

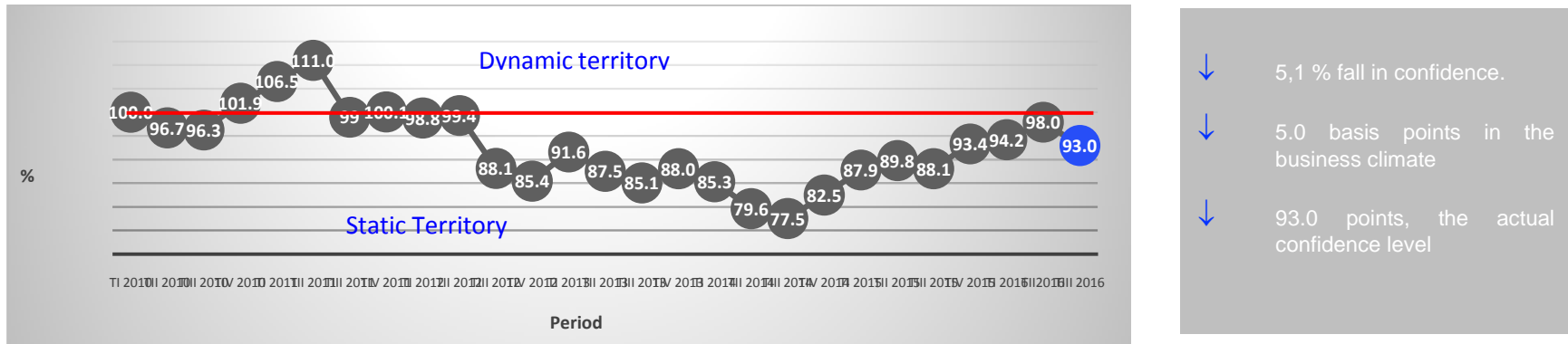


MCCI BUSINESS CONFIDENCE INDICATOR

26th Edition
3rd Quarter 2016

I. THE BUSINESS CONFIDENCE INDICATOR IN Q3 2016

Figure 1 : Business Confidence Indicator of all enterprises



- ↓ 5,1 % fall in confidence.
- ↓ 5.0 basis points in the business climate
- ↓ 93.0 points, the actual confidence level

Fall in confidence

Based on the quarterly tendency survey, conducted between the 3rd and the 21st of October this year, we notice that the confidence of entrepreneurs has worsened in the third quarter of the year.

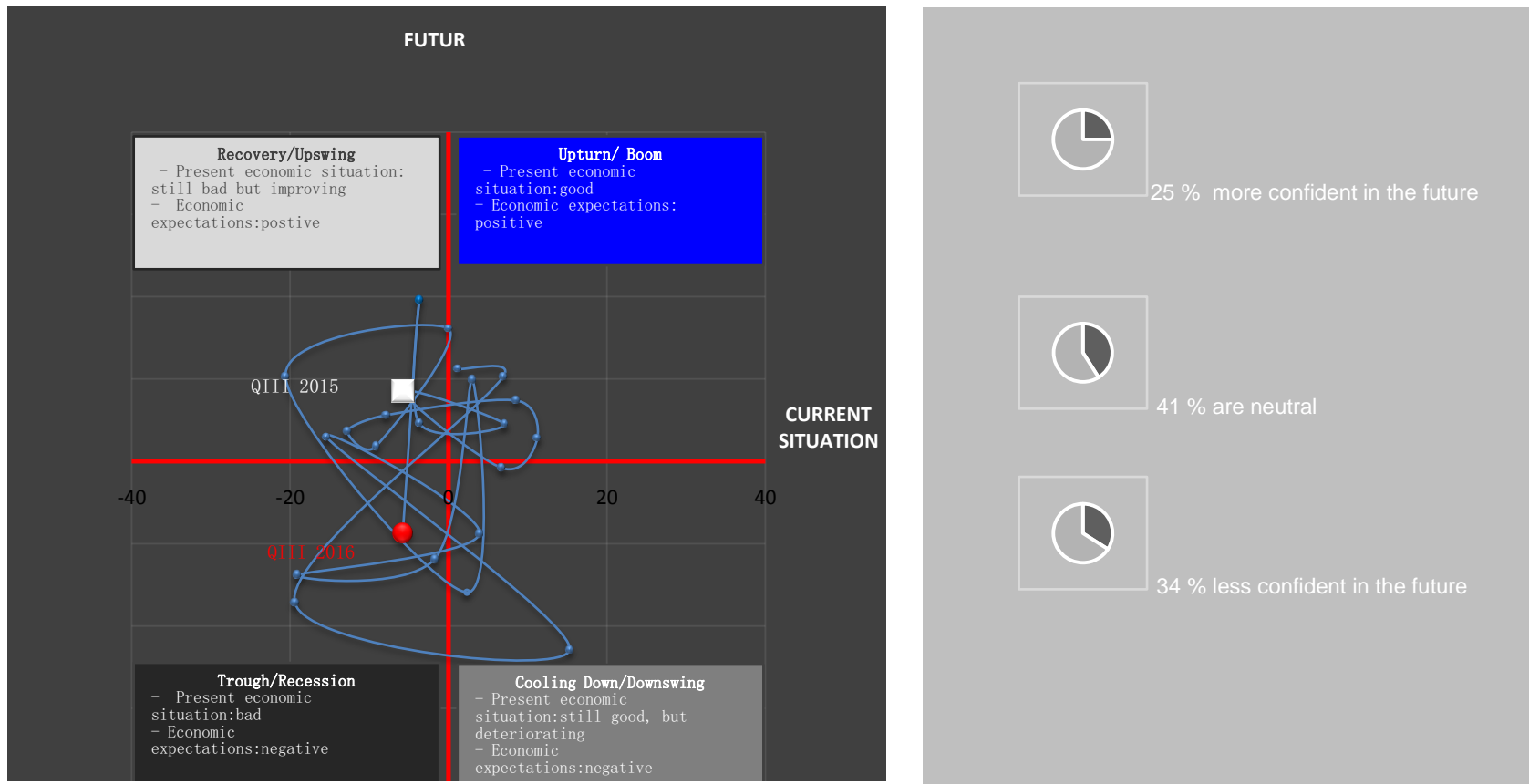
The synthetic index has fallen by 5 points (5.1 percent) between July and September of this year, and establishes itself at 93 points. This fall comes after three favourable quarters.

As a reminder, the business confidence indicator increased by 6 percent in the fourth quarter of 2015, 2.2 percent in the first quarter of 2016 and 4 percent in the second quarter of 2016.

Moreover, confidence remains in static territory ,at less than the long-term average of 100 basis points. **This implies a static evolution of the Mauritian economy in the third quarter 2016.**

II. THE ECONOMIC BAROMETER IN Q3 2016

Figure 2 : MCCI Economic Barometer



The economic barometer, based on the CESifo methodology, allows us to see the evolution of two components of the business confidence indicator, that is, the arithmetic mean of the assessments of entrepreneurs of the current situation and future economic expectations over the next three months. The correlation of the two components can be illustrated in a four-quadrant diagram, defining the four phases of the business cycle: Recovery, Boom, Recession and Downswing.

Thus, based on forecasts of entrepreneurs in the medium term we can analyze the present and have a useful overview of the evolution of the Mauritian economy.

According to the last tendency survey, the business confidence indicator has worsened in the third quarter. This decline is explained, on the one hand, by negative view of the business climate, and on the other hand, anticipation of negative future outlook.

Thus, evaluation of entrepreneurs on the business climate, based on the turnover, over the third quarter is negative at 5.8

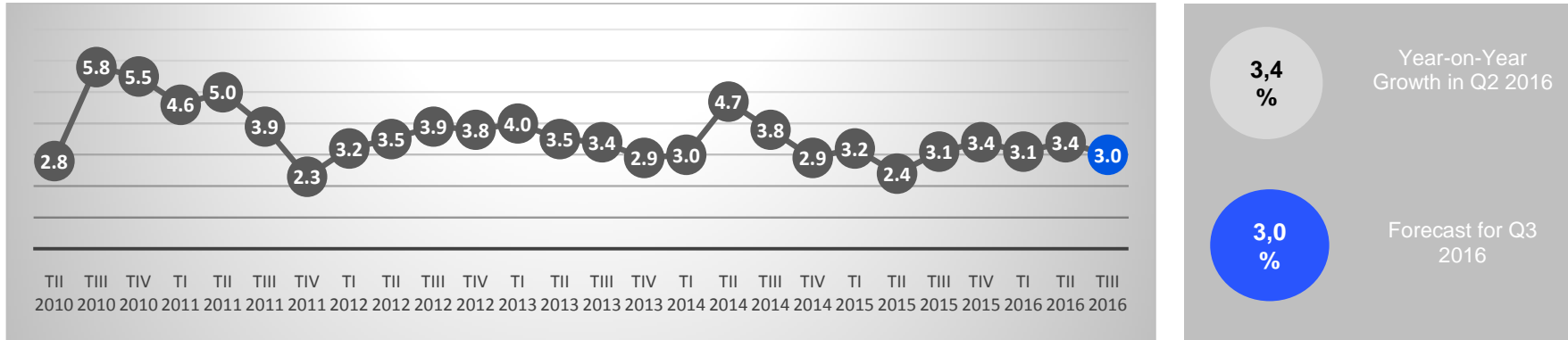
percent. Around 37 percent of entrepreneurs surveyed note a fall in their turnover over the last quarter and 31 percent an improvement. The remaining 32 percent of the panel observed a stabilization of their turnover in Q3 2016.

On the assessment of future prospects, the balance of expectations of entrepreneurs is negative at - 8.7 percent. The number of companies concerned about the future is greater than the number of companies confident about the future. About 34 percent of entrepreneurs predict a decline in turnover in the coming months and 25 percent expect an increase. The remaining 41 percent of the companies surveyed indicate a status quo.

The correlation between the two shows that the confidence index is in an unfavourable zone, in the quadrant " Recession" of the barometer. As a reminder, in QIII 2015, the index was in positive zone in the quadrant " Recovery/Upswing" of the barometer.

III. ECONOMIC GROWTH IN Q3 2016 COMPARED TO Q3 2015

Figure 3 : Year-on-year Growth outlook in Q2 2016



Year-on-Year Growth of 3.0 percent in Q3 2016

According to our estimates, based on the composite index of the business climate, we experienced a Year-on-Year GDP Growth of 3.4 percent for the second quarter 2016, higher than the rate of 3.1 percent in Q1 2016.

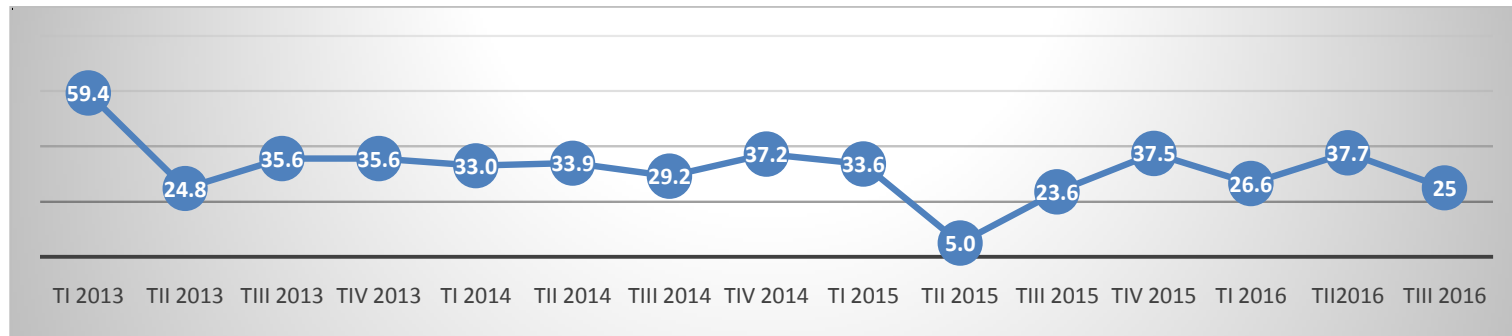
This pace is expected to slow in the third quarter of 2016, with an increase in GDP of 3.0% compared to the same quarter of 2015.

The rate was 3.1% in the third quarter 2015.

Carry-over growth for 2016, which corresponds to the rate of growth that would be obtained if the value of GDP for the last quarter of 2016 remained at the same level as the third quarter of 2016, currently stands at 3.1%, ceteris paribus.

IV. DETERMINANT FACTORS

Figure 4 : Opportunities to expand in new markets



Opportunities to expand in new markets , main positive factor

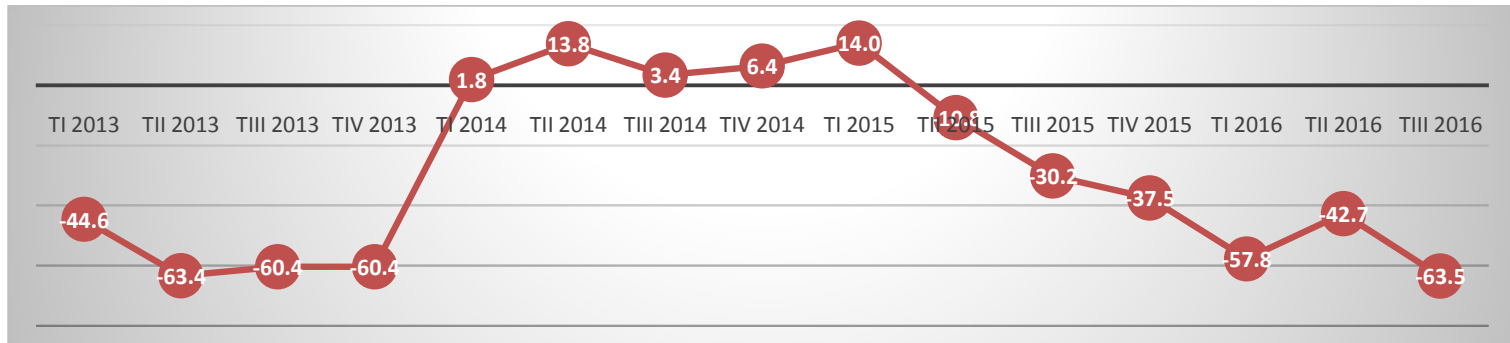
In the third quarter of 2016, about 30 percent of entrepreneurs said that opportunities for expansion and diversification into new markets were the main driver of growth for their businesses.

The overall weak economic environment can create opportunities, as it forces entrepreneurs to leave the traditional framework, and therefore take a novel approach to their businesses, sectors of activity and markets.

Local entrepreneurs have adapted to the new environment and made remarkable efforts to seek new markets and new

segments to boost their growth. They re-evaluate and rethink their strategies in order to be more resilient and efficient. This new approach has enabled some to increase their turnover.

Figure 5 : The Global Environment



Worsening of the global environment is the main challenge for 2016 and 2017

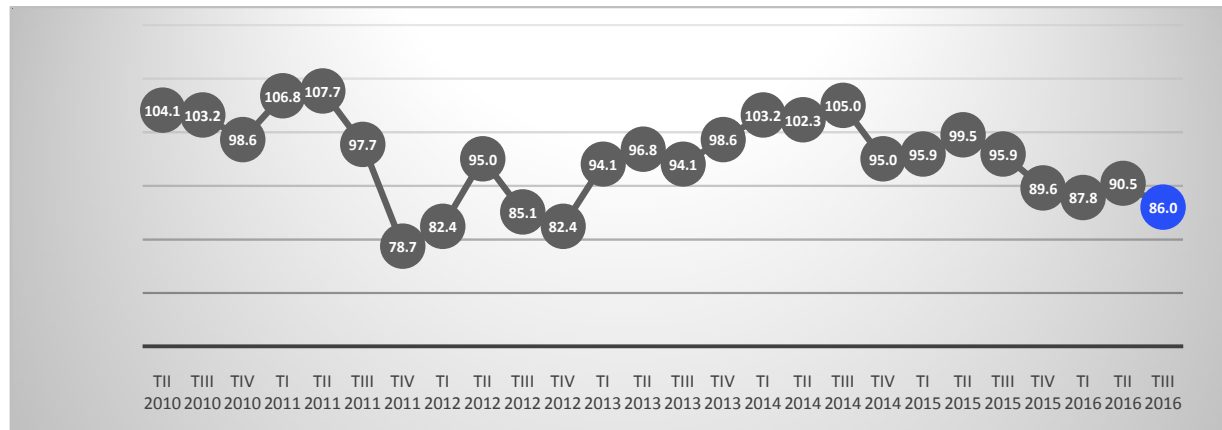
Around 67 percent of entrepreneurs in our sample indicate that further deterioration of the global environment was the main factor that had a negative impact on business performance in the last quarter and this is expected to continue until 2017.

The global economy remains exposed to risks linked with current adjustments, namely, a general slowdown in emerging countries, China's great rebalancing, uncertainties related to Brexit and also the Bad Debts piled in Italian banks (approximately 350 Billion Euros, or more than 20% of its GDP).

Nonetheless, while economic and geopolitical risks are growing, and hence the market volatility, the risk of a collapse in the global economy similar to the 2008 crash, are still very low.

V. WORLD ECONOMIC CLIMATE

Figure 6 : Evolution of the World Economic Climate



- ↓ 5 % fall in confidence.
- ↓ Increase of 4.5 points in the economic climate
- ↓ 86 points, current level of confidence

Source : CESifo World Economic Survey

Worsening global environment in the third quarter of 2016

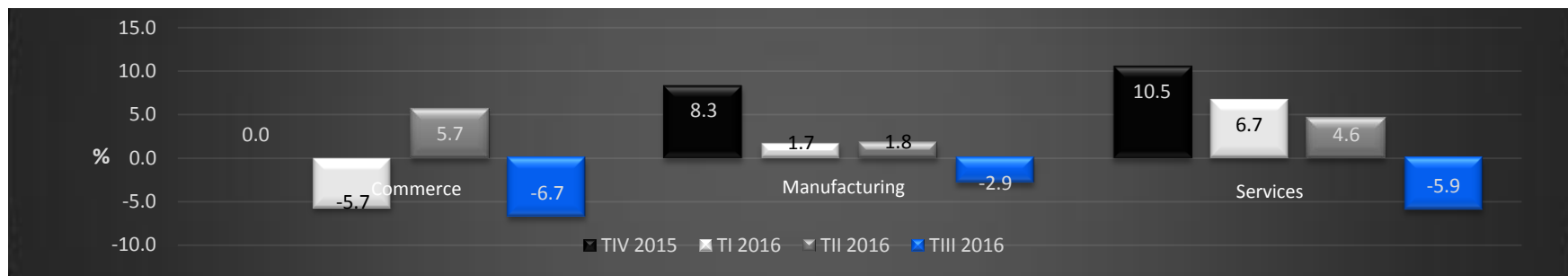
After a quarter of respite, the global economic climate worsened again in the third quarter 2016.

The Ifo Index for the global economy fell by 4.5 points to 86.0 points in the third quarter, its lowest level in three years - at more than ten points below its long-term average.

These results contrast with the improvement in the second quarter. Economic experts of IFO give an unfavourable assessment of the current economic situation, and further anticipate an even worse deterioration of the global economy in the short and medium term. They forecast moderate growth in the global economy in 2016, due to insufficient demand.

VI. SECTORAL ANALYSIS OF THE CONFIDENCE LEVEL IN Q3 2016

Figure 7 : Evolution of sectoral confidence of entrepreneurs



In Q3 2016, fall in the sectoral confidence indicators

On a sectoral level, we notice a general decline in confidence indicators. The Commerce sector recorded the largest decline in the sectoral indicator at -6.7 percent. This decrease is largely based on a negative anticipation of entrepreneurs regarding future business developments. The balance of assessments on the future is negative at - 11.4 points. The operators of this sector anticipate a continuing decline in their turnover in the next quarter compared to the same period last year.

For the services sector, it is the first decline in the confidence indicator in a year. In the third quarter, the index fell by 5.9%. Despite a slight increase in their turnover in the third quarter, operators anticipate a sharp decline in sales in the last quarter of 2016, compared to the last quarter of 2015.

For the manufacturing sector, we notice a slight fall of - 2.9 percent in the confidence indicator. All variables used in the estimation of the indicator for this sector are negative. Industrials argue that there has been a decline in sales in this quarter and anticipate a ripple effect in the last quarter of 2016.

ANNEX – METHODOLOGY

The « MCCI Business Confidence Indicator » is a composite indicator of business climate in Mauritius summarizing, in a single variable, the simultaneous changes of several variables and thus allows the transcription of the state of mind and morale of business leaders. The higher it is the more confident are the businesspersons about the economic outlook, and vice-versa.

The objective is to collect information on the current economic situation and its evolution in order to have a holistic view of the business world.

The methodology used to construct this index of the business climate is one recommended by the OECD¹, namely:

- Preparation of a questionnaire with qualitative and trimodal questions,
- Using harmonized processing techniques,
- Construct a sample representing 20 percent of the members of our organization,

- Conduct a business survey on the sample in a maximum period of three weeks,
- Assign weights to responses according to the size of the enterprises

To follow the evolution of the indicator, this study should be performed repetitively on the same sample. In our case, we have opted for a quarterly survey.

¹ OECD : *Business Tendency Surveys – A Handbook*, 2003

Publication of Economic and Industry Division

**6, Adolphe de Plevitz Street
Port-Louis
Tel: +230 203 48 30/ Fax: + 230 208 00 76
www.mcci.org**

