



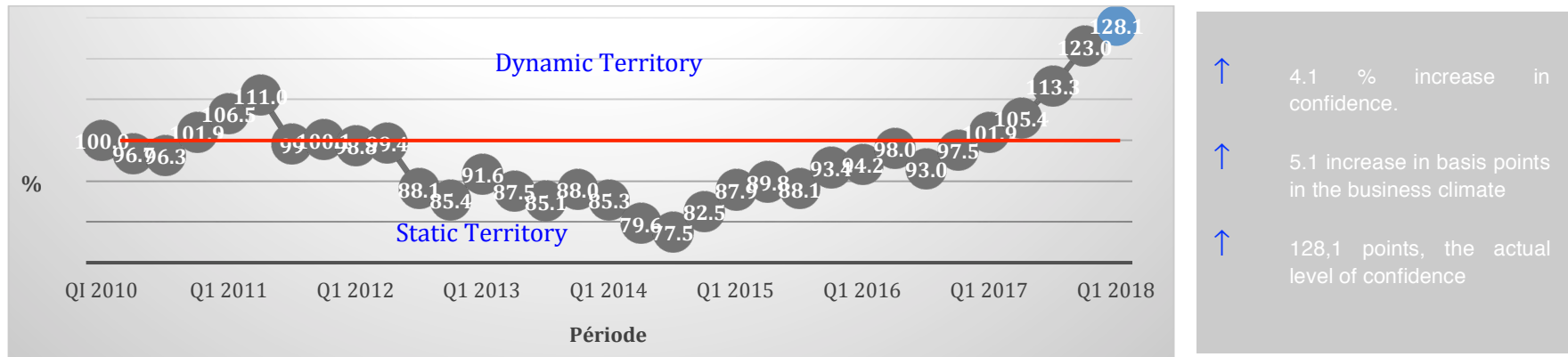
# **MCCI BUSINESS CONFIDENCE INDICATOR**

*Highlight: Sustained Increase in Business Confidence*

**32<sup>nd</sup> Edition**  
**1<sup>st</sup> Quarter 2018**

## I. BUSINESS CONFIDENCE INDICATOR IN Q1 2018

Figure 1: Business Confidence Indicator of all enterprises



Sustained increase in business confidence

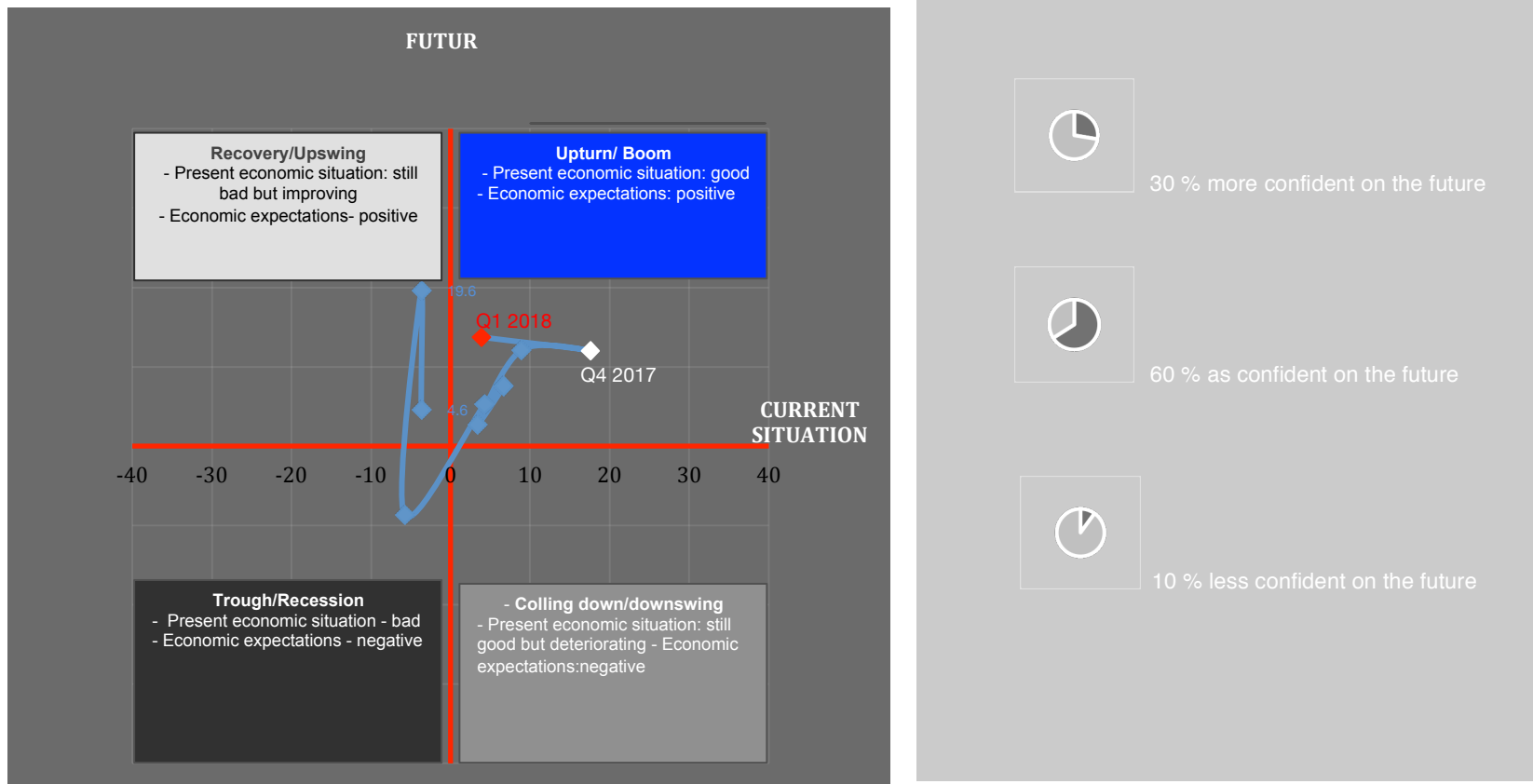
**Based on the quarterly business survey conducted between the 2<sup>nd</sup> and the 20<sup>th</sup> of April this year, we observe a sustained improvement in the level of entrepreneurs' confidence for the first quarter of 2018.**

The synthetic index increased by 5.1 points (4.1 percent) between January and March 2018 and now stands at 128.1 points. We notice a continued and sustained increase in the index, albeit at a lower level of growth for the first quarter of 2018. This is partly explained by the closure of the port for nearly one month due to weather disruptions,

affecting the production, international trading and services sectors. Nonetheless, we continue to notice **successive increases in the business confidence indicator since the last quarter of 2016, indicating a positive optimism of entrepreneurs, who consider that globally the economic situation has been improving and are undertaking a number of business transformations to access new markets and invest in new products. This is indeed the first time, since the launch of the indicator in 2011 that there has been successive increases in the confidence indicator for more than four quarters.**

## II. THE ECONOMIC BAROMETER IN Q1 2018

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 analyse the present and have a useful overview of the evolution of the Mauritian economy.

According to the latest tendency survey, the business confidence indicator has continued to improve during the 1<sup>st</sup> quarter of 2018.

This increase is, on one hand, due to the improvement in the evaluation of entrepreneurs on the economic situation between the months of January and March 2018, and on the other hand, positive expectations on the economic outlook. About the first component mentioned above, entrepreneurs' assessments of business tendency

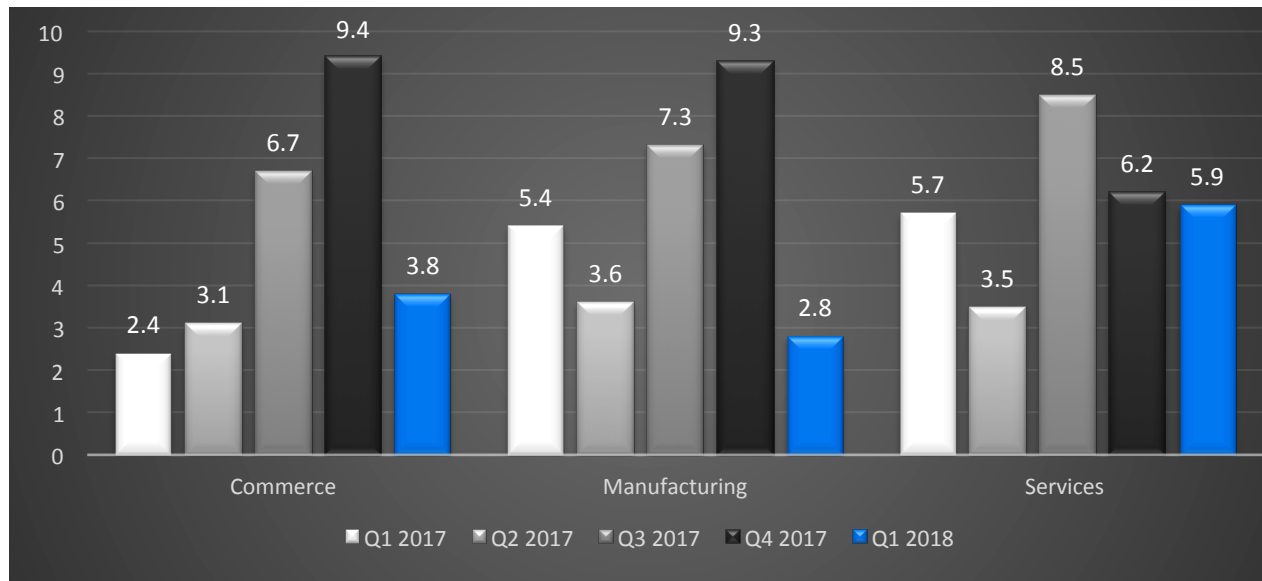
based on sales figures in the first quarter of 2018, the balance of opinion is positive at 3.9 percent. **27 percent have observed an improvement in turnover figures over the first quarter of 2018, 52 percent a stagnation in turnover figures and 21 percent have noticed a decrease in their sales figures.** It is worth noting that the balance of opinion for the 1<sup>st</sup> quarter of 2018 was estimated at 12 percent by entrepreneurs during the last Quarter. **Adverse weather conditions and downside risks have indeed affected the performance of a number of companies surveyed in the 1<sup>st</sup> quarter of 2018.**

On the second component, estimates of future prospects, the balance of expectations of entrepreneurs is positive at 13.7 percent. **30 percent predict business improvement over the next three months, 60 percent a stabilization of sales and 10 percent a deterioration.**

*The correlation between the two elements show that the confidence index remains in the first quarter of 2018 in the quadrant “Upturn/Boom” of the barometer, and shows that despite a lower than expected growth in the first quarter of 2018, the tendency on the future prospects remains very positive, and has accentuated.*

### III. SECTORAL ANALYSIS OF THE CONFIDENCE LEVEL IN Q1 2018

Figure 3 : Evolution of sectoral confidence of entrepreneurs



In Q1 2018, general increase in the sectoral confidence indices

On a sectoral level, we notice another general increase in confidence indicators in the first quarter of 2018. Similar to the global index, we notice a steady increase in the sectoral indices since the end of 2016.

The Services sector recorded the largest increase in the sectoral indicator, at 5.9 percent. This shows an increasing shift to services and higher levels of diversification in enterprises.

The commerce sector recorded an increase in the sectoral indicator, at 3.8 percent. Indeed, since the last quarter of 2016, we have noticed **an upward tendency in household expenditure levels as a result of recent increases in purchasing power of households with cash transfers such as the Negative Income Tax Regime as well as the introduction of the Minimum Wage.** During the first quarter of this year, operators uphold that sales have increased as compared to Q1

2017 and their expectations for the future are very positive, at 12.5 percent. Nonetheless, the Mauritian economy still remains below its potential growth - indicating outstanding bottlenecks preventing a dynamic boost in local demand.

For the industry sectors, the confidence index increased by 2.8 percent, driven by largely positive expectations for the future, at 12.5 percent, similar to the commerce sector. This indicates a medium and long-term strategy being implemented by enterprises, on the back of a growing confidence in their sectors of activity. **A number of industrials have indicated an inclination towards product diversification and continue to search for new markets.**

Since the start of 2017, we have further noticed that entrepreneurs in all sectors of activity are adopting a more efficient inventory management, whilst **a number of medium and large size companies are seizing the opportunity of a more favourable economic environment, with rising demand, and lower interest rates to embark on restructuring and expansion projects.**

#### IV. BUSINESS CONFIDENCE BASED ON SIZE OF COMPANIES



Figure 4 : Evolution of the confidence of entrepreneurs based on size of the workforce

In Q1 2018, favourable environment irrespective of the size of the workforce

An analysis based on the size of the workforce shows that the evolutions of the indices summarizing the level of confidence of the entrepreneurs are homogeneous. **Similar to the last three quarters of 2017, the synthetic business climate indicators improved for all business categories.**

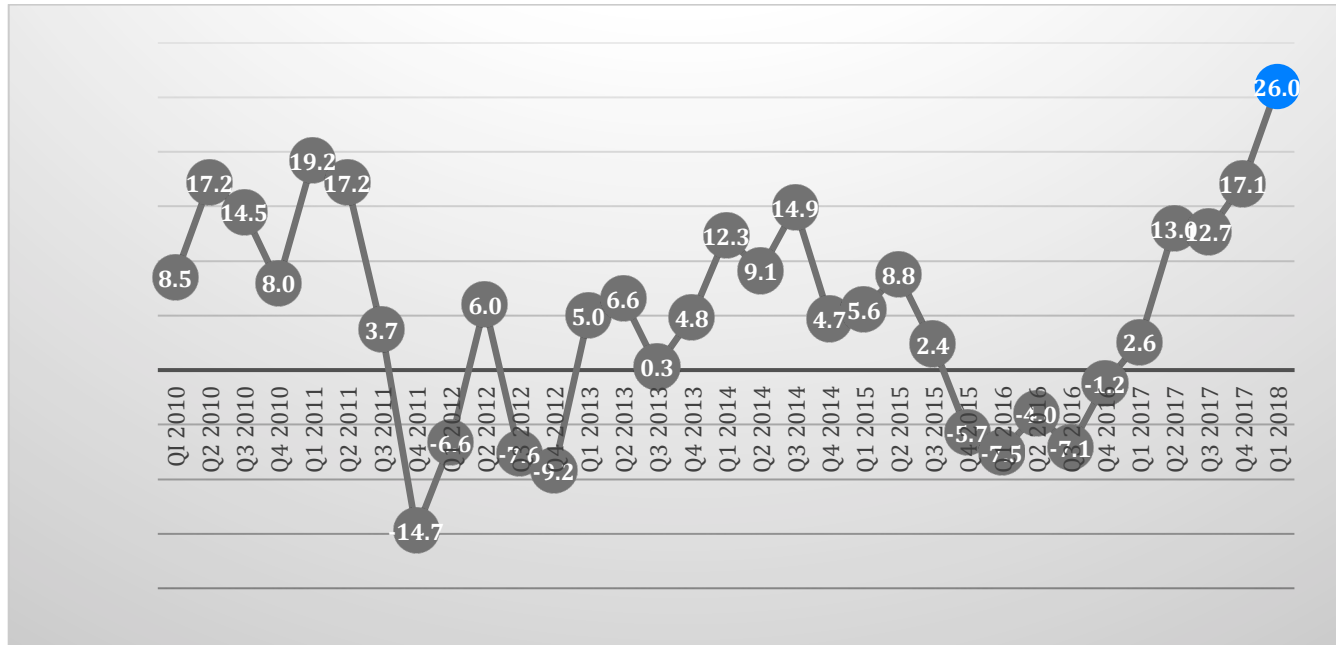
For the first category, companies with less than 20 employees, we notice an increase of 2.5 percent. Entrepreneurs assessed the current economic situation slightly less positively than in the fourth quarter of 2017, but much more positively than the first quarter of 2017.

For the other two categories, we notice across the board improvements. An increase of 4.6 percent for companies with 20 to 249 employees and 6.1 percent for companies with 250 employees or more. For both categories, all the determinant factors of the index remain favourable.

We therefore notice that, for the first quarter of 2018, larger sized companies tend to be the engine of business confidence, whilst smaller and medium companies show moderate growth. **There is thus a need for specific support mechanisms for smaller and medium sized companies.**

## V. GLOBAL ECONOMIC CLIMATE IN Q1 2018

Figure 5 Evolution of the World Economic Climate



Source : CESifo World Economic Survey

The global economic environment at its highest level since 2007

The global economic report conducted by the German institute, CESifo, assesses global economic trends based on short-term surveys with international organizations and national institutions around the world.

It is a dynamic tool that offers a quick assessment of the overall economic situation and reveals cyclical changes earlier than conventional statistics.



The methodology and evaluation technique focuses on qualitative information, namely assessments of a country's overall economic situation and expectations of key economic indicators.

Qualitative questions in the global economic study have three possible categories: "Positive (+)" for a positive rating, "Same (=)" for a neutral rating, and "Negative (-)" for a negative rating.

The individual responses are combined for each country without weightage and thus for the "T" time for each qualitative question and for each country, the respective percentages of (+), (=) and (-) are calculated. The balance is the difference between positive and negative ratings and ranges from -100 points to +100 points.

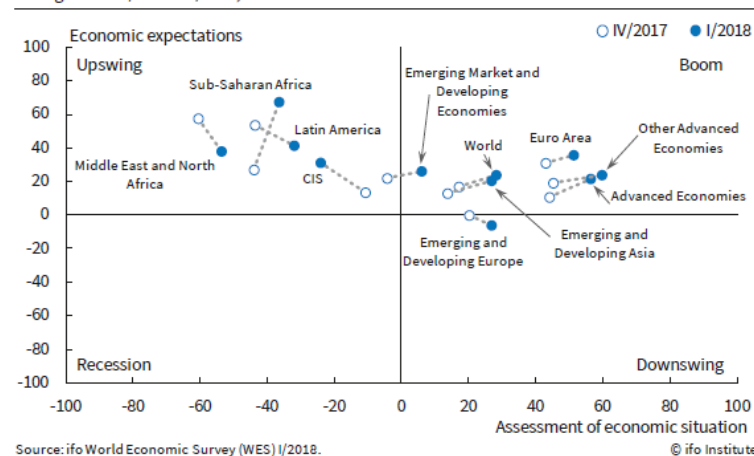
The mid-range is at 0 points and is reached if the share of the positive and negative answers is equal.

**According to the latest survey conducted by the CESifo Institute, the global economic climate continued to improve in the first quarter of 2018.** After the turn-around in the fourth quarter of 2016, the global economy continued to recover and economic sentiment remains largely positive in the first quarter of 2018.

As a reminder, the level of confidence was in the negative zone since the end of 2015. The confidence indicator rose to +26.0 equilibrium

points in Q1 2018, compared to + 17.1 equilibrium points in Q4 2017. The index has risen to its highest level since autumn 2007, indicating a **consolidation in the worldwide upswing in the first quarter of 2018 – with the business climate improving in all regions of the world.**

ifo Business Cycle Clock for selected Aggregates  
Change from IV/2017 to I/2018; balances

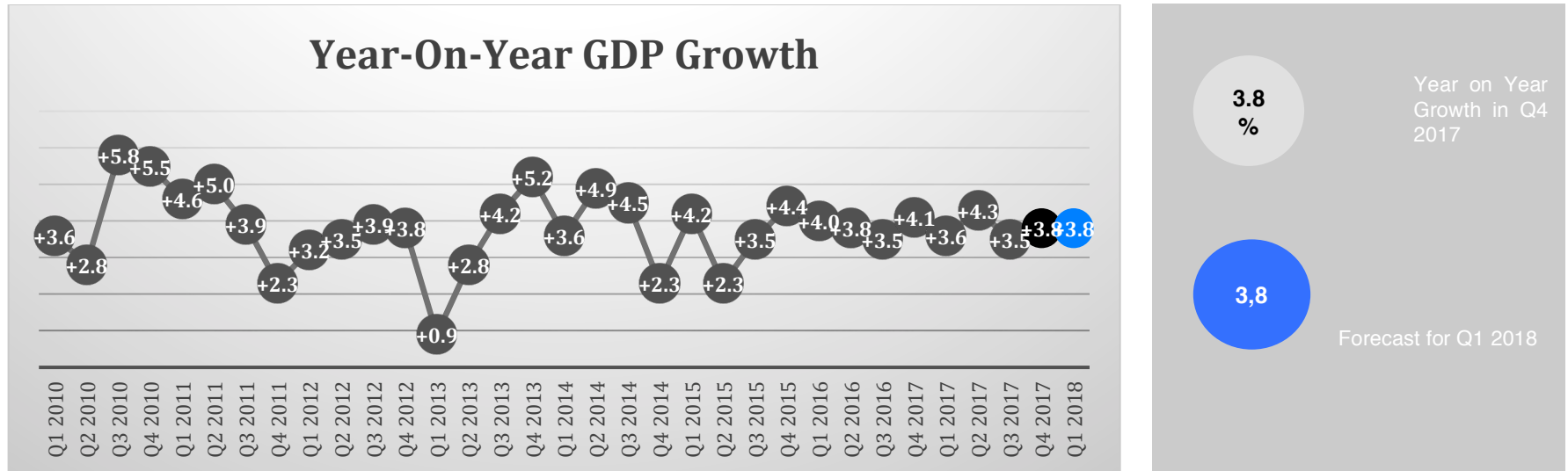


According to experts from this institute, during the first quarter, respondents' assessments of the overall economic situation and future expectations were positive with an exceptional improvement in economic expectations.

**Growth in the global economy is expected to continue to accelerate in 2018, with stronger dynamism in advanced and emerging economies alike.**

## VI. ECONOMIC GROWTH IN Q1 2018 COMPARED TO Q1 2017

Figure 3 : Year-on-year Growth outlook in Q1 2018



A Year-On-Year Growth of 3.8 percent in Q1 2018

According to Statistics Mauritius official data, for the fourth quarter of 2017, we had a year-on-year increase in GDP of 3.8%, which is lower than the rate of 4.1% achieved in the fourth quarter of 2016.

Based on our econometric model, and trend analysis, we estimate a **year-on-year growth rate of 3.8 percent for the first quarter of 2018**, compared to the corresponding quarter of 2017.

We expect this dynamism to be maintained and further strengthened over the second quarter of 2018.

## VII. TREND ANALYSIS

The business confidence indicator, based on the OECD methodology, is designed to signal the turning points of economic cycles, showing the fluctuations of economic activity relative to its potential long-term level.

This tool is based on companies' assessment of production, orders and inventories, as well as the current situation and their short-term expectations. The gap between the positive and negative responses of entrepreneurs' opinions and expectations provides a qualitative index of economic conditions.

Thus, the confidence indicator shows short-term economic fluctuations qualitatively rather than quantitatively.

The latest quarterly business survey shows that business confidence continued to rise in the first quarter of 2018. **The confidence index rose by 4.1 percent to reach 128.1 points, its highest level since the launch of the indicator in 2010.**

The Mauritian economy is intrinsically linked to the global economy. We notice that the economic tendency at the global level is similar as to Mauritius. **According to the CesIFO institute, the global**

**economic climate continued to improve, and has reached its highest level since 2007, at positive 26 points.**

This analysis is confirmed by international institutions.

The IMF confirms in its latest publication that the **global upswing in economic activity that began around mid-2016 has become broader and stronger, with notable upsides in advanced and emerging economies alike.**

This institution further improved its growth forecasts this April. **It favours a macro-economic scenario where the global growth rate, as measured by GDP, increased by 3.8 percent in 2017 at its highest level of growth since 2011.** Moreover, it has further improved its global growth forecasts for 2018 and 2019 to reach 3.9 percent.

These figures are largely higher than the growth rate of 3.2 percent observed in 2016. Nonetheless, **the IMF cautions that the growth figures of 2018 and 2019 shall not be long lasting. It is expected that global growth shall return to more modest rates by 2020.**

The current recovery thus offers a window of opportunity to advance

policies and reforms that secure the current upswing and raise medium-term growth to the benefit of all. **The IMF's International Monetary and Financial Committee thus advocates for Governments to use all policy tools available to achieve strong, sustainable, balanced, and inclusive growth.**

In Mauritius the turnaround took place in the last quarter of 2016. Over the last year 2017, and during the first quarter of 2018, the evolution of the business confidence index has been positive irrespective of the sector of activity or the size of the business.

The moderate business cycle phase that started at the end of 2011 has indeed closed in 2016. We are observing a renewed dynamism and confidence expressed by entrepreneurs. Indeed, during the first quarter of 2018, **entrepreneurs have expressed a planned increase in investment over the twelve months April 2018 – April 2019, mostly in Plant & Machinery and new Buildings.** Our analysis thus confirms the recovery in private sector investment since 2016, after a period of contraction between 2012 and 2015. With interest rates at a relatively low level and with an expected increase in global and domestic demand, entrepreneurs are renewing with investment.

We further notice that a **majority of operators have witnessed a global increase in demand** as a result of demand side policies adopted during 2017. The combined effect of the minimum salary and the Negative Income Tax Regime have had a positive impact on the purchasing power of households and consumers. In addition, **more than 35 percent of entrepreneurs have indicated that their strategies for diversification of products and the tapping into new markets have contributed positively to their business performance during the first quarter of the year,** and are expecting that their business transformation strategies will have further positive impact over the next quarters of the year.

With both global and domestic outlook expected to be positive over 2018 and 2019, it is thus necessary that Mauritius **makes use of this unique window of opportunity to implement structural policies and reforms that secure the current upswing and raise our potential growth beyond the short cycle.**

## 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 OECD<sup>1</sup>, 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.

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<sup>1</sup> OECD : *Business Tendency Surveys – A Handbook*, 2003