

BAG INDEX

Index for the Business Association of Georgia

**II QUARTER
2020**



Research

BAG INDEX

II QUARTER, 2020

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BAG INDEX

Prepared by PMC Research Center and ifo Institute.

The Business Association of Georgia (BAG) Index is a joint product of the Business Association of Georgia, PMC Research Center and the ifo Institute for Economic Research. The BAG Index summarizes the BAG Business Climate, BAG Employment Barometer and BAG Investment Environment assessed by the top managers of BAG member businesses. The PMC Research Center publishes the BAG Index on a quarterly basis.

BAG BUSINESS CLIMATE

The BAG Business Climate is based on the responses of BAG member businesses. Companies assess their current business situation and expectations for the next six months. They can describe their current business situation as “good”, “satisfactory” or “bad”, and their expectations for the next six months as “more favorable”, “unchanged” or “less favorable”. BAG Business Climate is a transformed mean of the balance values of the current business situation and the expectations for the next six months.¹ In the frame of this index BAG members were divided in four sectors: trade, manufacturing, construction, and service.

Apart from assessing their current business situation and expectations for the next six months, BAG member businesses are asked to assess their situation regarding sales prices, sales/turnover/demand and number of employees in the last quarter and in the next quarter. Moreover, businesses are asked questions related to factors hindering their business activity, access to finance and exchange rate expectations.

BAG BUSINESS CYCLE CLOCK

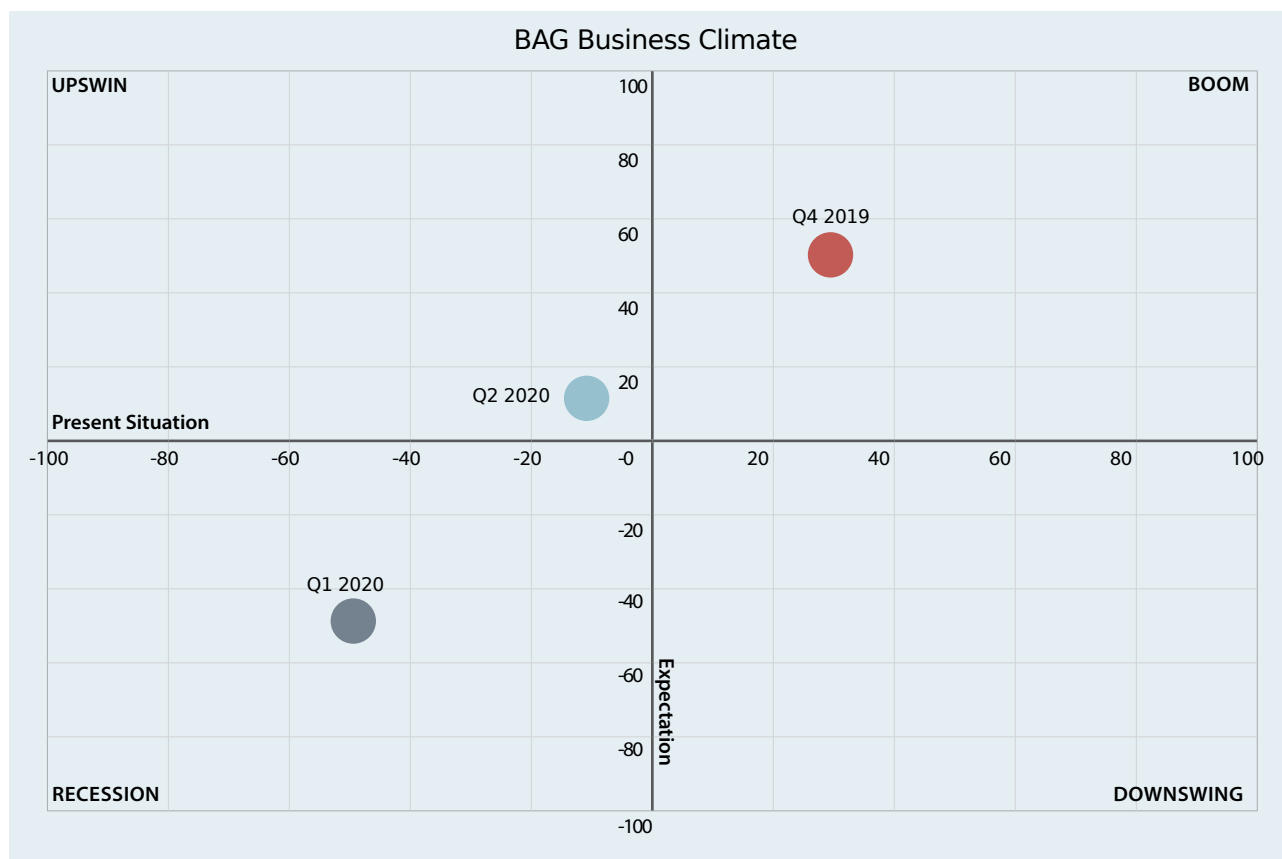
The BAG Business Cycle Clock shows the relationship between the present business situation and business expectations for the next six months in a four-quadrant diagram. Quadrants are labeled upswing, boom, downswing, and recession:

- ✘ If survey participants assess the present business situation negatively and business expectations for the next six months positively on balance, the BAG business climate indicator is in the “**upswing**” quadrant.
- ✘ If survey participants assess the present business situation and business expectations for the next six months positively on balance, business climate indicator is in the “**boom**” quadrant.
- ✘ If survey participants assess the present business situation positively and business expectations for the next six months negatively on balance, BAG business climate indicator is in the “**downswing**” quadrant.
- ✘ If survey participants assess both the present business situation and business expectations for the next six months negatively on balance the BAG business climate indicator is in the “**recession**” quadrant.

¹ Balance values for the current business situation is the difference in the percentage shares of the responses “good” and “bad” and the balance value for the expectations for the next six months is the difference in the percentage shares of the responses “more favorable” and “less favorable”. BAG Business climate can be between -100 and +100. +100 means that all surveyed businesses assess business climate positively, while -100 means all surveyed businesses assess business climate negatively.

IN THE SECOND QUARTER OF 2020, BAG MEMBER BUSINESSES ASSESSED THEIR PRESENT BUSINESS SITUATION **NEGATIVELY**, WHILE THEY ASSESSED THEIR EXPECTATIONS FOR THE NEXT SIX MONTHS **POSITIVELY**. ACCORDINGLY, IN THE SECOND QUARTER OF 2020, THE BAG BUSINESS CLIMATE INDICATOR AMOUNTED -0.8 POINTS, THE PRESENT BUSINESS SITUATION AMOUNTED - 12.3 POINTS, WHILE BUSINESS EXPECTATION 12.2 POINTS.

It has to be noted that assessment of BAG Present Business Situation and BAG Business Expectations in the Q2 2020 has improved significantly compared to Q1 2020.

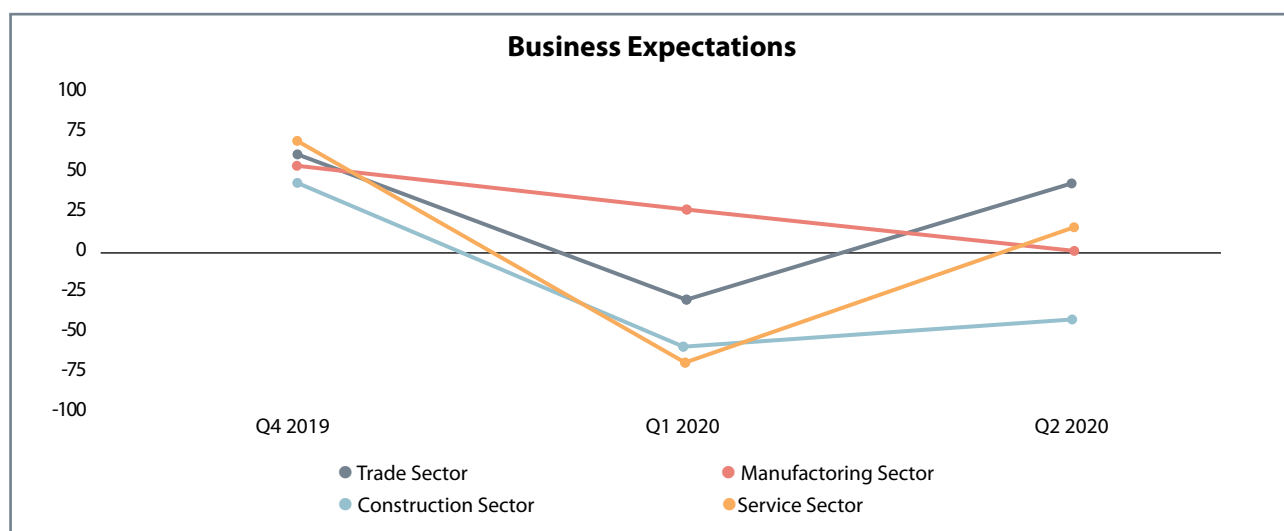


Graph 1: BAG Business Climate

In the second quarter of 2020, among four sectors, the BAG business climate indicator is positive only for the trade sector. The present business situation was negatively assessed in three sectors (manufacturing, services, construction) except trade. On the other hand, expectations for the next six months were assessed negatively only in the construction sector. According to a survey conducted in the first quarter of 2020, expectations for the next six months were sharply negatively assessed in all three sectors (construction, services, trade) except for the manufacturing sector. By the end of the second quarter 2020, expectations improved significantly in the trade and service sectors. There is a positive trend in the construction sector as well (despite the negative expectations still), while expectations in the manufacturing sector worsened.

Table 1: Balance values by sectors in the II quarter of 2020

	Business Climate	Present Business Situation	Business Expectation
Trade Sector	22.9	5.3	42.1
Manufacturing Sector	-8.5	-16.7	0
Construction Sector	-29.2	-14.3	-42.9
Service Sector	-5.1	-22.7	14.3



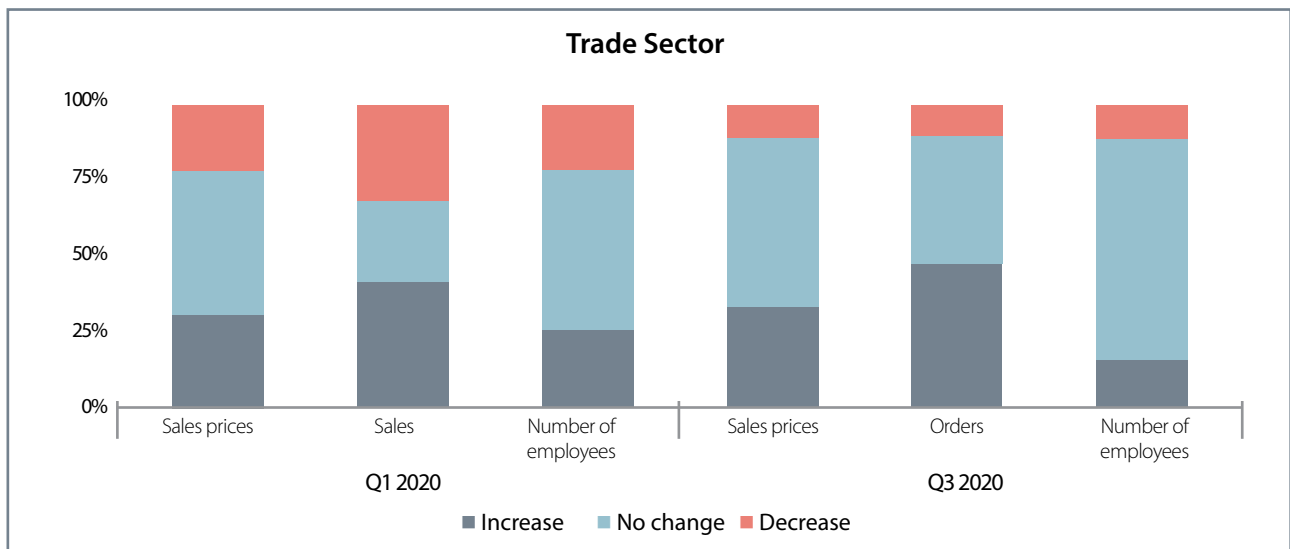
Graph 2: Business expectations for the next 6 months

EXPECTATIONS FOR THE THIRD QUARTER OF 2020

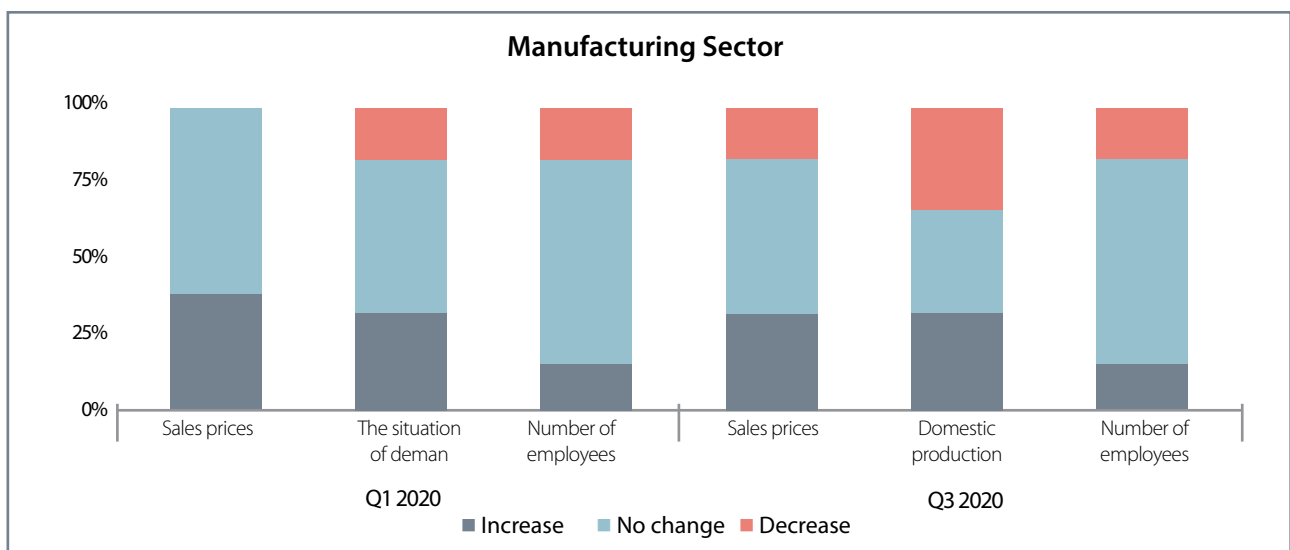
- ✘ In Q3 2020, only 20.8% of surveyed BAG members expect an increase in the number of employees, while 62.2% do not expect this figure to change, and 17% expect a decrease.
- ✘ In Q3 2020, 42.9% of surveyed companies in the construction sector expect a reduction in the number of employees.
- ✘ In Q3 2020, a large proportion of respondents in the manufacturing (66.7%), service (72.7%) and trade (72.2%) sectors do not expect a change in the number of employees.
- ✘ In Q3 2020, 15% of surveyed companies expect an increase in sales prices, while 68% do not expect prices to change, and 17% expect a decrease.
- ✘ In Q3 2020, the majority of companies surveyed in the construction sector do not expect a change in sales prices (71.4%), while 28.6% expect a decrease. Also, the majority of respondents in the construction sector do not expect a change in the number of sales (42.9%) or expect a decrease in sales (42.9%).
- ✘ In Q3 2020, 50% of respondents in the service sector and 47.4% of respondents in the trade sector expect increase in sales.

DEVELOPMENT IN THE FIRST QUARTER OF 2020

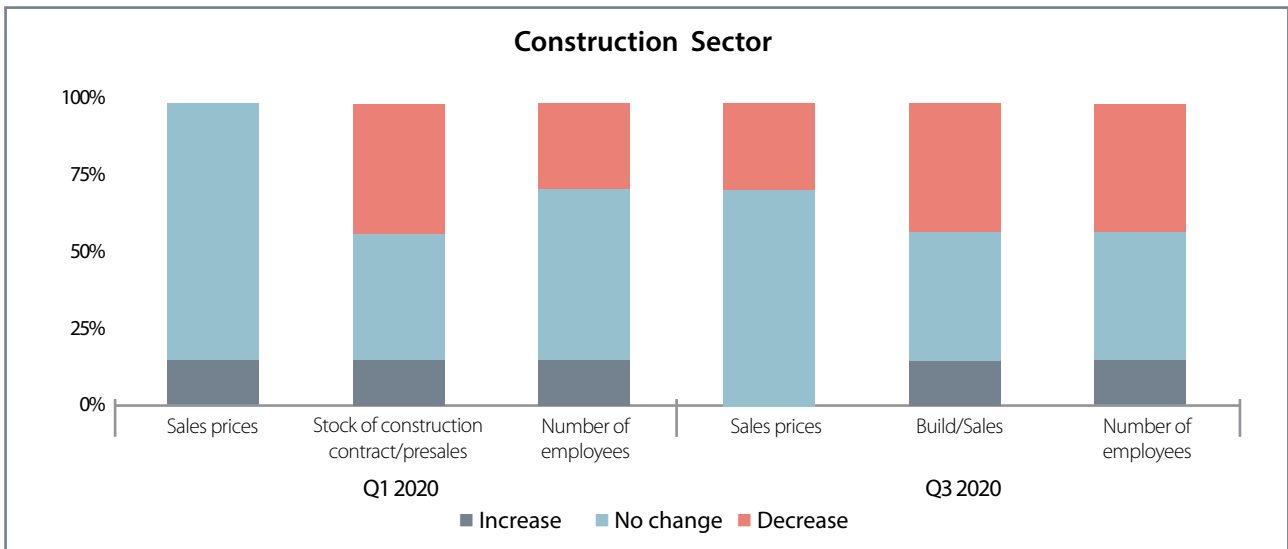
- ✘ 18.5% of the surveyed BAG members state the number of employees was increased in Q1 2020, while for 66.7% the number of employees was unchanged and for 14.8% the number was decreased.
- ✘ 28.6% of the surveyed businesses in the construction sector state that the number of employees was decreased in Q1 2020. This figure is 21.1%, 16.7% and 4.5% for trade, manufacturing and service sectors, respectively.
- ✘ 20.8% of surveyed BAG members state sales prices were increased in Q1 2020, while for 66% of them the sales prices were unchanged, and for 13.2% sales prices were decreased.
- ✘ The majority of the surveyed businesses in all four sectors state that sales prices were unchanged in Q1 2020. None of the surveyed businesses in construction and manufacturing sectors report decrease in sales prices.



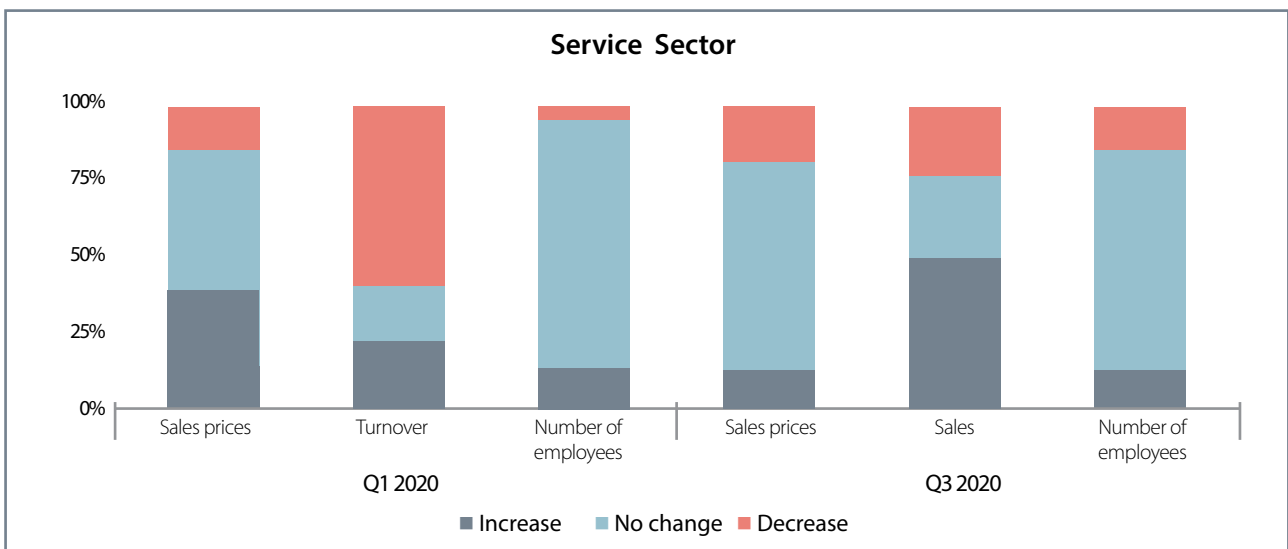
Graph 3: Development in Q1 2020 and expectations for Q3 2020 in the trade sector



Graph 4: Development in Q1 2020 and expectations for Q3 2020 in the manufacturing sector



Graph 5: Development in Q1 2020 and expectations for Q3 2020 in the construction sector

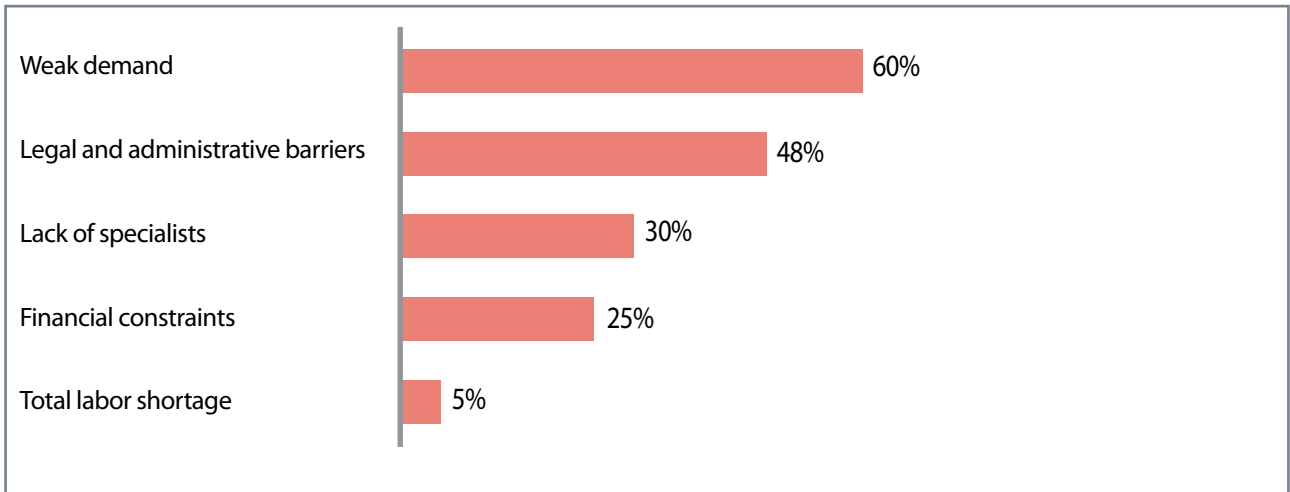


Graph 6: Development in Q1 2020 and expectations for Q3 2020 in the service sector

FACTORS HINDERING BUSINESS ACTIVITY

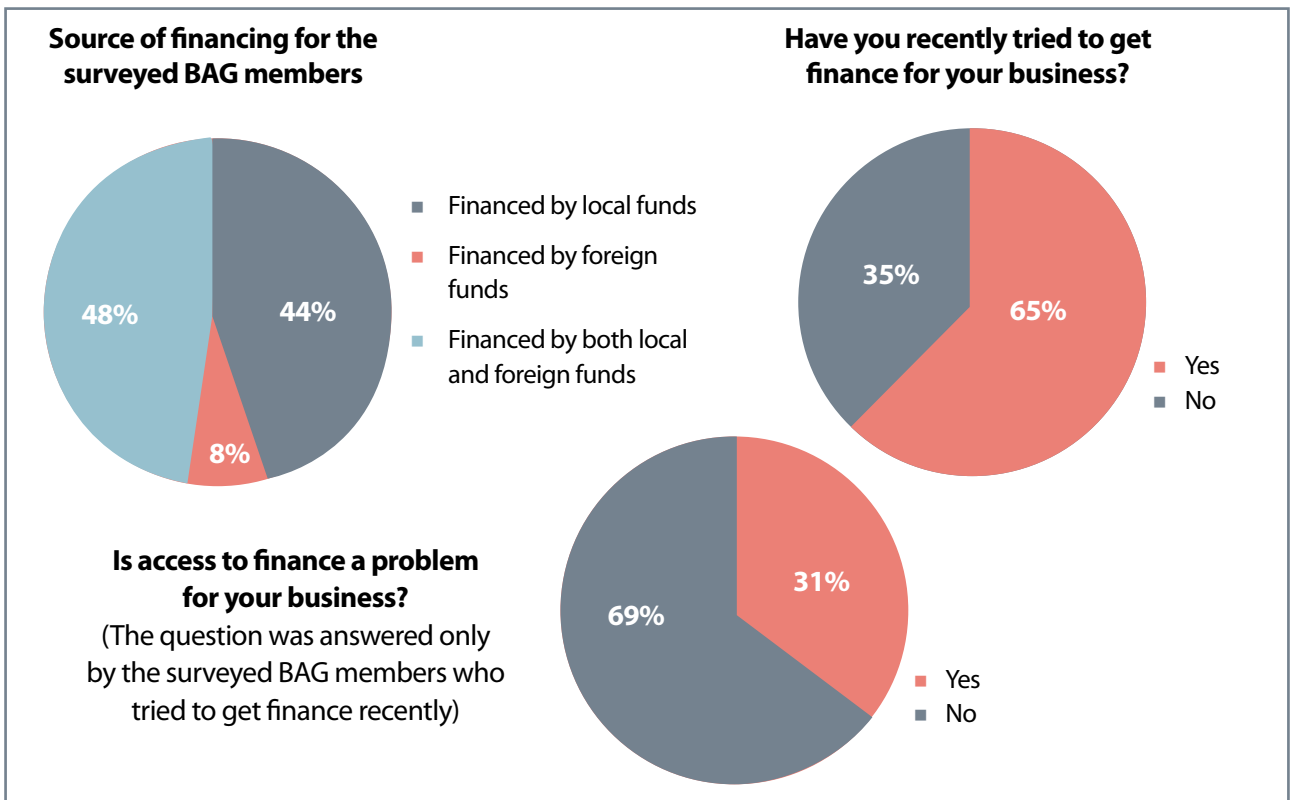
According to the assessment of challenges that businesses face, 72.2% of surveyed businesses claim there are factors that hinder their business activity, while 27.8% think such factors do not exist.

It is worth to note that according to the survey conducted in the first quarter of 2020, the same 5 factors given in graph 7 were also recorded as the most hindering for business activity. However, the problem of lack of specialists has exacerbated in the second quarter of 2020 compared to the first quarter of 2020.



Graph 7: The major challenges that surveyed BAG member businesses face

FINANCING



Graph 8: Financing

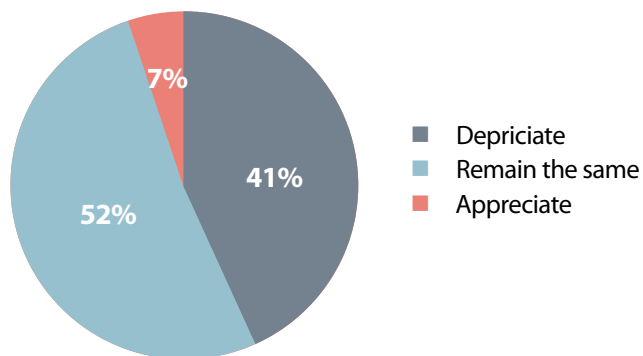
69% of the surveyed BAG members that tried to get finance recently claim access to finance is not a problem for them, while 31% consider access to finance a problem.

It is worth to note, that in the previous quarter, 46.9% of respondents stated that access to finance was a problem for them. This change may be explained by the easing of COVID-19-induced regulations in the country.

EXCHANGE RATE EXPECTATION

In the second quarter of 2020, compared to the first quarter, the percentage share of surveyed businesses expecting currency depreciation decreased from 68% to 41%. It is also important to note that the percentage share of surveyed BAG members thinking the exchange rate of Georgian Lari against US dollar will not change has risen from 28% to 52%.

For the next 6 months the exchange rate of Georgian Lari against US Dollar is expected to



Graph 9: The expectation of exchange rate of Georgian Lari against US Dollar

BAG EMPLOYMENT BAROMETER

The BAG Employment Barometer is based on responses from BAG member businesses. The companies are asked to report on their employment plans for the coming three months.²

IN THE Q2 OF 2020, THE SURVEYED BAG MEMBER BUSINESSES HAD A NEGATIVE OUTLOOK ABOUT EMPLOYMENT EXPECTATIONS. THE BAG EMPLOYMENT BAROMETER AMOUNTED -2.8 POINT. HOWEVER, THIS FIGURE IS SIGNIFICANTLY BETTER COMPARED TO THE Q1 OF 2020, WHEN THE BAG MEMBER BUSINESSES HAD MORE NEGATIVE OUTLOOK TOWARDS EMPLOYMENT EXPECTATIONS AND THE BAG EMPLOYMENT BAROMETER ACCOUNTED -46.7 POINT.

According to the sectors, BAG members businesses had negative employment outlook only in the construction sector and had positive outlook in the trade sector. As for the manufacturing and services sectors, the employment barometer accounted 0 point (meaning that they do not have clear expectations of an increase or decrease in the number of employees). It is noteworthy that in the first quarter of 2020, there were negative expectations regarding employment in all four sectors.

Table 2: Balance values by sectors in the Q1 2020 and Q2, Employment Barometer.

BAG Employment Barometer by Sector (Balances)			
Sector	Q4 2019	Q1 2020	Q2 2020
Trade	33.3	-45.0	5.6
Manufacturing	11.1	-25.0	0
Construction	50.0	-80.0	-28.6
Service	14.6	-41.7	0
BAG Employment Barometer	26.1	-46.7	-2.8

² They can describe their plans for the number of employees for the coming three months as “increasing”, “stable”, or “decreasing”. The balance value of the plans will be the difference in the percentage shares of the responses “increasing” and “decreasing”. The BAG employment barometer is a transformed mean of the balances in different sectors.

BAG employment barometer can be between -100 and +100. -100 means all surveyed businesses expect employment to be decreasing in the following three months, while +100 means all surveyed businesses expect employment to be increasing during the following three months.

BAG INVESTMENT SURVEY

As part of an investment survey, which is carried out bi-annually, PMC Research Center collects data on investment trends. For the purposes of this survey BAG member businesses were divided in four sectors (similar to BAG Business Climate): manufacturing, service, trade and construction. The survey conducted in the second quarter of 2020 covered the investments made by BAG member businesses in 2019 and their plans for 2020.

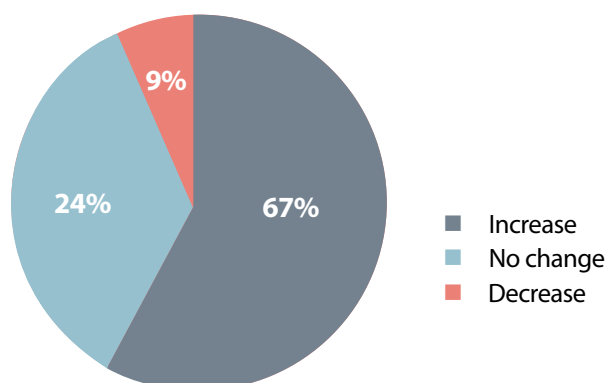
According to the results of BAG Investment Survey:

- ✘ 63% of surveyed BAG member businesses in the trade sector recorded increase of their total investments in 2019, compared to 2018. In 2020, only 32% of the surveyed respondents plan increase of their total investments compared to 2019.
- ✘ 83% of surveyed BAG members in the manufacturing sector recorded increase of their total investments in 2019, compared to 2018. This share is much lower (33%) for the investment plans in 2020, compared to 2019.
- ✘ 71% of surveyed BAG members in the construction sector recorded increase of their total investments in 2019, compared to 2018. This share is relatively low (43%) for the investment plans in 2020, compared to 2019.
- ✘ 64% of surveyed BAG member businesses in the service sector recorded increase of their total investments in 2019, compared to 2018. This share is much lower (23%) for the investment plans in 2020, compared to 2019.

INVESTMENT ENVIRONMENT IN 2019

Overall, 67% of the surveyed BAG member businesses stated that their total investments had increased in 2019, compared to 2018. Meanwhile, 24% of the surveyed BAG member businesses claimed their total investments were unchanged, while only 9% stated their investment had decreased.

Total investments in 2019, compared to 2018



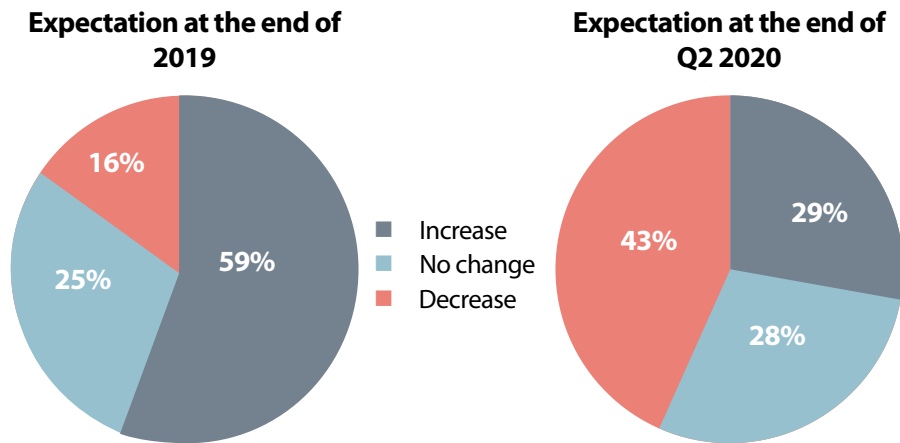
Graph 10: Investment environment in 2019

During the reporting period, there was an increase in the volume of total investments in equipment and software/databases. Moreover, the volume of total investment in plants increased as well, albeit less impressively. It is worth noting that the majority of surveyed BAG members stated that they expanded investments in equipment (69%), software/databases (68%) and plants (53%).

INVESTMENT PLANS IN 2020

In the second quarter of 2020, 43% of surveyed BAG member businesses claimed they will decrease their total investments in 2020, compared to 2019. At the same time, 28% of the surveyed BAG member companies expect no change in their total investments, while 29% expect an increase in total investments.

It should be noted that according to the survey conducted at the end of 2019, the majority of surveyed BAG members (59%) planned to increase their total investments in 2020, compared to 2019. This change is likely due to the instability caused by the spread of COVID-19.

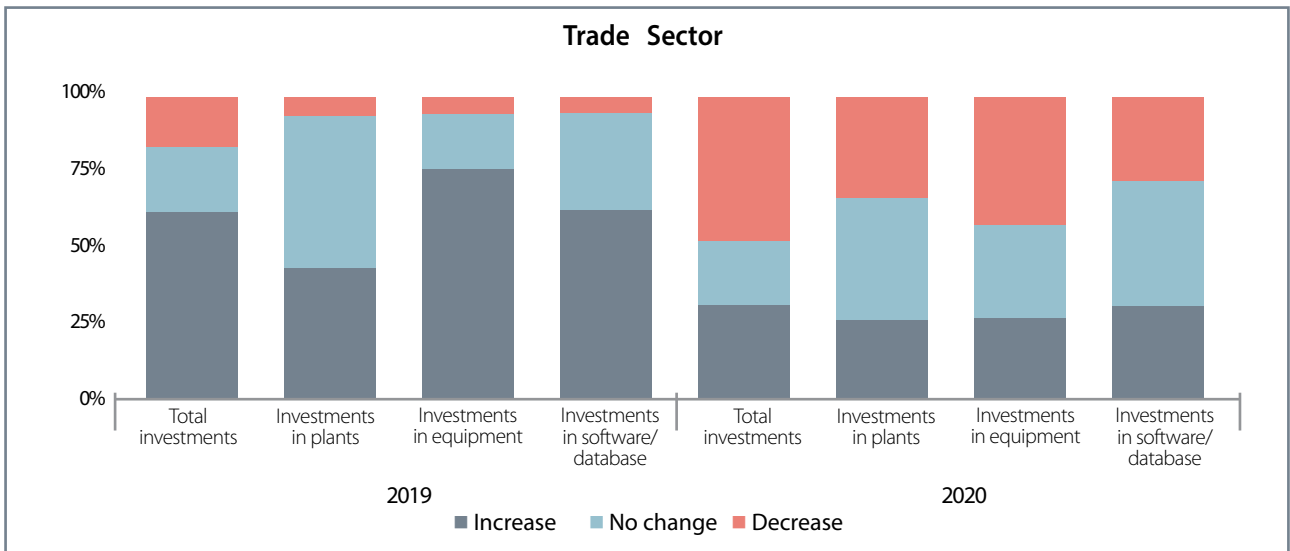


Graph 11: Change of investment plans for 2020

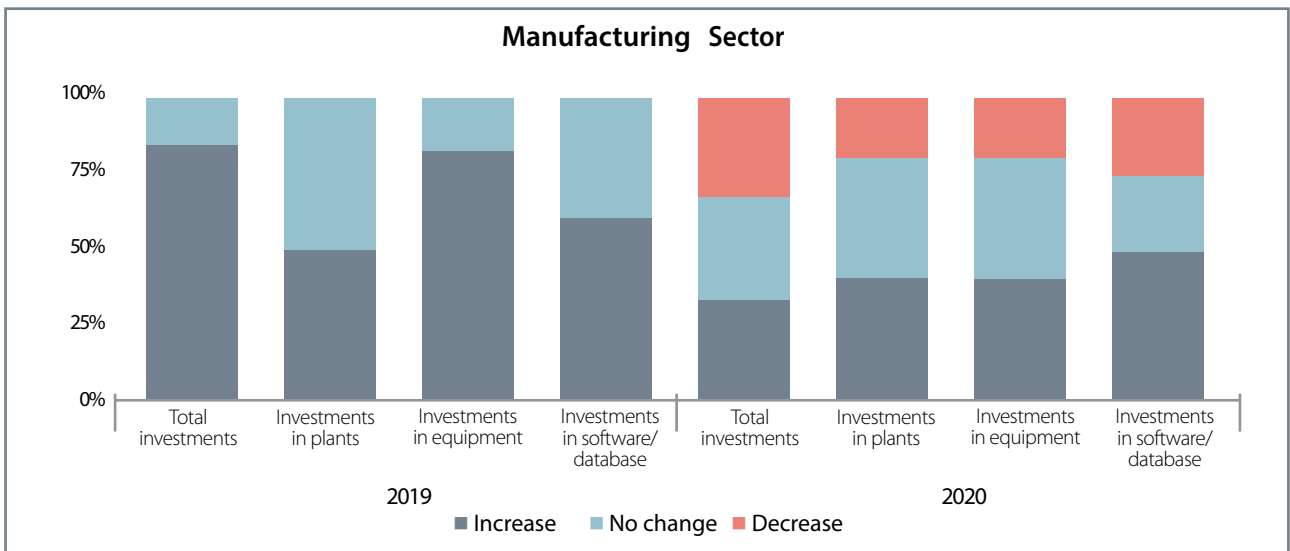
Regarding the growth of investments, positive predictions were more pronounced in the direction of equipment and software / databases, and relatively less in direction of plants. 35% of the surveyed respondents expect their investments to increase in software / databases in 2020, while in direction of equipment, only 28% have similar expectations. Only 21% of surveyed respondents believe that in 2020, their investments in plants will increase.

Table 3: Percentage shares of companies surveyed that planned to increase their investment in 2020, compared to 2019

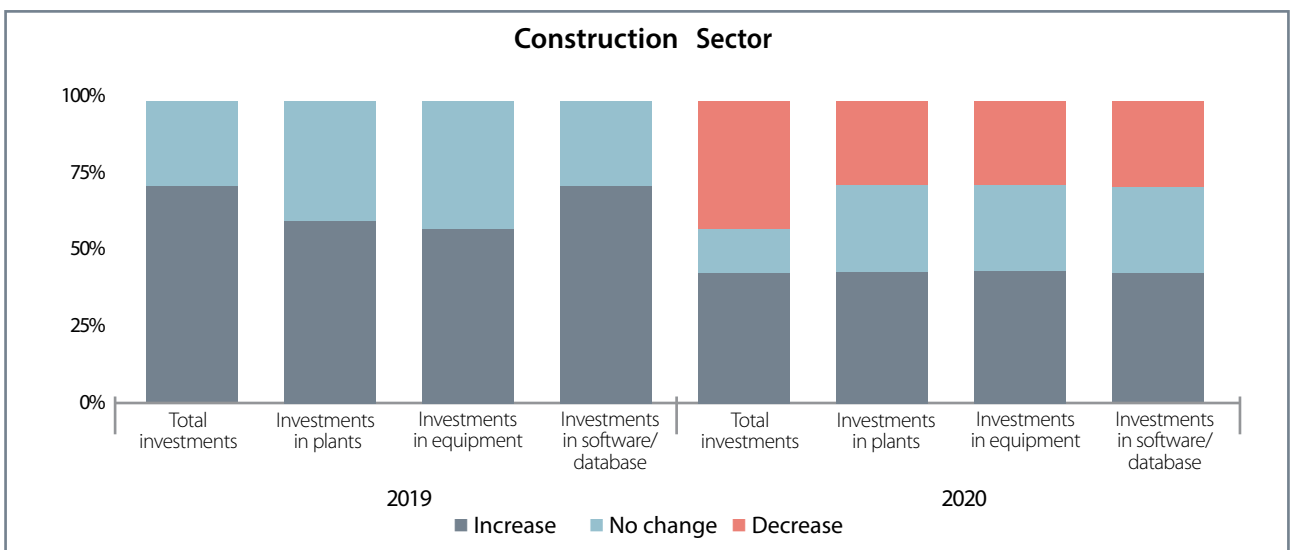
	According to the survey conducted at the end of 2019	According to the survey conducted in the second quarter of 2020
Trade	50%	32%
Manufacturing	50%	33%
Construction	67%	43%
Service	65%	23%



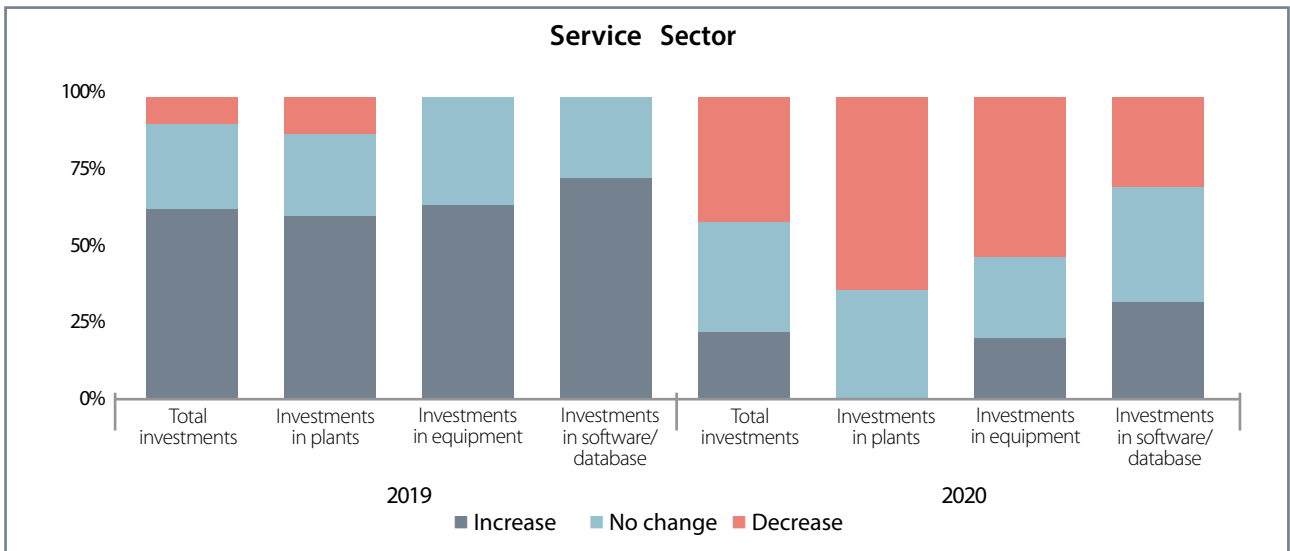
Graph 12: Investment environment in 2019 and investment plans for 2020 in the trade sector (annual percentage change)



Graph 13: Investment environment 2019 and investment plans in 2020 in the manufacturing sector (annual percentage change)



Graph 14: Investment environment 2019 and investment plans in 2020 in the construction sector (annual percentage change)



Graph 15: Investment environment 2019 and investment plans in 2020 in the service sector (annual percentage change)



საქართველოს ბიზნეს ასოციაცია
BUSINESS ASSOCIATION OF GEORGIA

**PMC Research, research@pmcginternational.com
Business Association of Georgia, info@bag.ge**