



The MCCI BUSINESS CONFIDENCE INDICATOR

34th Edition – Third Quarter 2018

NOTE: CHANGE IN PRESENTATION – NO MORE INDEXATION

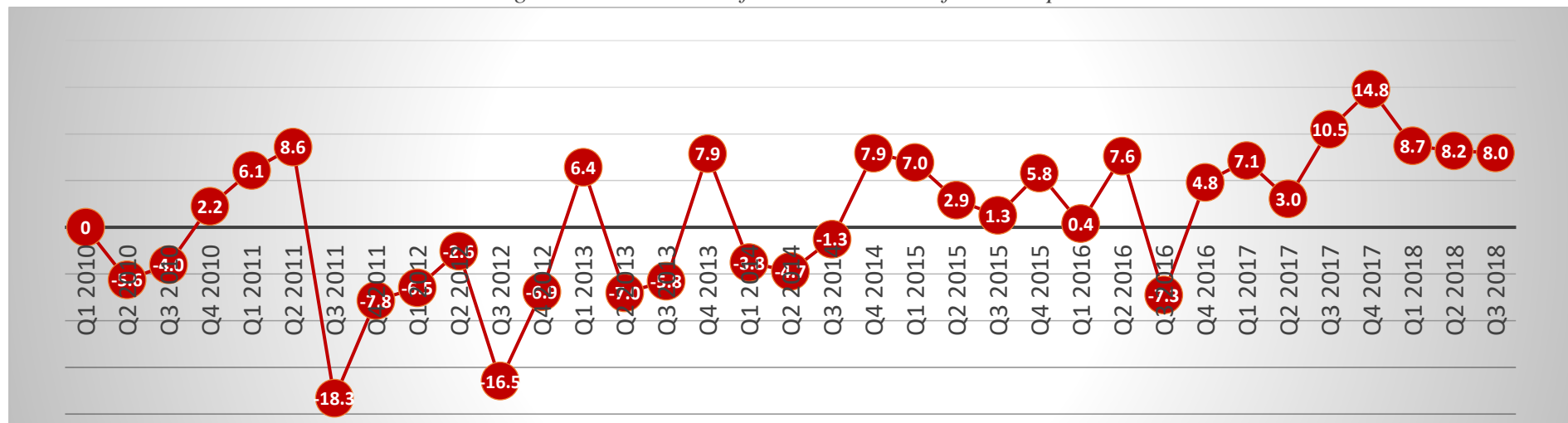
Similar to its international counterparts, the CES-Ifo and the OECD, the MCCI has moved presentation of the business confidence climate from having an index with a base of 100 towards a balance methodology, where the figure can be more intuitively and instantly compared. For instance, an index moving 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 the second quarter of 2018, the index values of the MCCI Business Confidence Indicator are dispensed and only balances are provided. By presenting the balances, it is now possible to compare the Mauritius data with other countries.**

I. Business Confidence Indicator in Q3 2018

Figure 1 :Business Confidence Indicator of all enterprise



In Q3 2018, sustained increase in the business confidence indicator

Based on the quarterly business survey conducted between the 1st and 26th of October 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.

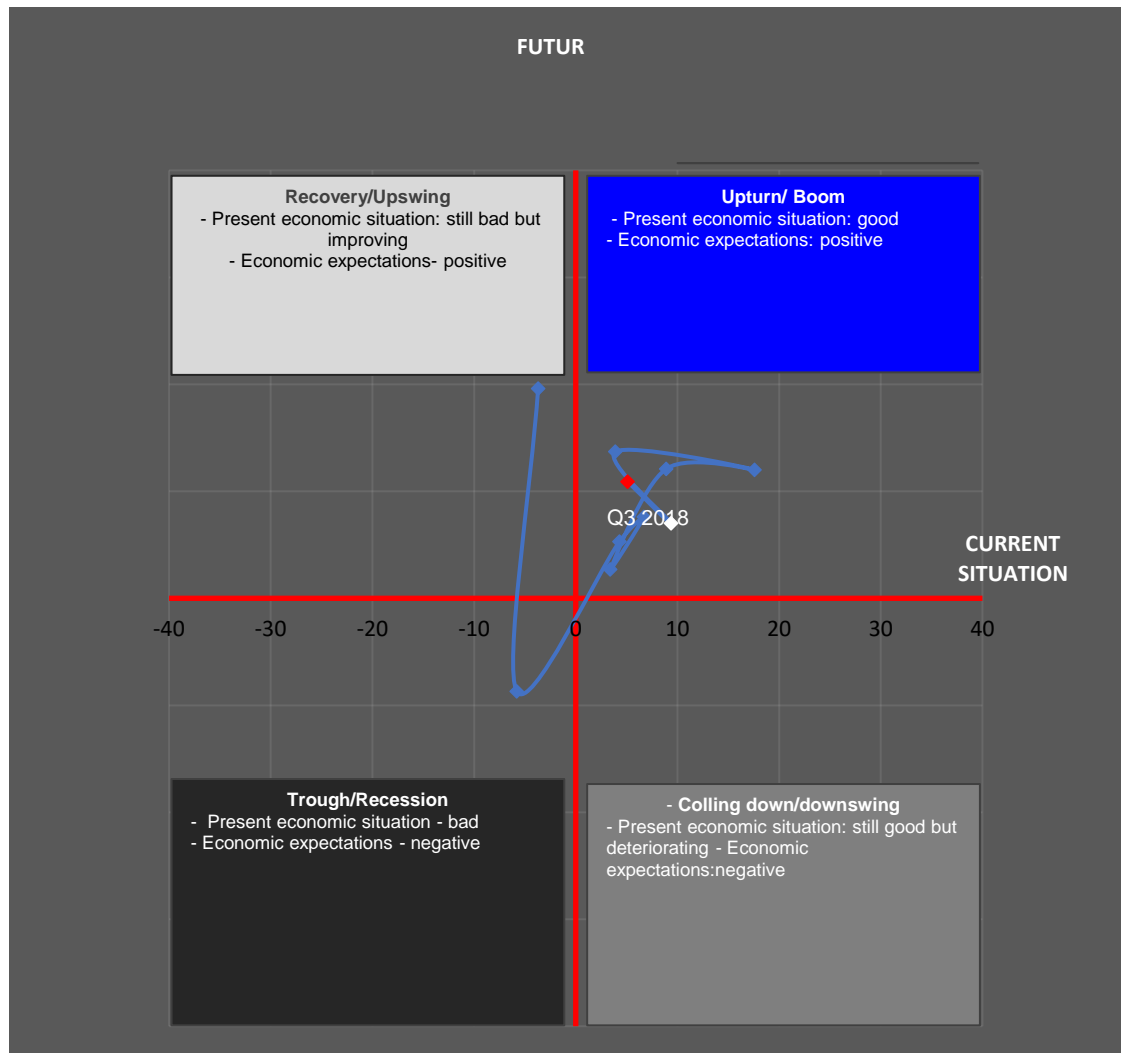
The synthetic indicator increased by 8.0 balance points in the third quarter of 2018, albeit at a slightly lower rate than the 8.2 balance points observed in the second quarter of 2018. The increase was at a lower rate than the exceptional dynamism observed in the corresponding quarter of 2017, at 10.5 balance points. We, nonetheless, notice that there is a continued upturn in entrepreneurs' assessment of the Mauritian economy.

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 two consecutive years, indicating a medium-run virtuous cycle. 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.

As forecast based on the trends observed in the last quarter, we observe that the increase in momentum which has lead 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 Q3 2018

Figure 2 : MCCI Economic Barometer



35% more confident in the future



46% as confident in the future



19% 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 Downturn.

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 third quarter of 2018, but with a slower growth as compared to the first two quarters of 2018.

The expectations of operators, expressed in our last tendency survey, as to a positive but reduced economic outlook for the third quarter of 2018, have been confirmed. The reduction in the evaluation of entrepreneurs on the economic situation between the months of July and September 2018, has

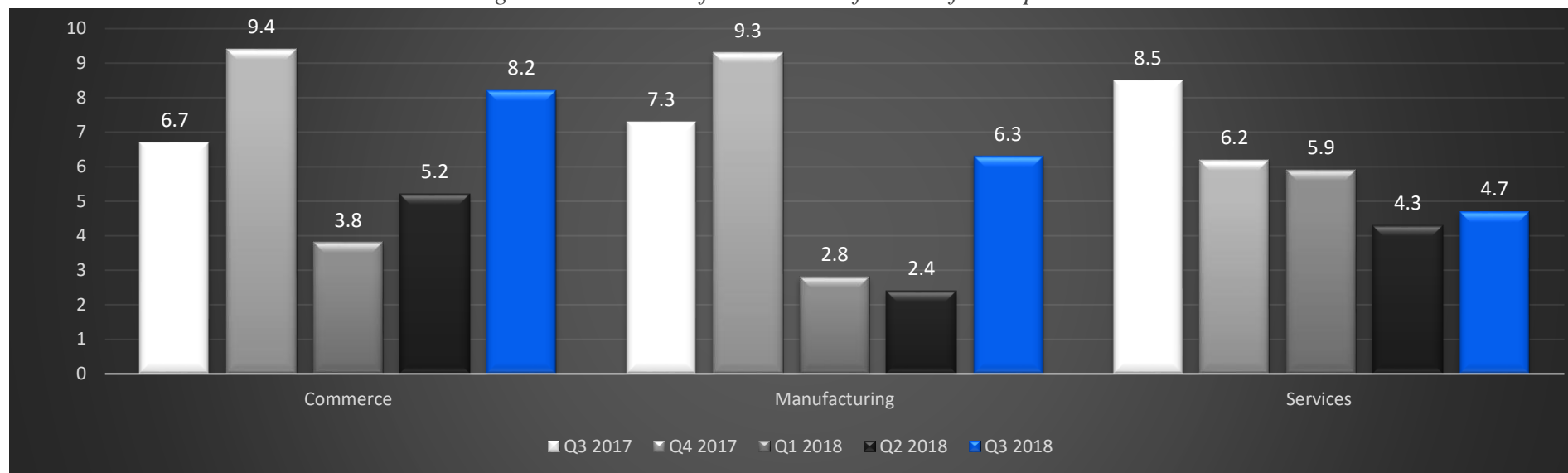
been, nonetheless, balanced by a higher expectation on the economic outlook for the last three months of the year. On the first component - entrepreneurs' assessment of business tendency based on turnover figures - the balance of opinion over the third quarter is positive at 5.1 percent. **30 percent have observed an improvement in turnover figures over the second quarter of 2018, 48 percent a stagnation in turnover figures and 22 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 10.9 percent. **35 percent predict business improvement over the next three months, 46 percent a stabilization of sales and 19 percent a deterioration.**

The correlation between the two elements show that the confidence indicator remains in the third quarter of 2018 in the quadrant "Upturn/Boom" of the barometer, and shows a slight decrease as compared to the corresponding quarter of 2017, where exceptional growths were registered. The current situation is at a constant level, whilst the tendency on the future prospects have slightly improved.

III. Sectoral Analysis of the Confidence Level in Q3 2018

Figure 3: Evolution of Sectoral Confidence of Entrepreneurs



In Q3 2018, sustained increase in the sectoral confidence indices

On a sectoral level, we notice another general increase in confidence indicators in the third 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 continued to record the largest increase in the sectoral indicator, at 8.2 percent in the third quarter of 2018. This confirms the upward tendency in household expenditure as a result of recent increases in the purchasing power of households and a modest inflation rate forecasted for 2018. Operators uphold that sales have increased as compared to Q3 2017 and their expectations for the future are

fairly positive, with the last quarter of the year marked by increased household expenditure linked to the end-of-year celebrations. 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 6.3 percent in the third quarter of 2018, as compared to the modest rates of 2.8 and 2.4 points in the first two quarters of the year. The turnover of operators in the third quarter of 2018 has increased modestly, with a balance of 7.1 points as

compared to the same quarter of 2017, but more encouragingly, expectations for the last three months of 2018 are positive at 10.7 balance points.

The boost in the industrial sector is mainly with respect to the construction industry with large infrastructural and investment projects, causing a multiplier effect on the economy, despite high import components. With uncertainties, market disruptions and subdued growth in the country's main export markets, and faced with a liberalised and fierce competitive market, the Manufacturing sub-sector continues to show modest growth.

We notice, nonetheless, an entrepreneurial spirit amongst industry operators, with medium-term strategies of investment being adopted on the back of a growth in expected future sales figures. The upcoming implementation of a number of pro-Industry measures such as the High-Tech Industrial Parks, higher standards of quality of products as well as the large public and private construction projects could explain higher level of confidence of industrials in the future. On the back of this growing confidence in expected future

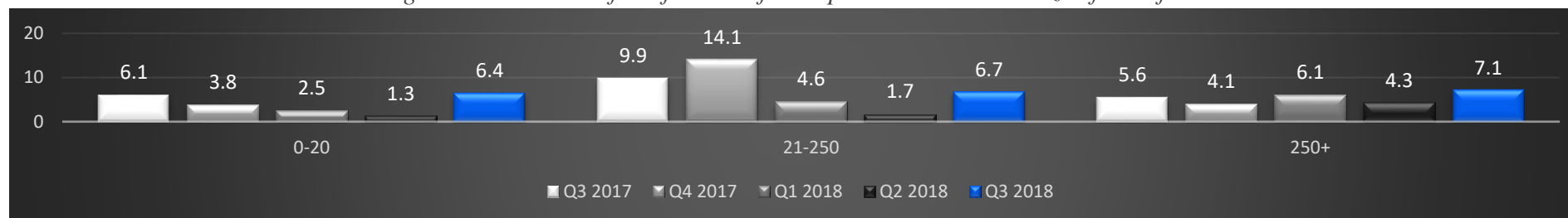
turnover figures, a relatively low inflation rate, and consistent but modest improvements in the economic indicators, industrials are gradually adopting medium-term strategies to invest in new production lines, Research and Development and targeting of new markets.

For the services sector, the confidence index increased by 4.7 percent. Entrepreneurs have, on the overall, noticed stagnation in their sales figures in Q3 2018 compared to Q3 2017 but anticipate an improvement in their turnover in the fourth quarter of 2018.

The higher levels of stock observed in the second quarter of 2018 has been adjusted, and we notice a quasi-normal level of stock displayed by entrepreneurs. Entrepreneurs are increasingly making more efficient inventory management policies, with orders being placed in direct relation to the expectations of sales.

IV. Business Confidence based on Size of Companies

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



In Q3 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, with consistent and balanced increases irrespective of the size of the workforce in the third quarter of 2018.**

For the first category, companies with less than 20 employees, we notice an increase of 6.4 percent. Entrepreneurs assessed the current economic situation significantly higher than in the first and second quarters of 2018, and slightly more positively than in the corresponding third quarter of 2017.

For companies with 20 to 249 employees, we notice an increase of 6.7 percent. Entrepreneurs in this middle category assessed the current economic situation more positively than in the first and second quarter of 2018 but relatively less positively than the corresponding quarter of 2017, which saw a momentum with pro-SME measures in the Budget 2017.2018. For

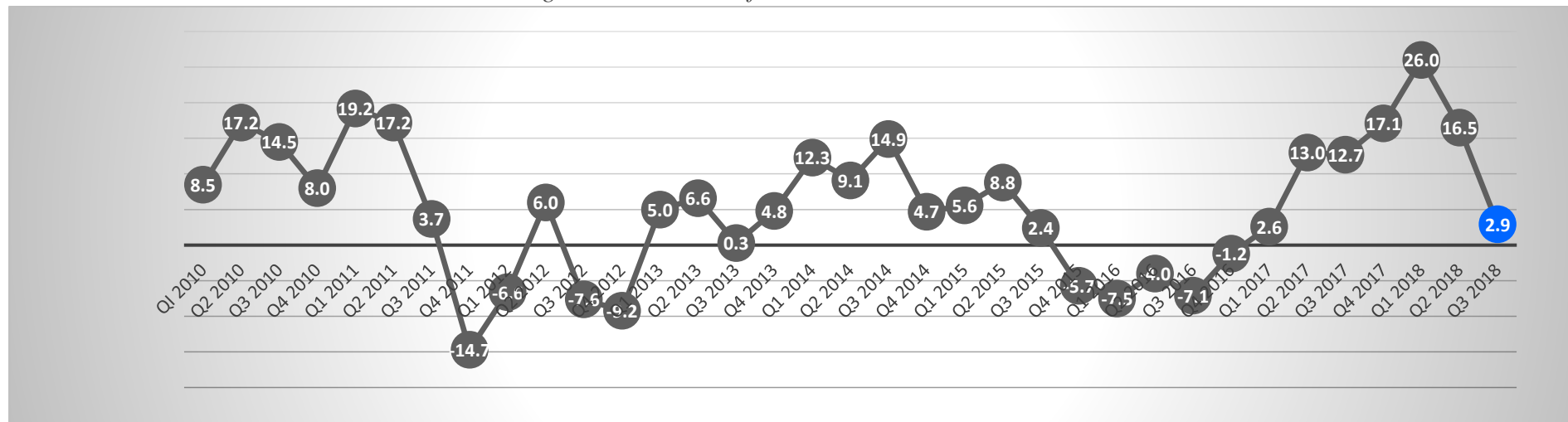
companies with 250 or more employees, there is an improvement in the confidence by 7.1 percent.

Based on the above, we therefore notice that, consistently to the first two quarters of the year 2018, **larger sized companies remain the engine of business confidence, whilst smaller and medium companies show slightly more moderate growth. The overall improvement in the business climate, the implementation of specific measures to alleviate the burden of those companies, and the role of medium sized companies as support enterprises has, nonetheless, enabled those companies to improve their turnover in the third quarter of the year.**

There remain, nonetheless, challenges to the development of these companies to enable a comprehensive mainstreaming of their expansion in the economic eco-system of the country. Support mechanisms to enable those companies to acquire Plant & Machinery and quality certifications and norms, investment in R&D and Innovation, and to increase its exports in the regional market shall be critical.

V. Global Economic Climate

Figure 5: Evolution of the World Economic Climate



. Source : CESifo World Economic Survey

The global economic climate grows at a meagre 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.

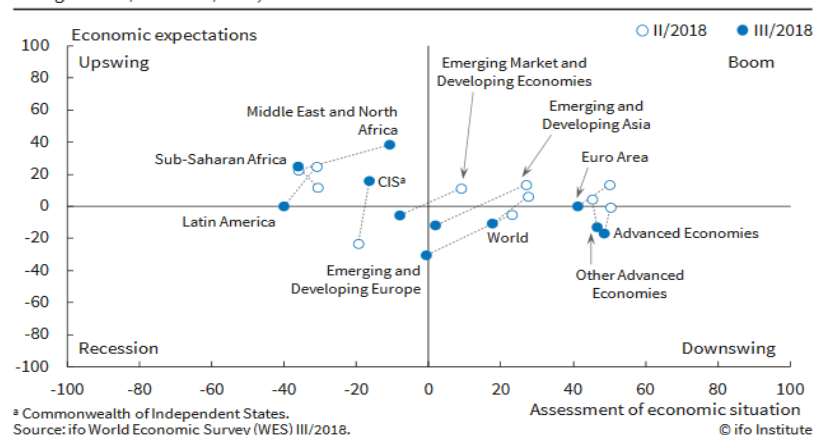
According to the latest survey conducted by the CESifo Institute, the global economic climate has lost significant momentum in the third quarter of 2018, with a meagre positive growth. After the dynamic upturn in the world economy since the start of 2017, growth in the world economy has lost momentum, falling from its highest level of 26.0 balance points in the first quarter of 2018, to 2.9 points in the third quarter of the year, returning to more or less the same level as in the first quarter of 2017. The world economy slowed to a crawl in the third quarter of this year with the economic climate deteriorating in nearly all regions.

Globally, expectations for the future weakened in nearly all regions of the world, with weaker expected growth in world trade due to higher expected trade barriers, a significant fall in forecasted global investment activity levels and stagnation in private consumption. In a number of

regions – the US, EU, Asian Emerging and developing economies and Latin America, positive assessments of the current economic situation also fell significantly. It is only in the Middle East and North Africa region, that assessments of the current and future economic situation both improved.

Figure 2

ifo Business Cycle Clock for Selected Aggregates
 Change from II/2018 to III/2018; balances

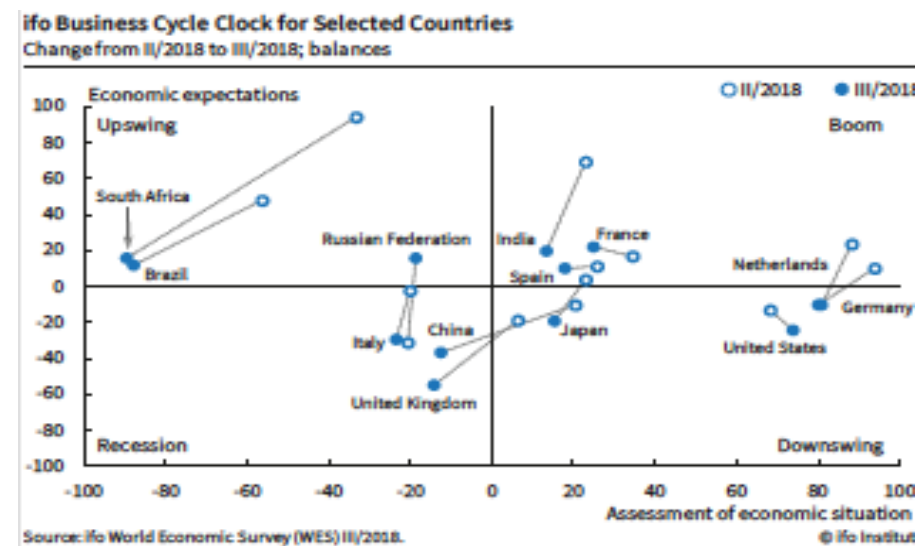


At the country level, amongst the main economies, only the Russian Federation showed a significant upward shift in both assessments of the current and future economic situation. Higher oil production and solid oil prices may be factors influencing this optimistic outlook, despite uncertainty over the impact of US sanctions.

In advanced economies, the optimism experienced during the first part of 2018, continues to fade. In the United States, the economic indicators for the next 6 months have waned significantly, with an expected decrease in both the volume of trade in imports and exports. With access to bank loans assessed as largely unrestrictive, US experts on average expect both long and short-term interest rates to increase in the next six months, driving inflation rates to a higher level. Uncertainties over the renegotiation of the NAFTA agreements, and the mid-term election results shall have an impact on the performance of the US economy. In the United Kingdom, similarly, the trade volume is expected to slim down. WES experts continue to stress the strain of Brexit and the uncertainty surrounding the deal which will be struck. In the main advanced economies, demand-side indicators – consumption and investment – are expected to stagnate in the upcoming months.

In the emerging economies, experts in India, Pakistan and China in particular were more pessimistic about both the present economic situation and the economic outlook. In India, the deterioration of the outlook signals a potential economic slowdown in the short term. Indeed, more than 90 percent of experts report constraints on bank lending and it remains difficult for businesses to acquire loans. In China, obtaining financing for businesses is also a major constraint. Consumption and investment growth is also projected to remain modest and there is a lose of impetus projected in exports with the

turn to protectionism and the tariff wars between the US and China.

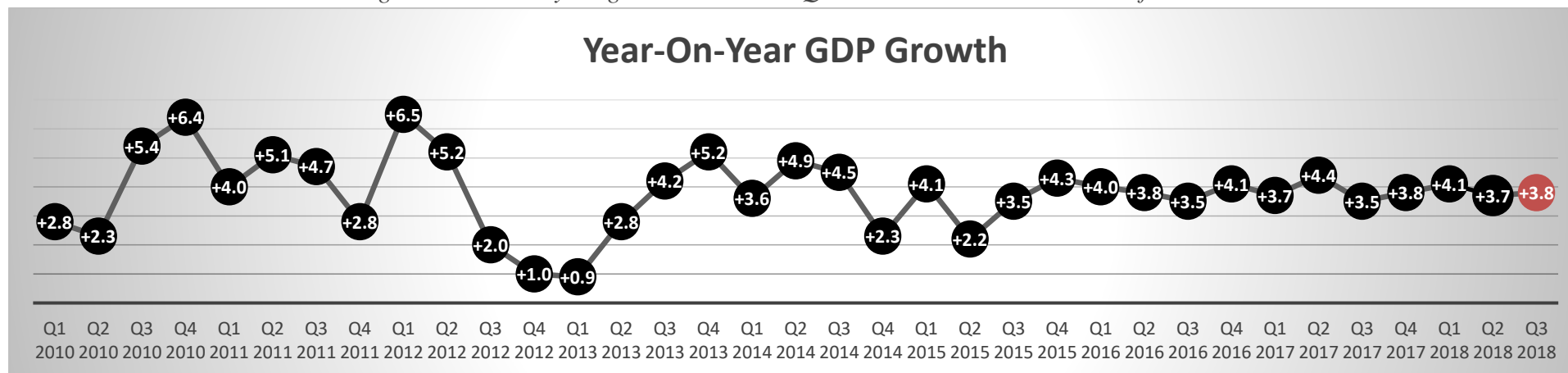


According to experts from the CES-Ifo, during the third quarter, respondents' assessments of the overall economic situation deteriorated significantly, but nevertheless remains at a high level. In contrast, the growth in future economic expectations, fell considerably, and reached its lowest level since the end of 2011. The indicator's growth dropped significantly as a result, with the global economy entering the downswing quadrant for the first time since 2012.

The global economy is entering a downswing in the medium-term, which may have consequences on the domestic economy.

VI. Economic Growth in Q3 2018 compared to Q3 2017

Figure 6: Year-on-year growth outlook in Q3 2018 based on Business Confidence



A Year-on-Year GDP Growth of 3.8 percent in Q3 2018, Economic growth estimated at 4 percent for the year 2018

According to Statistics Mauritius official data, for the second quarter of 2018, we had a year-on-year increase in GDP of 3.7%, which is lower than the rate of 4.0% achieved in the first quarter of 2018, and lower than the 4.4 percent achieved in the corresponding second quarter of 2017. As a reminder, this rate was at 3.5 percent in the third quarter of 2017.

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

3.8 percent for the third quarter of 2018, compared to the corresponding quarter of 2017.

Our econometric model demonstrates that, over the first nine months of the year, we have already achieved 2.8 percentage points of growth. Thus, if the economy grew by zero percent in Q4 2018, economic growth would have been of 2.8 percent. 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 third quarter of 2018. **The balance of opinions remained firmly in the positive territory at 8.0 balance points, with a slight fall from the 8.7 points and 8.2 points achieved in the first and second quarters 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 has reached 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 much less positively in the third 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 first quarter of 2017, at +2.9 points**

Though growth in the world economy remains steady, it is losing its 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 remain solid but the expansion is becoming less vigorous and less balanced.

This institution decreased its growth forecasts this October. It **favours a macro-economic scenario where the global growth rate, as measured by GDP, to increase by 3.7 percent in 2018, 0.2 percentage points lower than forecast in April and July 2018.** It has further reduced its global growth forecasts for 2019 to 3.7 percent. In advanced economies, with the effect of tariff measures, climatic and weather disruptions as well as lacklustre productivity, economic activity lost some momentum in 2018. Amongst emerging and developing economies, the growth prospects of many energy exporters have been lifted by higher oil prices. Yet, tighter financial

conditions, geopolitical tensions, higher oil import bills and trade barriers in a number of other economies have tamed this upturn in growth. It is now clear that **economic growth and expansion is less synchronised with diverging cyclical positions by different economies.**

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. After exponential upturns in 2017, the growth in business confidence has been steady over the first three quarters of 2018.

Demand remains one of the key engines of growth in the Mauritian economy, with **more than 44 percent of entrepreneurs indicating that an increase in demand has been one of the most significant factors affecting their businesses.** The combined effects of the implementation of purchasing power policies over the last 18 months¹, an increase in the average monthly earnings of employees to reach approximately Rs. 30,000, as well as relatively lower interest rates has had an effect on consumption expenditure. Entrepreneurs particularly in the consumer goods segments have indicated an increase in demand. With steady growth in the economy, and the expected end-of-year boost to domestic and global demand, enterprises are indicating an increase in the demand for their goods & services to be the main factor affecting their turnover.

Nonetheless, some 13 percent of entrepreneurs have indicated a decrease in the demand for their products, mostly accompanied by higher levels of competition in the marketplace. Indeed, with a highly liberalised economy, and faced by global competitiveness both on the domestic and external markets, entrepreneurs, at 37 percent point to an increase in competition as one of the constraining factors affecting their businesses.

The planned increase in investment observed during the last quarter is confirmed with more than 60 percent of entrepreneurs indicating that they would increase their investment expenditure in the next twelve months. This is in contrast to less than 1 percent of entrepreneurs anticipating a decrease in investment expenditure. Investment remains predominantly in Plant & Machinery, indicating that entrepreneurs are investing in new production lines and markets. This is confirmed by the fact that approximately 40 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.**

The remainder of the increase in investment is equally divided between investments in Buildings and R&D Expenditure. We therefore anticipate a higher use of the double deduction on R&D expenditure, a measure which has been underutilised in its first year of application.

Employment is expected to continue to improve with more than 30 percent of entrepreneurs indicating an increase in employment over the next 3 months.

¹ Negative Income Tax, Minimum Wage, Lower tax band for middle income-earners

The majority of enterprises are expecting to maintain their employment levels whilst less than 5 percent of companies are engaged in a restructuring and downsizing exercise. More than 60 percent of companies point to an increase in global and local demand as the main reason for their employment policies.

Exports of goods and services continue to increase, albeit modestly, with a balance of opinion of exports at 3.9 points. The evaluation on the exports' turnover between the months of July and September 2018 at 3.6 balance points is boosted by a slightly higher expectation on the export turnover for the last three months of the year, at 4.3 balance points.

On the constraining factors, with an unbalanced economic growth at the global level, and increasing downside risks related to geopolitical tensions, tighter financial conditions, local entrepreneurs are faced with a more prominent competition both domestically and globally. This is accentuated by some 27 percent of entrepreneurs pointing to an increase in the cost of doing business. Recruitment difficulties and skills mismatch are, as well as high freight related charges, and administrative procedures remain stumbling blocks to a dynamic increase in the performance of entrepreneurs.

The recent World Bank Doing Business Report 2019, which brings Mauritius to the league of 20 best economies in the doing business indicators is indeed a welcomed step for the country, which has the potential to be amongst the Top 10 economies worldwide. Moving forward, Mauritius should focus further its reforms agenda on improvements in the Getting Credit, Trading across Borders, and Resolving Insolvency indicators.

The IMF, in its latest Economic Outlook, points to a narrowing window of opportunity for economies to advance policies and reforms to extend the momentum and raise medium-term growth for the benefit of all, whilst strengthening the resilience of economies to the next downturn and tighter financial conditions. With the economic momentum peaking, the IMF thus warns that strengthening resilience and tackling long-standing challenges become more urgent.

It is hence, timely, for the implementation of medium-term economic strategies and planning for the Mauritian economy to tackle long-standing challenges, through cooperation between the public and private sector. Such collaborations, already present in the Business Process Streamlining initiatives, should be extended to the macro-economic strategy development of the country to address the more profound challenges and issues facing the economy.

Based on the business climate results for the first three quarters of 2018, we estimate that the economic growth in the third quarter of 2018 was of 3.8 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.

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 OECD², 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

² OECD : *Business Tendency Surveys – A Handbook*, 2003



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