National Bank of Ukraine

Monthly Business Outlook Survey

October 2023

Issue No.49
Statistics and Reporting Department
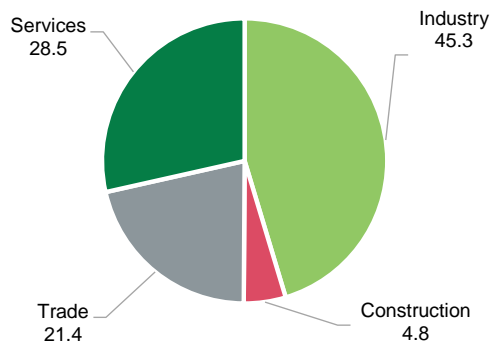
Summary

In October, respondents had guarded expectations for the current performance of their companies.**The Business Activity Expectations Index (BAEI) was 49.6,** down from 50.1 in September.

- Economic activity was constrained by persisting considerable security risks, the destroyed production facilities of some companies, logistical hurdles faced by exporters, narrowing investment demand, rebounding fuel price growth, and substantial shortages of qualified staff.

- Trading companies remained the most optimistic among other sectors, thanks to sustained domestic demand, slower inflation, and a sufficient supply of goods. Respondents expected an increase in trade turnover and the amount of goods purchased for sale.

- Despite expecting no changes in their economic performance for two months in a row, industrial companies were upbeat about the amount of manufactured goods, the number of new orders for products, and about stocks of raw materials and supplies.

- On the back of a seasonal decline in economic activity, construction companies reported an overall negative economic outlook, while retaining their positive views about an increase in purchases of contractor services. Conversely, services companies have reported pessimistic expectations for a long time.

- Most respondents said they intended to raise their selling prices in response to rising raw material and supplies prices.

- Staff expectations have worsened. Respondents across all sectors declared intentions to reduce their workforces.
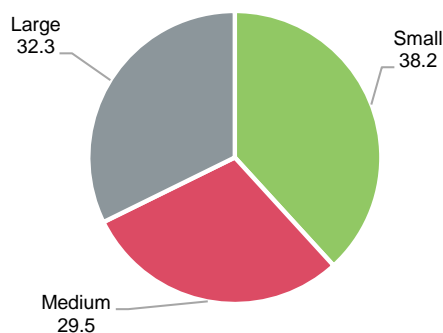
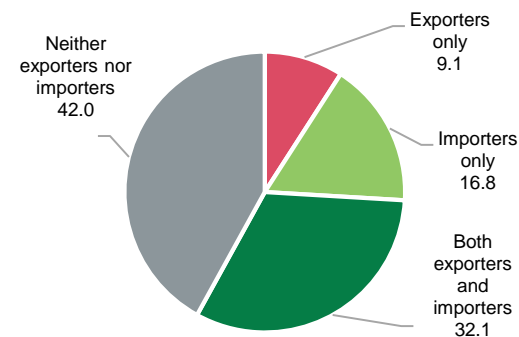The NBU posts monthly survey results in the open data format. The data are available at the following link: https://bank.gov.ua/ua/open-data/api-dev

Survey Details

Respondents by sectors of the economy, %

- Industry 45.3
- Construction 4.8
- Trade 21.4
- Services 28.5

Respondents by company size, %

- Small 38.2
- Medium 29.5
- Large 32.3

Respondents by business activities, %

- Exporters only 9.1
- Importers only 16.8
- Both exporters and importers 32.1
- Neither exporters nor importers 42.0

- This survey was carried out from 5 October through 24 October 2023
- A total of 505 companies were polled.
- Survey horizon: change in companies' performance expectations in October compared to September

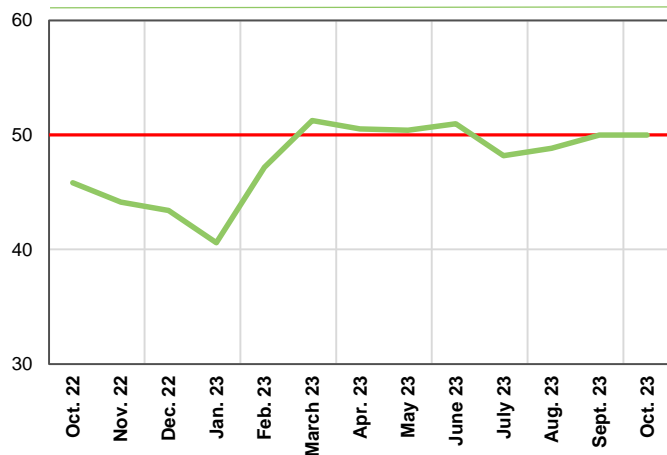| Sector	Sector's share used to calculate BAEI, %	Diffusion index (sectoral)		
		September 2023	October 2023	Change m/m
Industry	36.8	50.0	50.0	0.0
Construction	2.5	50.6	44.8	-5.7
Trade	25.2	53.3	53.0	-0.3
Services	35.5	47.9	47.2	-0.8
Total	100.0	BAEI (total across Ukraine)		
		50.1	49.6	-0.5

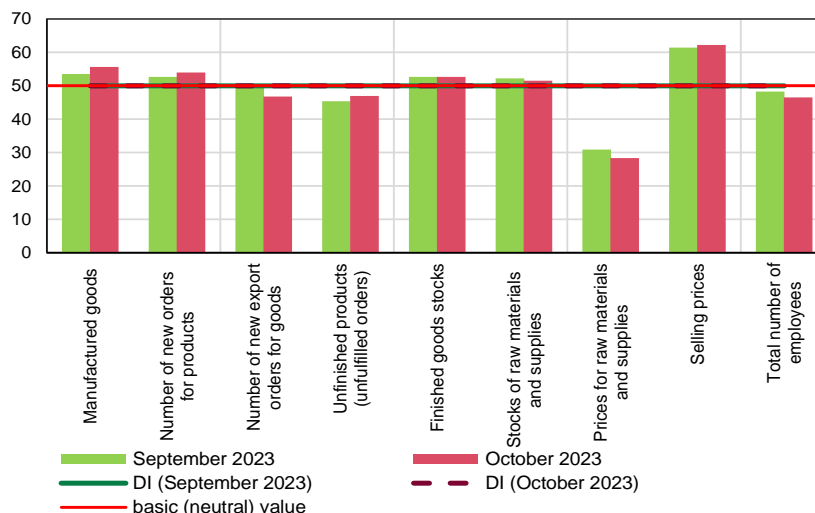### Business activity expectations index (BAEI)
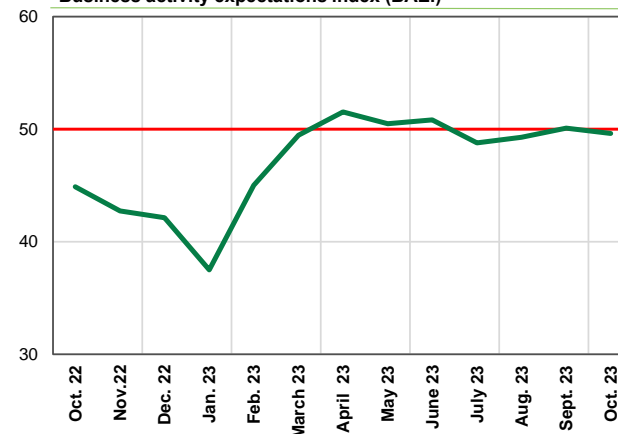
Data for totals and components may be subject to rounding effects

Industry

Diffusion Index of Industrial Companies' Business Activity Expectations
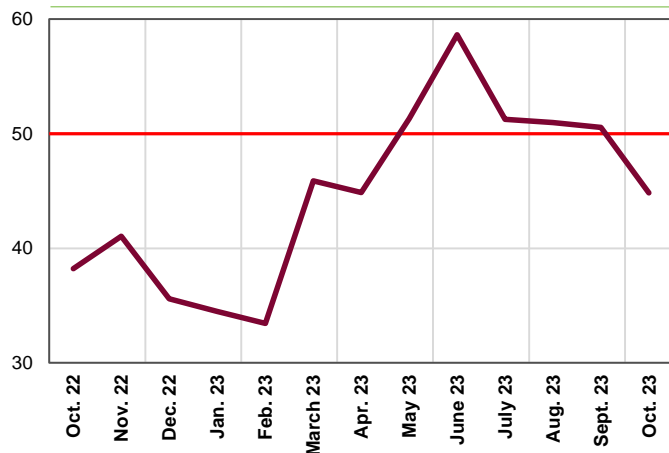

Diffusion Indices (DIs) for industrial companies' performance indicators

Legend: September 2023 | October 2023 | DI (September 2023) | DI (October 2023) | basic (neutral) value

- Industrial companies have <u>expected no changes in their economic performance for two months in a row</u>, in spite of optimized production/logistical chains and decelerating inflation. The sector's DI was 50.0 in October, unchanged on the previous month.

- Respondents remained upbeat about the amount of manufactured goods, the number of new orders for products, and about stocks of raw materials and supplies, the DIs being 55.7, 53.9 and 51.5 respectively, compared to 53.5, 52.6 and 52.2 in September. In contrast, companies once again expected a drop in the number of new export orders for products, the DI being 46.8, down from 50.0 in September.

- Respondents reported less pessimistic views about the amount of unfinished products (unfulfilled orders), the DI being 46.9, up from 45.4 in September. Construction companies remained downbeat about their finished goods stocks, the DI being 52.6, unchanged on the previous month.

- With firmer expectations of a <u>rise in raw material and supplies prices, companies continued to declare intentions to raise their selling prices</u>, the DIs being 28.4 and 62.2 respectively, compared to 30.9 and 61.4 in September.

- Respondents reported stronger <u>intentions to reduce their workforces</u>, the DI being 46.5, down from 48.2 in September.

Construction

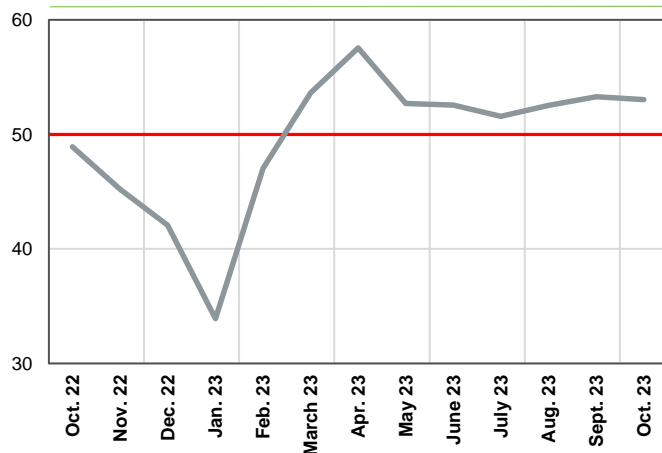**Diffusion Index of Construction Companies' Business Activity Expectations**

Diffusion Indices (DIs) for construction companies' performance indicators
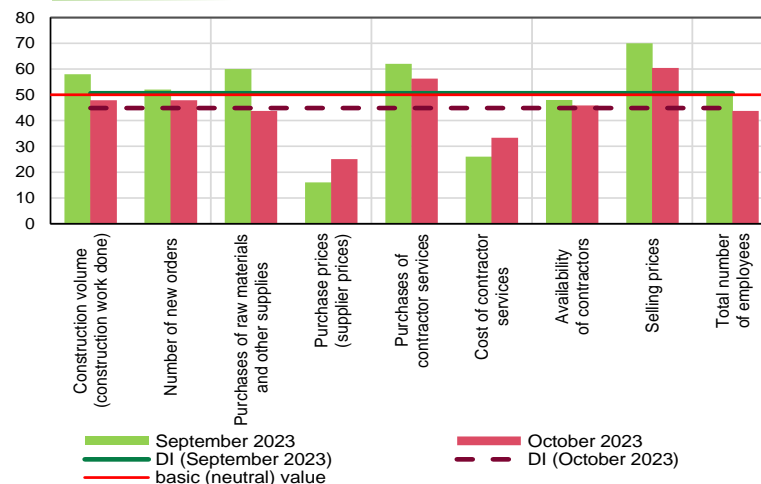

- After reporting a positive outlook for five months in a row, **in October, construction companies expected weaker economic performance** on the back of a seasonal decline in economic activity, narrowing investment demand, and shortages of qualified staff, **the DI being 44.8,** down from 50.6 in September.

- For the first time since May of the current year, respondents expected a decrease in construction volumes, the number of new orders and in purchases of raw materials and supplies, the DIs being 47.9, 47.9 and 43.8 respectively, compared to 58.0, 52.0 and 60.0 in September.

- Respondents softened their positive expectations about an increase in purchases of contractor services and the cost of contractor services, the DIs being 56.3 and 33.3 respectively, compared to 62.0 and 26.0 in September.

- Construction companies expected a significant decrease in both selling and purchase price growth, the DIs being 60.4 and 25.0 respectively, compared to 70.0 and 16.0 in September.

- Respondents said they were more pessimistic about the availability of contractors, the DI being 45.8, down from 48.0 in September.

- In contrast to the four previous months, respondents intended to cut their workforces, the DI being 43.8, down from 50.0 in September.

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Trade

Diffusion Index of Trading Companies' Business Activity Expectations

Diffusion Indices (DIs) for trading companies' performance indicators

Legend: September 2023 | October 2023 | DI (September 2023) | DI (October 2023) | basic (neutral) value
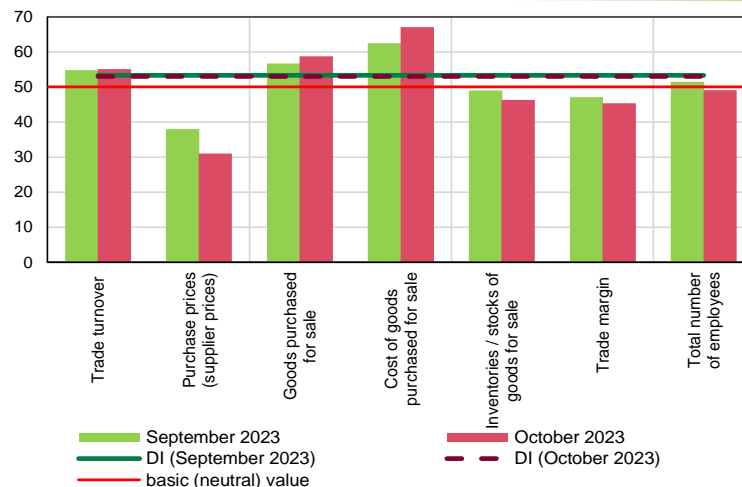
- Trading companies have remained the most optimistic among other sectors – they have reported a positive economic outlook for eight months running, thanks to sustained domestic demand, the stable functioning of the energy system, and a sufficient supply of goods.The sector's DI was 53.0 in October, down from 53.3 in September.

- Respondents declared intentions to further increase their goods turnover and the amount of goods purchased for sale, the DIs being 55.1 and 58.8 respectively, compared to 54.8 and 56.7 in September.

- Companies improved their views about their stocks of goods for sale, the DI being 46.3, down from 49.0 in September.

- With stronger expectations of a rise in purchase prices, companies expected a faster increase in the prices of goods purchased for sale, the DIs being 31.0 and 67.1 respectively, compared to 38.0 and 62.5 in September.

- Trading companies continued to declare intentions to cut their trade margins, the DI being 45.4, down from 47.1 in September.

- After reporting positive expectations for three months, respondents said they intended to reduce their workforces, the DI being 49.1, down from 51.4 in September.

Services

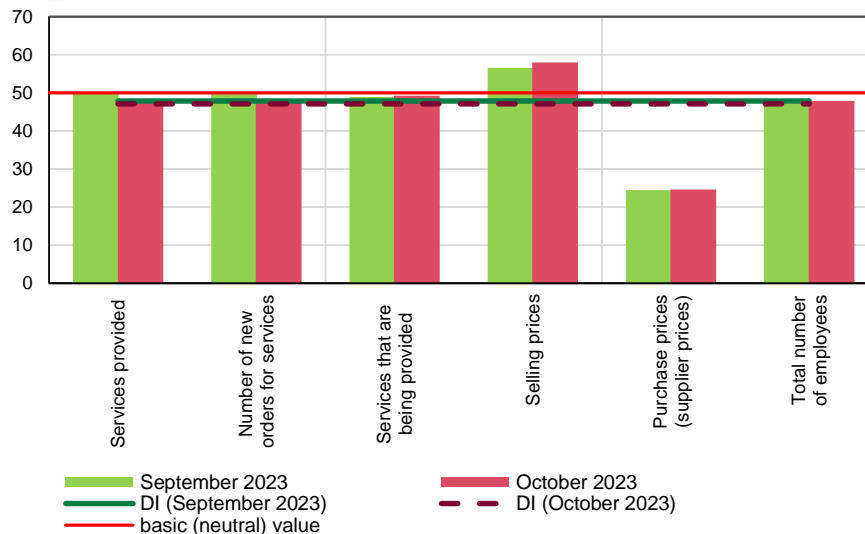**Diffusion Index of Service Providers' Business Activity Expectations**
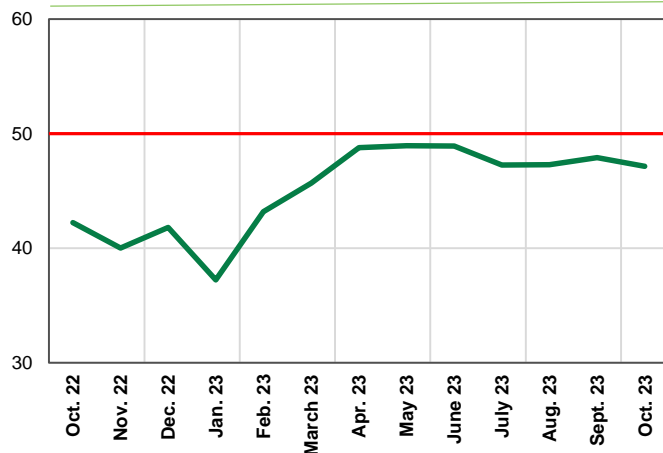
Diffusion Indices (DIs) for services companies' performance indicators

Legend:
- September 2023
- DI (September 2023)
- basic (neutral) value
- October 2023
- DI (October 2023)

- **In October, services companies continued to report a pessimistic economic outlook** because of rising fuel prices, logistical hurdles and weak demand, **the sector's DI being 47.2,** down from 47.9 in September.

- Respondents remained downbeat about the number of new orders and the amount of services that are being provided, the DIs being 47.9 and 49.3 respectively, compared to 49.7 and 49.0 in September. In contrast to the previous month, service providers also expected a drop in the amount of services provided, the DI being 48.3, down from 50.3 in September.

- Respondents reported firmer intentions to raise their selling prices, on the back of a persisting rise in purchase prices, the DIs being 58.0 and 24.7 respectively, compared to 56.6 and 24.5 in September.

- Respondents remained downbeat about their total staff numbers, the DI being 47.9, up from 47.2 in September.

Annexes

Data on surveys of industrial companies in October 2023

% responses

Indicator	Will increase	Will remain unchanged	Will decrease
Manufactured goods	32	48	21
Number of new orders for products	27	55	19
Number of new export orders for goods	17	60	23
Unfinished products (unfulfilled orders)	13	69	19
Finished goods stocks	18	58	24
Stocks of raw materials and supplies	23	57	20
Prices for raw materials and supplies	45	52	2
Selling prices	27	70	3
Total number of employees	8	77	15

Data on surveys of construction companies in October 2023

% responses

Indicator	Will increase	Will remain unchanged	Will decrease
Construction volume (construction work done)	17	63	21
Number of new orders	13	71	17
Purchases of raw materials and supplies	17	54	29
Purchase prices (supplier prices)	50	50	0
Purchases of contractor services	25	63	13
Cost of contractor services*	33	67	0
Availability of contractors	4	83	13
Selling prices	25	71	4
Total number of employees	4	79	17

Data on surveys of trading companies in October 2023

% responses

Indicator	Will increase	Will remain unchanged	Will decrease
Trade turnover	27	56	17
Purchase prices (supplier prices)	40	58	2
Goods purchased for sale	31	56	13
Cost of goods purchased for sale	44	47	9
Inventories / stocks of goods for sale*	25	57	18
Trade margin	8	74	18
Total number of employees	6	87	7

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

% responses

Indicator	Will increase	Will remain unchanged	Will decrease
Services provided	16	65	19
Number of new orders for services	16	64	20
Services that are being provided	17	65	18
Selling prices	18	80	2
Purchase prices (supplier prices)	51	49	0
Total number of employees	7	82	11

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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