



The MCCI BUSINESS CONFIDENCE INDICATOR

33rd Edition – Second Quarter 2018

NOTE: CHANGE IN PRESENTATION – NO MORE INDEXATION

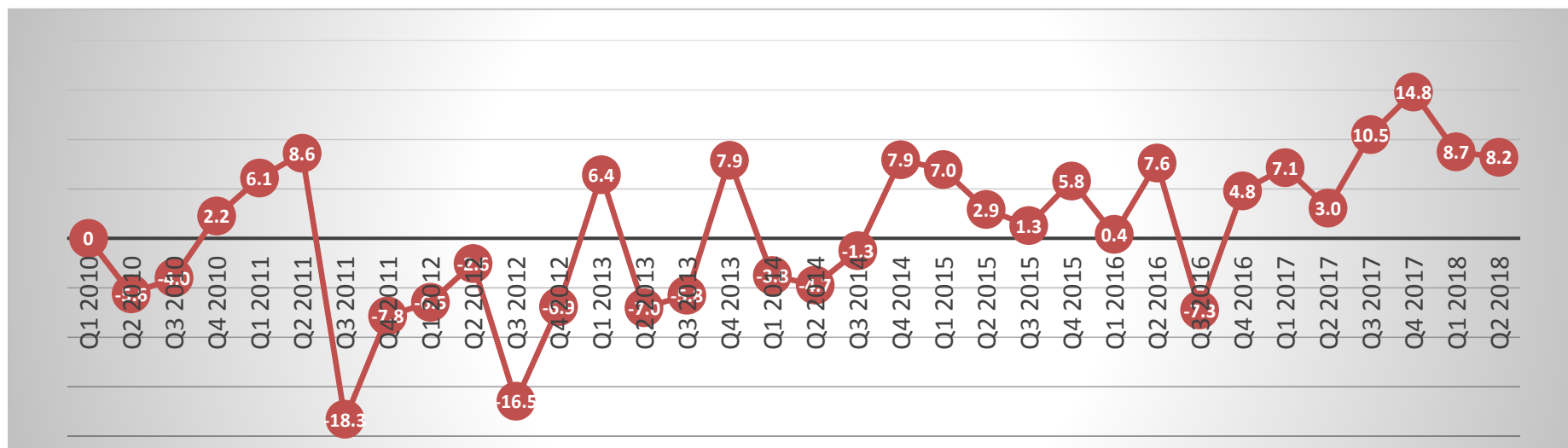
Similar to its international counterparts, the CES-Ifo and the OECD, the MCCI is moving its presentation of the business confidence climate from having an index with a base of 100 towards a balance methodology, where the figure can be more intuitively and instantly compared. For instance, an index moving from 120 points to 118 points gives an impression that the economic climate has improved with a 118% positive rate, whilst in fact the climate had decreased by 1.6 percent as compared to the previous quarter (i.e. 2 basis points). Under the balance method, the individual replies of companies are combined as a geometric mean of the balance of the current economic situation and the balance of the economic expectations for the next three months. The economic climate ranges between -100 and +100 points. When the economic climate is positive, it shows that entrepreneurs are positive with respect to the economic situation, and vice versa.

The MCCI Business Confidence Indicator is based on the OECD methodology as implemented by the CES-Ifo Institute in Germany. In the past the MCCI Business Confidence Indicator, similar to CES-Ifo World Economic Climate, was presented as an index with reference to a specified base year, i.e. 2010=100. This presentation, however, posed a number of problems. With the index it was impossible to make both a comparison of the level of the economic climate against other countries and a statement about the level of the climate and its components at the time the survey was conducted. Comparisons had to be made with respect to the base year and were thus limited to the time series itself. This often leads to misleading interpretations of the economic climate.

Since 2017, CES-Ifo has moved to the ‘balances’ method, which is found to be more intuitive. **Therefore, as from this current release of the second quarter of 2018, the index values of the MCCI Business Confidence Indicator are dispensed and only balances shall be provided. By presenting the balances, we shall thus be able to compare the Mauritius data with other countries.**

I. Business Confidence Indicator in Q2 2018

Figure 1 :Business Confidence Indicator of all enterprise



In Q2 2018, sustained increase in the business confidence indicator

Based on the quarterly business survey conducted between the 2nd and 27th of July 2018 with a sample of economic operators representative of the sectors of the Mauritian economy, we observe a continued increase in the business confidence indicator.

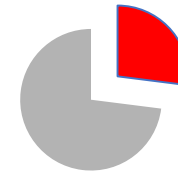
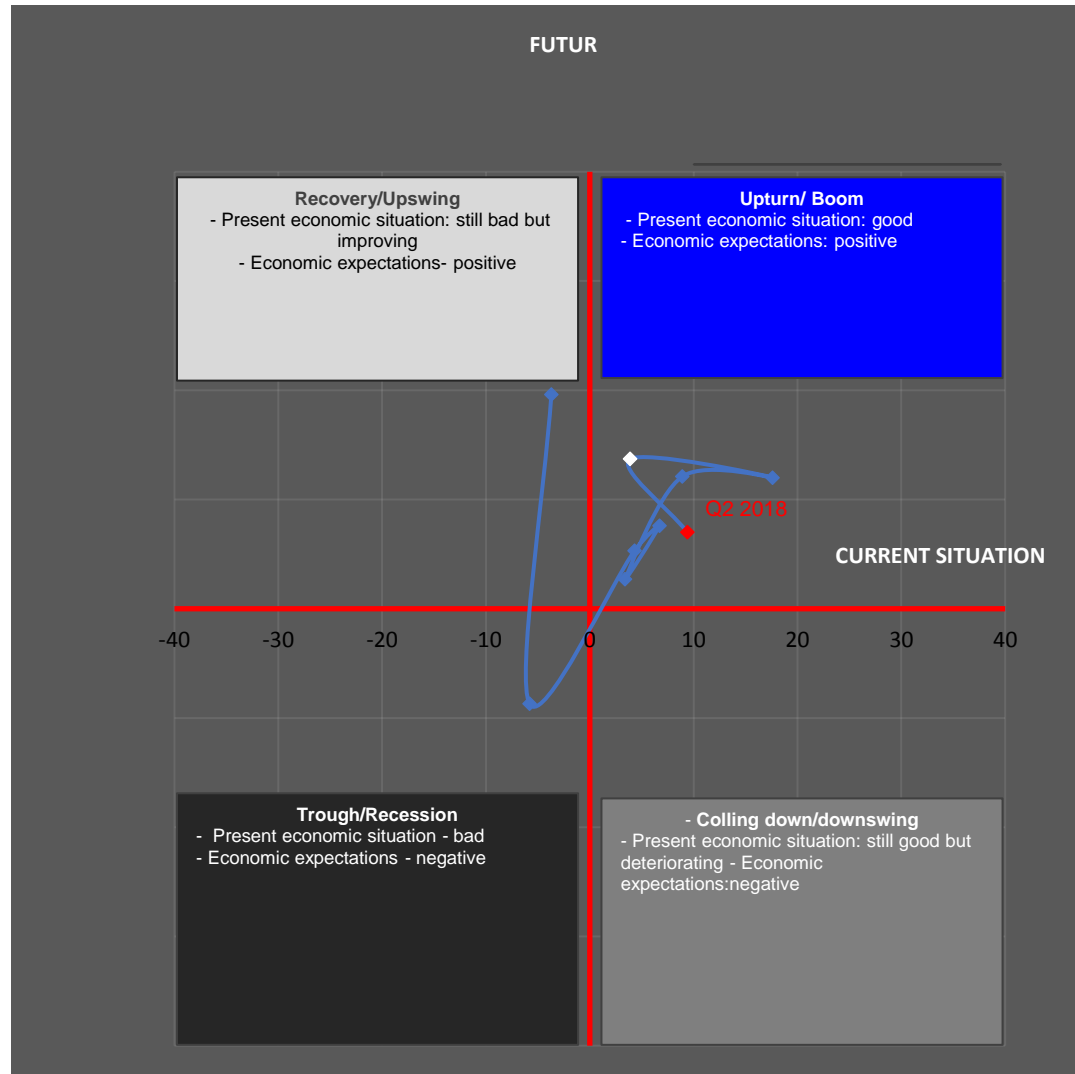
The synthetic indicator increased by 8.2 balance points in the second quarter of 2018, albeit at a slightly lower rate than the 8.7 balance points observed in the first quarter of 2018. We, nonetheless, notice that there is a continued upturn in entrepreneurs' assessment of the Mauritian economy. The increase was at a much higher rate than the one observed in the corresponding quarter of 2017, at 3.0 balance points

Since the launch of this economic tool in 2010, it is the first time that the balance of opinions has been in the positive quadrant for a seventh consecutive quarter. Indeed, we find a turning point since the third quarter of 2016, with a continued upturn and optimism in entrepreneurs' assessment of the Mauritian economy.

Nonetheless, the increase in momentum which has led to a peak of 14.8 balance points at the end of 2017 is reaching an equilibrium point, with the balance of opinions revolving around the 8 balance points range.

II. The Economic Barometer in Q2 2018

Figure 2 : MCCI Economic Barometer



27% more confident in the future



58% as confident in the future



15% less confident in the future

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 latest tendency survey, the business confidence indicator has remained firmly in the positive ‘Upturn’ quadrant in the second quarter of 2018, but with a slower growth as compared to the first quarter of 2018.

The significant improvement in the evaluation of entrepreneurs on the economic situation between the months of April and June 2018, has been tamed with positive, but reduced, expectations on the economic outlook. On

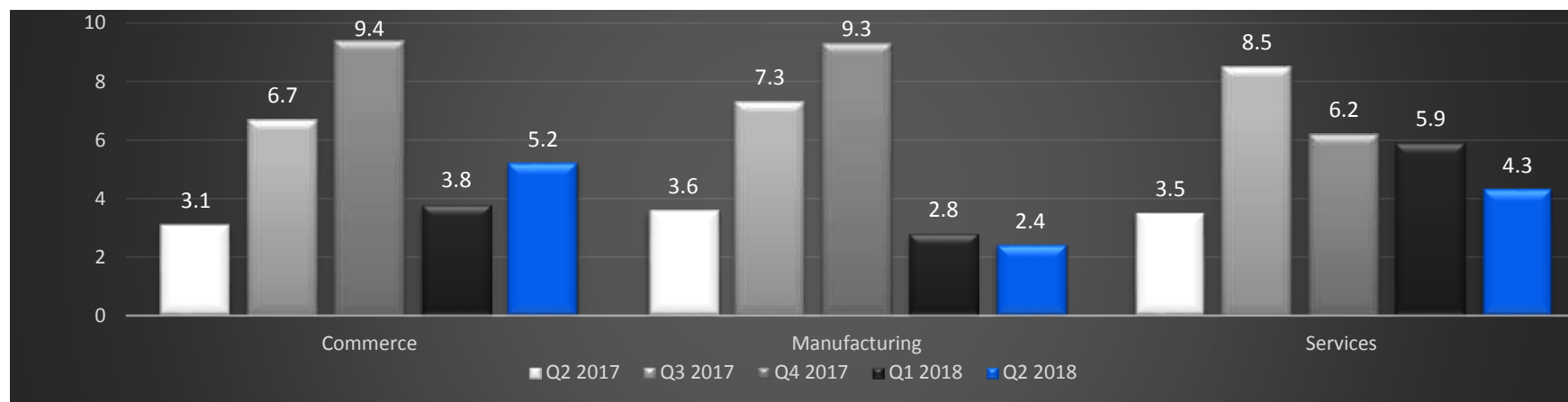
the first component - entrepreneurs’ assessment of business tendency based on turnover figures - the balance of opinion over the second quarter is positive at 9.4 percent. **34 percent have observed an improvement in turnover figures over the second quarter of 2018, 46 percent a stagnation in turnover figures and 20 percent have noticed a decrease in their sales figures.**

On the second component, estimates of future prospects, the balance of expectations of entrepreneurs is positive at 7.4 percent. **27 percent predict business improvement over the next three months, 58 percent a stabilization of sales and 15 percent a deterioration.**

The correlation between the two elements show that the confidence indicator remains in the second quarter of 2018 in the quadrant “Upturn/Boom” of the barometer, and shows a marked increase as compared to the corresponding quarter of 2017 quarters of 2017. The current situation is at a higher level than previously expected, whilst the tendency on the future prospects has slightly decreased but remains largely positive.

III. Sectoral Analysis of the Confidence Level in Q2 2018

Figure 3: Evolution of Sectoral Confidence of Entrepreneurs



In Q2 2018, sustained increase in the sectoral confidence indices

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

After a slump in the first quarter of 2018, the commerce sector recorded the largest increase in the sectoral indicator, at 5.2 percent. This shows an upward tendency in household expenditure as a result of recent increases in the purchasing power of households through cash transfers, the lowering of the income tax band for the middle-income class as well as a modest inflation rate forecasted for 2018. Operators uphold that sales have increased as compared to Q2 2017 and their expectations for the future are fairly positive. Nonetheless, the Mauritian economy still remains below its

potential growth, indicating outstanding bottlenecks preventing a dynamic and sustained boost in local demand and consumption.

For the industry sector, the confidence indicator increased by 2.4 percent, driven by a boost in the turnover in the second quarter of 2018, and an equally positive expectation of the future, at 9.6 percent. Faced with increasing competition in a liberalised economy, and uncertainties with respect to their main markets, the sector showed a modest increase in turnover in the second quarter.

Manufacturers are, nonetheless, adopting a medium-term strategy on the back of a growing confidence in their expected future sales figures, with a number of industrials making use of the expansionary monetary policy, combined with a number of fiscal and structural incentives to invest in new production lines and targeting of new markets for their products. **The recent Government commitment in the last Budget to boost the import-substitution and export-led industries could further explain higher confidence levels in the future.**

For the services sector, the confidence index increased by 4.3 percent. Entrepreneurs have, on the overall, noticed an improvement in their sales figures in Q2 2018 compared to Q2 2017 and continue to anticipate an

improvement in their turnover in the third quarter of 2018, albeit at a lower rate. Increased uncertainty and downside risks on the international level with geopolitical tensions, trade wars and the expected enforcement of the OECD BEPS initiative in a number of countries might cause delays to investment decisions by clients, thus moderating the expected increase in turnover of services-oriented companies in the third quarter of 2018.

This lower than expected increase in sales figures in third quarter of 2018 is further translated by a stock level which is relatively higher than normal. This is despite entrepreneurs in all sectors of activity adopting a more efficient inventory management, with orders being placed in direct relation to sales.

IV. Business Confidence based on Size of Companies

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



In Q2 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 **since the second quarter of 2017 has been positive for all business categories.**

For the first category, companies with less than 20 employees, we notice an increase of 1.3 percent. Entrepreneurs assessed the current economic situation slightly less positively than in the first quarter of 2018, but more positively than in the corresponding second quarter of 2017.

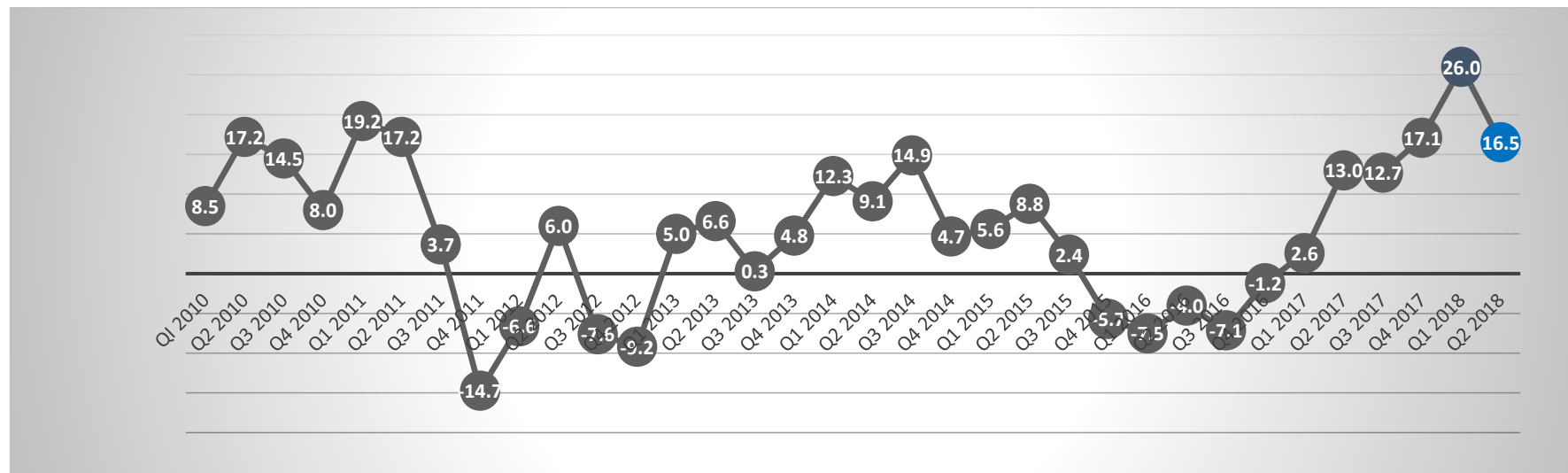
For companies with 20 to 249 companies, we notice an increase of 1.7 percent. For this category, entrepreneurs assessed the current economic

situation less positively than in the first quarter of 2018 and also the corresponding quarter of 2017. For companies with 250 or more employees, there is an improvement in the confidence by 4.3 percent.

Based on the above, we therefore notice that, for the second quarter of 2018, similar to the previous quarter, **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. We anticipate that a number of such measures as announced in the Budget Speech will be operationalized and implemented swiftly.

V. Global Economic Climate

Figure 5: Evolution of the World Economic Climate



. Source : CESifo World Economic Survey

The global economic climate continues to grow, but at a lower level

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.

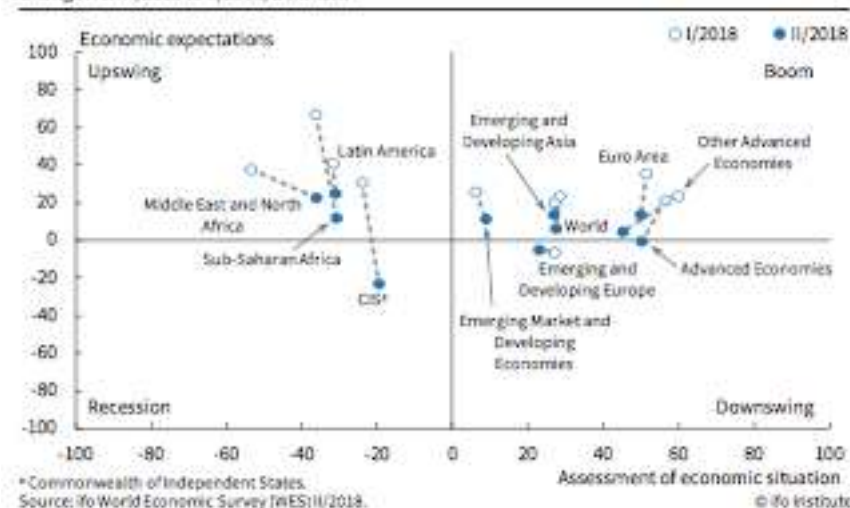
According to the latest survey conducted by the CESifo Institute, the global economic climate has lost momentum in the second quarter of 2018, despite continued positive growth. After the dynamic upturn in the world economy during the past 12 months, growth in the world economy has lost momentum. The economic climate deteriorated in nearly all regions.

Globally, expectations for the future weakened in all regions of the world, with rising inflation expectations, and weaker expected growth in world trade due to higher expected trade barriers. In a number of regions – the US, EU, and Latin America, positive assessments of the current economic situation also fell significantly whilst it remained unchanged in Asian emerging and developing economies. It is only in the Middle East and North Africa, that assessments of the current economic situation improved.

Figure 2

ifo Business Cycle Clock for Selected Aggregates

Change from I/2018 to II/2018; balances

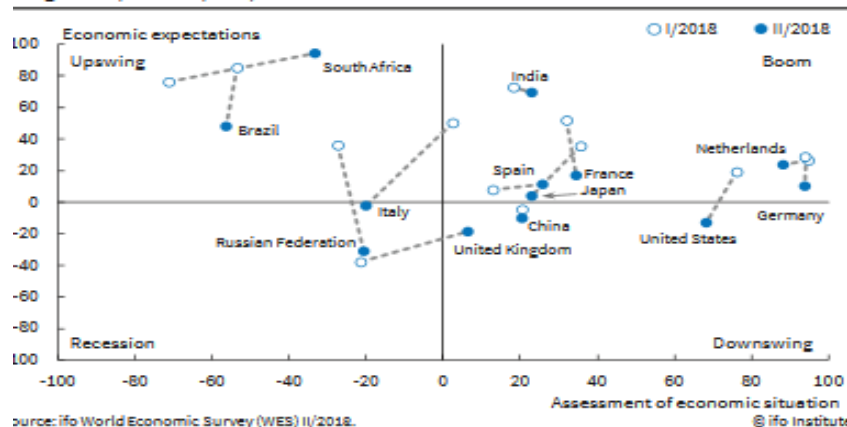


At the country level, the only countries experiencing a positive shift in both assessments of the current and future economic situation were Spain, the United Kingdom and South Africa.

In the latter economy, experts' assessments of the future were exceptionally high with particularly high expectations being placed in the new Government. In the United Kingdom, despite downsides related to

uncertainty around Brexit, confidence in the economy has slightly improved with both outlook for investment and private consumption being upgraded.

ifo Business Cycle Clock for Selected Countries
change from I/2018 to II/2018; balances



Most of the advanced economies, though still in the boom quadrant of the business cycle, have moved closer to the downswing quadrant, with the two economic powerhouses, China and the USA, even entering it as a result of negative expectations as a result of tensions to the threat of a ‘trade war’ between the two economies. For the main emerging markets, the Business

Cycle Clock shows the most significant downturn for Russia, which moved from the Upswing quadrant to the recession quadrant, with a worsening of the economic outlook on the back of newly introduced sanctions.

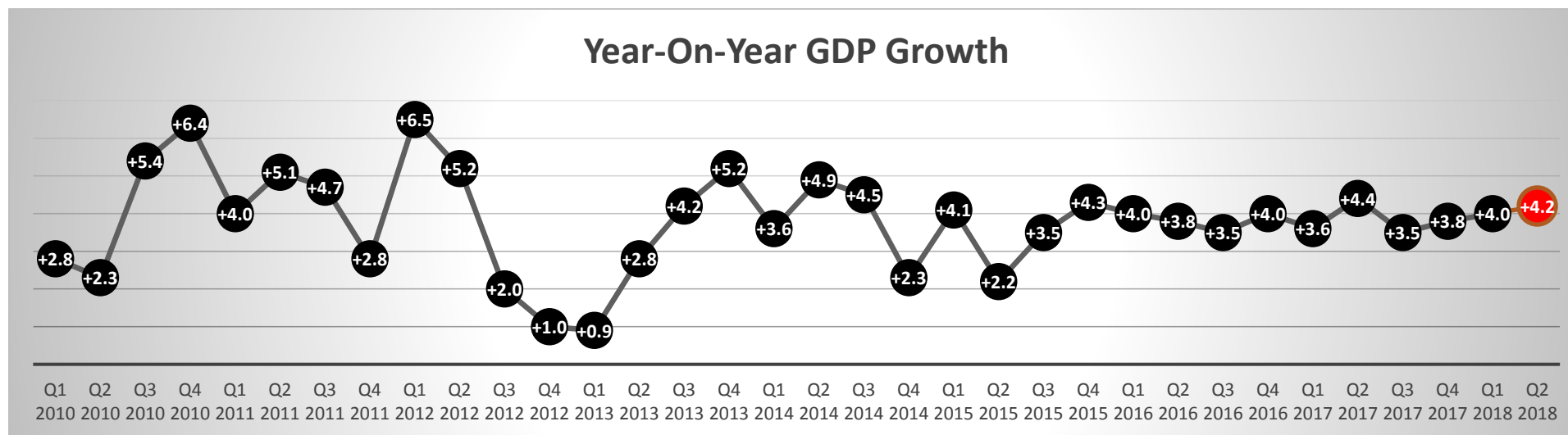
As a reminder, the level of confidence has been increasing exponentially since the first quarter of 2017. The increase in confidence was at a lower rate, moving from +26.0 points to +16.5 balance points in Q2 2018, returning to the same level as in the fourth quarter of 2017, at +17.2 points.

According to experts from this institute, during the second quarter, respondents' assessments of the overall economic situation were almost as good as in the first quarter of 2018, but the growth future economic expectations, whilst still positive, significantly decreased. The indicator's growth dropped significantly as a result, with the global economy barely remaining in the boom quadrant of the Business Cycle.

The global economy is still experiencing an upturn in 2018, but it is losing impetus.

VI. Economic Growth in Q2 2018 compared to Q2 2017

Figure 6: Year-on-year growth outlook in Q2 2018 based on Business Confidence



A Year-on-Year GDP Growth of 4.2 percent in Q2 2018, Economic growth estimated at 4 percent for the year 2018

According to Statistics Mauritius official data, for the first quarter of 2018, we had a year-on-year increase in GDP of 4%, which is higher than the rate of 3.8% achieved in the fourth quarter of 2017, and much higher than the 3.6 percent achieved in the corresponding first quarter of 2017.

Based on our econometric model, and trend analysis of business tendency over the second quarter of 2018, we estimate a year-on-year growth rate

of 4.2 percent for the second quarter of 2018, compared to the corresponding quarter of 2017. We expect this dynamism to be slightly moderated over the third quarter of 2018.

Based on preliminary expectations of operators, and the current trend, we estimate that economic growth in 2018 should be of 4 percent.

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.

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 – the balance of opinions - provides a qualitative indicator 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 show positive growth in the second quarter of 2018. **The balance of opinions remained firmly in the positive territory at 8.2 balance points, with slight fall from the 8.7 points achieved in the first quarter of 2018.** After achieving its highest level since the launch of the indicator in the fourth quarter of 2017, at 14.8 points, the balance of opinions of economic operators seems to be reaching a level of sustained growth around the 8 percent balance points range.

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 grew less positively in the second quarter of 2018, after reaching its peak at 26.0 balance points in the first quarter of the year. The indicator has returned close to the level achieved in the fourth quarter of 2017, at +16.5 points**

Though growth in the world economy remains in an upturn, it is losing some impetus. This analysis is in harmony with the latest forecasts by international institutions. The IMF confirms in its latest publication that the global economic activity continues to firm up but the expansion is becoming less even and risks to the outlook are mounting.

This institution maintained its growth forecasts this July. It **favours a macro-economic scenario where the global growth rate, as measured by GDP, to increase by 3.9 percent in 2018, similar to its April 2018 forecast.** It has further maintained its global growth forecasts for 2019. Nonetheless, on the back of growing trade tensions and gradually tightening financial conditions, the IMF has decreased its growth predictions for advanced economies by 0.1 percentage points, to reach 2.4 percent growth in 2018. It has further revised its forecasts on world trade for both the years

2018 and 2019 by 0.3 and 0.2 percentage points respectively. **Much of the economic growth comes as a result of a continued strong growth in domestic demand, with investment notably playing an important role in the global recovery.**

In Mauritius after a turnaround in the last quarter of 2016, the business confidence indicator has been evolving in the positive area irrespective of the sector of activity or the size of the business.

Domestic demand is one of the key engines of growth in the Mauritian economy, with **more than 36 percent of entrepreneurs indicating that an increase in demand has been one of the most significant factors affecting their businesses.** The combined effects of purchasing power policies in the recent Budget, and a relatively low interest rate, have had an effect on consumption expenditure. The latter accounts for more than 75 percent of our economy, and any increase in its growth has a direct effect on overall economic growth figures. **Indeed, our econometric model shows that a one percentage point increase in consumption expenditure translates in a 0.56 percentage point increase in economic growth.**

Moreover, we have also noticed a significant increase in planned investment with more than 30 percent of entrepreneurs indicating that they would increase their investment expenditure in the next twelve months. This is in contrast to only 4 percent of entrepreneurs anticipating a decrease in investment expenditure. Investment is predominantly in Plant & Machinery, indicating that entrepreneurs are investing in new production lines and

markets. This is confirmed by the fact that approximately 20 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 second quarter of the year.**

We notice however that investment in R&D remains relatively low with only 8 percent of entrepreneurs planning for an increase in investment in this field in the next twelve months. This is despite a number of fiscal incentives such as the double deduction on R&D expenditure being implemented in the last two Budgets. **The rapid implementation of the new IP legislation shall give operators assurance on the protection of IP Assets, and thus encourage higher levels of investment in R&D related activities.**

Based on the business climate results for the quarter of 2018, we estimate that the economic growth in the second quarter of 2018 was of 4.2 percent. **Our econometric projections for the full year 2018 is that growth should be of approximately 4 percent, the first time this figure is reached since 2011.**

Similar to the situation in the world economy, we are experiencing a prudent optimism of entrepreneurs as regards to the economic environment. With downside risks to the economy over the next quarters of 2018, it is necessary to constantly monitor and provide support mechanisms to secure and boost the current upswing in the economy.

VIII. ANNEX – METHODOLOGY

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.

Following international practice, the MCCI uses the “balances” approach (OECD 2003). In order to determine the indicator, individual replies of companies are combined as a geometric mean of the balance of the current economic situation and the balance of the economic expectations for the next three months. The economic climate ranges between -100 and +100 points. The mid-range lies at 0 points and is reached if the share of positive and negative answers is equal.

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 indicator 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
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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



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