

BAG INDEX

Index for the Business Association of Georgia

**IV QUARTER
2019**



Research

BAG Index

IV QUARTER, 2019

CONTENTS

BAG Index 4

BAG Business Climate 4

BAG Employment Barometer 9

BAG Investment Survey 10

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 for the IV quarter of 2019. 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. Businesses 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 Climate¹ is a transformed mean of the balance values of the current business situation and the expectations for the next six months. 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”. In the frame of this index BAG businesses were divided in four sectors: manufacturing, service, trade, and construction.

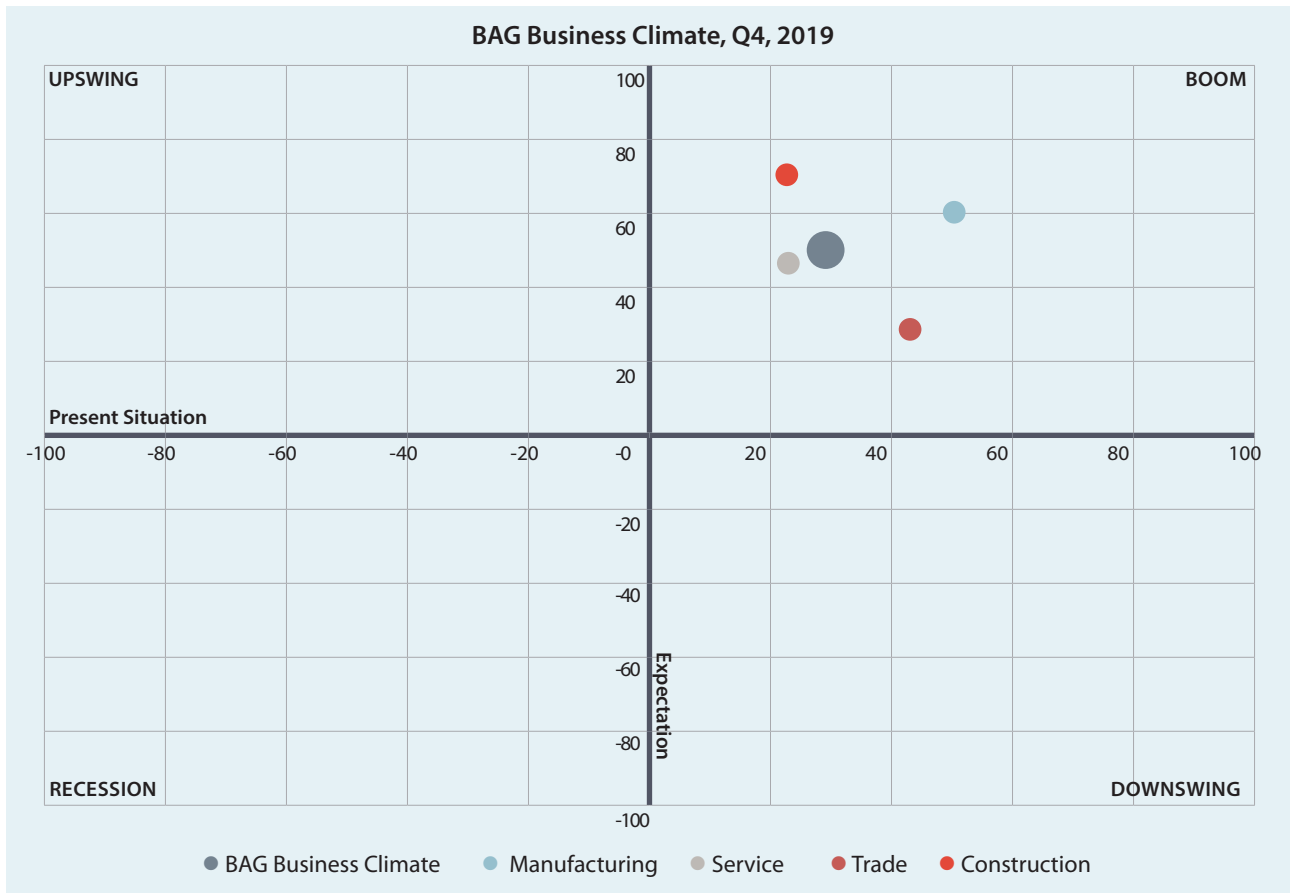
Apart from assessing their current business situation and expectations for the next six months, BAG member businesses are asked to assess their situation regarding sales prices, sales/turnover/demand and number of employees in the last quarter and in the next three months.

IN THE FOURTH QUARTER OF 2019, BAG MEMBER BUSINESSES ASSESSED THEIR PRESENT BUSINESS SITUATION AND EXPECTATIONS FOR THE NEXT SIX MONTHS POSITIVELY. IN THE FOURTH QUARTER OF 2019, THE BAG BUSINESS CLIMATE AMOUNTED 40.9 POINTS, THE BUSINESS SITUATION AMOUNTED 29.5 POINTS, WHILE BUSINESS EXPECTATION 53.1 POINTS.

BAG BUSINESS CYCLE CLOCK

The BAG Business Cycle Clock shows the relationship between the current 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 current 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 current 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 current 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 current business situation and business expectations for the next six months negatively on balance the BAG business climate indicator is in the “recession” quadrant.



Graph 1: BAG Business Climate, IV quarter 2019

The assessment of the present situation and expectations for the next six months were positive in all four sectors (manufacturing, service, trade, and construction).

Table 1: Balance values by sectors in the IV quarter of 2019

	Business Climate	Business Situation	Business Expectation
Manufacturing Sector	51.4	43.3	60.0
Service Sector	36.8	21.9	52.8
Trade Sector	39.7	36.6	42.9
Construction Sector	45.9	25.0	68.8

DEVELOPMENT IN THE THIRD QUARTER OF 2019

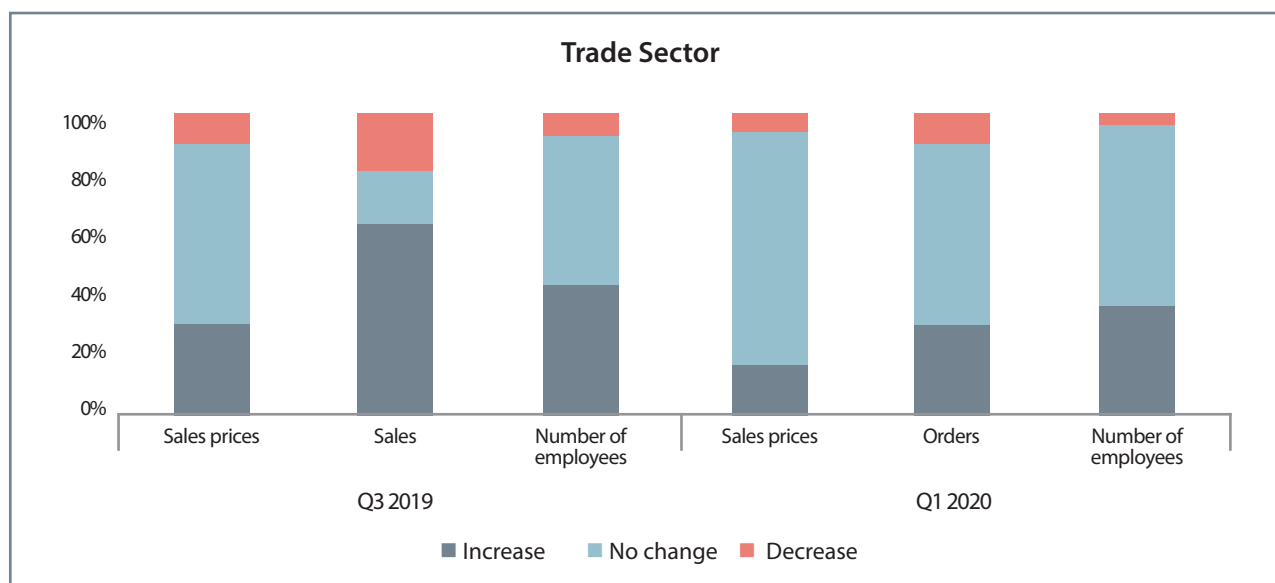
- 43.4% of the surveyed BAG member businesses state the number of employees was increased in Q3 2019, while for 46.5% of surveyed businesses the number of employees was unchanged and for 10.1% the number was decreased.
- 33% of the surveyed BAG member businesses in the manufacturing sector state the number of employees were decreased in Q3 2019; meanwhile, in the trade sector only 7% of the surveyed BAG member businesses state the number of employees were decreased, while in the construction and service sectors this amounts to 8% and 8.4% accordingly.

- 22% of the surveyed BAG member businesses state the sales prices were increased in Q3 2019, while for 69% of the surveyed BAG member businesses the sales prices were unchanged and for 9%, they decreased.
- Only 12.6% of the surveyed BAG member businesses in the service sector and 10% of the surveyed BAG member businesses in the trade sector state the sales prices were decreased in Q3 2019, while in the manufacturing and construction sectors none of the surveyed BAG member businesses announce the sales prices were decreased.
- In the manufacturing sector 38% of surveyed businesses state the situation of demand was worsened in Q3 2019.

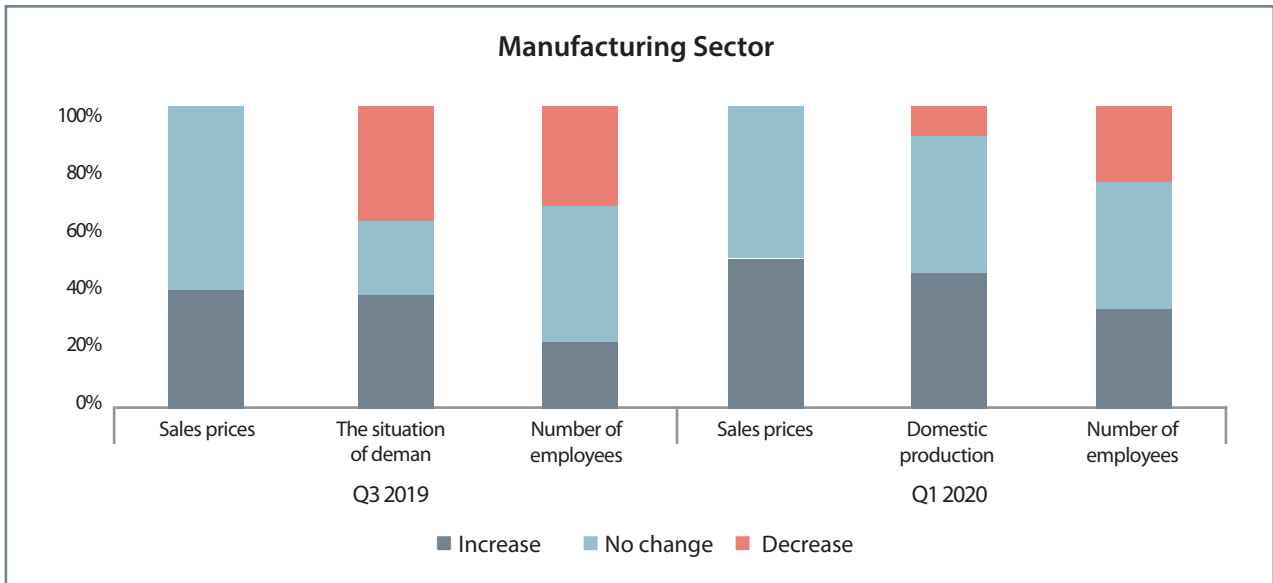
EXPECTATIONS FOR THE FIRST QUARTER OF 2020

- 31.7% of the surveyed BAG member businesses expect the number of employees will be increased in Q1 2020, while 61.4% of the surveyed BAG member businesses expect the number of employees will be unchanged, and for 6.9% it will be decreased.
- 32.3% of the surveyed BAG member businesses expect the sales prices will be increased in Q1 2020, while 61.6% of the surveyed BAG member businesses expect the sales prices will be unchanged and for 6.1% they will be decreased.
- In the trade, manufacturing and service sectors most surveyed BAG member businesses do not expect the increase of sales prices, orders/domestic production and number of employees in Q1 2020. Most of them expect these indicators to stay unchanged.

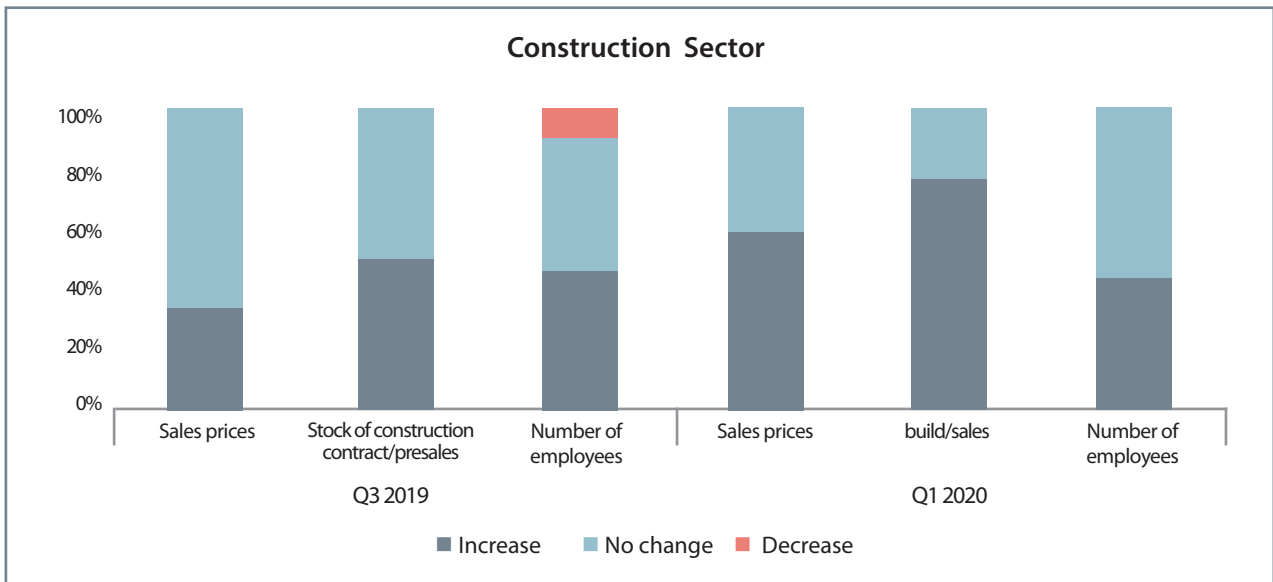
IN THE CONSTRUCTION SECTOR MOST SURVEYED BUSINESSES (77%) EXPECT DEMAND FOR THEIR SERVICES (BUILD/SALES) WILL EXPAND IN Q1 2020. THIS CAN RELATE TO THE EXPECTED SOFTENING OF REGULATIONS BY THE NATIONAL BANK OF GEORGIA.



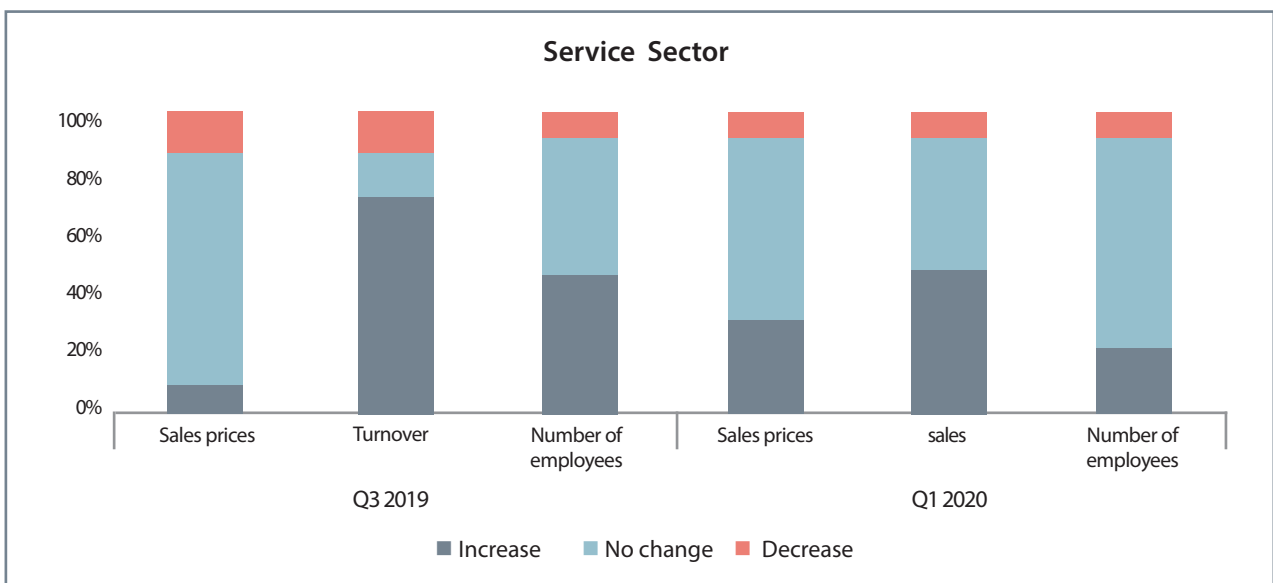
Graph 2: Development in Q3 2019 and expectations for Q1 2020 in the trade sector



Graph 3: Development in Q3 2019 and expectations for Q1 2020 in the manufacturing sector



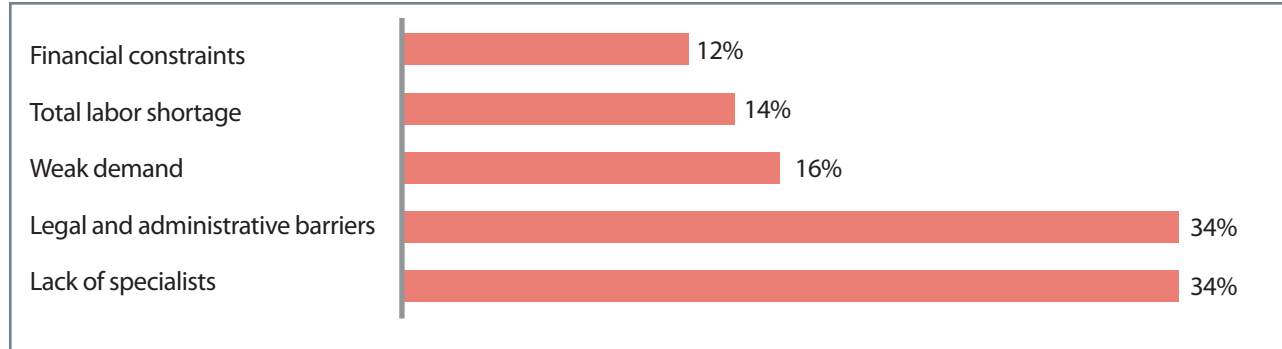
Graph 4: Development in Q3 2019 and expectations for Q1 2020 in the construction sector



Graph 5: Development in Q3 2019 and expectations for Q1 2020 in the service sector

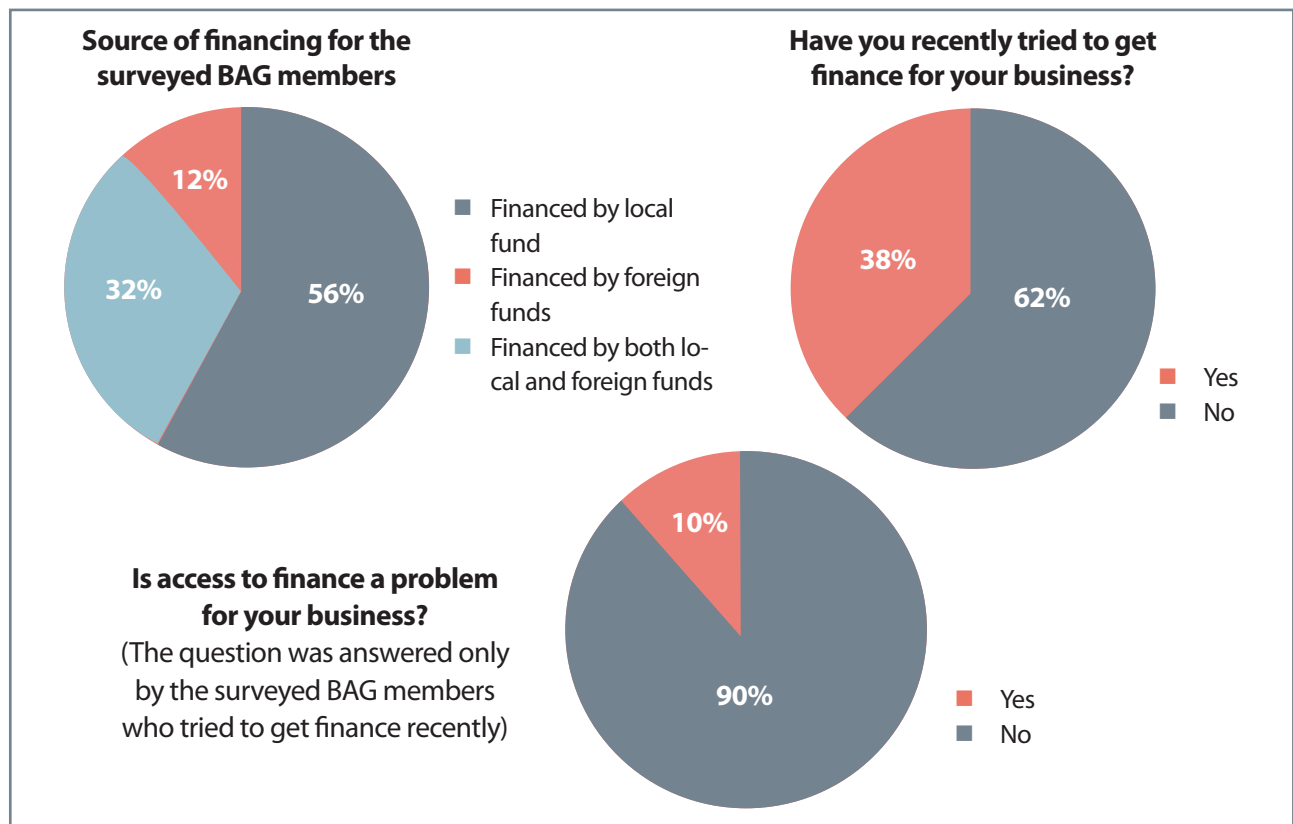
FACTORS HINDERING BUSINESS ACTIVITY

ACCORDING TO THE ASSESSMENT OF CHALLENGES THAT BUSINESSES FACE, 69% OF SURVEYED BUSINESSES CLAIM THERE ARE FACTORS THAT HINDER THEIR BUSINESS ACTIVITY, WHILE 31% THINK SUCH FACTORS DO NOT EXIST.



Graph 6: The major challenges the surveyed BAG member businesses face

FINANCING



Graph 7: Financing

90% of the surveyed BAG businesses that tried to get finance recently claim access to finance is not a problem for them, while 10% consider access to finance a problem. This may be explained by the size of the businesses, BAG members are medium and large sized, having the possibility to satisfy collateral requirements, moreover, it is easier for financial institutions to assess their assets, because of sound financial reporting. All of these makes less risky for financial institutions to issue loans to them.

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 months². The employment barometer is the difference in the percentage shares of the responses “Increasing” and “Decreasing”.

In the IV quarter of 2019, the surveyed BAG member businesses had a positive outlook about employment expectations. The BAG Employment Barometer amounted 26.1 point.

According to the sectors, the most positive outlook was recorded by the surveyed BAG businesses in the construction sector, while the least positive outlook was recorded by the surveyed BAG businesses in the manufacturing sector. The positive outlook of the surveyed BAG businesses in the construction sector could be explained by their expected increase in sales and prices.

Table 2: Balance values by sectors in the IV quarter of 2019, employment barometer

BAG employment Barometer by Sector (Balances)	
Sector	IV quarter 2019
Manufacturing	11.1
Service Sector	14.6
Trade	33.3
Construction	50.0

BAG INVESTMENT SURVEY

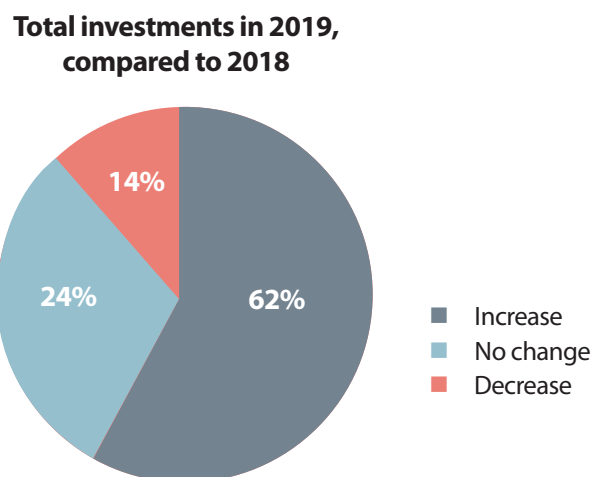
As part of an investment survey, which will be carried out bi-annually, PMC Research Center collects data on investment trends. For the purposes of this survey BAG member businesses were divided in four sectors (similar to BAG Business Climate): manufacturing, service, trade and construction. The survey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

According to the results of BAG Investment Survey:

- 56% of the surveyed BAG member businesses in the trade sector recorded increase of their total investments in 2019, compared to 2018, this share is lower (50%) for the investment plans in 2020, compared to 2019.
- 40% of surveyed BAG member businesses in the manufacturing sector recorded decrease of their total investments in 2019, compared to 2018, this share is even higher (50%) for the investment plans in 2020, compared to 2019.
- All the surveyed BAG member businesses in the construction sector recorded increase of their total investments in 2019, compared to 2018, this share is lower (67%) for the investment plans in 2020, compared to 2019.
- 55% of surveyed BAG member businesses in the service sector recorded increase of their total investments in 2019, compared to 2018, this share is even higher (65%) for the investment plans in 2020, compared to 2019.

INVESTMENT ENVIRONMENT IN 2019

Overall, 62% 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 the remaining 14% stated their investments had decreased.

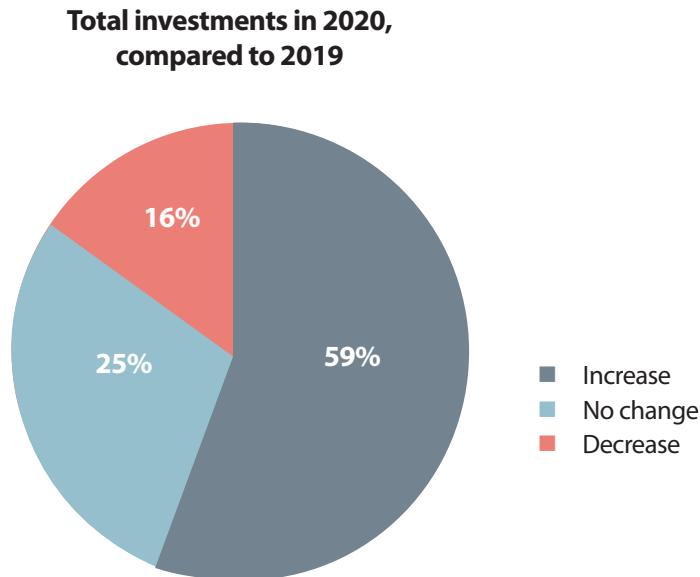


Graph 8: Investment environment in 2019

There was a general pattern of growth over the reporting period in investments in equipment and software/databases, with investments in plants also increasing, albeit less impressively. Notably, the majority of surveyed BAG member businesses (59%) reported increased investments in equipment and software/databases (58%). Meanwhile, investments in plants were unchanged for 48% of surveyed BAG member businesses, while 38% reported an increase in such investments.

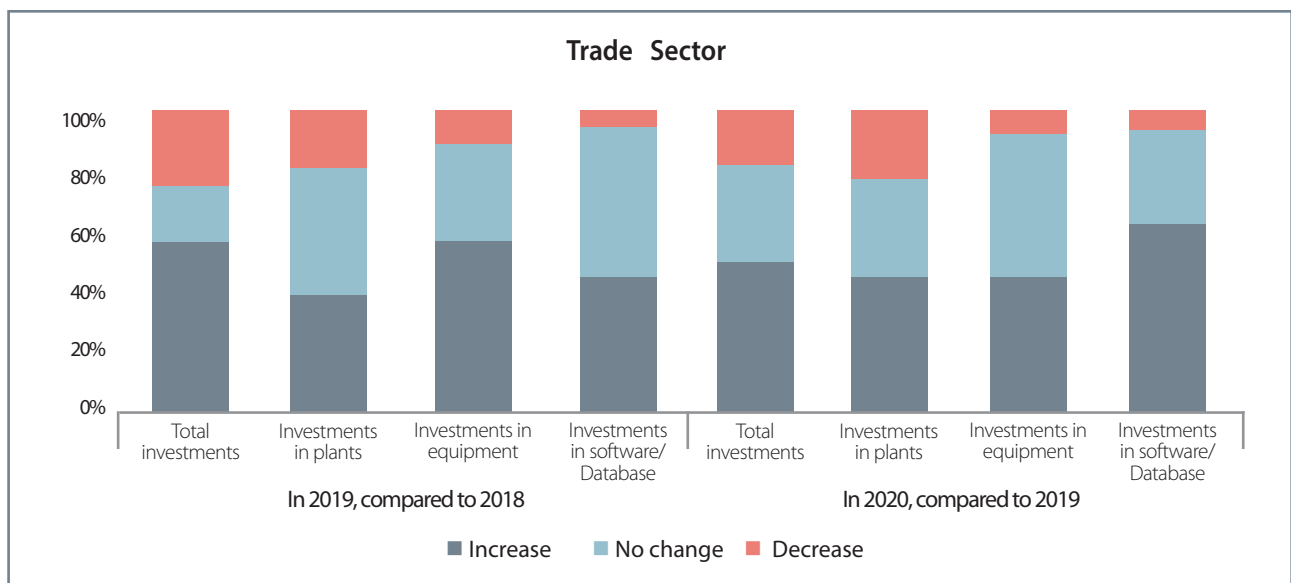
INVESTMENT PLANS IN 2020

The majority of the surveyed BAG member businesses (59%) claimed that they will increase their total investments in 2020, compared to 2019. At the same time, 25% of the surveyed BAG member businesses expected no change in their total investments, while only 16% expect a fall in total investments.

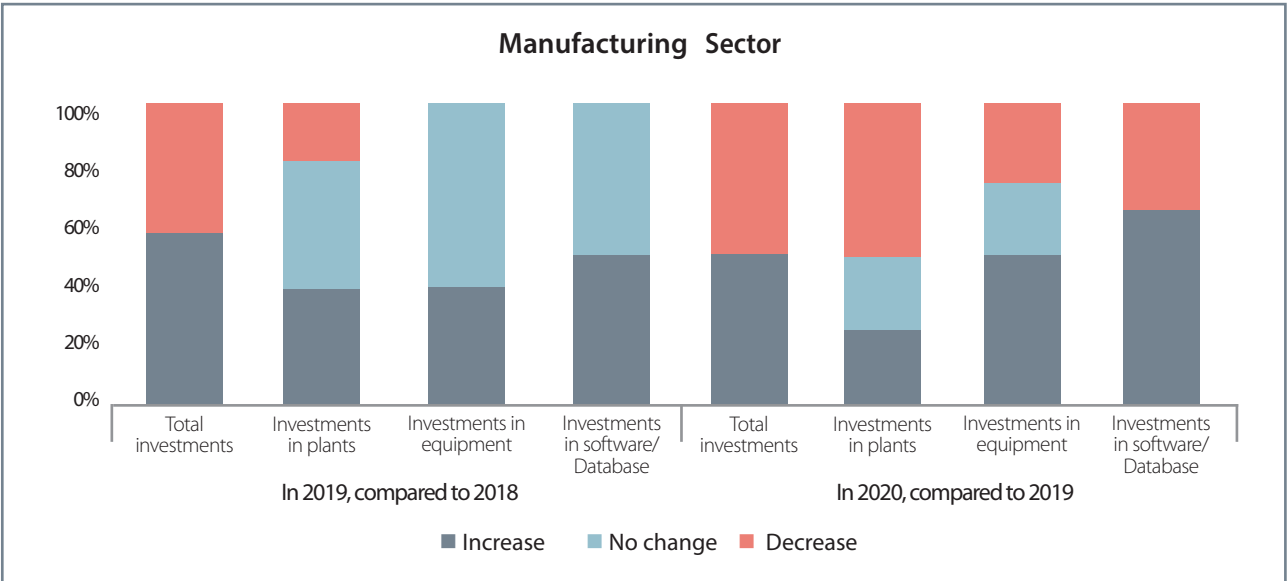


Graph 9: Investment plans in 2020.

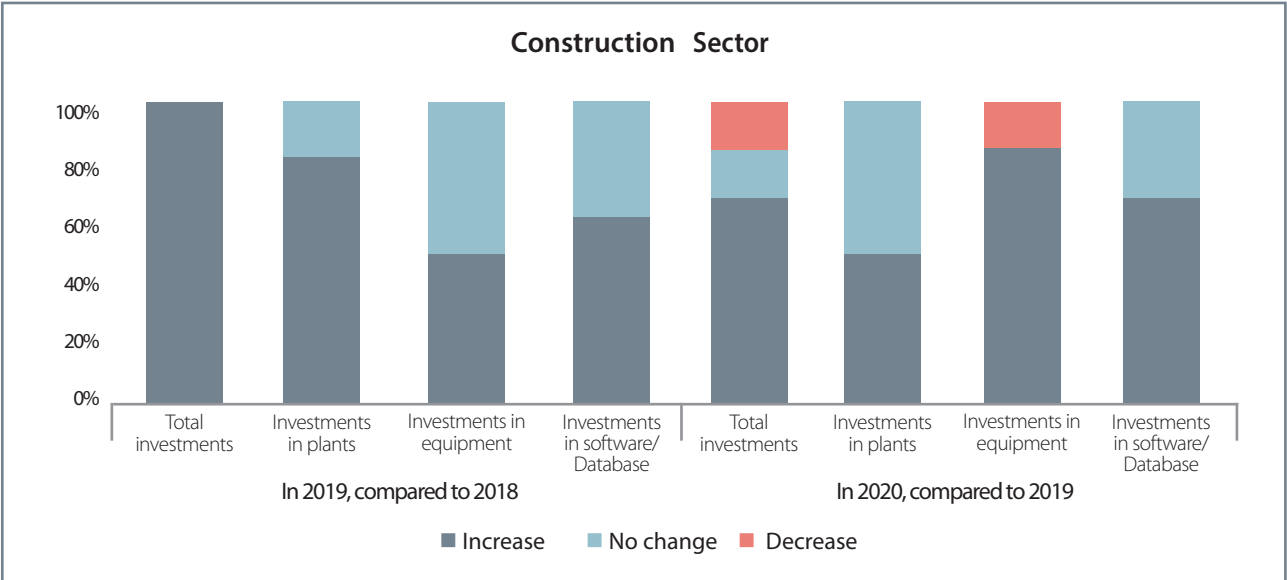
The generally positive predictions regarding growth in investment is more pronounced for investments in equipment and software/databases, but less so for investments in plants. More than half of the surveyed BAG member businesses (59%) expect their investments to increase in software/databases in 2020 (this includes the surveyed BAG member businesses in the service, construction and trade sectors, while in manufacturing sector none of the surveyed BAG member businesses expect investments in software/database to increase) and equipment (53%), while only 36% expect that their investments in plants will increase this year.



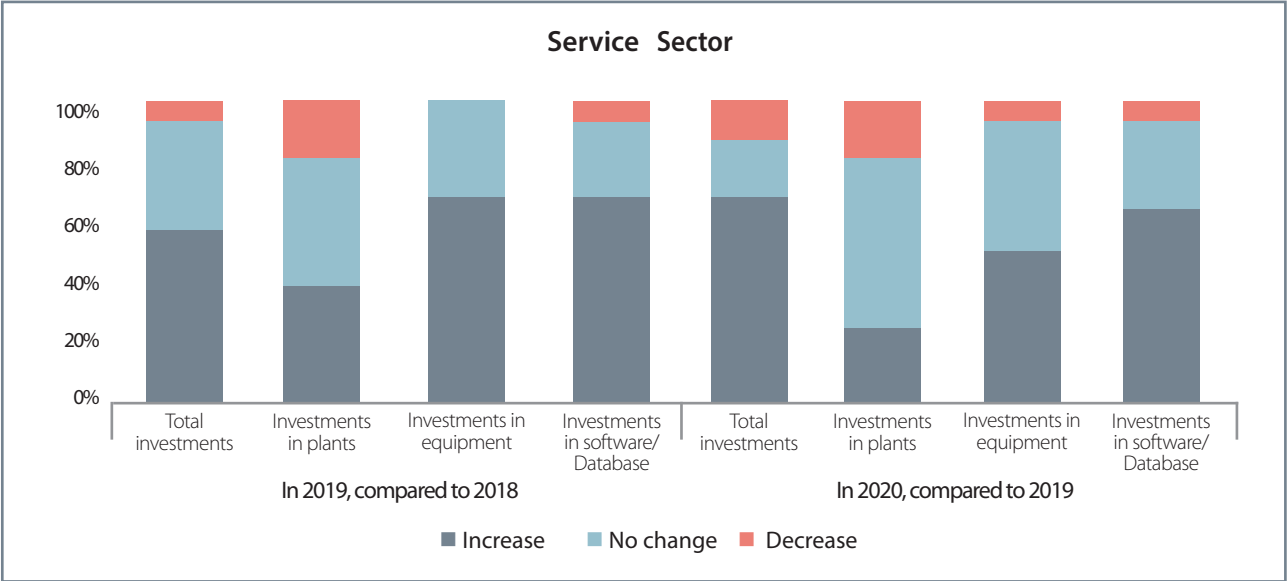
Graph 10: Investment environment 2019 and investment plans in 2020 in the trade sector



Graph 11: Investment environment 2019 and investment plans in 2020 in the manufacturing sector



Graph 12: Investment environment 2019 and investment plans in 2020 in the construction sector



Graph 13: Investment environment 2019 and investment plans in 2020 in the service sector



საქართველოს ბიზნეს ასოციაცია
BUSINESS ASSOCIATION OF GEORGIA

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