

Business Barometer
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The Egyptian Center for Economic Studies (ECES) is an independent, nonprofit research institute. It was founded by leading members of Egypt's private sector in 1992. The objective of the Center is to promote economic development in Egypt by assisting policy makers in developing appropriate policy reforms based on international experience. In pursuit of this objective, ECES conducts applied policy research and disseminates its findings through a select series of publications, lectures, conferences, and roundtable discussions.

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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. In addition, a few questions were added to the survey questionnaire regarding the geographic distribution of exports, employment categories, prices of different inputs and types of investments. Starting this edition, the Business Barometer includes two indices designed to summarize firms' evaluation and expectations for three successive periods. Detailed information about the sample and questionnaire can be found in the methodology section.

This edition of the Business Barometer reports the results of a stratified sample of 474 public and private firms. The survey covers their assessment of economic growth and the results of their operations in terms of production, sales, inventories, prices, wages, employment and investments over the last six months of 2008. It also summarizes their expectations for overall future economic performance as well as their own activities for the first half of 2009.

The interpretations and comments expressed in this survey are those of the ECES team, and do not necessarily reflect those of the ECES Board of Directors.

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Overview

This edition of the *Business Barometer* (BB) reflects the views of 474 large firms regarding the overall performance of the economy and own activities during the second half of 2008, and their expectations for the first six months of 2009. The surveyed firms cover manufacturing, construction, tourism, transportation, communications and financial intermediation.

With respect to the past six months, the number of firms with positive perceptions about economic growth declined by half compared to the previous survey. Regarding own activities, the majority of firms reported lower production, domestic sales and exports.

For the upcoming six months, respondents' expectations are negative, with a greater number of firms anticipating a decrease in economic growth compared to the previous survey. In addition, relatively more firms have a pessimistic outlook regarding their own production, domestic sales and exports.

Firms' negative perceptions during the last six months could be mainly explained by the decelerating overall economic growth and the high inflationary pressures. The real GDP growth rate has declined to 5.8 percent in the first quarter of 2008/09 as compared to 6.5 percent in the first quarter of 2007/08. Average inflation during the first quarter of 2008/09 amounted to 22.4 percent as compared to 8.4 percent for the same quarter in 2007/08.¹

Firms' negative outlook regarding overall economic performance and own activities is a reflection of the deteriorating international economic outlook in the context of the global financial turbulence. The global financial crisis is expected to reduce economic growth in Egypt to no more than 5 percent in 2008/09.² FDI inflows are expected to decline and domestic investors are likely to become more cautious. Tourism receipts, Suez Canal revenues, and workers' remittances are all expected to be negatively affected. Suez Canal earnings are likely to decline due to lower oil prices and pirate attacks near Somalia. Consequently, both domestic and foreign sources of demand are likely to decline. To stimulate economic

activity, the government plans to increase expenditure on infrastructure projects and to avoid increases in recurrent expenditure. Monetary policy is constrained, however, by fears that interest rate cuts would accentuate pressures on Central Bank of Egypt (CBE) reserves and the exchange rate. CBE interest rates are therefore expected to be kept unchanged until pressure on the balance of payments stabilizes. Despite the fact that the upward trend in inflation has ended as a result of global economic slowdown and decline in international commodity prices, yet domestic market imperfections along with widening fiscal budget deficit continue to exercise pressure on domestic inflation, which continues to be much higher than in Egypt's trading partners and thus poses a threat of decreasing Egypt's competitiveness.

To counter the expected slowdown in the economy resulting from the global financial turbulence, the government announced the implementation of a stimulus package of LE 15 billion to support economic growth. Government spending will be directed mainly to infrastructure projects (especially water, sanitation and transport) and export subsidies.

Meanwhile, to alleviate inflationary pressures the government has opted to keep energy prices (natural gas and electricity) unchanged for industrial users until the end of 2009. It is worth noting that natural gas and electricity prices were raised for energy intensive industrial users as of July 2008 as per decree 1795/2008. Energy intensive industries comprise glass, ceramics, petrochemicals, steel, cement, fertilizers, aluminum and copper. As for other industries, natural gas and electricity prices were raised but at lower and differentiated rates.

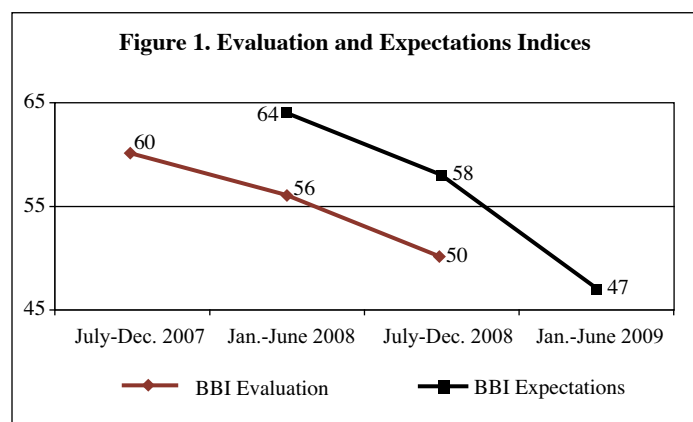
The remainder of this edition of the *Business Barometer* elaborates on the main findings of the survey under four main headings: the level of economic activity (overall growth, production, sales, and inventory and capacity utilization); prices and wages; investment and employment; and finally the constraints facing the surveyed firms.

¹ Obtained from the Ministry of State for Economic Development.

² ECES estimate.

Business Barometer Indices

The Business Barometer indices (BBI)³ were computed using the principal components analysis and are based on firms' responses in different sectors covered by BB.⁴ Figure 1 shows the two computed BBI indices, one reflecting BBI evaluation while the other presents BBI expectations for three consecutive periods.



Source: Survey results and authors' calculations.

The figure shows two main features of the indices. First, they both have been declining during the three periods of coverage. This continuous downward trend reflects increasing concerns on the part of firms about the health of the Egyptian economy, which was further exacerbated by the global crisis. Negative effects on the indices mainly result from responses on overall growth, level of production, and domestic and international sales. Second, while in the first two periods the expectations BBI was higher than its evaluation counterpart, reflecting optimistic expectations relative to the period's evaluation, in the current period the expectations BBI has declined sharply (by 11 percentage points) and has become lower than the evaluation BBI, emphasizing the expected negative impact of the global crisis and increased pessimism concerning business outlook in Egypt.

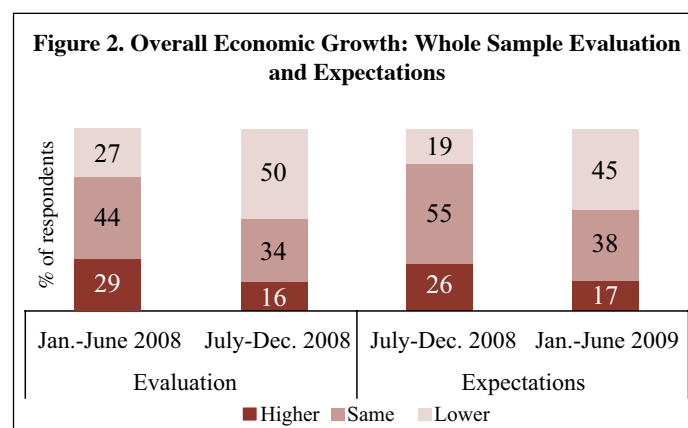
The Level of Economic Activity

Lower economic growth with negative expectations

During the last six months of 2008, half of the firms (50 percent) reported lower economic growth compared

to the previous six months (27 percent). While fewer respondents reported steady (34 percent) or higher (16 percent) overall economic growth. Firms' perceptions about economic growth are in line with actual real GDP growth rates.

Economic growth has been gradually declining since the beginning of 2008 from a real GDP growth rate of 7.4 percent in the period (January-March 2008) to 6.8 percent during (April-June 2008).⁵ According to the Ministry of State for Economic Development, real GDP growth rate further decreased to 5.8 percent during the first quarter (July-September) of FY 2008/09 compared to 6.5 percent in the corresponding quarter of FY 2007/08.



Source: Survey results.⁶

Firms' expectations regarding overall economic growth are negative compared to the previous issue. More firms (45 percent) anticipate lower economic growth for the first half of 2009 compared to 19 percent for the last six months of the previous year, while fewer firms (38 percent) expect stable economic growth during the next six months of 2009 compared to 55 percent for the last half of 2008. And even fewer firms (17 percent) expect higher economic growth for the next six months of 2009 compared to 26 percent for the second half of 2008.

At the sectoral level, most firms have reported a decrease in economic growth. The percentage of firms indicating a decrease in economic growth was highest in the financial services, manufacturing, communications, construction and transport sectors. Slightly fewer firms in the tourism sector reported a slowdown in economic

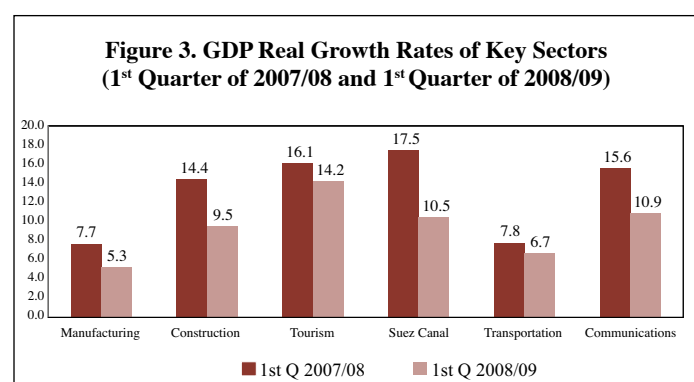
³The authors would like to thank Dr. Heba EL Laithy for reviewing and improving the methodology and the adopted statistical analysis.

⁴See the methodology section for more details.

⁵Data obtained from the Ministry of State for Economic Development.

⁶Survey results are summarized in Tables 1 and 2.

growth.⁷ According to the Ministry of State for Economic Development, the main reason behind economic slowdown in the first quarter of 2008/09 was the decrease in the growth rates of fast growing sectors such as construction, manufacturing, transport, communications and tourism sectors. Figure 3 shows the actual decline in growth of the key sectors⁸ in the economy as reported by the Ministry of State for Economic Development. Survey results are largely consistent with the decline in growth rates reported in various sectors.



Source: Ministry of State for Economic Development.

The balance of payments data for the first quarter of 2008/09 revealed that tourism receipts grew by 15.2 percent compared to the corresponding quarter of 2007/08. During the same period, Suez Canal receipts and non-petroleum exports increased by 20.4 percent and 16.8 percent, respectively. Petroleum exports increased by 63 percent for the first quarter of 2008/09 compared to corresponding quarter of 2007/08. Services receipts grew by 23 percent compared to the corresponding quarter of 2007/08. Imports increased by 36 percent. The current account deficit reached \$1 billion in the first quarter of 2008/09 as compared to a current account deficit of \$0.1 billion during July-September 2007/08. The capital and financial account surplus increased to \$2.2 billion during the first quarter of 2008/09 as compared to a surplus of \$1.7 billion during the same quarter of 2007/08. For the first time since 2002/03, private transfers decreased by 2.1 percent during the first quarter of 2008/09.⁹

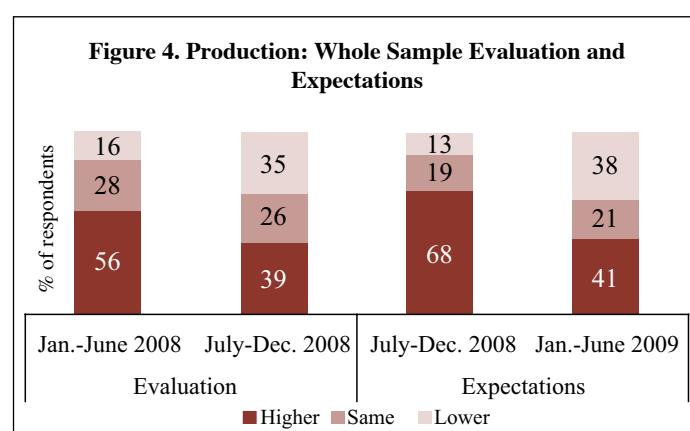
⁷ See Table 3.

⁸ Data obtained from the Ministry of State for Economic Development.

⁹ Data obtained from the Ministry of Finance.

Production decreased with lower expectations

As compared to the previous six months, fewer firms reported higher (39 percent) or stable (26 percent) production during the second half of 2008. Moreover, more firms (35 percent) reported decreased production compared to previous survey (16 percent). As shown in Table 3, the percentage of firms reporting lower production was highest in the financial and transport sectors, while the percentage of firms reporting lower production was lesser in the construction, tourism, manufacturing and communications sectors.



Source: Survey results.

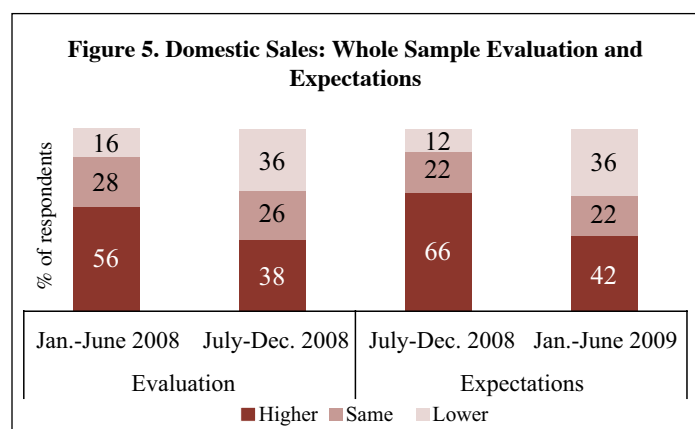
In general, firms have unfavorable expectations about their own production during the next six months. The majority of firms expect lower (38 percent) or similar (21 percent) production levels. While fewer firms (41 percent) expect to increase their production during the first half of 2009 compared to 68 percent during the last six months of 2008. At the sectoral level, the majority of firms are expecting lower production in the tourism, transportation and financial services sectors. Firms in the manufacturing, communications and construction sectors reported relatively less pessimistic expectations about future production.¹⁰

More firms reported decreased domestic sales with lower expectations

During the last six months of 2008, a greater number of respondents reported lower (36 percent) or stable (26 percent) domestic sales compared to 16 percent and 28 percent respectively during the first half of 2008.

¹⁰ See Table 3.

In addition, fairly fewer firms (38 percent) reported higher domestic sales during the last six months of 2008 compared to 56 percent during the first half of 2008. At the sectoral level, the financial, transportation and manufacturing sectors reported lower domestic sales compared to tourism, communications and construction firms.



Source: Survey results.

With regards to the coming six months, a thin majority of firms anticipate lower (36 percent) and stable (22 percent) domestic sales. Similarly, fewer firms (42 percent) expect higher domestic sales during the next six months of 2009 compared to the second half of 2008 (66 percent). More tourism, financial and transportation firms expect a decline in sales, while more firms in manufacturing, communications and construction are more optimistic about domestic sales during the first half of 2009.

Decreased international sales and unfavorable expectations

The majority of firms reported lower (40 percent) or steady (26 percent) international sales during the last six months of 2008. The most unfavorable views were reported by construction and transportation sectors, followed by manufacturing, while communications firms reported a very moderate increase. Tourism and financial services firms reported more favorable views regarding international sales.

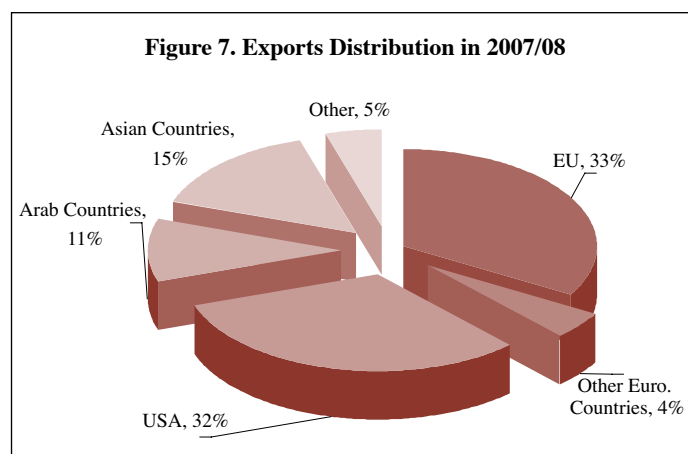
For the coming six months, more firms anticipated lower (42 percent) and stable (19 percent) international sales. Similarly, fewer firms (39 percent) expect higher international sales during the upcoming period compared to 71 percent during the last six months of 2008. At

the sectoral level, the majority of firms in the financial, transportation and tourism sectors expect lower exports, while fewer firms in construction and communications sectors anticipate higher exports during the same period. A moderate percentage of manufacturing firms expect an increase in exports over the same period.¹¹



Source: Survey results.

The unfavorable expectations could be explained by the global economic slowdown and hence the reduction of exports to Egypt's major trading partners. Figure 7 shows Egypt's main trading partners during 2007/08. Egypt's exports to the US and the EU constituted 65 percent of total Egyptian exports.

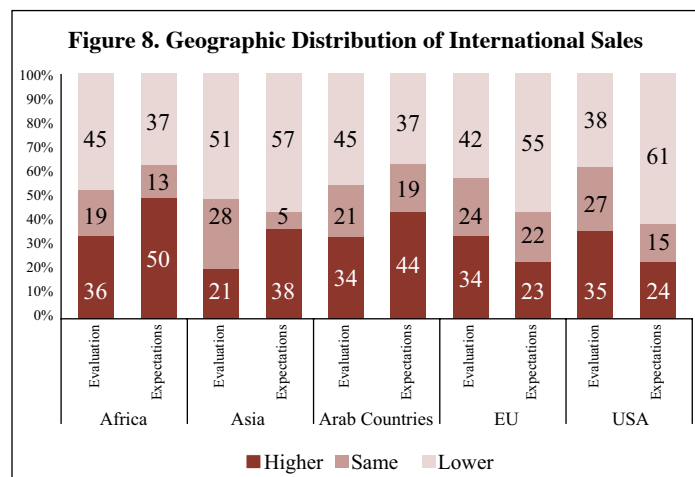


Source: Central Bank of Egypt.

In general, Figure 8 shows lower export expectations to the US and the EU for the first half of 2009 compared to international sales during the second half of 2008. As for exports to Arab and African countries, expectations are positive, with 44 percent of firms expecting higher

¹¹ See Table 3.

exports to the Arab countries and some 50 percent of firms anticipating increased exports to African countries. As for Asian markets, expectations are mixed.

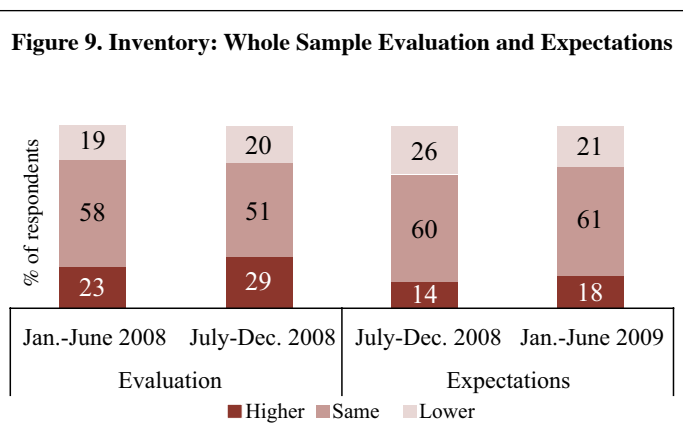


Source: Survey results.

Increased inventories and steady capacity utilization

The majority of firms maintained (51 percent) or increased (29 percent) their inventories as a result of decline in domestic sales and exports. Twenty percent of firms reported lower inventories similar to the previous survey (19 percent). At the sectoral level, more construction and transportation firms reported a decrease in inventories, while the majority of manufacturing firms reported an increase or no change thereof. Firms in the remaining three sectors—communications, financial services and tourism—reported no change in inventories.

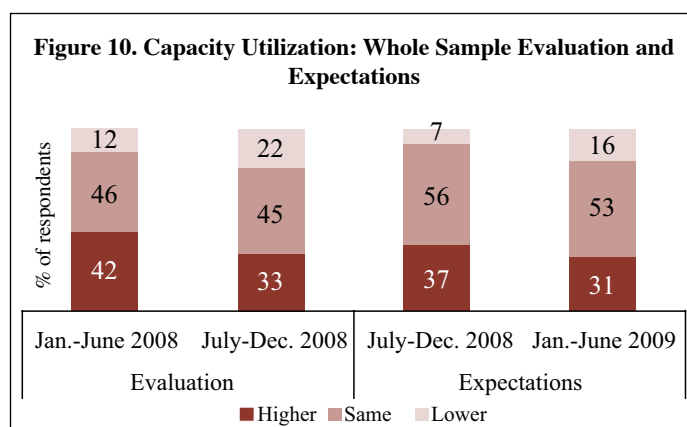
For the next six months, the majority of firms intend to maintain (61 percent) or increase (18 percent) their inventories. In addition, fewer firms (21 percent) expect to decrease their inventories compared to the previous survey, where 26 percent of firms intended to reduce them. Tourism, transportation, communications and financial services firms expect stable inventories in the next six months of 2009, while most firms in the manufacturing and construction sectors expect either increase or no change in inventories.¹²



Source: Survey results.

The majority of firms reported stable (45 percent) or higher (33 percent) levels of capacity utilization. At the same time, more firms (22 percent) reported lower capacity utilization compared to the previous survey (12 percent). Relatively more tourism, construction, communications and financial services firms reported an increase in capacity utilization, with relatively fewer manufacturing and transportation firms reporting an increase thereof.

For the next six months, the majority of firms' capacity utilization is expected to remain stable (53 percent) or to increase (31 percent). Similarly, more firms (16 percent) expect lower capacity utilization in the next six months as compared to previous survey (7 percent). With the exception of the construction sector in which a greater number of firms expect increased capacity utilization, the majority of firms in all other sectors expect to maintain capacity utilization levels over the next six months.



Source: Survey results.

¹²See Table 3.

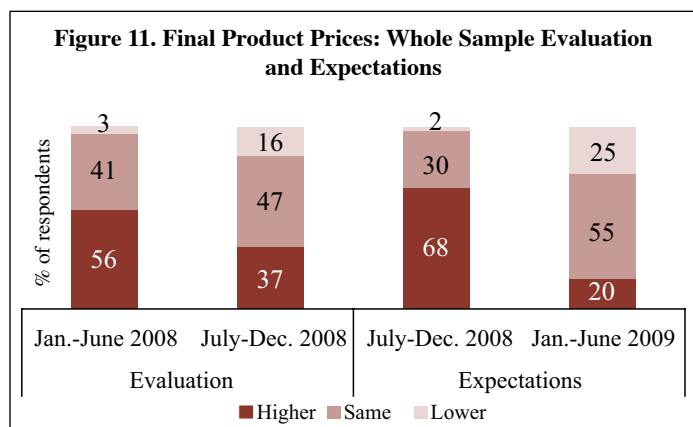
Prices and Wages

Higher prices and lower price expectations

The majority of firms reported higher (37 percent) or stable (47 percent) output prices compared to (56 percent) and (41 percent) in the previous six months. These results are in line with the rise in prices at a decreasing rate, pointing to a deceleration of inflation. Relatively more firms in the tourism, construction, manufacturing and transportation sectors reported an increase in output prices.

For the coming six months, the majority of firms anticipate lower (25 percent) or stable (55 percent) output prices. Moreover, the percentage of firms anticipating increased output prices decreased substantially to 20 percent compared to 68 percent in the second half of 2008 reflecting expectations of decreased demand.

At the sectoral level, relatively more firms in financial services, communications, transportation and construction expect output prices to increase or to stabilize over the next six months, while more firms in tourism and manufacturing sectors expect lower output prices.



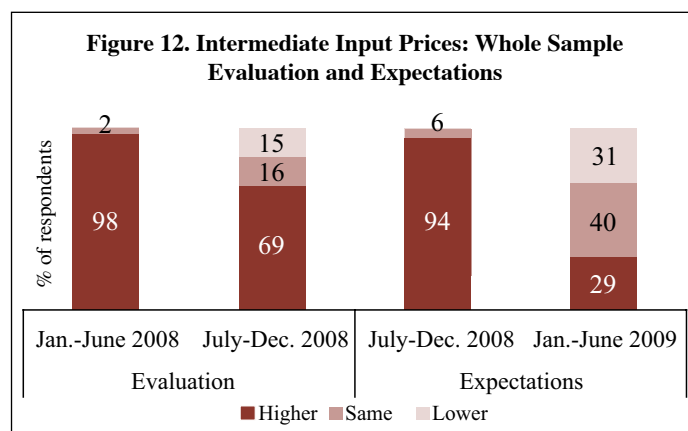
Source: Survey results.

The majority of firms reported higher (69 percent) or stable (16 percent) intermediate input prices in the last six months of 2008. Firms in the tourism, transportation, construction and manufacturing sectors reported an increase in intermediate input prices, with fewer firms in the financial services and communications reporting an increase thereof.

For the first half of 2009, 31 percent of firms expect lower input prices, while 40 percent expect them to remain stable; this is in line with the expected decline in overall

inflation. Similarly, the percentage of firms anticipating increased intermediate input prices in the first six months of 2009 declined substantially to 29 percent compared to the second half of 2008 reflecting economic slowdown and decreased demand.

At the sectoral level, relatively more firms in the manufacturing, construction and tourism sectors expect lower or stable input prices, while relatively more firms in transportation, communications and financial services expect stable input prices.

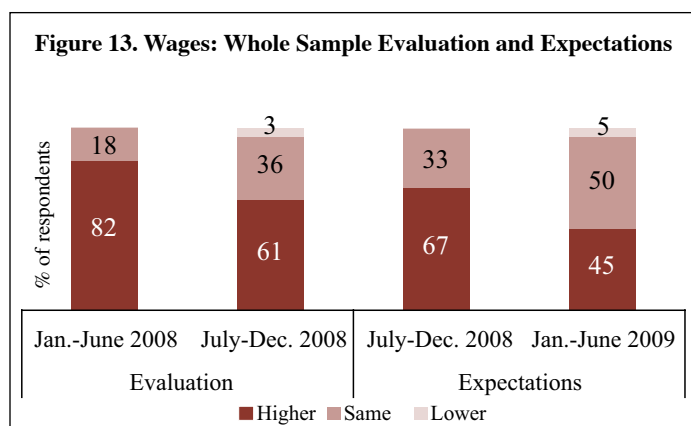


Source: Survey results.

Higher wages and less favorable expectations

The majority of firms reported higher (61 percent) or stable wages (36 percent) for the second half of 2008. Relatively more firms in the construction, manufacturing, tourism, transport and communications sectors reported higher wages over the second half of 2008, while relatively fewer firms in the financial services reported an increase in wages over the same period.

Regarding expectations, the majority of firms anticipate higher (45 percent) or stable (50 percent) wages, with some 5 percent of firms expecting lower wages. Similarly, at the sectoral level more than 90 percent of firms in the manufacturing, transportation, tourism, communications and construction sectors expect higher or stable wages, with 16 percent of firms in the financial services sector expecting lower wages.



Source: Survey results.

Investment and Employment

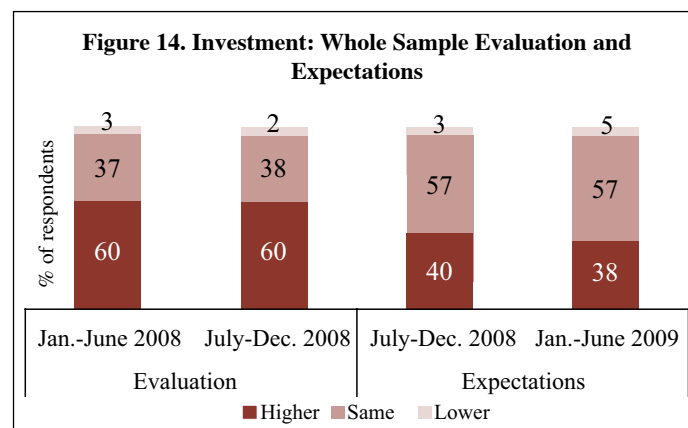
Stable investment and similar expectations

During the last sixth months of 2008, the majority of respondents reported higher (60 percent) or stable (38 percent) investment levels. The bulk of investments was directed to machinery and equipment, buildings and land. The higher investment levels reported by firms during the second half of 2008 are in line with the increases in investment reported by the Ministry of State for Economic Development, which grew by 4.8 percent during July-September 2008/09. It is noted, however, that the growth rate of investments declined from 17.8 percent during the period July-September 2007/08 to 4.8 percent during the same quarter of 2008/09.¹³

At the sectoral level, more than 50 percent of firms in communications, financial services, construction, manufacturing, and tourism reported higher investments, with 65 percent of firms in the transportation sector reporting unchanged investment levels.

For the coming six months, the majority of firms expect to maintain (57 percent) or increase (38 percent) the levels of investment. At the sectoral level, the majority of firms in financial services, transport, communications, manufacturing and construction sectors expected unchanged levels of investment. Relatively more firms in tourism expected investments to increase.¹⁴ The positive expectations could be attributed to a combination of factors including the fact that some companies are

currently implementing expansionary plans, expectations that the economic slowdown will be short-lived, and increased investments by firms, although the magnitude of such increase is marginal.



Source: Survey results.

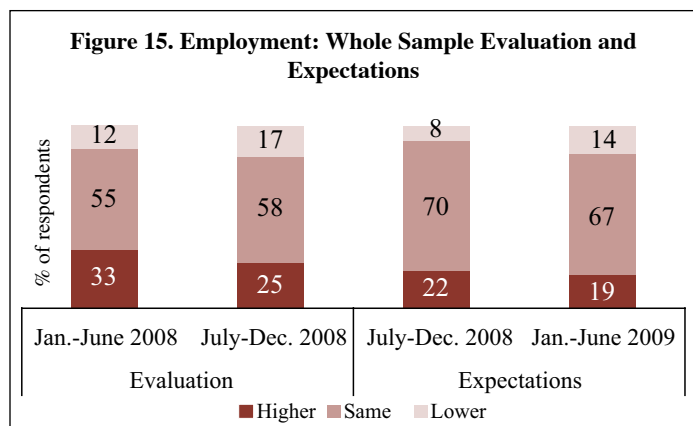
Moderate increase in employment and lower expectations

During the last six months of 2008, firms reported stable (58 percent) or higher (25 percent) employment. More than 30 percent of firms in financial services, construction, tourism and communications sectors hired more workers during the last half of 2008, while around 50 to 65 percent of firms in these sectors reported unchanged employment. Less than 20 percent of firms in the transportation and manufacturing sectors reported more employment.

For the coming six months, firms expect to maintain (67 percent) or increase (19 percent) employment. More firms (14 percent) expect to reduce employment in the first half of 2009 as compared to 8 percent in the second half of 2008. At the sectoral level, around two thirds of firms in various sectors expect to maintain their employment levels, with 20 to 25 percent of firms expecting employment to increase.

¹³Data obtained from the Ministry of Finance.

¹⁴See Table 3.

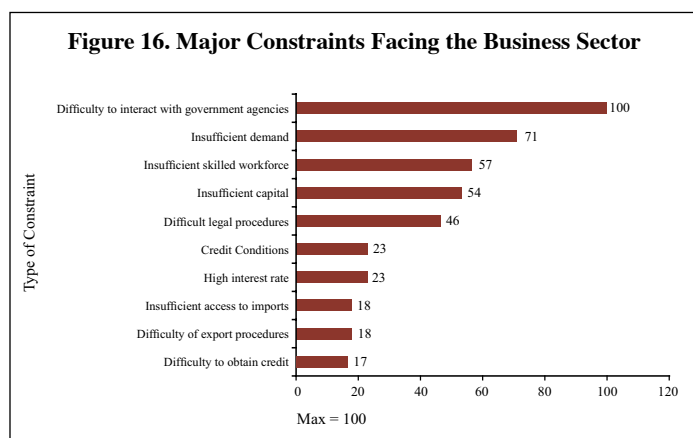


Source: Survey results.

Business Constraints

Major constraints: difficulty in dealing with government bureaucracy, insufficient skilled workers and insufficient demand

Similar to the previous survey, the majority of firms expressed concern about dealing with government bureaucracy, insufficient demand and insufficient skilled workers. Firms also expressed concern about insufficient access to capital and difficulty of legal procedures. Other constraints include credit terms, high interest rates and difficulty in obtaining credit. Figure 16 illustrates constraints reported by firms as major factors affecting their performance.



Source: Survey results.

Table 1. Survey Results: Summary of Business Sector Evaluation (January-June 2006 to July-December 2008)¹

Indicator	January - June 2006			July - December 2006			January - June 2007			July - December 2007			Jan. - June 2008			July - December 2008									
	Higher	Same	Lower	Higher	Same	Lower	Higher	Same	Lower	Higher	Same	Lower	Higher	Same	Lower	Higher	Same	Lower							
Economic growth	28	34	38	-10	36	43	21	15	51	35	14	37	48	29	23	25	29	44	27	2	16	34	50	-34	
Business activity																									
Production	45	30	25	20	44	36	20	24	52	34	14	38	62	21	17	45	56	28	16	40	39	26	35	4	
Domestic sales	39	34	27	12	44	35	21	23	53	31	16	37	60	23	18	42	56	28	16	40	38	26	36	2	
International sales	46	28	26	20	45	31	24	21	51	37	12	39	64	18	18	46	57	26	17	40	34	26	40	-6	
Inventory	25	46	29	-4	27	48	25	2	30	44	26	4	24	44	32	-8	23	58	19	4	29	51	20	9	
Level of capacity utilization ³	25	47	28	-3	37	48	15	22	41	46	13	28	51	40	9	42	42	46	12	30	33	45	22	11	
Prices																									
Final product prices	41	51	8	33	41	51	8	33	40	52	8	32	49	44	7	42	56	42	3	53	37	47	16	21	
Intermediate input prices	81	16	3	78	81	16	3	78	80	18	2	78	92	6	2	90	98	2	0	98	69	16	15	54	
Wage level	72	25	3	69	62	37	1	61	76	23	1	75	63	35	2	61	82	18	0	82	61	36	3	58	
Primary inputs																									
Investment	38	51	11	27	42	49	9	33	40	57	3	37	51	47	2	49	60	37	3	57	60	38	2	58	
Employment	26	54	20	6	26	56	18	8	27	58	15	12	34	52	14	20	33	55	12	21	25	58	17	8	

Table 2. Survey Results: Summary of Business Sector Expectations (July-December 2006 to January-June 2009)¹

Indicator	July-December 2006			January-June 2007			July-December 2007			January-June 2008			July - Dec. 2008			January-June 2009									
	Higher	Same	Lower	Higher	Same	Lower	Higher	Same	Lower	Higher	Same	Lower	Higher	Same	Lower	Higher	Same	Lower							
Economic growth	48	37	14	34	58	35	7	51	39	7	47	54	34	12	42	26	55	19	7	17	38	45	-28		
Business activity																									
Production	73	20	7	66	72	22	6	66	79	15	6	73	75	16	9	66	68	19	13	55	41	21	38	3	
Domestic sales	68	23	9	59	69	25	6	63	78	17	5	73	73	18	9	64	66	22	12	54	42	22	36	6	
International sales	74	19	7	67	71	26	3	68	79	18	3	76	75	17	8	67	71	19	10	61	39	19	42	-3	
Inventory	26	45	29	-3	26	50	24	2	8	66	26	-18	20	50	30	-10	14	60	26	-12	18	61	21	-3	
Level of capacity utilization ³	65	29	6	59	69	27	4	65	61	35	4	57	68	28	4	64	37	56	7	30	31	53	16	15	
Prices																									
Final product prices	50	46	4	46	56	39	5	51	45	51	4	41	62	34	4	58	68	30	2	66	20	55	25	-5	
Intermediate input prices	70	26	4	66	75	22	3	72	76	23	1	75	88	10	2	86	94	6	0	94	29	40	31	-2	
Wage level	68	32	1	67	70	30	1	69	65	34	1	64	68	32	0	68	67	33	0	67	45	50	5	40	
Primary inputs																									
Investment	59	41	0	59	61	39	0	61	61	39	0	61	53	45	2	51	40	57	3	37	38	57	5	33	
Employment	33	55	12	21	35	54	11	24	33	57	10	23	31	63	6	25	22	70	8	14	19	67	14	5	

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

² «Net balance» represents the percentage of respondents indicating «higher» minus the percentage of respondents indicating «lower».

³ Higher = approaching full capacity; Same = normal capacity utilization; Lower = below capacity utilization.

Table 3. Survey Results: Summary of Business Sector's Evaluation and Expectations¹

%

Indicator	Manufacturing Sector						Construction Sector						Tourism Sector												
	Evaluation		Expectations		Expectations		Evaluation		Expectations		Expectations		Evaluation		Expectations										
	Higher	Lower	Higher	Lower	Higher	Lower	Higher	Lower	Higher	Lower	Higher	Lower	Higher	Lower	Higher	Lower									
	July - Dec. 2008		Jan. - June 2009		July - Dec. 2008		Jan. - June 2009		July - Dec. 2008		Jan. - June 2009		July - Dec. 2008		Jan. - June 2009										
	Net Balance ²	Net Balance ²	Net Balance ²	Net Balance ²	Net Balance ²	Net Balance ²	Net Balance ²	Net Balance ²	Net Balance ²	Net Balance ²	Net Balance ²	Net Balance ²	Net Balance ²	Net Balance ²	Net Balance ²	Net Balance ²									
Economic growth	14	33	53	-39	20	39	41	-21	27	32	41	-14	23	36	41	-18	26	44	30	-4	16	37	47	-31	
Business activity																									
Production	36	30	34	2	47	23	30	17	55	22	23	32	64	14	22	42	56	16	28	28	21	12	67	-46	
Domestic sales	36	28	36	0	47	24	29	18	55	22	23	32	64	14	22	42	47	22	31	16	22	14	64	-42	
International sales	31	28	41	-10	43	21	36	7	43	0	57	-14	71	29	0	71	50	28	22	28	12	12	76	-64	
Inventory	31	48	21	10	19	59	22	-3	24	11	65	-41	18	59	23	-5	0	100	0	0	0	100	0	0	
Level of capacity utilization ³	30	44	26	4	33	52	15	18	36	41	23	13	44	41	15	29	45	55	0	45	26	55	19	7	
Prices																									
Final product prices	38	43	19	19	17	54	29	-12	48	41	11	37	29	46	25	4	53	35	12	41	16	42	42	-26	
Intermediate input prices	66	15	19	47	28	36	36	-8	75	9	16	59	29	34	37	-8	82	15	3	79	23	44	33	-10	
Wage level	66	33	1	65	49	50	1	48	68	30	2	66	41	50	9	32	65	32	3	62	37	56	7	30	
Primary inputs																									
Investment	64	35	1	63	41	55	4	37	63	37	0	63	41	54	5	36	53	41	6	47	50	39	11	39	
Employment	19	60	21	-2	20	65	15	5	34	48	18	16	21	66	13	8	33	65	2	31	23	61	16	7	
	Transportation						Communications						Financial Intermediaries												
	Evaluation		Expectations		Expectations		Evaluation		Expectations		Expectations		Evaluation		Expectations										
	Higher	Lower	Higher	Lower	Higher	Lower	Higher	Lower	Higher	Lower	Higher	Lower	Higher	Lower	Higher	Lower									
	July - Dec. 2008		Jan. - June 2009		July - Dec. 2008		Jan. - June 2009		July - Dec. 2008		Jan. - June 2009		July - Dec. 2008		Jan. - June 2009										
	Net Balance ²	Net Balance ²	Net Balance ²	Net Balance ²	Net Balance ²	Net Balance ²	Net Balance ²	Net Balance ²	Net Balance ²	Net Balance ²	Net Balance ²	Net Balance ²	Net Balance ²	Net Balance ²	Net Balance ²	Net Balance ²									
Economic growth	16	43	41	-25	12	40	48	-36	0	52	48	-48	10	38	52	-42	12	19	69	-57	9	37	54	-45	
Business activity																									
Production	37	22	41	-4	29	23	48	-19	28	48	24	4	52	21	27	25	31	15	54	-23	21	25	54	-33	
Domestic sales	36	22	42	-6	31	26	43	-12	25	50	25	0	50	22	28	22	31	15	54	-23	21	25	54	-33	
International sales	31	17	52	-21	18	19	63	-45	33	45	22	11	78	0	22	56	63	12	25	38	12	25	63	-51	
Inventory	25	25	50	-25	0	100	0	0	0	100	0	0	0	100	0	0	0	100	0	0	0	100	0	0	
Level of capacity utilization ³	27	54	19	8	10	76	14	-4	35	65	0	35	29	71	0	29	43	37	20	23	23	50	27	-4	
Prices																									
Final product prices	38	48	14	24	16	66	18	-2	10	73	17	-7	24	59	17	7	23	61	16	7	25	62	13	12	
Intermediate input prices	77	15	8	69	36	51	13	23	36	57	7	29	36	57	7	29	54	46	0	54	38	62	0	38	
Wage level	55	41	4	51	46	52	2	44	52	44	4	48	45	48	7	38	41	51	8	33	35	49	16	19	
Primary inputs																									
Investment	29	65	6	23	22	72	6	16	71	29	0	71	33	67	0	33	67	33	0	67	21	79	0	21	
Employment	18	68	14	4	5	82	13	-8	31	55	14	17	24	66	10	14	34	51	15	19	19	66	15	4	

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

² Net balance: represents the percentage of respondents indicating «higher» minus the percentage of respondents indicating «lower».

³ Higher = approaching full capacity; Same = normal capacity utilization; Lower = below capacity utilization.

Methodology

Starting 1998, ECES initiated and conducted the business barometer survey biannually in June and December of each year. The survey targets the most important sectors affecting economic activity. It provides useful information on business sector views about past performance and future expectations for their own production, prices, employment and investment. Starting the July 2007 issue and to date, the survey comprises a sample of large firms in terms of output in the manufacturing, construction and tourism sectors in addition to transportation, communications and financial sectors.

Sample Structure

The current sample comprises both manufacturing and services sectors. Of the total number of firms surveyed (474 firms), 47 percent of firms (225) are in manufacturing and 53 percent (249) in services. Public-private distribution of the whole sample is as follows: 79 percent of firms are from the private sector and 21 percent from the public sector.

The manufacturing sector's sample is constructed in a way that reflects the contribution of each industry to manufacturing value added and the importance of public versus private production within each industry based on CAPMAS Annual Industrial Statistics 2004 (for the private sector) and 2003/04 (for the public sector). Manufacturing sub-sectors are: food; beverages and tobacco; spinning and weaving; ready-made clothes; wood and furniture; paper and its products; printing; shoes; leather and leather products; rubber products; chemicals and chemical-related products; non-metal mining products; basic metal products; and transportation equipment.

The services sample includes firms in transportation (56 firms), communications (29 firms), financial intermediaries (65 firms), tourism (43 firms) and construction (56 firms).

The survey elicits responses of firms on current levels of activity in terms of production, sales in domestic and international markets, inventories, the level of capacity utilization, the prices of final products and intermediate inputs as well as wages, employment and investment. The

survey also probes the changing nature of constraints on business as well as assessment of overall economic growth (see questionnaire).

The Business Barometer Indices (BBIs)

In July 2008, a new business barometer Index (BBI) was constructed to summarize firms' responses about their evaluation and expectations regarding the overall economic performance and their own activities in one single index. In this issue, the index methodology has been revised and re-estimated. To allow for detailed comparisons over time, it was thought to be more useful to create two separate indices, the BB evaluation index and the BB expectations index.

The computation of BBI Indices relied on principal component analysis (PCA), a multivariate analysis technique. The PCA¹ was used to explain changes among observed variables in terms of fewer unobserved variables usually called principal components, eigenvectors, factors or loadings. PCA attempts to identify the underlying principal components that explain the pattern of correlations within a set of observed variables. It is often used to identify a small number of factors that explain most of the variance that is observed in a much larger number of observed variables. The principal components (PC) are modeled as linear weighted combinations of those observed variables. For a set of observed variables X_i , where $i=1, \dots, n$, PC_j can be written as:

$$PC_j = a_{j1}X_1 + a_{j2}X_2 + \dots + a_{jn}X_n$$

where:

a_{ji} represents the weights for the i th variable (X_i) in the j th PC ($j=1, \dots, m$; $m < n$).² The PCs are ordered in such a way that the first PC explains the largest possible amount of variation in the original data, under the constraint that the sum of the squared weights is equal to 1. The following components are not correlated with the first principal component and explain additional but less variation than the first principal component. The values of the first principal component are normalized to take the values between 0 and 100, and the mean value represents the value of BBI.

ECES would like to express its deep appreciation to all companies that participated in the completion of the questionnaire in due time, and would welcome any comments or suggestions for further improvement.

¹ Vyas, S., and L. Kumaranayake. 2006. "Constructing Socio-Economic Status Indices: How to Use Principal Components Analysis." Health Policy Plan 21(6):459-68.

² STATA statistical package was used to run and compute the eigenvalues, eigenvectors of the covariance matrix and principal components.



Business Barometer

(Biannual Survey: January 2009)

Respondent Name: Position:

Enterprise Name:

Nature of Activity: Specialization:

Telephone Number:

Sector: Public Private

Year of Foundation: Number of Employees:

Address: Email Address:

Date of Interview: Surveyed Period: (July 2008 – December 2008)

1- During the past six months relative to the preceding six months:

%

- | | | | | |
|---|--|--|--------------------------------|-----|
| - Was your production/volume of activity: | <input type="checkbox"/> Higher | <input type="checkbox"/> Normal | <input type="checkbox"/> Lower | ___ |
| - Was your sales volume/size of activity in the domestic market: | <input type="checkbox"/> Higher | <input type="checkbox"/> Normal | <input type="checkbox"/> Lower | ___ |
| - Was your sales volume/size of activity in the international market: | | | | |
| - <i>European Union</i> | <input type="checkbox"/> Higher | <input type="checkbox"/> Normal | <input type="checkbox"/> Lower | ___ |
| - <i>United States of America</i> | <input type="checkbox"/> Higher | <input type="checkbox"/> Normal | <input type="checkbox"/> Lower | ___ |
| - <i>Arab Countries</i> | <input type="checkbox"/> Higher | <input type="checkbox"/> Normal | <input type="checkbox"/> Lower | ___ |
| - <i>Asia (excluding Arab countries)</i> | <input type="checkbox"/> Higher | <input type="checkbox"/> Normal | <input type="checkbox"/> Lower | ___ |
| - <i>Africa (excluding Arab countries)</i> | <input type="checkbox"/> Higher | <input type="checkbox"/> Normal | <input type="checkbox"/> Lower | ___ |
| - Did prices of your products/ projects: | <input type="checkbox"/> Rise | <input type="checkbox"/> Stay the same | <input type="checkbox"/> Fall | ___ |
| - Did prices of your inputs: | | | | |
| - <i>Raw materials</i> | <input type="checkbox"/> Rise | <input type="checkbox"/> Stay the same | <input type="checkbox"/> Fall | ___ |
| - <i>Energy</i> | <input type="checkbox"/> Rise | <input type="checkbox"/> Stay the same | <input type="checkbox"/> Fall | ___ |
| - <i>Maintenance</i> | <input type="checkbox"/> Rise | <input type="checkbox"/> Stay the same | <input type="checkbox"/> Fall | ___ |
| - Did your wage level: | <input type="checkbox"/> Rise | <input type="checkbox"/> Stay the same | <input type="checkbox"/> Fall | ___ |
| - Did your inventories: | <input type="checkbox"/> Rise | <input type="checkbox"/> Stay the same | <input type="checkbox"/> Fall | ___ |
| - Was your capacity utilization: | <input type="checkbox"/> Approaching full capacity | <input type="checkbox"/> Normal | <input type="checkbox"/> Below | ___ |
| - Did your employment, from: | | | | |
| - <i>White-collar:</i> | | | | |
| - <i>Permanent</i> | <input type="checkbox"/> Rise | <input type="checkbox"/> Stay the same | <input type="checkbox"/> Fall | ___ |
| - <i>Temporary</i> | <input type="checkbox"/> Rise | <input type="checkbox"/> Stay the same | <input type="checkbox"/> Fall | ___ |
| - <i>Blue-collar:</i> | | | | |
| - <i>Permanent</i> | <input type="checkbox"/> Rise | <input type="checkbox"/> Stay the same | <input type="checkbox"/> Fall | ___ |
| - <i>Temporary</i> | <input type="checkbox"/> Rise | <input type="checkbox"/> Stay the same | <input type="checkbox"/> Fall | ___ |

- Did your investment in:
- *Land* Rise Stay the same Fall ___
 - *Buildings* Rise Stay the same Fall ___
 - *Machinery & Equipment* Rise Stay the same Fall ___
 - Did your expenditure on R&D Rise Stay the same Fall ___
 - Did the value of subsidies that your firm benefit from (if applicable) Rise Stay the same Fall ___

2- What were your sales/size of activity in Egyptian pounds during: The year before the survey period:-----
The survey period: -----

3- In the past six months, did the economy grow: Faster At the same rate Slower

4- What are your company's main sources of finance from the following list, ranking your choices on a scale from 1 to 4 (1 for the lowest and 4 for the highest source):

	Source	Rank
1-	Own funds/business partner	
2-	Bank credit	
3-	Issuing bonds	
4-	Stock market (selling stocks)	

5- Is your production currently constrained: Yes No

If yes, please rank on a scale from 0 to 4 the following constraints to your production process, where 0 indicates not a constraint and 4 refers to severe constraints.

	0	1	2	3	4
- Insufficient demand					
- Insufficient capital					
- Insufficient access to imports					
- Insufficient skilled workforce					
- Complicated export procedures					
- Difficulty to obtain credit					
- High interest rate on loans					
- Difficulties related to terms of obtaining a bank credit					
- Difficulty to obtain land (for new projects or expansions)					
- Complicated legal procedures					
- Difficulty in interacting with government agencies					
- Other factors (please specify):-----					

6- In the next six months, do you expect:

%

- Your production/volume of activity to: Rise Stay the same Fall ___
- Your sales volume/size of activity in the domestic market to: Rise Stay the same Fall ___
- Your sales volume/size of activity in the international market to:
 - *European Union* Rise Stay the same Fall ___
 - *United States of America* Rise Stay the same Fall ___
 - *Arab countries* Rise Stay the same Fall ___
 - *Asia (excluding Arab countries)* Rise Stay the same Fall ___
 - *Africa (excluding Arab countries)* Rise Stay the same Fall ___
- Prices of your products/projects to: Rise Stay the same Fall ___
- Prices of your inputs to:
 - *Raw Materials* Rise Stay the same Fall ___
 - *Energy* Rise Stay the same Fall ___
 - *Maintenance* Rise Stay the same Fall ___
- Wage level to: Rise Stay the same Fall ___
- Inventories to: Rise Stay the same Fall ___
- Capacity Utilization to: Rise Stay the same Fall ___

7- In the next six months, what are you planning to do about the following items:

- Workforce: Increase Maintain Decrease
 - *White-Collars:*
 - *Permanent* Increase Maintain Decrease
 - *Temporary* Increase Maintain Decrease
 - *Blue-Collars:*
 - *Permanent* Increase Maintain Decrease
 - *Temporary* Increase Maintain Decrease
- Investment: Increase Maintain Decrease
 - *Land* Increase Maintain Decrease
 - *Buildings* Increase Maintain Decrease
 - *Machinery & Equipment* Increase Maintain Decrease

8- In the next six months, do you expect the economy to grow

- Faster At the same rate Slower