National Bank of Ukraine

Monthly Business Outlook Survey

January 2020

The findings presented only reflect the opinions of the respondents, and should not be considered as NBU forecasts or assessments

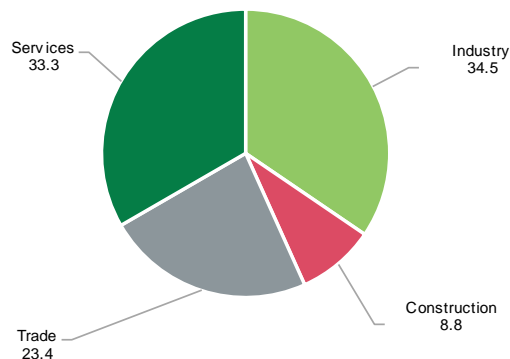Issue No.7

Statistics and Reporting Department

Summary

The **business activity expectations index was 40.3 in January,** down from 48.6 in December. **Weaker business activity is typical at the start of the year**, mainly because there are fewer business days in this period.
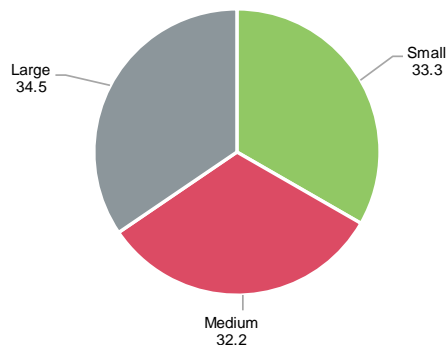
- Companies across all surveyed sectors said they expected a decline in their operational performance.

- Construction companies reported rather weak expectations for their business activity in January.

- With a seasonal drop in business activity, respondents continued to project staff cuts at their companies.
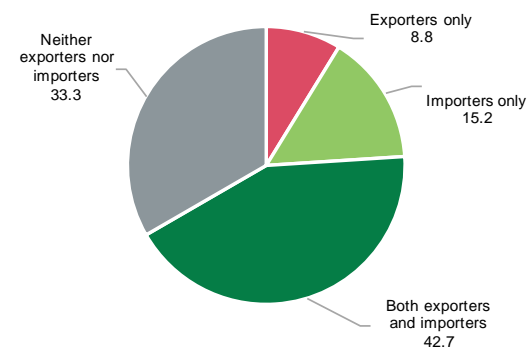
Survey Details

Respondents by sectors of the economy, %

- Services 33.3
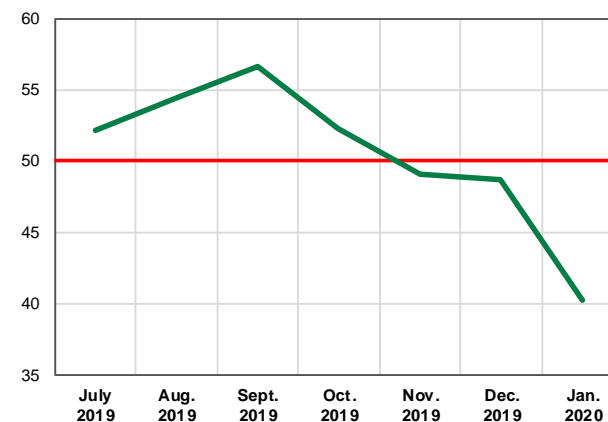- Industry 34.5
- Construction 8.8
- Trade 23.4

Respondents by company size, %

- Large 34.5
- Small 33.3
- Medium 32.2

Respondents by business activities, %

- Neither exporters nor importers 33.3
- Exporters only 8.8
- Importers only 15.2
- Both exporters and importers 42.7

- This survey was carried out from 8 January through 27 January 2020
- A total of 171 companies were polled
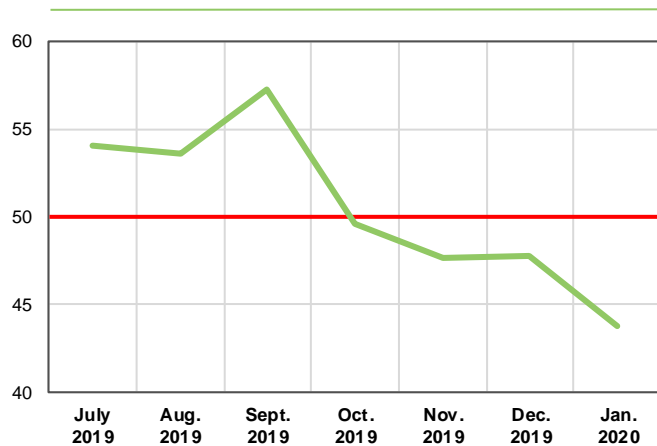- Survey horizon: change in companies' performance indicators in January 2020 compared to December 2019

Business activity expectations indices

Sector	Sector's contribution to Ukrainian GDP (2018)	Sectoral diffusion index	BAEI (total across Ukraine)	DI growth compared to previous month	
				sectoral	composite
Industry	38.9	43.7		-4.1	
Construction	4.3	34.3	40.3	-5.3	-8.4
Trade	32.3	36.3		-13.6	
Services	24.6	41.1		-8.8	
	100.0	x		x	x

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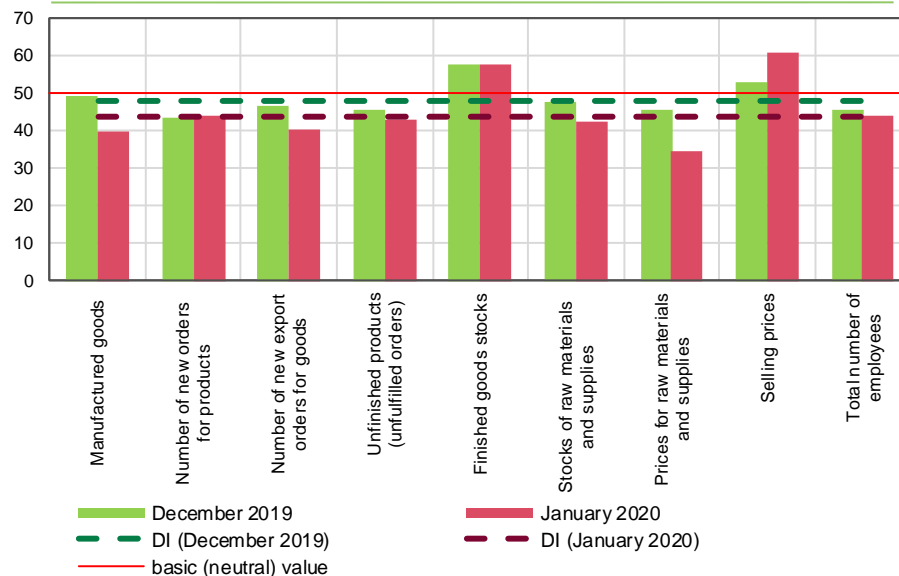Monthly Business Outlook Survey
January 2020

Industry

Diffusion index for industrial companies' expectations of their business situation

Diffusion indices (DI) for the economic standings of industrial companies

Legend:
- December 2019
- January 2020
- DI (December 2019)
- DI (January 2020)
- basic (neutral) value

- Companies in the industrial sector have **reported expectations of weaker performance** for four months running. The sector's DI was 43.7 in January, down from 47.8 in December.

- Respondents reported significantly lower expectations of **manufactured goods volumes**, the DI being 39.8 compared to 49.3 in December.

- Companies were downbeat about **new orders** for their products, including export orders, the DIs being 44.1 and 40.2 respectively, compared to 43.8 and 46.9 in December.

- Meanwhile, respondents continued to report healthy expectations of a drop in **finished goods stocks**, the DI being unchanged on December, at 57.6.

- Companies still expected a **drop in their staff numbers**, the DI being 44.1 compared to 45.8 in December.

Construction

**Diffusion index for construction companies' expectations of their business situation**
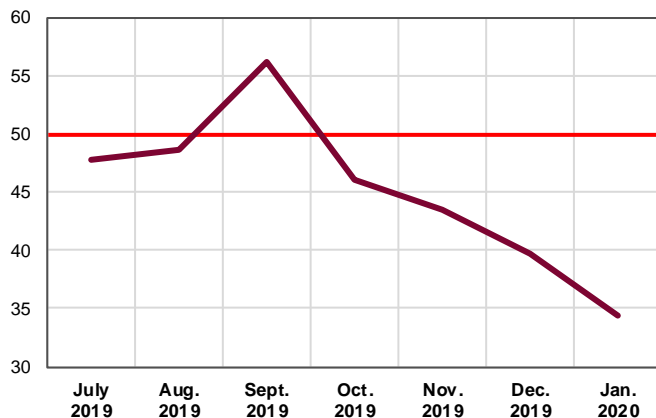
Diffusion indices (DI) for the economic standings of construction companies

- December 2019
- January 2020
- DI (December 2019)
- DI (January 2020)
- basic (neutral) value
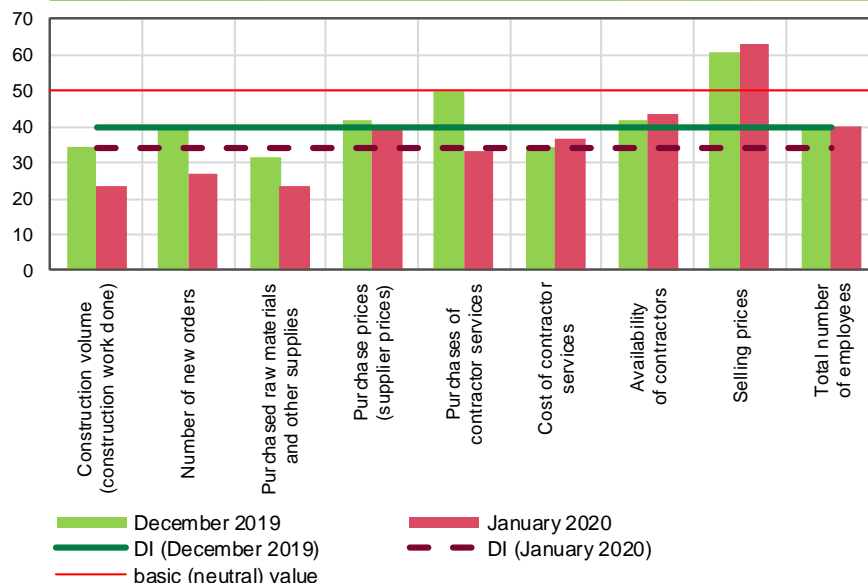
- Construction companies reported more **pessimistic expectations**, the sector's DI being 34.3, down from 39.7 in December.

- Despite the favorable weather conditions, the seasonal factor and a large number of days-off and holidays markedly worsened companies' expectations for **construction volumes, the number of new orders, and the amount of purchased raw materials and supplies**: the DIs for these indicators dropped to 23.3, 26.7 and 23.3 respectively, compared to 34.2, 39.5 and 31.6 in December.

- **Expectations of selling price growth** picked up, the DI being 63.3, up from 60.5 in December.

- Companies **continued to be pessimistic about total employment in the sector**, the DI being 40.0, up from 39.5 in December.

Trade

Diffusion index for trade companies' expectations of their business situation
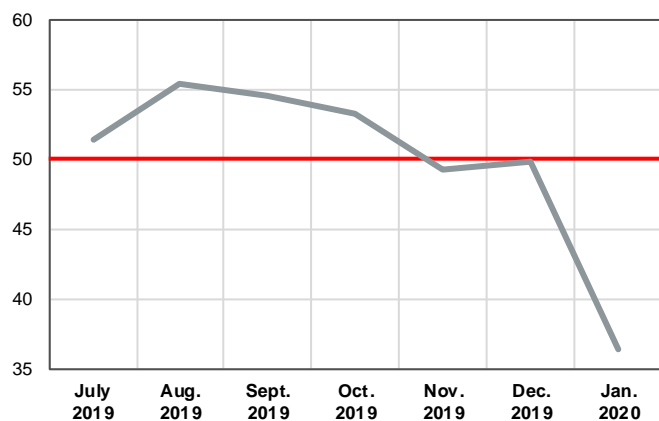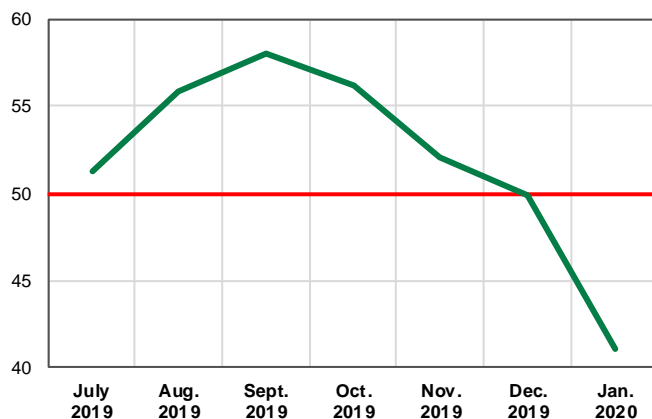

Diffusion indices (DI) for the economic standings of trade companies
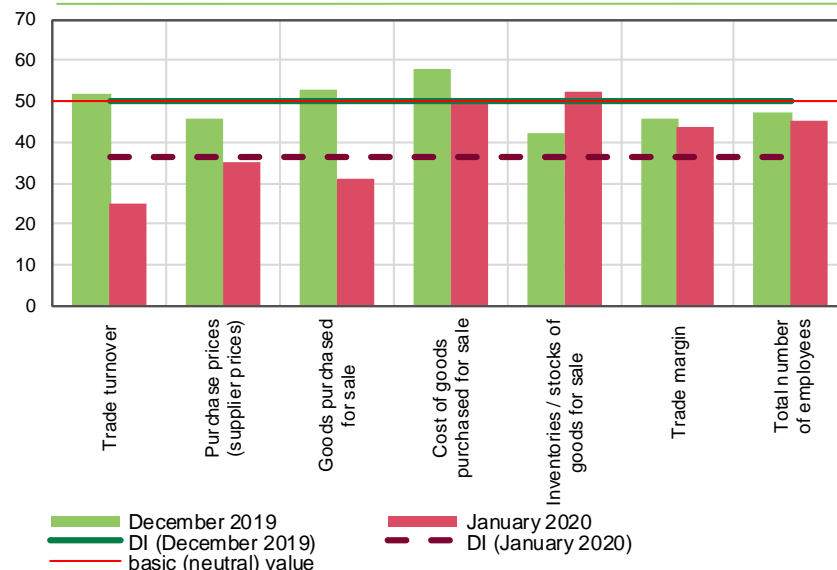
- **Respondents said they had significantly weaker expectations of their business performance** in January, the sector's DI being 36.3, down from 49.9 in December. Trade companies usually report such drops in their business activity in the first month of the year.

- Respondents were **most pessimistic about trade turnover and the amount of goods purchased for sale**, the DIs being 25.0 and 31.3 compared to 51.8 and 52.7 in December.

- Meanwhile, **companies improved their expectations for the stocks of goods purchased for sale**, the DI being 52.5, up from 42.0 in December.

- Companies **reported stronger intentions to cut their workforce**, the sector's DI being 45.0, down from 47.3 in December.

Services

Diffusion index for services companies' expectations of their business situation

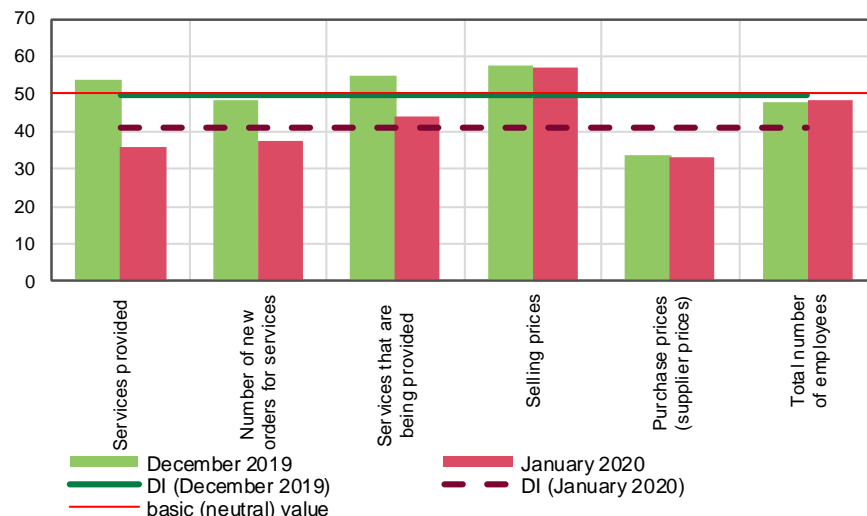**Diffusion indices (DI) for the economic standings of companies in the services sector**

- **Respondents said they had significantly weaker expectations of their business performance** in January, the sector's DI being 41.1, down from 49.9 in December.

- Respondents expect a drop in the number of **services provided and services that are being provided**, the DIs being 36.0 and 43.9, down from 53.6 and 55.0 in December.

- Expectations of the number of **new orders for services** also worsened, the DI being 37.7, down from 48.6 in December.

- Compared to companies in other sectors, companies in the services sector reported more moderate intentions for **staff layoffs**, the DI being 48.2 compared to 47.9 in December.

Annexes

Data on surveys of industrial companies in January 2020

% of responses

Indicator	Will increase	Will remain unchanged	Will decrease
Manufactured goods	17	46	37
Number of new orders for products	20	47	32
Number of new export orders for goods	12	56	32
Unfinished products (unfulfilled orders)	14	59	27
Finished goods stocks	17	51	32
Stocks of raw materials and supplies	19	47	34
Prices for raw materials and supplies	36	59	5
Selling prices	29	64	7
Total number of employees	7	75	19

Data on surveys of construction companies in January 2020

% of responses

Indicator	Will increase	Will remain unchanged	Will decrease
Construction volume (construction work done)	7	33	60
Number of new orders	7	40	53
Purchased raw materials and supplies	7	33	60
Purchase prices (supplier prices)	27	67	7
Purchases of contractor services	13	40	47
Cost of contractor services*	33	60	7
Availability of contractors	0	87	13
Selling prices	27	73	0
Total number of employees	0	80	20

Data on surveys of trade companies in January 2020

% of responses

Indicator	Will increase	Will remain unchanged	Will decrease
Trade turnover	13	25	63
Purchase prices (supplier prices)	33	65	3
Goods purchased for sale	15	33	53
Cost of goods purchased for sale	28	45	28
Inventories / stocks of goods for sale*	20	55	25
Trade margin	8	73	20
Total number of employees	3	85	13

Data on surveys of companies in the services sector in January 2020

% of responses

Indicator	Will increase	Will remain unchanged	Will decrease
Services provided	14	44	42
Number of new orders for services	14	47	39
Services that are being provided	18	53	30
Selling prices	21	72	7
Purchase prices (supplier prices)	39	56	5
Total number of employees	14	68	18

Main Terms and Definitions

- **The diffusion index (DI)** is calculated as the sum of the percentage of positive replies (indicates an increase) and half of the percentage of neutral replies (indicates no change), using the following formula:

$$DI_j = (P \cdot 1) + (E \cdot 0.5) + (N \cdot 0),$$

  where **P** is the percentage of respondents that reported an increase (optimistic views)

  E is the percentage of respondents that reported no change and

  N is the percentage of respondents that reported a decrease (pessimistic views).

  Provided that P+ E + N = 100

- The values of the index can range between 0 and 100:

  a value of 50.0 indicates no change compared to the previous month

  values above 50.0 indicate an improvement or an increase compared to the previous month

  values below 50.0 indicate a deterioration or a decrease compared to the previous month.

  The more the indices deviate from the value of 50.0, the greater the velocity of change.

- The diffusion indices were calculated using the inverse of replies regarding the following indicators: stocks of finished goods and the prices of raw materials and supplies for industry; purchase prices/supplier prices and the cost of contractor services for construction; purchase prices/supplier prices and stocks of goods for sale for trade; and purchase prices/supplier prices for the services sector. The inverse of replies means that an increase indicates pessimistic views, while a decrease indicates optimistic views.

- **The composite index (CI)** is a weighted average indicator, which is calculated on the basis of the contribution of each sector of the economy to Ukraine's GDP.

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