



National Bank
of Ukraine

Monthly Business Outlook Survey

October 2020

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

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Statistics and Reporting Department



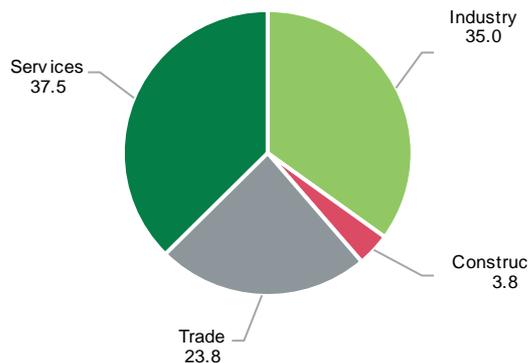
Summary

Businesses expressed gloomier views about their current financial and economic standings. The business activity expectations index (BAEI) was 47.8 in October (compared to 49.4 in September).

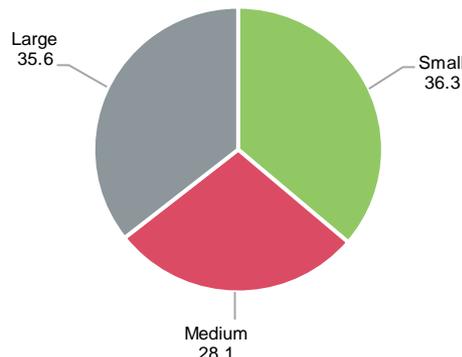
- With rising COVID-19 cases and consumers' more cautious behavior, companies in the services sector lowered their expectations, and intend to reduce the volume of services they provide.
- Companies in the industrial sector downgraded their expectations again, to below the neutral level, amid persistently low investment demand and unfavorable external conditions.
- Construction companies were the most downbeat, due to both a seasonal decrease in the sector's business activity, and uncertainty and a lack of proper regulations on the real estate market.
- Trade was the only sector reporting mostly upbeat expectations. Respondents reported an optimistic economic outlook for October, being optimistic about sales and the amount of goods purchased for sales.
- Respondents continue to declare intentions to cut staff, with the strongest intentions reported by construction companies.

Survey Details

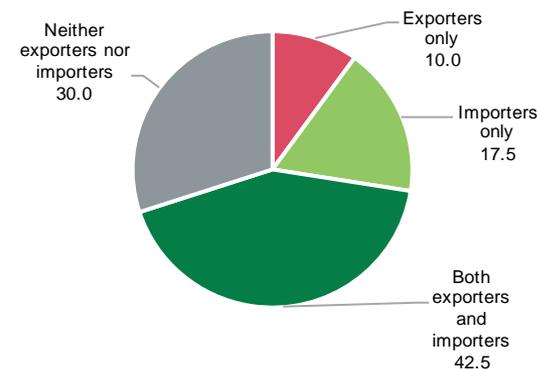
Respondents by sectors of the economy, %



Respondents by company size, %



Respondents by business activities, %



- This survey was carried out from 5 through 23 October 2020
- A total of 160 companies were polled
- Survey horizon: change in companies' performance indicators in October compared to September

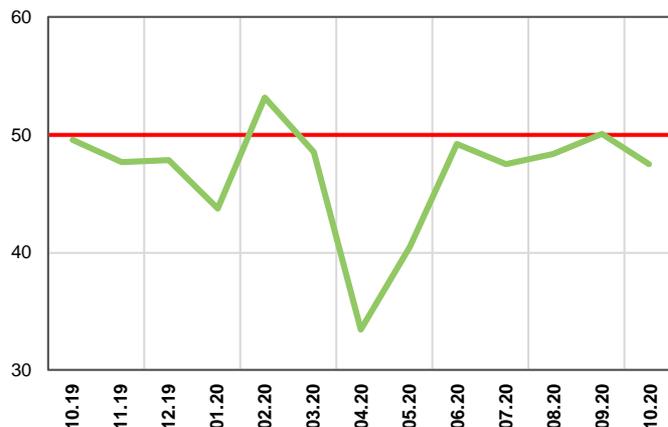
| Sector | Sector's contribution to Ukrainian GDP (2019) | Diffusion index | | |
|------------------------------------|---|-----------------|--------------|-----------------------------------|
| | | September 2020 | October 2020 | Change compared to previous month |
| Industry | 32.7 | 50.1 | 47.5 | -2.6 |
| Construction | 4.7 | 33.5 | 32.5 | -1.0 |
| Trade | 22.0 | 46.4 | 52.3 | +5.9 |
| Services | 40.7 | 52.2 | 47.4 | -4.8 |
| BAEI (total across Ukraine) | X | 49.4 | 47.8 | -1.6 |

Business activity expectations index

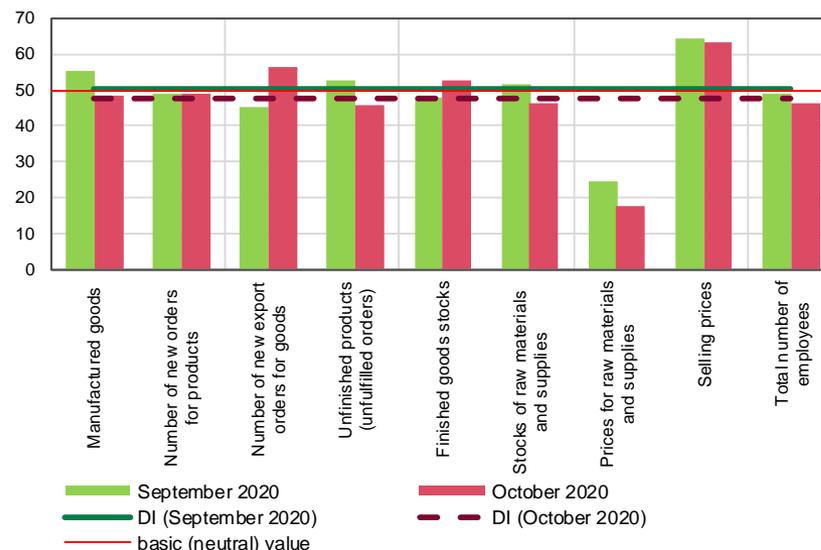


Industry

Diffusion index for industrial companies' expectations of their business situation



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



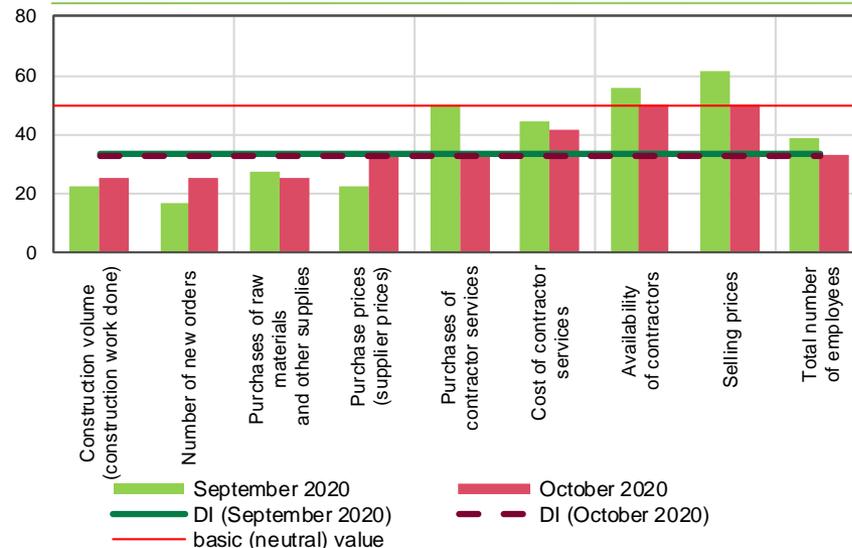
- Respondents in the industrial sector reported a **weakening in their business performance expectations**. The sector's DI was 47.5 in October, down from 50.1 in September.
- Companies reported **dimmer expectations** for the amount of manufactured goods and unfinished products, as well as stocks of raw materials and supplies, the DIs being 48.2, 45.5 and 46.4 respectively, compared to 55.5, 52.7 and 51.8 in September.
- Respondents continued to report **bullish expectations** for a rise in raw materials and supplies prices and selling prices, the DIs being 17.9 and 63.4 respectively, compared to 24.5 and 64.5 in September.
- Respondents **also reported intentions to reduce their workforces**, as the DI dropped to 46.4, compared to 49.1 in September.
- At the same time, businesses **expected an increase in new export orders for their products**, the DI being 56.6, up from 45.3 in September. Expectations about the total number of new orders were unchanged on the previous survey, and below the equilibrium level (DI of 49.1).

Construction

Diffusion index for construction companies' expectations of their business situation



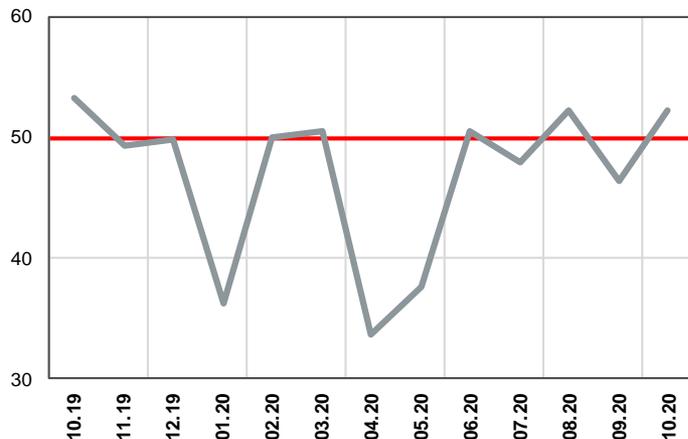
Diffusion indices (DI) for the economic standings of construction companies



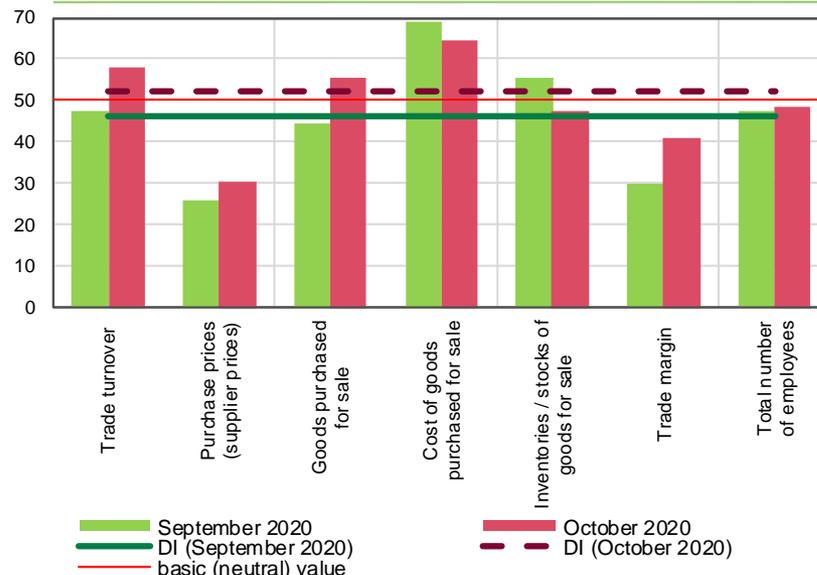
- Construction companies have been reporting gloomy performance expectations for 13 months running, the sector's DI being 32.5, down from 33.5 in September.
- Respondents continue to expect a drop in construction volumes, the number of new orders and purchases of raw materials and supplies, the DIs being 25.0 for each, compared to 22.2, 16.7 and 27.8 respectively in September.
- Construction companies said they expected no change in their selling prices, the DI, at 50.0, being at the neutral level, down from 61.1 in September.
- Given their poorer business performance, construction companies intended to **cut staff further**, as the DI dropped to 33.3, compared to 38.9 in September.

Trade

Diffusion index for trade companies' expectations of their business situation



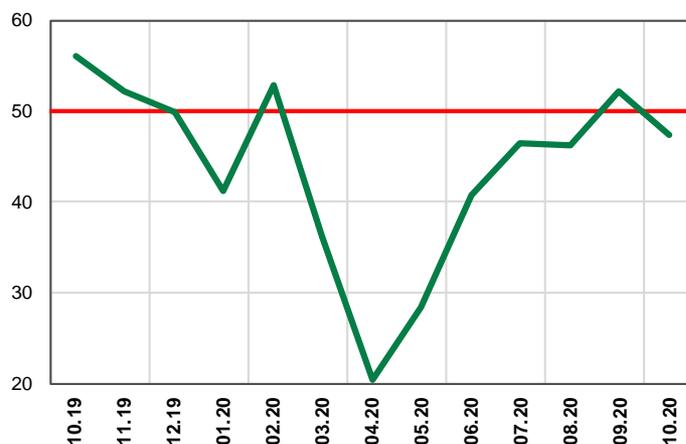
Diffusion indices (DI) for the economic standings of trade companies



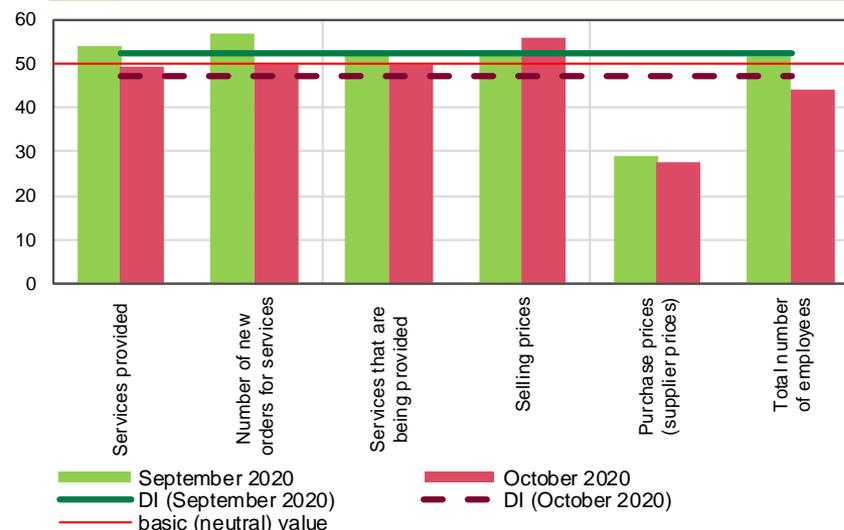
- In contrast to the weaker expectations reported by other sectors, **trade companies said they were upbeat about their business performance in October. The sector's DI was 52.3**, up from 46.4 in September.
- Respondents **expected an increase in trade turnover and the amount of goods purchased for sale**, the DIs being 57.9 and 55.3 respectively, compared to 47.3 and 44.6 in September.
- Respondents continued to report strong expectations of higher prices for goods purchased for sale, the DI being 64.5, down from 68.9 in September.
- Although improving somewhat, respondents' expectations for staff numbers have not reached the neutral level, the DI being 48.7, compared to 47.3 in September.

Services

Diffusion index for services companies' expectations of their business situation



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



- **After reporting healthy expectations in September, companies in the services sector expressed pessimistic views about their performance in October, the sector's DI being 47.4, down from 52.2 in September.**
- Respondents expected a **drop in provided services**, the DI dropping to 49.2, from 53.8 in September.
- Companies said that the number of new orders and the amount of services being provided would **remain unchanged**, the DIs being 50.0 each, compared to 56.9 and 52.3 respectively in September.
- With strong expectations for supplier prices (a DI of 27.5 compared to 29.2 in September), companies reported **intentions to raise their selling prices**, the DI being 55.8, up from 52.3 in September.
- Respondents **returned to reporting intentions to reduce their workforces**, as the DI dropped to 44.2, from 51.5 in September.



Annexes

Data on surveys of industrial companies in October 2020

| Indicator | % responses | | |
|--|---------------|-----------------------|---------------|
| | Will increase | Will remain unchanged | Will decrease |
| Manufactured goods | 32 | 32 | 36 |
| Number of new orders for products | 30 | 38 | 32 |
| Number of new export orders for goods | 29 | 55 | 16 |
| Unfinished products (unfulfilled orders) | 13 | 66 | 21 |
| Finished goods stocks | 20 | 55 | 25 |
| Stocks of raw materials and supplies | 23 | 46 | 30 |
| Prices for raw materials and supplies | 66 | 32 | 2 |
| Selling prices | 32 | 63 | 5 |
| Total number of employees | 9 | 75 | 16 |

Data on surveys of construction companies in October 2020

| Indicator | % responses | | |
|--|---------------|-----------------------|---------------|
| | Will increase | Will remain unchanged | Will decrease |
| Construction volume (construction work done) | 0 | 50 | 50 |
| Number of new orders | 0 | 50 | 50 |
| Purchases of raw materials and supplies | 0 | 50 | 50 |
| Purchase prices (supplier prices) | 33 | 67 | 0 |
| Purchases of contractor services | 0 | 67 | 33 |
| Cost of contractor services* | 17 | 83 | 0 |
| Availability of contractors | 17 | 67 | 17 |
| Selling prices | 0 | 100 | 0 |
| Total number of employees | 0 | 67 | 33 |

Data on surveys of trading companies in October 2020

| Indicator | % responses | | |
|---|---------------|-----------------------|---------------|
| | Will increase | Will remain unchanged | Will decrease |
| Trade turnover | 39 | 37 | 24 |
| Purchase prices (supplier prices) | 45 | 50 | 5 |
| Goods purchased for sale | 34 | 42 | 24 |
| Cost of goods purchased for sale | 45 | 39 | 16 |
| Inventories / stocks of goods for sale* | 32 | 42 | 26 |
| Trade margin | 13 | 55 | 32 |
| Total number of employees | 3 | 92 | 5 |

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

| Indicator | % responses | | |
|-----------------------------------|---------------|-----------------------|---------------|
| | Will increase | Will remain unchanged | Will decrease |
| Services provided | 20 | 58 | 22 |
| Number of new orders for services | 23 | 53 | 23 |
| Services that are being provided | 22 | 57 | 22 |
| Selling prices | 13 | 85 | 2 |
| Purchase prices (supplier prices) | 47 | 52 | 2 |
| Total number of employees | 8 | 72 | 20 |

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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