ACCI Business Tendency Survey Report

October 2016

With the cooperation of GIZ

ACCI Business Tendency Survey Report[1]

Major findings

- Businesses report a better condition compared to previous survey, but the level of their optimism regarding the coming six months has declined, which we assume is caused by seasonal effects.
- Regional differences have decreased this time, with Balkh showing a sharp improvement and Nangarhar a considerable decline.
- Businesses have reported a significant improvement in their order books compared to previous survey, but the overall balance of the surveyed companies' order books is negative.
- Security, market demand and the need for administrative reforms are three major desired improvements for business developments.
- In all four surveyed sectors, companies employ fewer people compared to the previous survey.

A. Business Climate

The Business Climate is an indicator for GDP growth tendencies. The indicator usually is leading; it indicates GDP changes in advance (on average a few months if no unexpected change in frame conditions occurs).

The Business Climate indicator is constructed from the judgments of managers on their present business situation and their business expectations for the next six months by a standardized and internationally used formula (for methodology see at the end of the report).

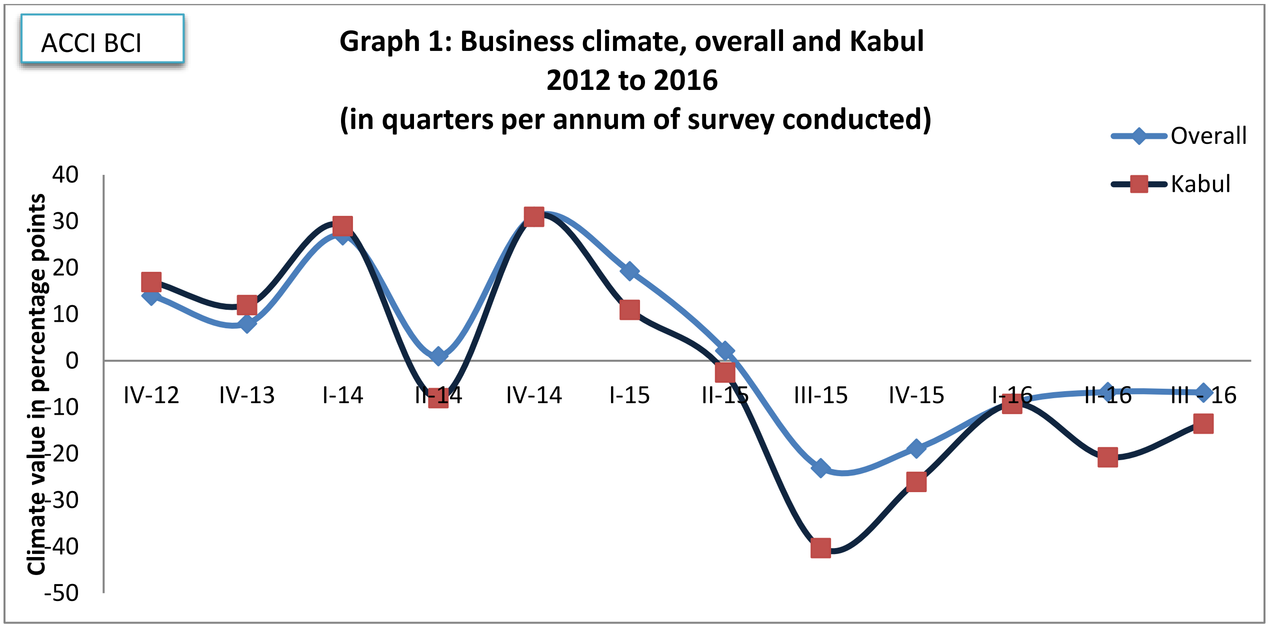
The indicator values range from 0 (meaning “normal”) up to a possible maximum of plus 100 for a positive climate and from 0 to a possible minimum of minus 100 for a negative climate.

[1] The Business Tendency Survey asks the managing directors of businesses for their opinions on the current business situation and their expectations for the next six months. The current survey was conducted in five regions (Kabul, Balkh, Kandahar, Herat and Nangarhar) and 560 companies were interviewed through phone during first and second week of October 2016.

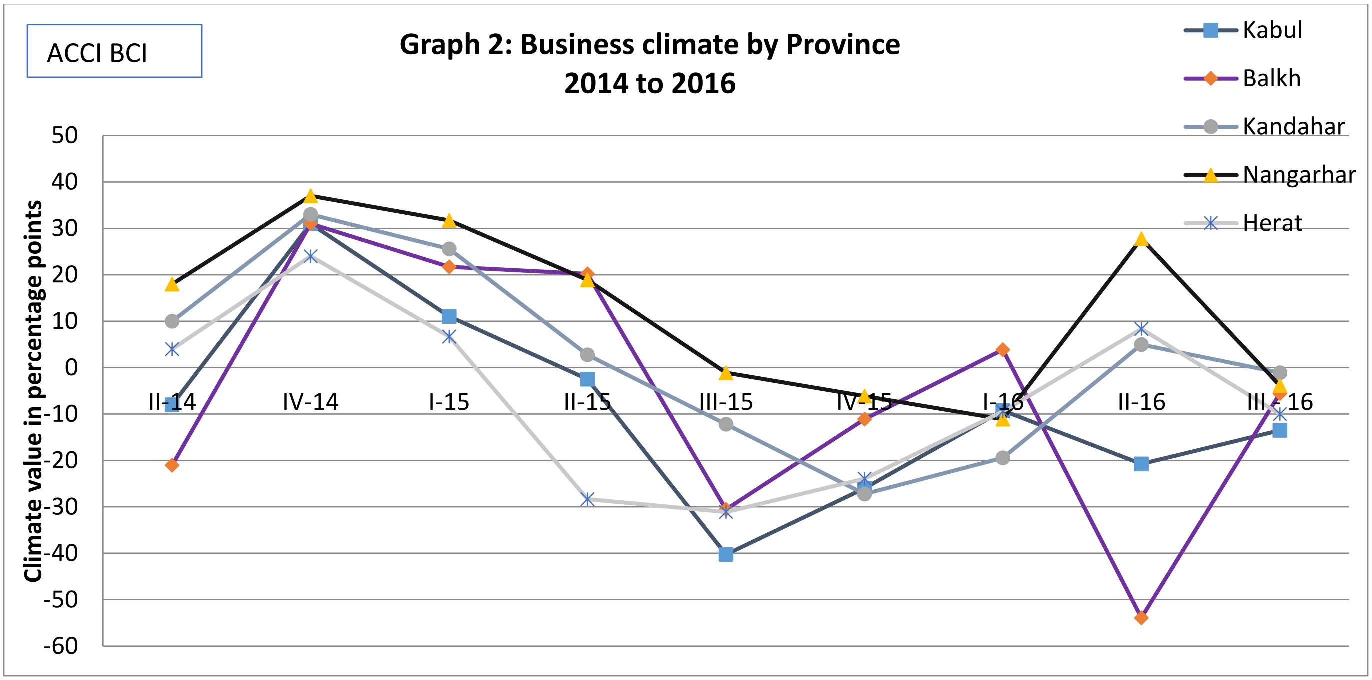
A.1- Business Climate overall and by Region

The overall Business Climate indicator in October 2016 for Kabul, Balkh, Kandahar, Nangarhar & Herat regions altogether valued (-6.81) points while in last survey it was (-6.70) points.

Compared to last survey the overall condition does not show any significant change, but the level of confidence of businesses regarding their current condition has increased (-41.43 → -20.5); while in the contrary their expectations regarding the coming six months has decreased compared to previous survey (22.5→ 4.28), which we assume, can be the result of the seasonal effect (the survey was conducted in the harvesting season which is followed by the cold season).



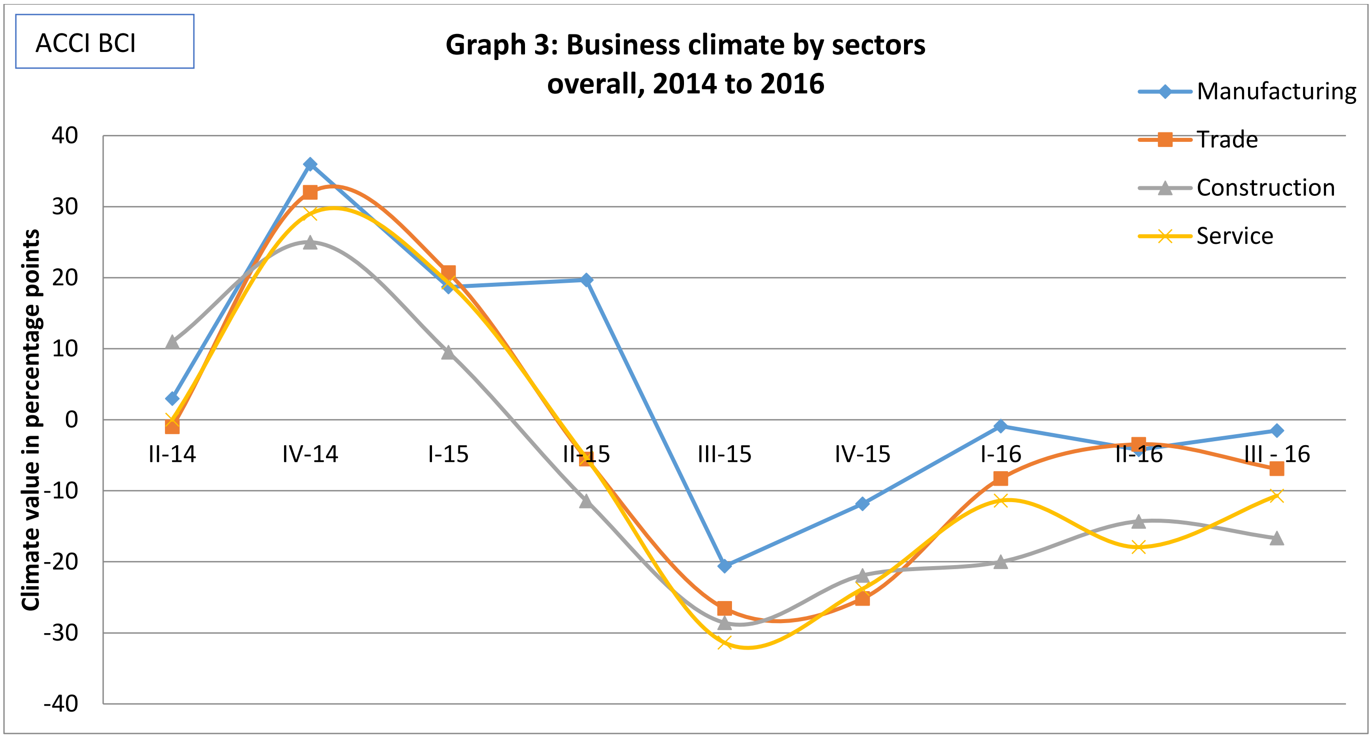
Balkh and Kabul businesses show improvements compared to last survey, but business climate indicators of both provinces are still negative. Kandahar and Nangarhar provinces are in a better condition compared to Kabul, Herat and Balkh regions, though they show a slightly worsening condition compared to previous survey.



A.2- Business Climate by Sectors

This survey shows some improvements in manufacturing and services sectors which have respectively improved from -4.2 and -17.9 in previous survey to -1.5 and -10.7 in the current survey. Despite the positive trend in services, the sector still reports the second worst condition after construction sector (-16.7). Manufacturing tops followed by trades (-6.9); but, as illustrated in the graph none of the sectors business climate indicator is positive.

The balances of positive minus negative responses on their current business performance ranged between -10 and -28 across the sectors, while manufacturing and services companies are more optimistic than trades and construction companies about the prospects of their businesses in coming six months.

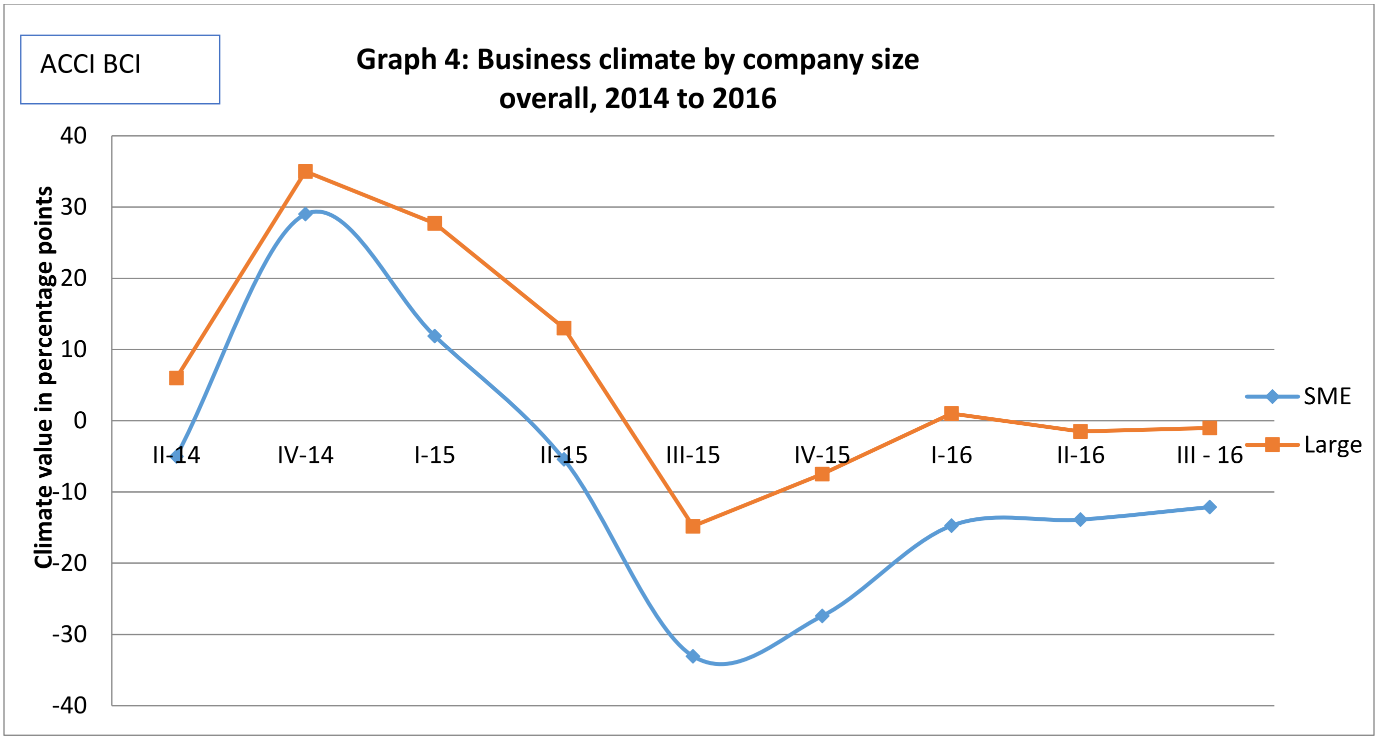


A.3- Business Climate by Company Size

No significant improvement is reported in large or SMEs companies, but as usual, large companies report a comparatively better condition than SMEs.

The Business Climate Indicator value for SMEs was (-13.88) about three months back when the second ACCI 2016 Business Tendency Survey was conducted, but now this indicator has slightly improved to (-12.12)

The Business Climate Indicator value for large companies is (-1). In last survey it was (-1.5). It is worth mentioning that large companies have also reported their current business situation as worsened (-10.5) but they are more optimistic about the prospect of their businesses for coming six months (8.5).



B. Order Books

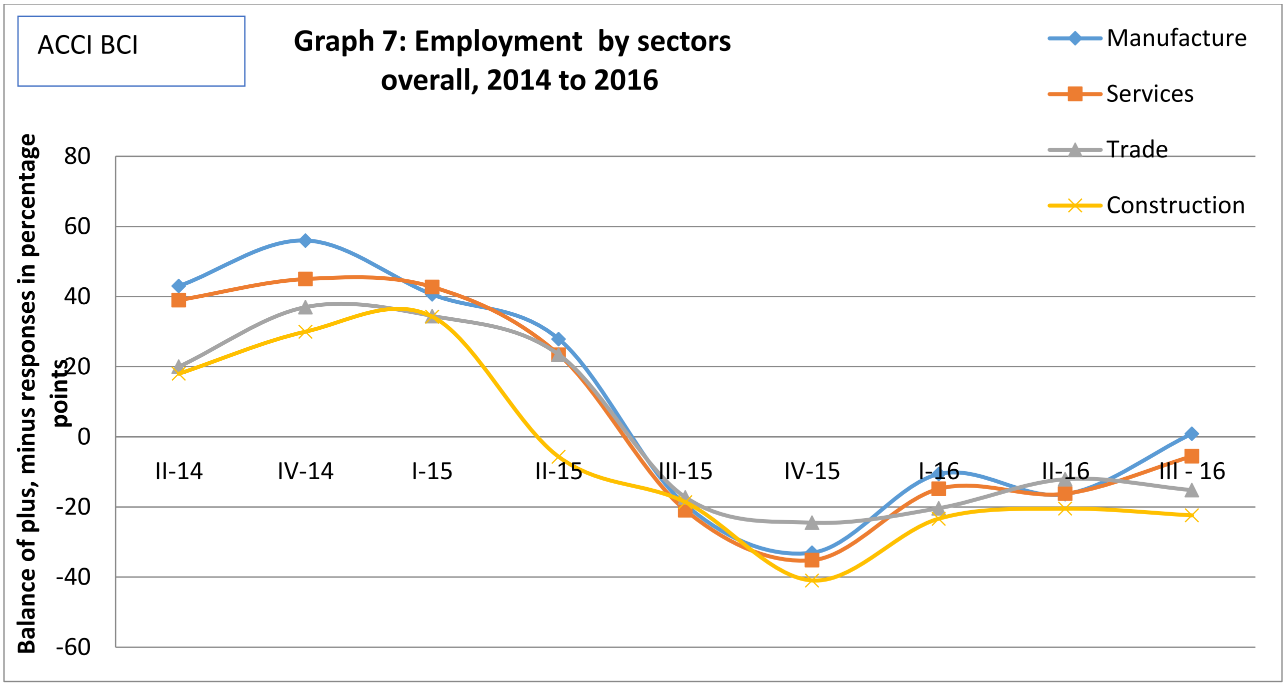
The order books situation is another indicator for the business situation. It is complementary to the Business Climate and can be used as a control for the climate tendency. The result figures are based on percentage balance values (positive minus negative answers).

Businesses have reported a significant improvement in their order books compared to previous survey. But, despite the improvement businesses are very far from reaching a positive order books indicator. In the last survey, the order books situation indicator was -63.57, while this time it is -33.39.

C. Employment Expectation

According to this survey companies are optimistic about the future of the employment, but during the last three months they have decreased their employees.

The overall balance of future employment plans is (4.28) points across the sectors which is not much different to that of the previous survey (4.64)



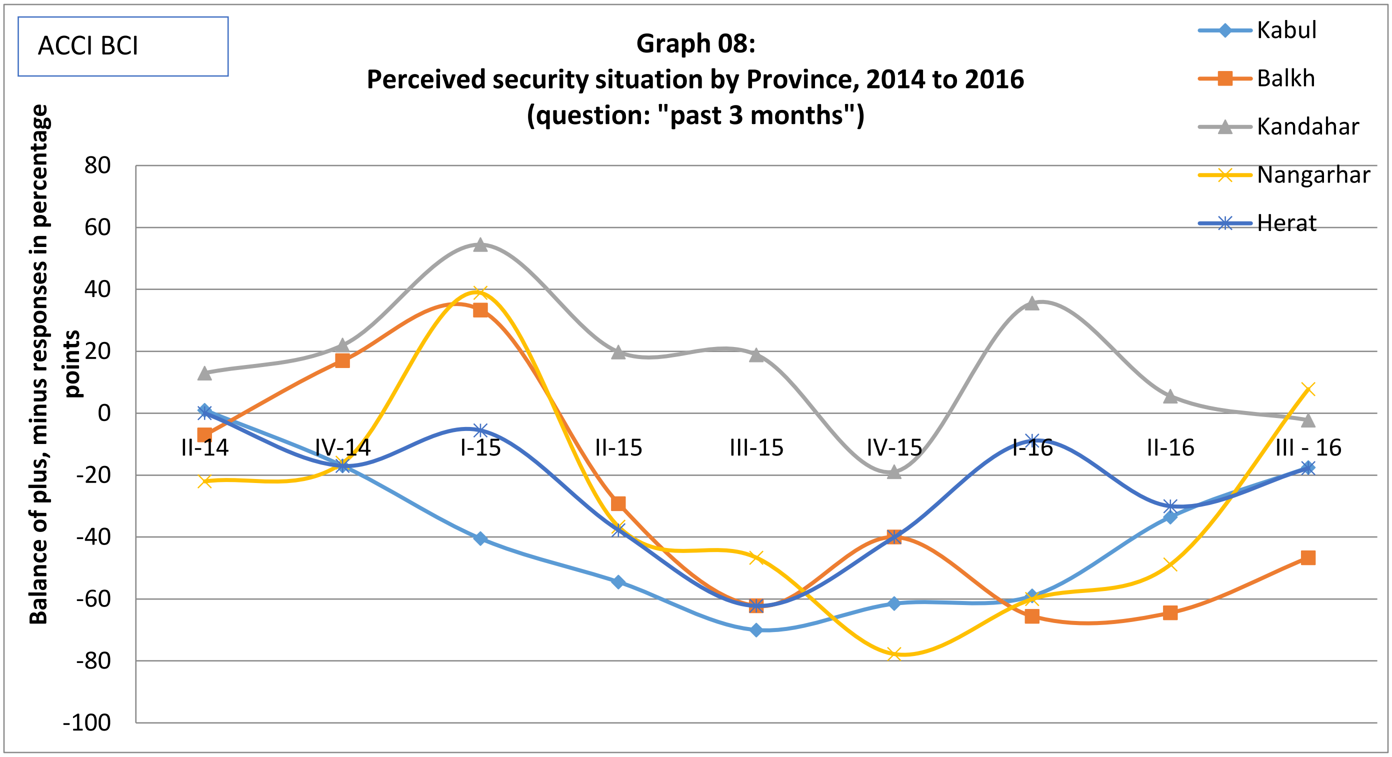
It is worth mentioning that the real employment situation was different to what the businesses expected in previous survey. In June 2016, the surveyed companies expected about 4.64 points increase in their employments for the then coming three months, while this survey showed a more negative tendency in employment during last three months. The number of respondents who say they have decreased their employees is 22.86 percent more than those who say they have employed more people during last three months.

Construction (-38.1) and Trade (-25.52) have lost considerably more jobs compared to Service (-17.93) and Manufacturing (-15.15). As usual businesses across the sectors expect a positive employment indictor for coming three months.

D. Security Situation

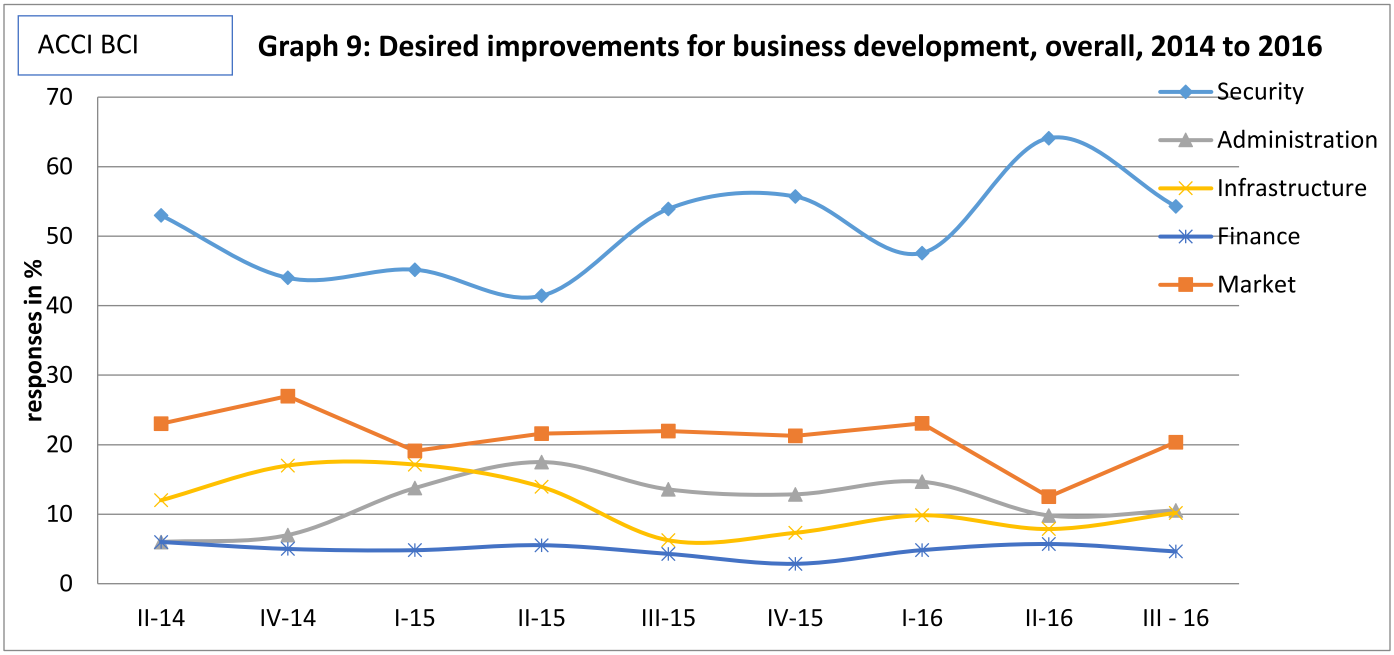
In general businesses believe that security threats have decreased for their businesses compared to last three months, but only Nangarhar has a positive security condition indicator (7.7), while the rest report negative indicators.

Kandahar which had a positive security indicator in several previous surveys, has reported a worsening condition (-2.22), but it is still in a better position compared to Balkh (-46.67) and Kabul (-17.5).



E. Desired Improvements for Business Development

As the previous survey, the evaluation of major business constraints shows that the most important factor for business development is security; it is followed by market and demand, administrative reforms, better infrastructure and access to finance.


ACCI BCI
Graph 9: Desired improvements for business development, overall, 2014 to 2016
responses in %
70
60
50
40
30
20
10
0
II-14
IV-14
I-15
II-15
III-15
IV-15
I-16
II-16
III - 16
Security
Administration
Infrastructure
Finance
Market

Appendix:

The Definition of the Business Climate Indicator

The Business Climate is based on a periodic survey of company managers in Manufacturing, Construction, Services and Trade sectors. The managers are requested to report on their present business situation as well as on their expectations for the next six months. They may judge their situation to be "better than normal", "normal" or "worse than normal". On their expectations, they may answer that the situation will "improve", "remain the same" or "deteriorate".

The balance value of the present situation is the difference of the percentage shares of the answers "better than normal" and "worse than normal". The balance value for the expectations is the difference of the percentage shares of the answers "improve" and "deteriorate".

The Business Climate is the arithmetic mean of the situation (balance value) and the expectations (balance value).

In graphical presentations for the first survey rounds the "normal" and "remain the same" judgments are taken as the zero line. The range of the climate indicator may vary between 0 and in its maximum up to one hundred towards the positive (plus) and as well one hundred towards the negative (minus) side. At a later stage, after time series can be established, the "zero" line will be based on a normal year climate (taken as 100 and the following quarterly climate values indexed to this year).

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