricity Bills

By January 2016, businesses began to feel the impact of the electricity tariff increment of 69%, which is inclusive of the energy sector levies. The faulty billing software as reported by ECG escalated the situation, making bills to skyrocket and unbearable. Agitations by Industry over such exorbitant bills and the dialogue sessions between AGI and the Utilities and PURC received Government's attention.

Government's intervention in July, 2016 that saw the revision of the electricity tariff has paid off. It is not surprising that this intervention by Government has resulted in the noticeable decreases in utility bills as reported by respondents in Fig 5. Nonetheless, electricity tariffs still remain high, according to the results of the survey.