National Bank of Ukraine

Monthly Business Outlook Survey

January 2023

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

Issue No.40
Statistics and Reporting Department

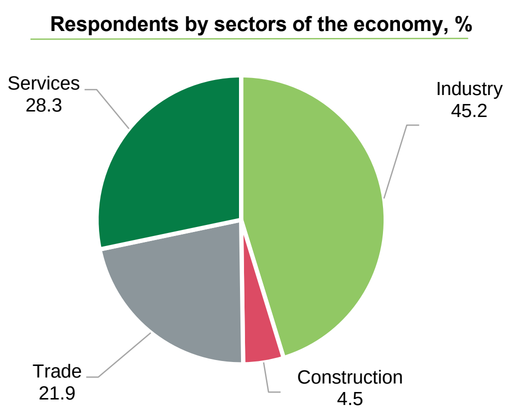
Summary

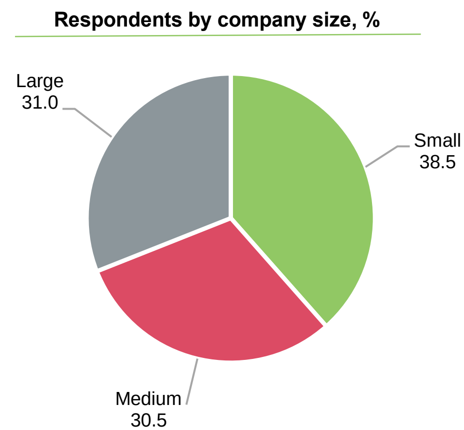
Despite adapting quickly to the current conditions, businesses continue to suffer from the war, and their expectations of their economic performance are worsening. **The business activity expectations index (BAEI) was 37.5 in January,** down from 42.1 in December.

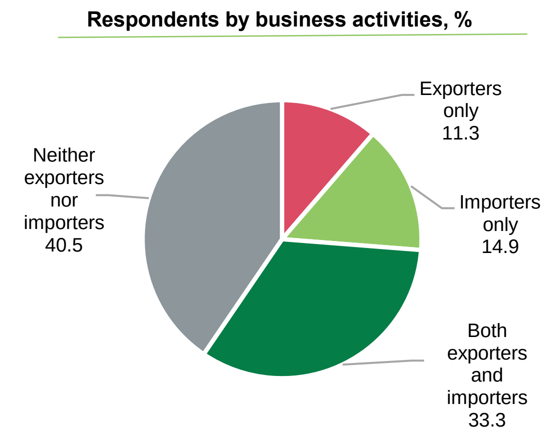
- Power shortages, destroyed companies and infrastructure, disrupted supply chains, reduced supplies of goods and services, higher production costs, and the low purchasing power of the population continue to have a significant impact on the economic activity of companies, and on their expectations.
- Respondents expect a decline in the output of goods and services, the number of new orders and goods turnover.
- Companies also declared intentions to raise their selling prices further on the back of higher purchase and contractor prices.
- Supply on the labor market remains depressed. Respondents across all sectors declared intentions to cut staff, with construction companies reporting the strongest intentions.

The NBU posts monthly survey results in the open data format. The data are available at the following link: https://bank.gov.ua/ua/open-data/api-dev

Survey Details

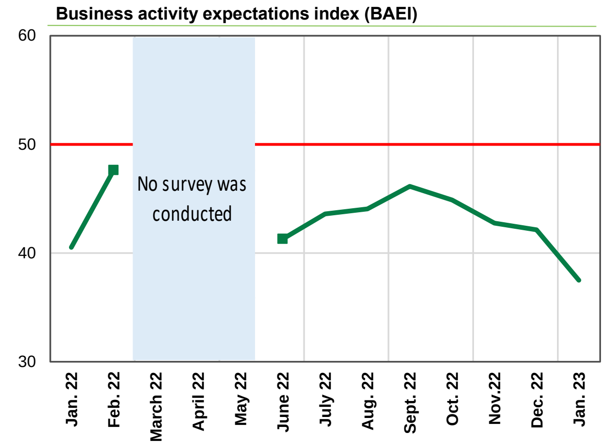






- This survey was carried out from 5 January through 24 January 2023
- A total of 442 companies were polled
- Survey horizon: change in companies' performance expectations in January 2023 compared to December 2022

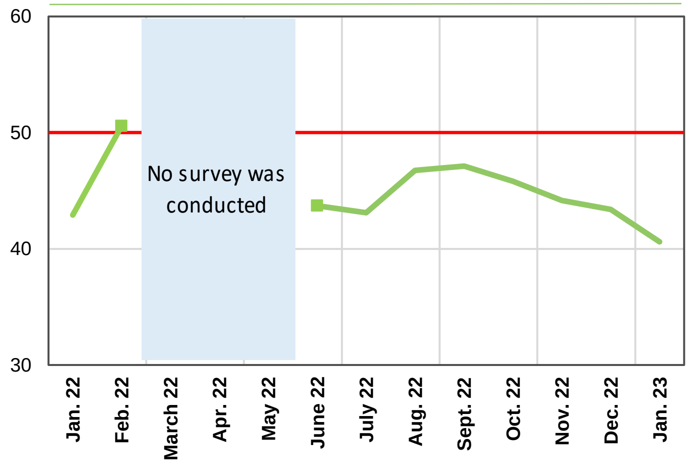
Sector	Sector's share used to calculate BAEI, %	Diffusion index (sectoral)		
		December 2022	January 2023	Change m/m
Industry	34.8	43.4	40.6	-2.8
Construction	4.7	35.6	34.5	-1.1
Trade	23.3	42.1	33.9	-8.2
Services	37.2	41.8	37.2	-4.6
		BAEI (total across Ukraine)		
Total	100.0	**42.1**	**37.5**	**-4.6**



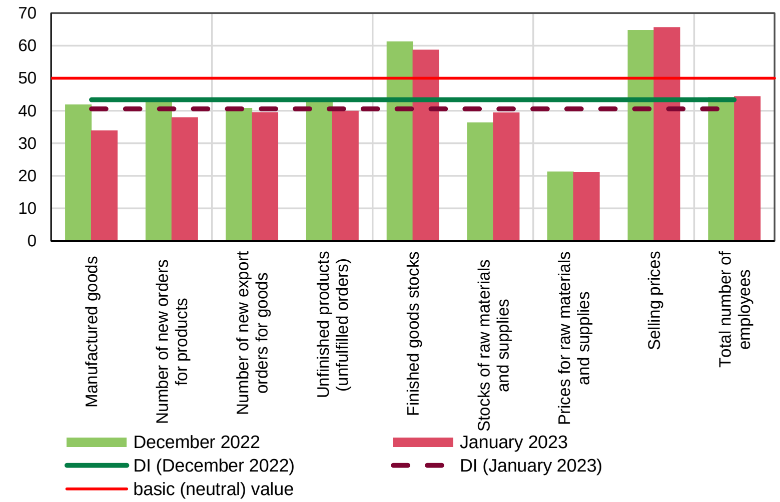
Data for totals and components may be subject to rounding effects

Industry

Diffusion Index of Industrial Companies' Business Activity Expectations

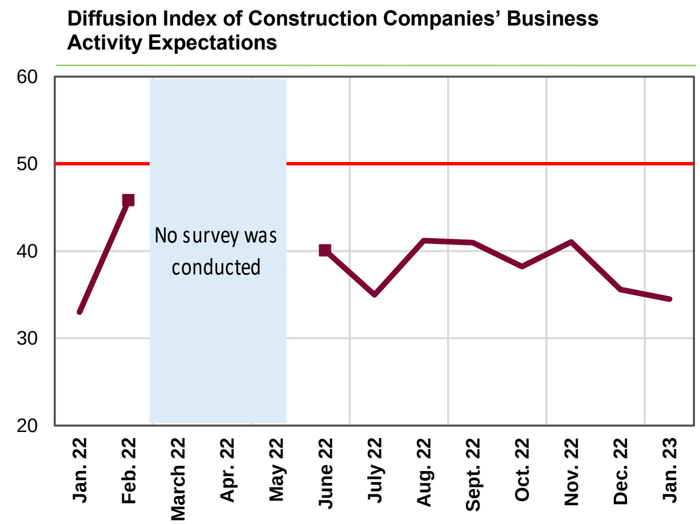


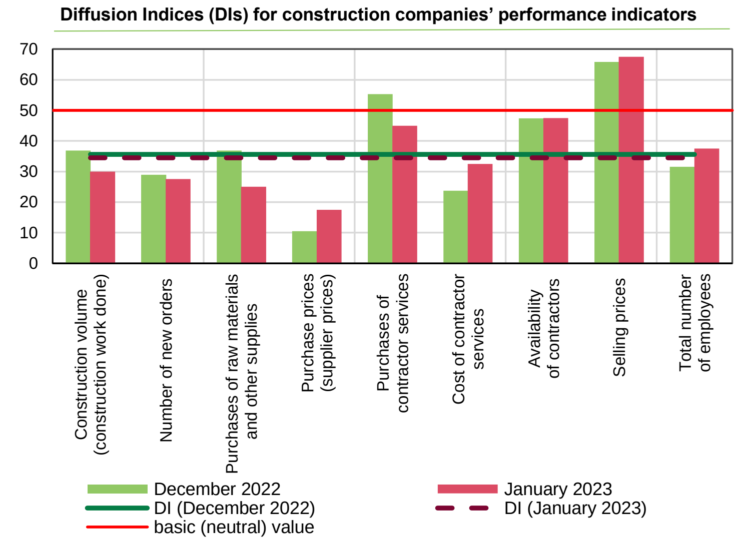
Diffusion Indices (DIs) for industrial companies' performance indicators



- In January, **industrial companies reported more pessimistic expectations** amid power shortages, rising production costs and declining demand,**the sector's DI being 40.6**, down from 43.4 in December.
- Respondents noticeably worsened their expectations about the amount of manufactured goods and the number of new orders for products, the DIs being 34.0 and 38.0 respectively, compared to 42.0 and 43.0 in December. Companies reported more pessimistic expectations about the number of new export orders for products, the DI being 39.6, down from 40.9 in December.
- Companies continued to report more pessimistic views about the amount of unfinished products (unfulfilled orders), the DI being 40.0, down from 43.2 in December.
- With firm expectations of an increase in raw material and supplies prices, respondents declared intentions to raise their selling prices further, the DIs being 21.3 and 65.8 respectively, compared to 21.4 and 64.8 in December.
- As in previous months, industrial companies intended to cut their staff, the DI being 44.5, up from 44.2 in December.

Construction

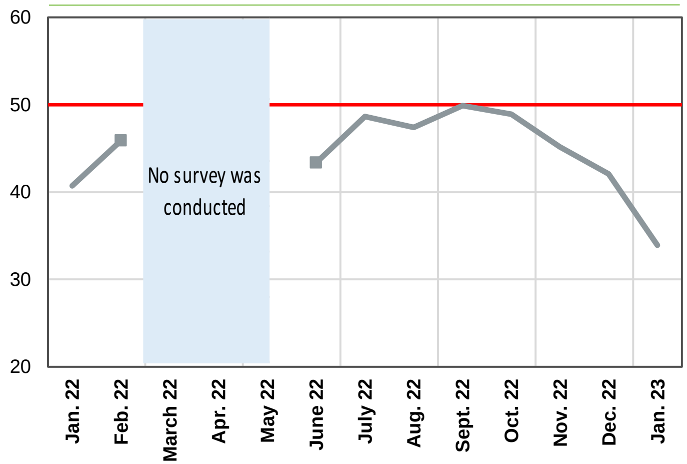




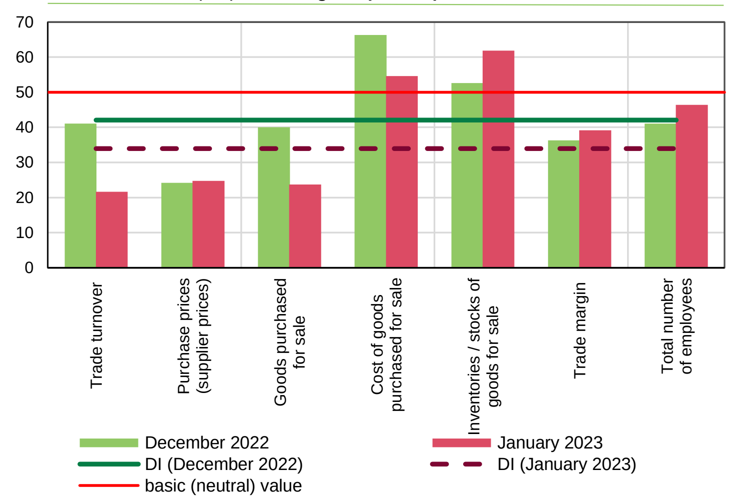
- Hostilities, higher prices for raw materials, shrinking investment and seasonal factors continued to **dampen the business activity of construction companies, the sector's DI being 34.5** in January, down from 35.6 in December.
- With dim expectations for construction volumes and the number of new orders, respondents reported weaker intentions to purchase raw materials and supplies, the DIs being 30.0, 27.5 and 25.0 respectively, compared to 36.8, 28.9 and 36.8 in December.
- Despite softening expectations for a rise in purchase prices and contractor costs, respondents continued to report intentions to raise their selling prices, the DIs being 17.5, 32.5 and 67.5 respectively, compared to 10.5, 23.7 and 65.8 in December.
- Companies remained downbeat about their staff numbers, the DI being 37.5, up from 31.6 in December.

Trade

Diffusion Index of Trading Companies' Business Activity Expectations



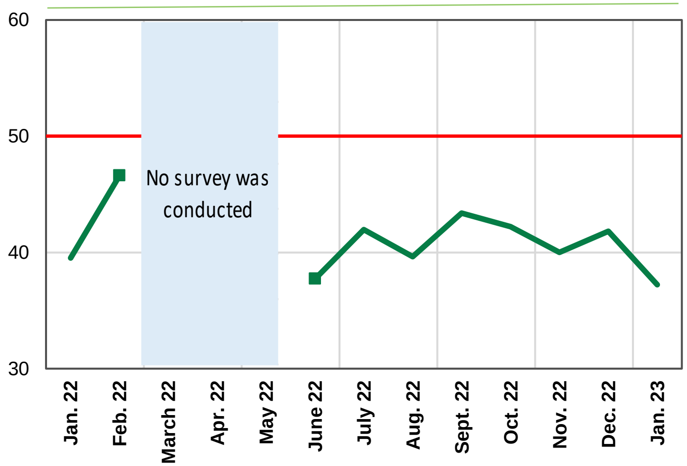
Diffusion Indices (DIs) for trading companies' performance indicators



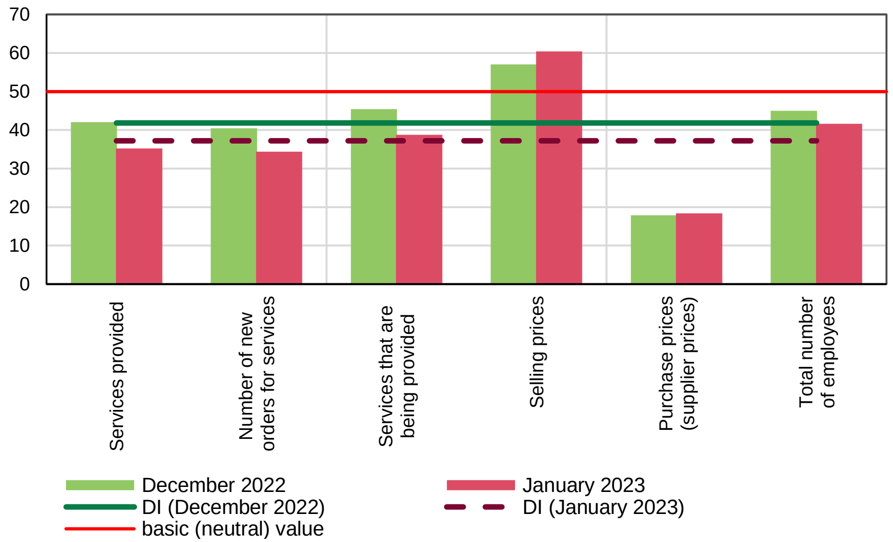
- In January, trading companies reported the **most pessimistic performance expectations** compared to other surveyed sectors on the back of a decline in the supply of goods, the **DI being 33.9**, down from 42.1 in December.
- Respondents reported much gloomier expectations for trade turnover and the amount of goods purchased for sale due to a decline in activity, which is usual for the start of the year, and the weaker purchasing power of the population, the DIs being 21.6 and 23.7 respectively, compared to 41.1 and 40.0 in December. What is more, companies significantly downgraded their expectations for the cost of goods purchased for sale, the DI being 54.6, down from 66.3 in December.
- At the same time, respondents reported slightly firmer, albeit still weak, expectations for their trade margins, the DI being 39.2, up from 36.3 in December. Expectations for purchase prices were high, the DI being 24.7, up from 24.2 in December.
- Companies reported much stronger expectations for a drop in inventories/stocks of goods purchased for sale, the DI being 61.9, up from 52.6 in December.
- Trading companies continued to expect reductions in their workforces, the DI being 46.4, compared to 41.1 in December.

Services

Diffusion Index of Service Providers' Business Activity Expectations



Diffusion Indices (DIs) for services companies' performance indicators



- Services companies reported a **gloomier economic outlook** on the back of destroyed infrastructure, disrupted supply chains and higher tariffs, the **DI being 37.2** in January, down from 41.8 in December.
- Respondents expected a slump in the amount of services provided, the number of new orders, and the amount of services that are being provided, the DIs being 35.2, 34.4 and 38.8 respectively, compared to 42.1, 40.4 and 45.4 in December.
- With robust expectations of a rise in purchase prices, companies reported intentions to raise their selling prices, the DIs being 18.4 and 60.4 respectively, compared to 17.9 and 57.1 in December.
- Respondents continued to report intentions to lay off staff, the DI being 41.6, compared to 45.0 in December.

Annexes

Data on surveys of industrial companies in January 2023

% responses

Indicator	Will increase	Will remain unchanged	Will decrease
Manufactured goods	15	38	47
Number of new orders for products	15	46	39
Number of new export orders for goods	10	59	31
Unfinished products (unfulfilled orders)	8	65	28
Finished goods stocks	14	55	32
Stocks of raw materials and supplies	12	55	33
Prices for raw materials and supplies	61	37	3
Selling prices	34	65	2
Total number of employees	4	81	15

Data on surveys of construction companies in January 2023

% responses

Indicator	Will increase	Will remain unchanged	Will decrease
Construction volume (construction work done)	5	50	45
Number of new orders	5	45	50
Purchases of raw materials and supplies	5	40	55
Purchase prices (supplier prices)	65	35	0
Purchases of contractor services	15	60	25
Cost of contractor services*	35	65	0
Availability of contractors	10	75	15
Selling prices	40	55	5
Total number of employees	0	75	25

Data on surveys of trading companies in January 2023

% responses

Indicator	Will increase	Will remain unchanged	Will decrease
Trade turnover	5	33	62
Purchase prices (supplier prices)	51	49	0
Goods purchased for sale	6	35	59
Cost of goods purchased for sale	37	35	28
Inventories / stocks of goods for sale*	11	54	35
Trade margin	5	68	27
Total number of employees	3	87	10

Data on surveys of companies in the services sector in January 2023

% responses

Indicator	Will increase	Will remain unchanged	Will decrease
Services provided	10	51	39
Number of new orders for services	10	50	41
Services that are being provided	9	60	31
Selling prices	26	68	6
Purchase prices (supplier prices)	68	27	5
Total number of employees	4	75	21

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.
- **BAEI** is a weighted average indicator that is calculated on the basis of each sector's share in the weight structure.

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