



**ECES**

The Egyptian Center  
for Economic Studies

COMMITTED TO SHAPING EGYPT'S ECONOMIC FUTURE

# Business Barometer

Issue 38

2015



## Performance & Expectations of the Egyptian Business Sector

## **Committed to Shaping Egypt's Economic Future**

The Egyptian Center for Economic Studies is an independent Egyptian think tank that promotes sound public and private policymaking through high quality, innovative research and informed public debate, committed to prosperity, social equity, open society and global integration.

### **About the Business Barometer**

In an attempt to provide timely information about the state of economic activity in Egypt, ECES published the first issue of the Industrial Barometer in 1998. The periodical reported the results of a biannual survey of 165 firms fully drawn from the industrial sector. However, to improve the depth of the report, the survey was expanded in the July 2000 issue to include 35 firms from the construction sector. This step converted the former Industrial Barometer into today's Business Barometer. The survey was further expanded in the July 2002 issue to include 10 firms from the tourism sector. In July 2006, the survey was expanded again to include a total of 320 firms (from 210). In July 2007, another 154 firms were added to the sample. These firms cover the transportation, communications and financial sectors. The new sample includes a total of 474 firms. Starting July 2011, the Business Barometer is based on a modified sample survey in terms of firm size, comprising 218 large firms, 57 medium firms and 199 small firms. Firm size is determined by the number of employees as per CAPMAS classification, with the number of employees in small firms ranging between 5-49; in medium firms between 50-99; and in large firms more than 100. Starting January 2013, the Business Barometer includes an index aimed at summarizing the results of the survey and tracking business environment changes over time. The index is calculated for large firms as well as SMEs, once for evaluation of performance and once for expectations. Starting with Issue No. 34, the Business Barometer reports quarterly results for the firm sample.

This edition of the Business Barometer reports the results of a stratified sample of 474 public and private firms. The surveyed firms cover manufacturing (50 percent), financial intermediation (13 percent), construction (12 percent), transportation (11 percent), tourism (8 percent), and communications (6 percent). The survey is conducted across a number of small, medium and large enterprises (42, 12 and 46 percent, respectively). The survey covers their assessment of economic growth and the results of their operations over the first quarter of FY2015/2016 in terms of production, sales, capacity utilization, inventories, prices, wages, employment and investments. It also summarizes their expectations for overall future economic performance as well as their own activities for the second quarter of FY2015/2016.

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# ***Business Barometer***

**Issue No. 38 - 2015**

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## List of Abbreviations

BB	Business Barometer
BBI	Business Barometer Index
FY	Fiscal Year
1HFY	First Half of Fiscal Year
2HFY	Second Half of Fiscal Year
Q1FY	First Quarter of Fiscal Year
Q2FY	Second Quarter of Fiscal Year

## Overview

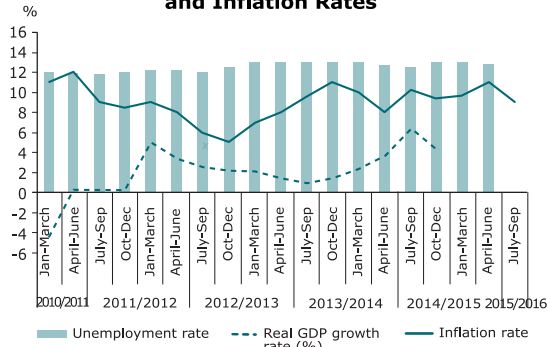
This edition of the *Business Barometer* (BB) presents the survey results of a stratified panel of 474 firms regarding their perceptions about the performance of the Egyptian economy and assessment of their own business for the first quarter of FY15/16 (July-September) and their outlook for the second quarter of FY15/16 (October-December). In this quarter, the Business Barometer Index (BBI) has dropped one point, reflecting the business community's concerns about the Egyptian economy's slow recovery. These concerns are in line with the decline in real GDP growth from 4.3 percent in the second quarter of FY14/15 (October-December, 2014) to 3 percent in the third quarter of FY14/15 (January-March, 2015). In a nutshell, the results of this edition ring an alarm for the government to revisit its monetary and fiscal policies with a view to stimulating the economy. Efforts in this respect would reflect positively on macroeconomic indicators and help reverse the less optimistic outlook reported by the business community over the period October-December FY15/16.

With regards to fiscal outturns, the government has reported a deficit of 9.4 percent of GDP at the end of the first 3 quarters of the FY14/15, raising doubts of the government's ability to achieve the 10 percent of GDP budgeted deficit envisaged in the 2014/15 budget. Similar to the previous quarter, the deficit was mainly financed domestically through T-bill issuance, crowding out the credit available to the private sector (Figure 1.3). Therefore, instead of relying on borrowing, the government needs to take more measures to rationalize expenditures, increase revenue generation and avail more credit to the private sector.

At the external front, international reserves have declined by US\$2.4 billion to reach US\$17.66 billion in July-September FY15/16 compared to US\$20.06 billion in April-June FY15/16. This decline is mainly attributed to the effect of redeeming the ten-year sovereign bonds (US\$1.25 billion) issued in September 2005, plus a final coupon of US\$27.8 million and the effect of payment of US\$667 million to creditor countries under the Paris Club agreement. The Central Bank of Egypt's (CBE) efforts to avoid speculation in the foreign exchange market might have also been a contributing factor. It is worth mentioning that the Egyptian pound has witnessed consecutive depreciations to reach LE 7.81/\$ as of 13 October 2015 compared to an average of LE7.61/\$ in the quarter April-June 2014/2015. Here, the government is well-advised to rely on sustainable sources of foreign currency such as exports, tourism and FDI instead of relying primarily on aid and grants.

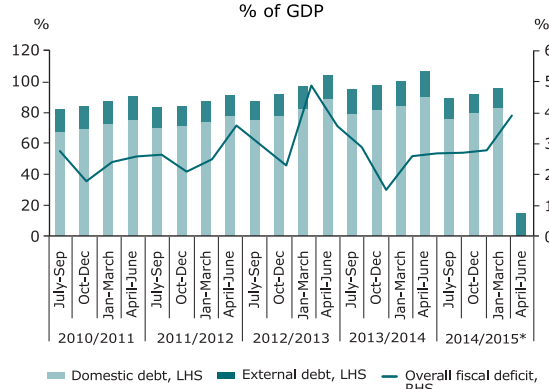
The exchange rate pass-through effect and higher food prices were the main drivers of the month-on-month increase in the inflation rate from 7.8 percent in August to 9.2 percent in September, 2015. This may reverse the expected declining trend in inflation rate (from 11.8 percent during April-June FY14/15 to 8.5 percent during July-September FY15/16). It is noteworthy that the current account balance deteriorated during April-June FY14/15 to register a deficit of US\$3.8 billion from a deficit of US\$1.8 billion during the corresponding quarter in FY13/14. However, it registered a decline of US\$0.3 billion when compared to January-March FY14/15. In July-December FY14/15, investments increased to reach LE 142.04 billion compared to LE 116.16 billion in the corresponding period in the previous year. This improvement in investment has resulted in a decline, albeit meager, in the unemployment rate.

**Figure 1.1: Real GDP Growth, Unemployment and Inflation Rates**



Sources: Ministry of Planning; CAPMAS and Central Bank of Egypt (CBE), Monthly Statistical Bulletin, Various Issues.

**Figure 1.2: Public Debt and Fiscal Deficit**



## Past Performance of Businesses

According to the Business Barometer Index (BBI), overall business performance during July-September FY14/15 witnessed a modest decline by only one point. Large private firms reported a decline in their performance during this quarter compared to the previous one, while medium-sized private firms achieved an improvement in their performance; public firms witnessed no change.

Firms' evaluation of economic growth declined for the quarter July-September FY14/15 compared to the previous quarter. However, this evaluation is still higher compared to the lowest performance in June 2013. The decline in economic activity has been reflected on firms' performance. Production has decreased by two points. Both domestic and international sales declined and inventory witnessed a very modest change. This might be the result of the increase in prices of inputs and final products and higher wages during the quarter under study. The weakening of the Egyptian pound has contributed to the increase in the prices of imports and has partially offset the positive impact of lower international oil prices. In addition to domestic constraints, global economic slowdown contributed to lowering demand for Egyptian exports. Firms' capacity utilization and investment remained similar to the last quarter and have been constant on average since January-June 2012. This was reflected on the employment level that remained unchanged.

Sectorally, services have fared well in comparison to the manufacturing industries. The financial services sector registered the best performance, followed by tourism, telecom and construction sectors. The performance of banks has improved, with their assets increasing by 6 percent during April-June 2014/2015 compared to the previous quarter, in addition to the relatively high ranking of the banking sector's soundness in the 2015-2016 Global Competitiveness Report. Furthermore, the expected acquisition of Beltone Financial by Orascom Telecom Media & Technology (OTMT) is likely to stimulate more intense competition within the banking market. The better performance of the tourism sector can be explained by the relative improvement in political stability and security, especially after the approval of the anti-terrorism law. The improvement in the telecom sector can be the result of measures taken to improve the quality of mobile services. The improved performance of the construction sector is the result of increased construction activity in the New Suez Canal. Investments in the construction sector increased in July-December FY14/15 to reach LE 1.64 compared to LE 1.196 billion in the corresponding period in FY13/14. The transportation and manufacturing sectors witnessed a decline in performance in July-September 2015 compared to April-June 2015. The most pronounced decline was reported by leather and wood industries, while plastic and pharmaceutical industries registered an improvement in performance.

Figure 2.1: Business Barometer Index

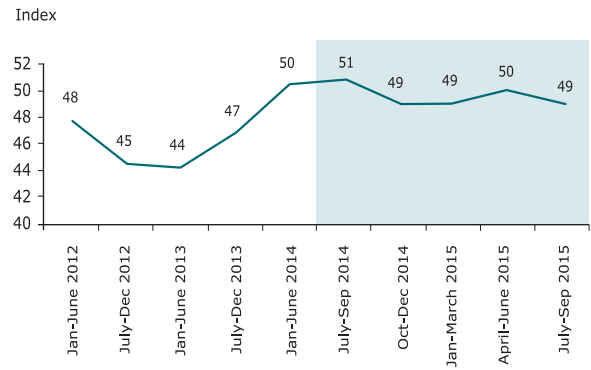


Figure 2.2: Economic Growth

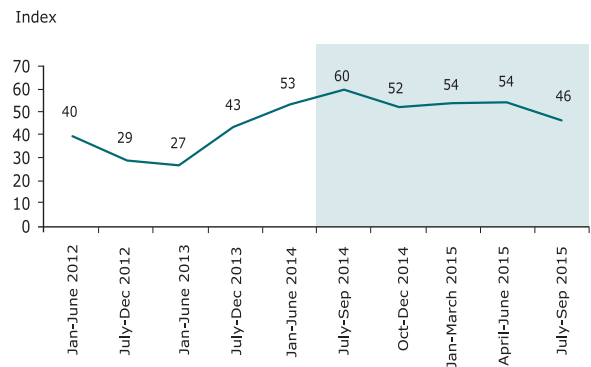


Figure 2.3: Production

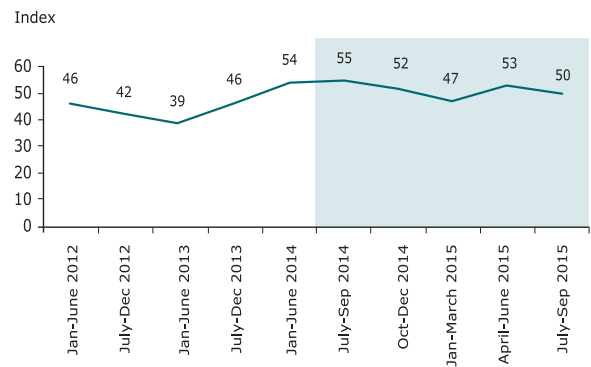
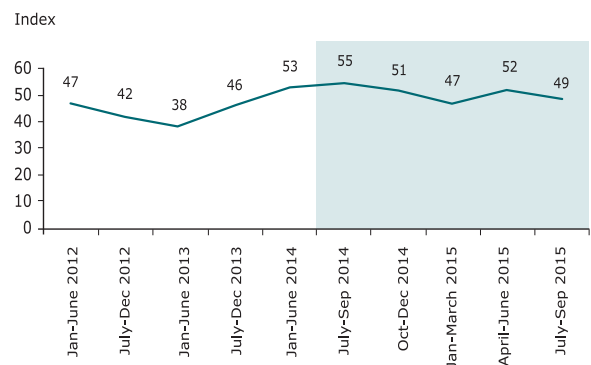


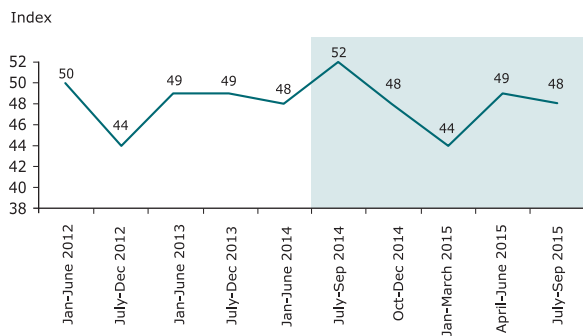
Figure 2.4: Domestic Sales



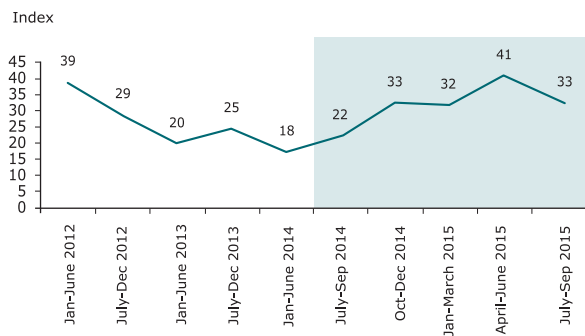
Source: Survey results.

The shaded area refers to quarterly data, while the plain area refers to bi-annual data.

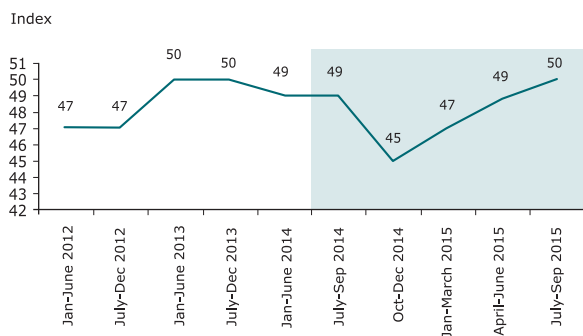
**Figure 2.5: International Sales**



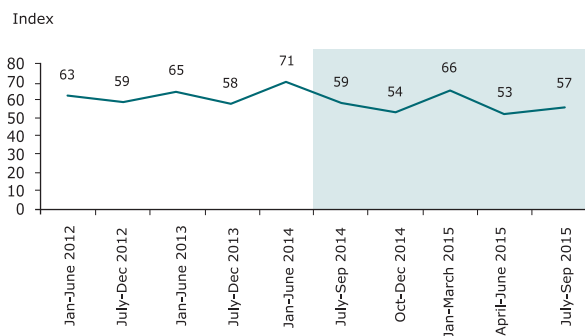
**Figure 2.9: Input Prices\*\***



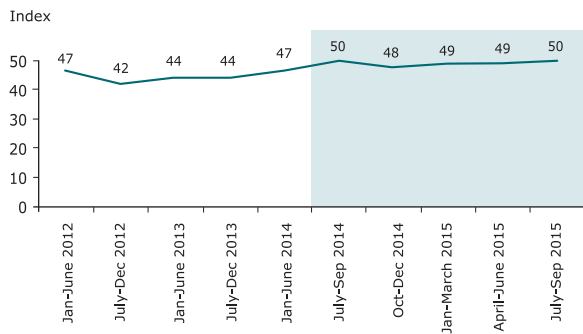
**Figure 2.6: Inventory\***



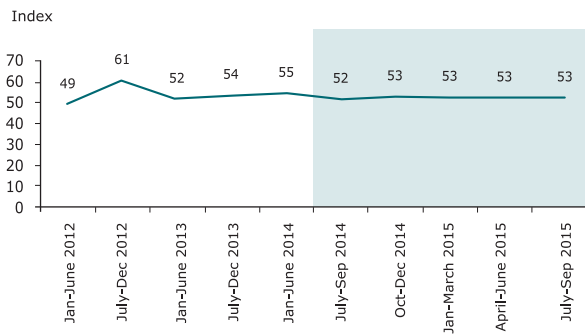
**Figure 2.10: Wages**



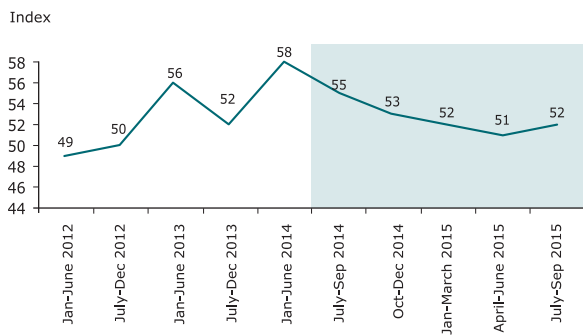
**Figure 2.7: Capacity Utilization**



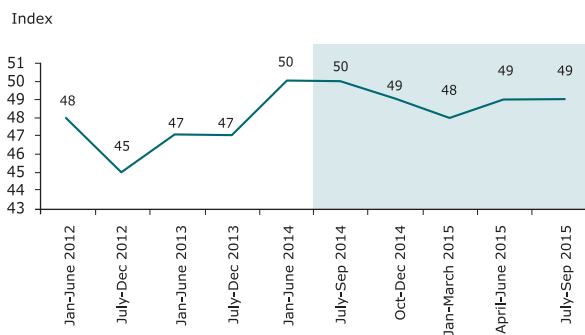
**Figure 2.11: Investment**



**Figure 2.8: Final Product Prices**



**Figure 2.12: Employment**



Source: Survey results.

\* The index for inventory is inverted to indicate the negative impact of its increase on businesses. Hence, a higher inventory index indicates lower inventory.

\*\* The index for input prices is inverted to indicate the negative effect of the increase of input prices on businesses. Hence, a lower value of this index indicates higher input prices.

■ The shaded area refers to quarterly data, while the plain area refers to bi-annual data.

## Business Strategy Going Forward

Firms' outlook for the upcoming quarter October-December 2015 is less optimistic than their expectations for the previous two quarters, which is in line with the decline in their performance in July-September 2015. Their lower expectations for economic growth have followed the same declining trend since April-June 2015.

Firms expect a decline in domestic sales and a huge increase in inventory despite a modest increase in exports, resulting in lower expectations for production and capacity utilization. The decline in domestic sales can be the result of expectations of higher final product prices. For the fourth consecutive quarter, firms' outlook for investment remained unchanged. Expectations of lower production and unchanged investment have been reflected on a declining employment and wages outlook. Fears of further depreciation of the pound and government plans to rationalize imports have induced firms to anticipate an increase in the prices of both inputs and final products.

Sectorally, the financial intermediation and construction sectors expressed the most optimistic outlook, reporting higher capacity utilization plans in line with their substantially increasing production plans and domestic sales. The worst outlook was expressed by the tourism sector. This may be explained by sluggish growth in the EU, which could have an adverse effect on the number of European tourists visiting Egypt. The European tourists represented 76 percent of the total number of tourists visiting Egypt in June 2015.

Firms are targeting to increase their exports on the grounds of improved competitive advantage due to the depreciated Egyptian pound. A number of sectors (i.e., transportation, textiles, financial services, glass and fertilizers) reported plans to modestly increase international sales for the coming quarter. Food industry firms are the only exception to this optimistic outlook, reporting an expected reduction in their international sales. Their outlook could be attributed to unclear economic policies, as in the case of the rice export ban.

There are no significant difference in outlook between SMEs and large firms. However, privately owned firms seem to be less optimistic about the upcoming quarter than state-owned firms.

Figure 3.1: Business Barometer Index

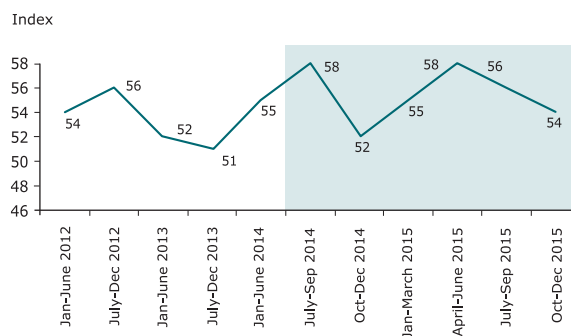


Figure 3.2: Economic Growth

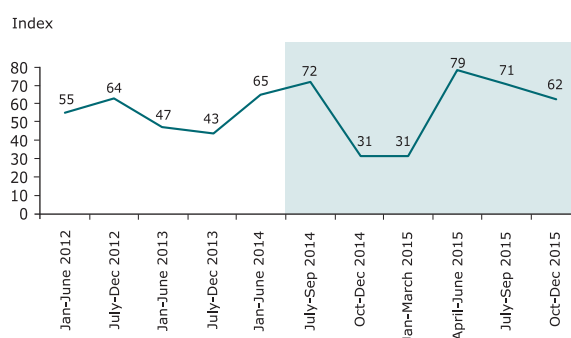


Figure 3.3: Production

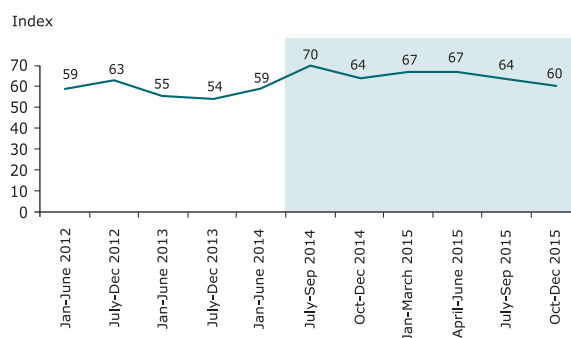
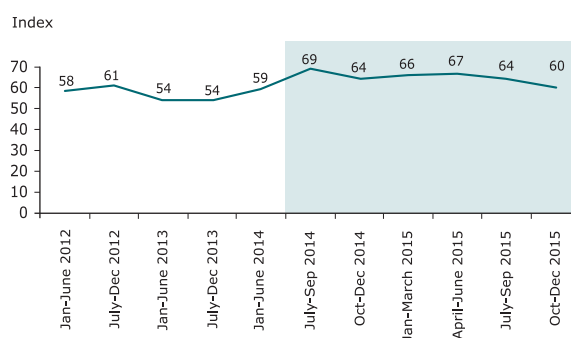


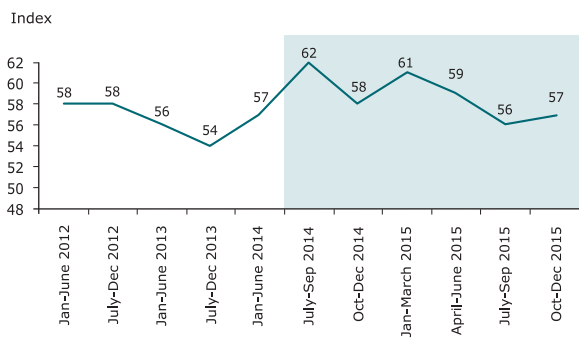
Figure 3.4: Domestic Sales



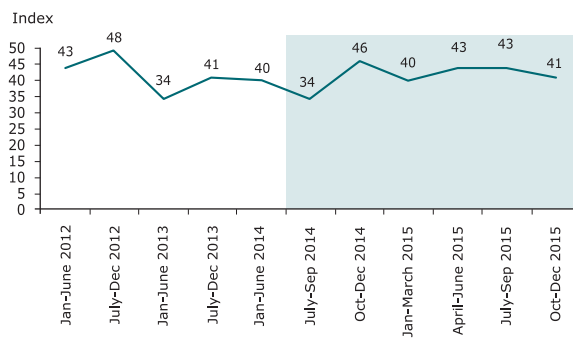
Source: Survey results.  
 The shaded area refers to quarterly data, while the plain area refers to bi-annual data.



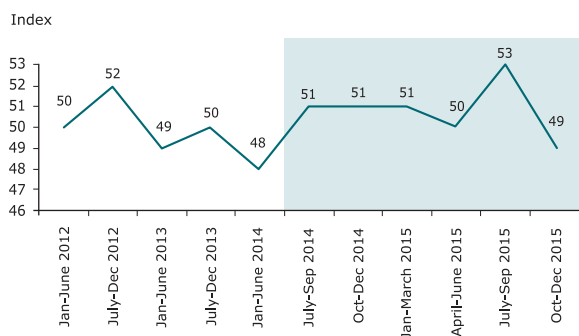
**Figure 3.5: International Sales**



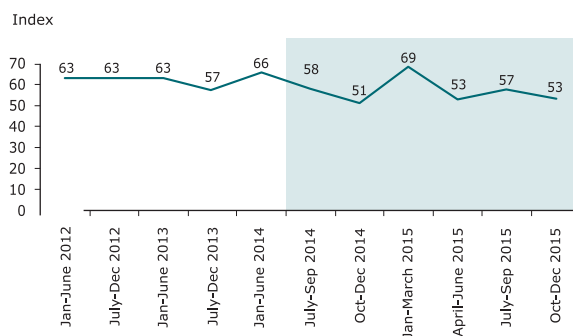
**Figure 3.9: Input Prices\*\***



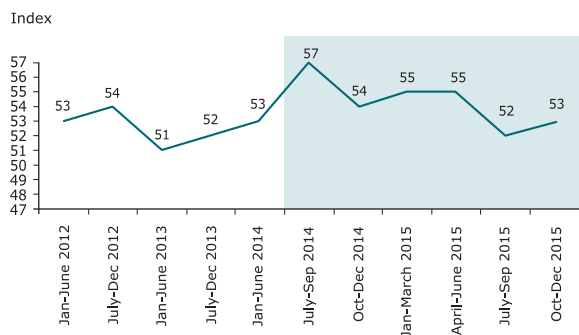
**Figure 3.6: Inventory\***



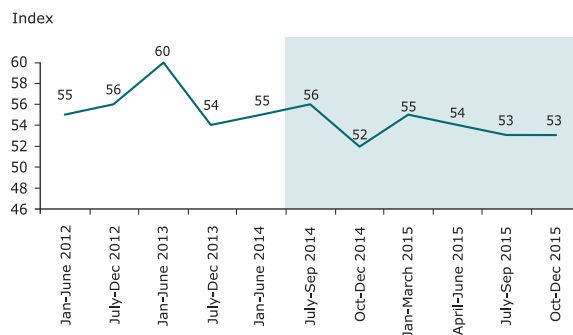
**Figure 3.10: Wages**



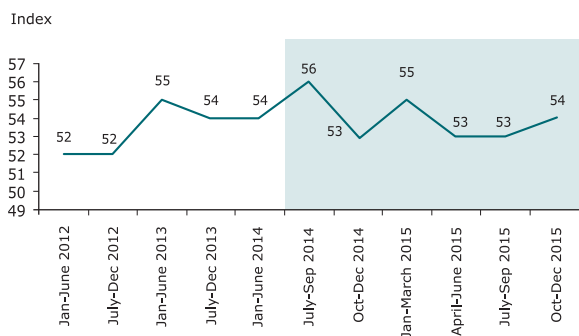
**Figure 3.7: Capacity Utilization**



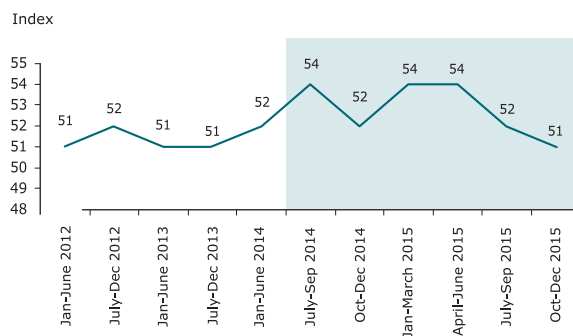
**Figure 3.11: Investment**



**Figure 3.8: Final Product Prices**



**Figure 3.12: Employment**



Source: Survey results.

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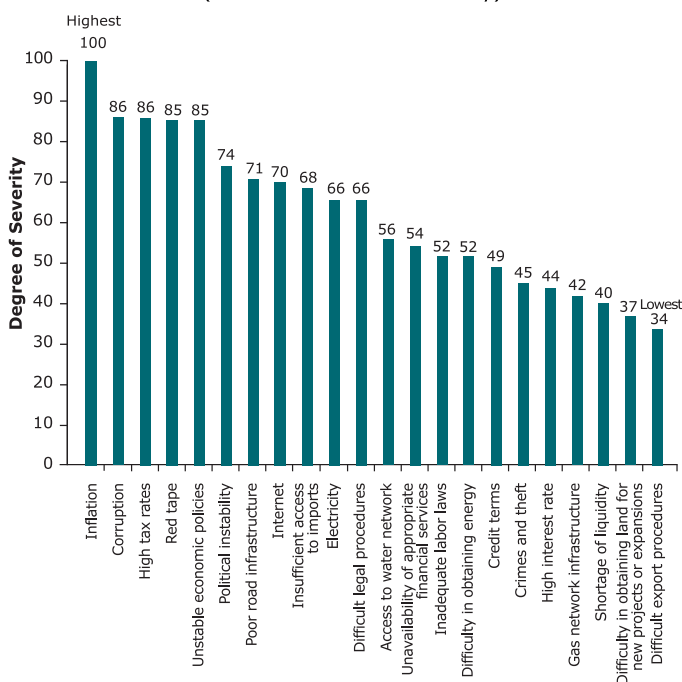
■ The shaded area refers to quarterly data, while the plain area refers to bi-annual data.

## Business Constraints

**Major constraints: Inflationary pressures, corruption, high tax rates and red tape**

Figure 4 shows the major constraints to doing business in descending order of severity as perceived by respondents. Inflationary pressures are by far the most severe business impediment. Firms are concerned that depreciation of the Egyptian pound and its expected pass-through effect on domestic prices may cause the inflation rate to trend upwards. Corruption has been ranked as the second major constraint facing the business sector. This indicates that further anti-corruption measures are still needed. Another major constraint facing the business sector is high tax rates. This shows that the effect of the new investment law is yet to be felt across the business sector. The new law includes cutting the corporate tax rate from 25 percent to 22.5 percent. Export procedures are the least severe constraint as perceived by firms.

**Figure 4: Major Constraints Facing the Business Sector**  
(Normalized index of severity)



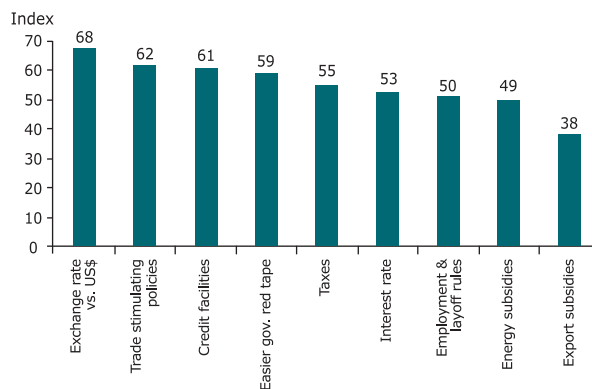
Source: Survey results.

## Policy Expectations

**Policy Expectations: Change in the Exchange Rate Policy and More Trade Stimulating Policies**

As revealed by Figure 5, firms are anticipating a change in the exchange rate policy. They also expect more trade stimulating policies and credit facilities. The government still needs to exert more effort in reducing red tape. Firms expect these efforts soon as red tape is one of the major constraints facing them in doing business.

**Figure 5: Policy Expectations**



Source: Survey results.

## Appendix

**Following an elaboration of the methodology used in calculating the index, this appendix will present tables that give a numerical representation of survey results.**

### Methodology of the Index

The index aims at calculating a single figure for the responses of firms on each variable.

The index's equation is:

$$X = \frac{I+S}{100+S} \times 100,$$

where *I* is the share of firms reporting an increase and *S* the share of firms reporting same.

The index is designed to have a maximum of 100 when all firms report an increase, a minimum of 0 when all firms report a decrease and a middle value of 50 when all firms report no change. Between 0 and 100, the index grows proportionally with larger shares of "increase," and inversely with larger shares of "decrease," while the change in "same" is given less effect by including it in the numerator and the denominator. A higher index thus reflects a better business climate and vice versa. It is worth noting that the index is inverted for inventories and input prices as increases of these two variables reflect an adverse business climate for firms. The Business Barometer Index is a simple average of the variables' indexes, calculated once for large firms and once for SMEs, both for evaluations and expectations.

**Table A1. Survey Results: Summary of Business Sector Past Performance (July-September 2015)<sup>1</sup>**

Indicator	Manufacturing Sector			Construction Sector			Tourism Sector			Transportation			Communications			Financial Intermediaries								
	Percentage Higher	Percentage Same	Percentage Lower	Index <sup>2</sup> Higher	Index <sup>2</sup> Same	Index <sup>2</sup> Lower	Percentage Higher	Percentage Same	Percentage Lower	Index <sup>2</sup> Higher	Index <sup>2</sup> Same	Index <sup>2</sup> Lower	Percentage Higher	Percentage Same	Percentage Lower	Index <sup>2</sup> Higher	Index <sup>2</sup> Same	Index <sup>2</sup> Lower						
<b>Economic growth</b>	20	43	37	<b>44</b>	25	51	24	<b>50</b>	55	23	<b>63</b>	13	39	48	<b>37</b>	36	36	29	<b>53</b>	23	44	34	<b>47</b>	
<b>Business activity</b>																								
Production	27	44	29	<b>49</b>	31	58	11	<b>56</b>	65	18	<b>70</b>	19	44	37	<b>44</b>	14	46	39	<b>41</b>	26	34	40	<b>45</b>	
Domestic sales	27	41	32	<b>48</b>	25	58	16	<b>53</b>	68	16	<b>72</b>	20	48	32	<b>46</b>	15	44	41	<b>41</b>	25	35	40	<b>44</b>	
International sales	17	54	29	<b>46</b>	14	86	0	<b>54</b>	45	30	<b>58</b>	18	52	30	<b>46</b>	0	83	17	<b>45</b>	67	33	0	<b>75</b>	
Inventory	19	65	17	<b>50</b>	13	75	13	-	17	83	0	-	0	50	<b>50</b>	0	100	0	-	0	100	0	-	
Level of capacity utilization	13	63	24	<b>47</b>	18	78	4	<b>54</b>	33	63	5	<b>59</b>	9	81	9	<b>50</b>	29	57	14	<b>55</b>	5	87	8	<b>49</b>
<b>Prices</b>																								
Final product prices	11	80	9	<b>51</b>	27	71	2	<b>57</b>	23	70	8	<b>55</b>	15	83	2	<b>54</b>	7	71	21	<b>46</b>	21	76	3	<b>55</b>
Intermediate input prices	54	43	3	<b>32</b>	45	55	0	<b>35</b>	63	34	3	<b>28</b>	45	55	0	<b>35</b>	48	52	0	<b>34</b>	51	49	0	<b>33</b>
Wage level	27	73	0	<b>58</b>	33	67	0	<b>60</b>	23	75	3	<b>56</b>	17	83	0	<b>55</b>	14	82	4	<b>53</b>	18	77	5	<b>54</b>
<b>Primary inputs</b>																								
Investment	10	89	1	<b>52</b>	15	85	0	<b>54</b>	15	85	0	<b>54</b>	4	93	4	<b>50</b>	11	86	4	<b>52</b>	21	77	2	<b>55</b>
Employment	6	78	16	<b>47</b>	25	69	5	<b>56</b>	30	63	8	<b>57</b>	6	83	11	<b>49</b>	7	71	21	<b>46</b>	6	81	13	<b>48</b>

**Table A2. Survey Results: Summary of Business Sector Outlook (October-December 2015)<sup>1</sup>**

Indicator	Manufacturing Sector			Construction Sector			Tourism Sector			Transportation			Communications			Financial Intermediaries									
	Percentage Higher	Percentage Same	Percentage Lower	Index <sup>2</sup> Higher	Index <sup>2</sup> Same	Index <sup>2</sup> Lower	Percentage Higher	Percentage Same	Percentage Lower	Index <sup>2</sup> Higher	Index <sup>2</sup> Same	Index <sup>2</sup> Lower	Percentage Higher	Percentage Same	Percentage Lower	Index <sup>2</sup> Higher	Index <sup>2</sup> Same	Index <sup>2</sup> Lower							
<b>Economic growth</b>	47	37	16	<b>61</b>	55	36	9	<b>67</b>	68	28	5	<b>75</b>	37	43	20	<b>56</b>	50	39	11	<b>64</b>	44	45	11	<b>61</b>	
<b>Business activity</b>																									
Production	40	46	13	<b>59</b>	42	55	4	<b>63</b>	35	18	48	<b>45</b>	54	30	17	<b>65</b>	50	39	11	<b>64</b>	47	47	6	<b>64</b>	
Domestic sales	43	45	12	<b>61</b>	38	56	5	<b>60</b>	29	21	50	<b>41</b>	49	29	22	<b>60</b>	52	37	11	<b>65</b>	47	45	8	<b>63</b>	
International sales	25	68	7	<b>55</b>	29	71	0	<b>58</b>	45	41	14	<b>61</b>	46	46	9	<b>63</b>	13	73	13	<b>50</b>	50	50	0	<b>67</b>	
Inventory	19	66	15	<b>49</b>	17	79	4	-	0	80	20	-	0	100	0	-	0	0	0	0	-	0	100	0	-
Level of capacity utilization	23	69	8	<b>54</b>	7	93	0	<b>52</b>	13	70	18	<b>49</b>	9	87	4	<b>51</b>	11	81	7	<b>51</b>	15	84	2	<b>54</b>	
<b>Prices</b>																									
Final product prices	15	82	3	<b>53</b>	24	76	0	<b>57</b>	23	60	18	<b>52</b>	15	83	2	<b>54</b>	7	86	7	<b>50</b>	21	79	0	<b>56</b>	
Intermediate input prices	33	66	1	<b>40</b>	29	71	0	<b>42</b>	33	59	8	<b>42</b>	30	68	2	<b>42</b>	25	75	0	<b>43</b>	31	69	0	<b>41</b>	
Wage level	10	89	1	<b>52</b>	13	87	0	<b>53</b>	23	78	0	<b>57</b>	7	91	2	<b>51</b>	14	82	4	<b>53</b>	11	85	3	<b>52</b>	
<b>Primary inputs</b>																									
Investment	10	90	0	<b>53</b>	11	89	0	<b>53</b>	10	90	0	<b>53</b>	15	85	0	<b>54</b>	4	96	0	<b>51</b>	15	85	0	<b>54</b>	
Employment	11	83	6	<b>51</b>	15	85	0	<b>54</b>	15	70	15	<b>50</b>	7	83	9	<b>49</b>	11	79	11	<b>50</b>	11	81	8	<b>51</b>	

<sup>1</sup> Numbers represent percent of total responses. Higher, same and lower may not add up to 100 due to rounding.

<sup>2</sup> Equal to the simple average of the variables' indexes. The index's method of calculation is provided in the appendix.

**Table A3. Survey Results: Summary of Business Sector Past Performance (By Size)(July-September 2015)<sup>1</sup>**

Indicator	SMEs			Large				
	Percentage Higher	Percentage Same	Percentage Lower	Index <sup>2</sup> 48	Percentage Higher	Percentage Same	Percentage Lower	Index <sup>2</sup> 50
<b>Economic growth</b>	24	43	34	<b>47</b>	25	40	35	<b>46</b>
<b>Business activity</b>								
Production	25	41	34	<b>47</b>	33	44	24	<b>53</b>
Domestic sales	25	39	36	<b>46</b>	33	44	23	<b>53</b>
International sales	20	53	27	<b>48</b>	20	54	26	<b>48</b>
Inventory	17	69	14	<b>49</b>	19	63	18	<b>50</b>
Level of capacity utilization	12	70	18	<b>48</b>	18	68	13	<b>51</b>
<b>Prices</b>								
Final product prices	17	75	9	<b>53</b>	14	81	6	<b>52</b>
Intermediate input prices	53	46	1	<b>32</b>	51	47	3	<b>34</b>
Wage level	19	80	1	<b>55</b>	30	68	2	<b>58</b>
<b>Primary inputs</b>								
Investment	9	89	2	<b>52</b>	15	84	1	<b>54</b>
Employment	8	78	14	<b>48</b>	13	74	12	<b>50</b>

<sup>1</sup> Numbers represent percent of total responses. Higher, same and lower may not add up to 100 due to rounding.

<sup>2</sup> Equal to the simple average of the variables' indexes. The index's method of calculation is provided in the appendix.

**Table A4. Survey Results: Summary of Business Sector Outlook (By Size)(October-December 2015)<sup>1</sup>**

Indicator	SMEs			Large				
	Percentage Higher	Percentage Same	Percentage Lower	Index <sup>2</sup> 54	Percentage Higher	Percentage Same	Percentage Lower	Index <sup>2</sup> 54
<b>Economic growth</b>	47	37	16	<b>61</b>	49	40	11	<b>64</b>
<b>Business activity</b>								
Production	39	45	16	<b>58</b>	48	40	12	<b>63</b>
Domestic sales	40	43	18	<b>58</b>	46	42	12	<b>62</b>
International sales	31	64	5	<b>58</b>	31	58	11	<b>56</b>
Inventory	17	74	9	<b>48</b>	18	63	19	<b>50</b>
Level of capacity utilization	16	76	7	<b>52</b>	17	77	6	<b>53</b>
<b>Prices</b>								
Final product prices	20	76	4	<b>55</b>	13	84	3	<b>53</b>
Intermediate input prices	29	69	2	<b>42</b>	34	64	1	<b>40</b>
Wage level	15	84	1	<b>54</b>	7	91	2	<b>51</b>
<b>Primary inputs</b>								
Investment	11	89	0	<b>53</b>	11	89	0	<b>53</b>
Employment	15	78	7	<b>52</b>	7	86	7	<b>50</b>