

BUSINESS CONJUNCTURE

NSI BUSINESS SURVEYS^{1,2}, OCTOBER 2009

In October 2009 the business inquires of NSI continue to report a lowering of the level of **the total business climate indicator**³ which decreases by 1.3 percentage points in comparison with September. With the exception of industry in the other branches the indicator registers a reduction, as the greatest fall is in the sector of construction (Figure 1).

Industry. The composite business climate indicator in industry in October increases by 2.1 percentage points in comparison with the previous month (Figure 2). This is a result mostly of the higher managers' expectations about the business situation of the industrial enterprises over the next 6 months. A slightly increased optimism in the expectations about the production activity and exports over the next 3 months is also observed (Figure 3), accompanied however with intentions of laying-off personnel (Figure 4). The business inquiry also registers some deceleration of the production activity drop. Over the last month the assessments of the production assurance with domestic and foreign orders also improve slightly, as in October the production is assured with orders for 4.1 months ahead. However a year ago that assurance was for 5.9 months.

The average capacity utilization in industry over the last 3 months (from July to October), increases by 0.9 percentage points and reaches 64.8% (Figure 5).

The most serious factor limiting the business development in the sector is the uncertain economic environment, pointed out by about 57% of the enterprises over the last 3 months. Usually over the last years one third of the enterprises have experienced the problem with the uncertain economic environment (Figure 6).

In October the inquiry does not register any inflationary expectations about the selling prices in industry (Figure 7).

Construction. In October 2009 the composite indicator of business climate in construction worsens by 8.6 percentage points in comparison with the previous month (Figure 8). The reduction is due to more pessimistic assessments and expectations of construction entrepreneurs about the business situation in enterprises. The present construction activity is assessed as decreased (Figure 9) and the prognoses about the next 3 months are in the same direction. The production assurance with orders continues to decrease, and the expectations about the next 6 months are that the drop is going to continue (Figure 10). A reduction of employment is also expected.

With the greatest weight among the reasons limiting the activity in the branch continue to be the uncertain economic environment and the financial security as for the last contributes the increase of the number of clients with delay in payments. In October the negative influence of the factor “insufficient demand” is strengthened (Figure 11).

The enterprises expecting a decrease of selling prices continue to be more than those that consider that their prices will increase over the next months which is why the balance indicator for the 11th consecutive month is negative (- 10.1%) (Figure 12).

Retail trade. The composite indicator “business climate in retail trade” in October decreases by 0.5 percentage points in comparison with the previous month (Figure 13). This is due to the slight worsening of the assessments of the present business situation. At the same time the enterprises are not expecting a substantial change in their business situation over the next 6 months. The volume of sales over the previous 3 months decreases but with lower rates. Even though the expectations about sales over the next 3 months are not better, the expectations about the orders placed with suppliers are more favorable (the balance indicator goes up by 4.2 percentage points) (Figure 14).

The uncertain economic environment and the insufficient demand continue to be the major factors limiting the activity of the enterprises in the sector but their negative influence decreases in comparison with the previous month (respectively by 8.6 and 6.5 percentage points). However, the share of managers pointing out the competition in the branch as a problem for their activity increases (Figure 15). Usually over the years the most important factors limiting the development in retail trade have been the demand and the competition.

With regard to the selling prices in the retail trade the inquiry does not register any expectations about an increase of the price level (Figure 16).

Service sector⁴. In October 2009 the composite indicator of business climate in service sector registers a decrease by 1.4 percentage points. The downward development of the conjuncture in the sector, which began in August, is continuing ever since the slight recovery of the period March - July 2009 (Figure 17). In the managers' opinion the present business situation is almost preserved as compared to the previous month but their prognoses regarding the business situation of enterprises over the next 6 months are more unfavorable.

During the last 3 months the service demand has decreased and the expectations about the next 3 months are that its volume will continue to decrease (Figure 18). At the same time a further personnel reduction is expected.

Over the last months the uncertain economic environment is constantly pointed out as a primary factor with the strongest negative impact on the activity of enterprises in service sector (57% of enterprises). This factor has pushed aside the usual difficulty - the competition in the branch, which takes the second place. After them followed the problems with the weaknesses in the economic legislation and the insufficient demand (Figure 19).

Regarding the selling prices in the service sector the entrepreneurs continue to expect that there will be a reduction over the next 3 months (Figure 20).

Figure 1. Business climate - total

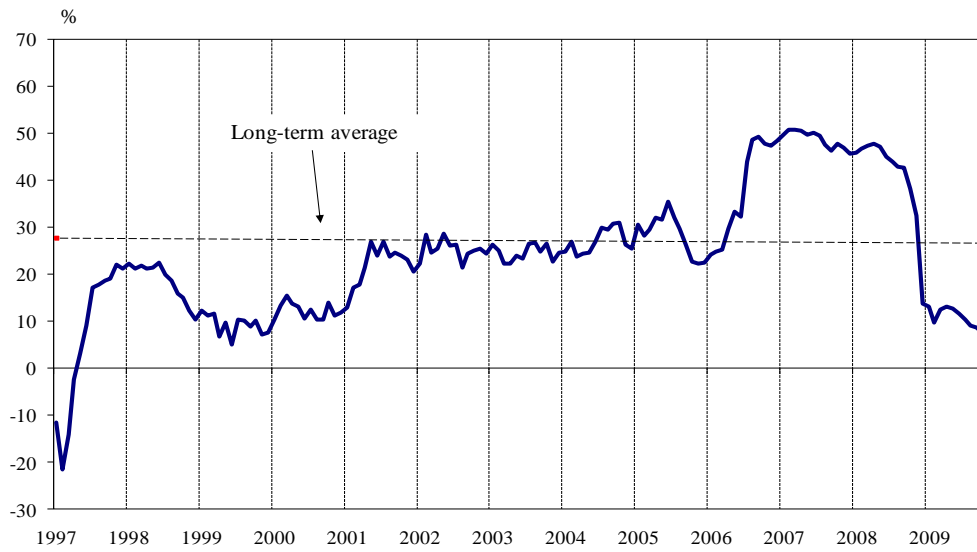


Figure 2. Business climate in industry

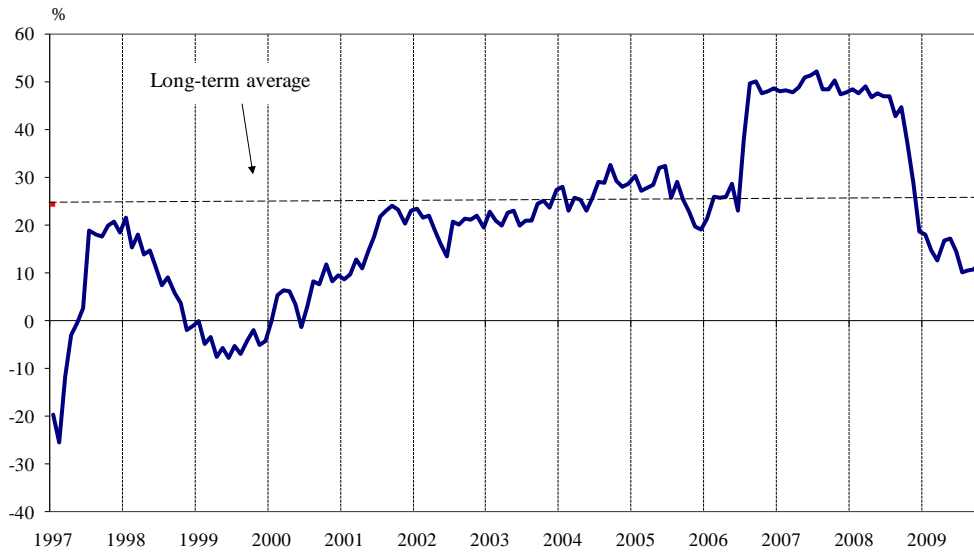


Figure 3. Expected production activity in industry over the next 3 months

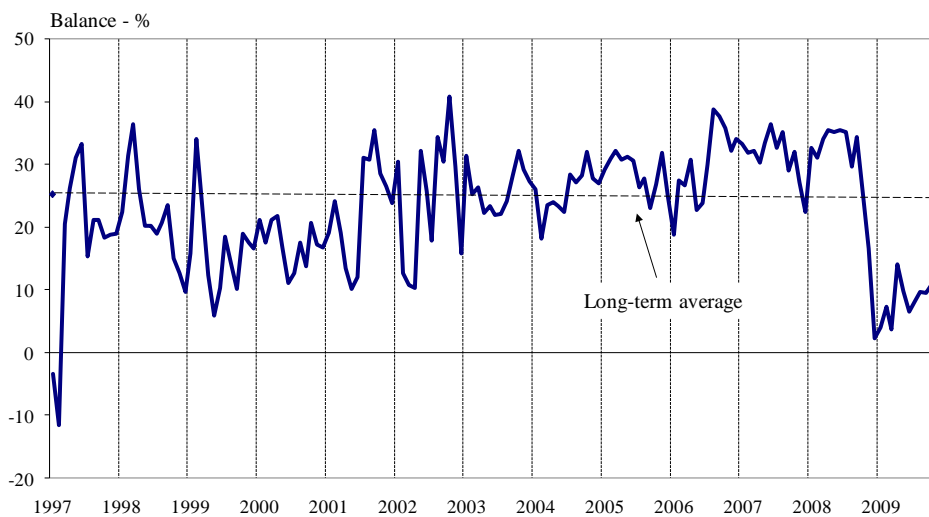


Figure 4. Employment expectations over the next 3 months

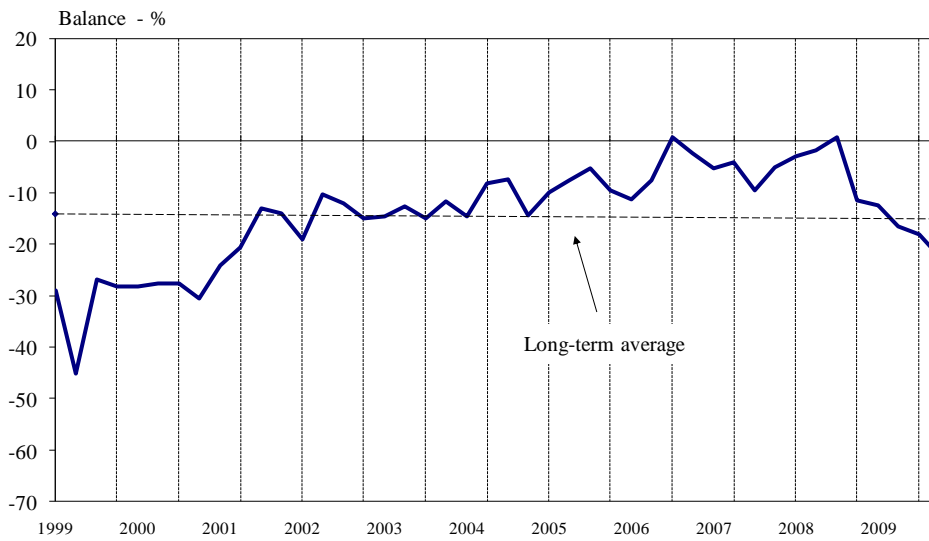
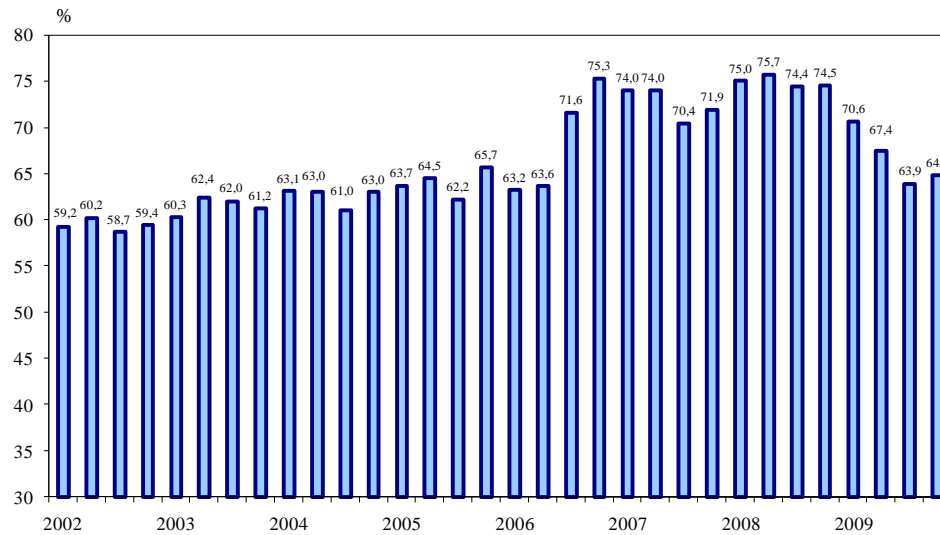


Figure 5. Average capacity utilization in industry



**Figure 6. Limits to production in industry
(Relative share of enterprises - %)**

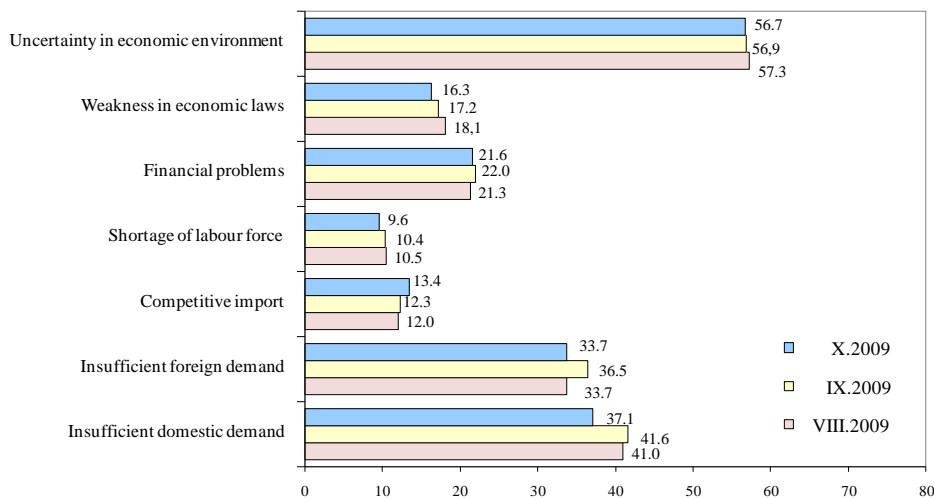


Figure 7. Selling price expectations in industry over the next 3 months

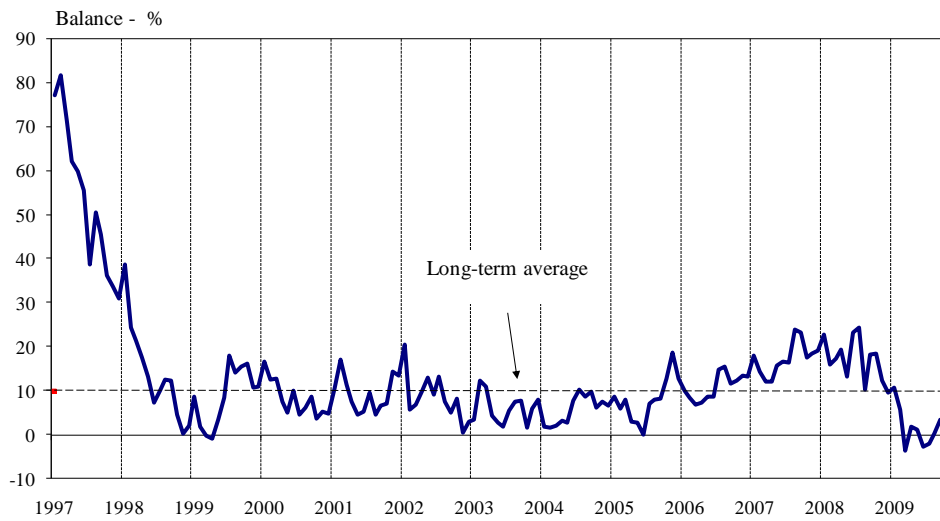


Figure 8. Business climate in construction

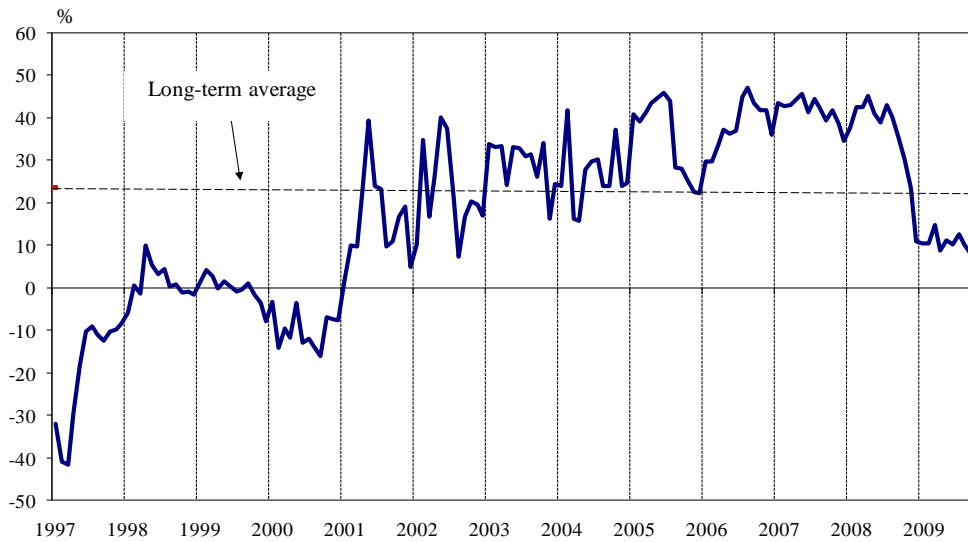


Figure 9. Present construction activity

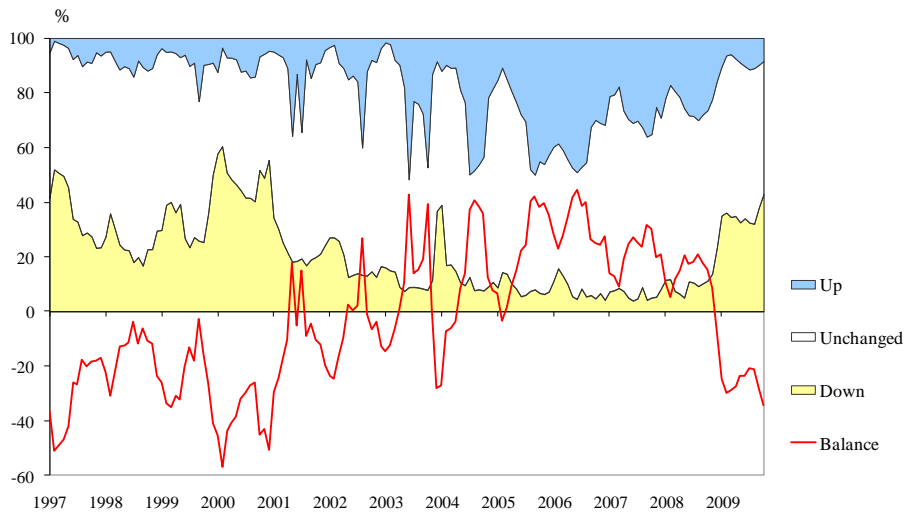


Figure 10. Orders expectations in construction over the next 6 months

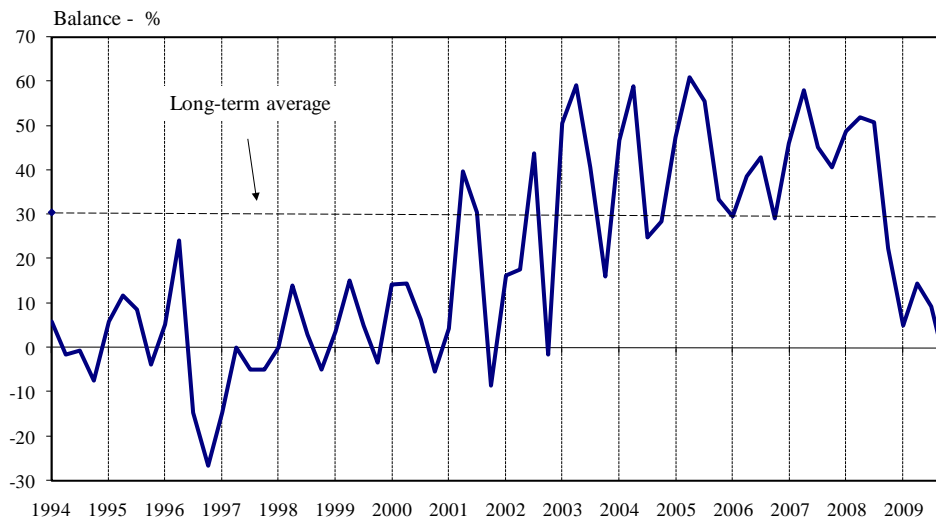


Figure 11. Limits to construction activity (Relative share of enterprises - %)

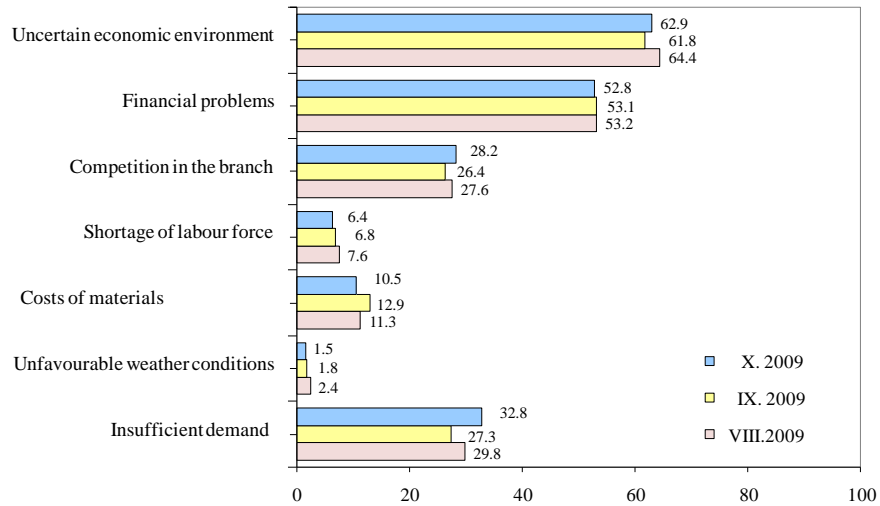


Figure 12. Selling price expectations in construction over the next 3 months

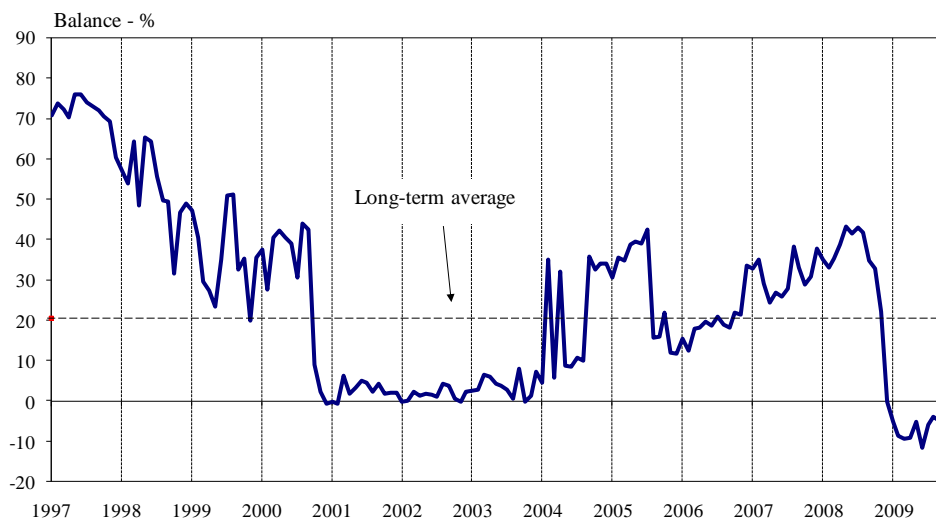


Figure 13. Business climate in retail trade

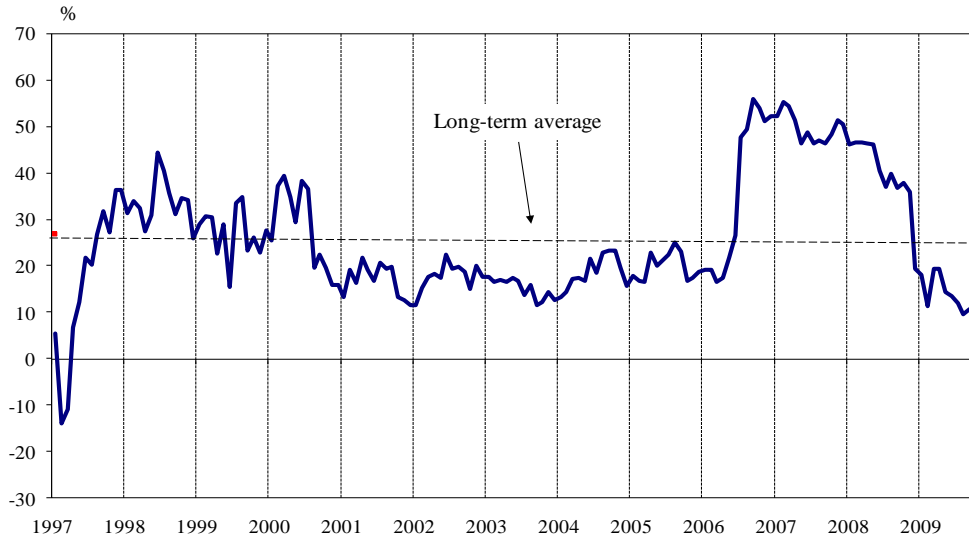


Figure 14. Orders placed with suppliers in retail trade over the next 3 months

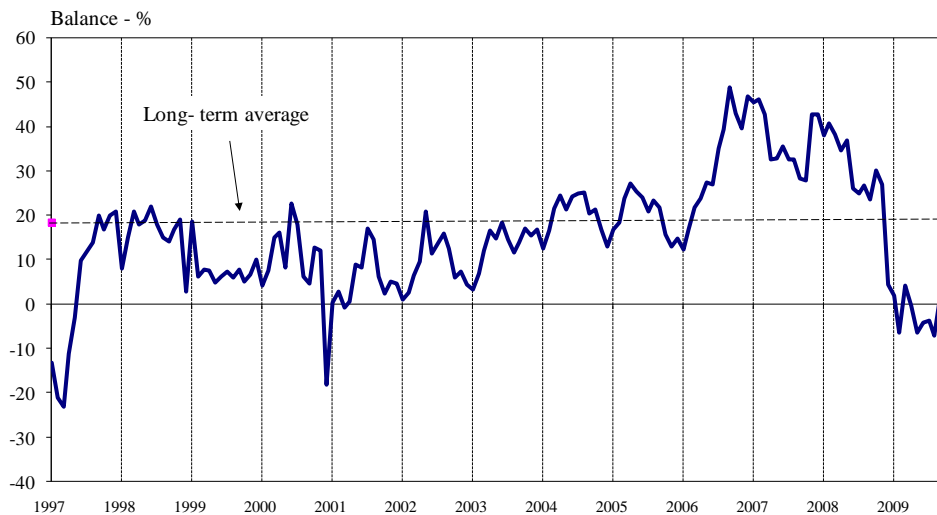


Figure 15. Factors limiting the improvement of the business situation in retail trade - % of enterprises

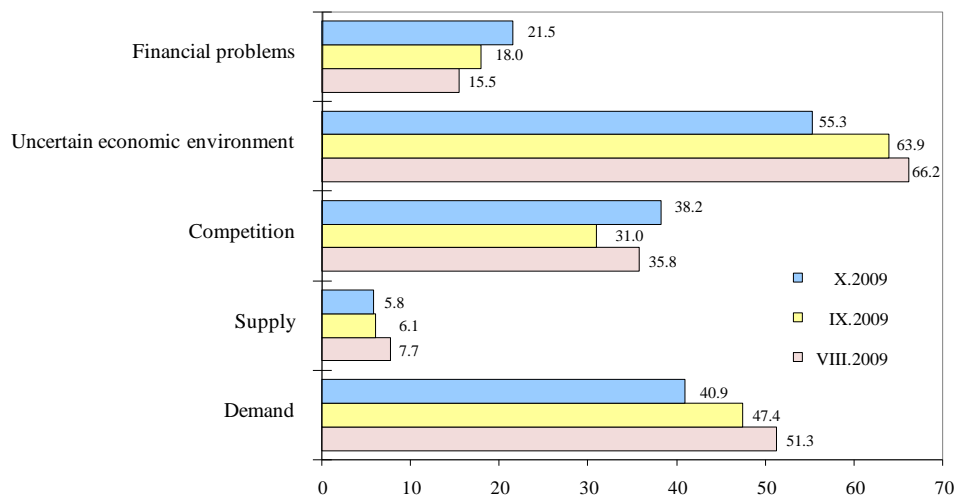


Figure 16. Selling price expectations in retail trade over the next 3 months

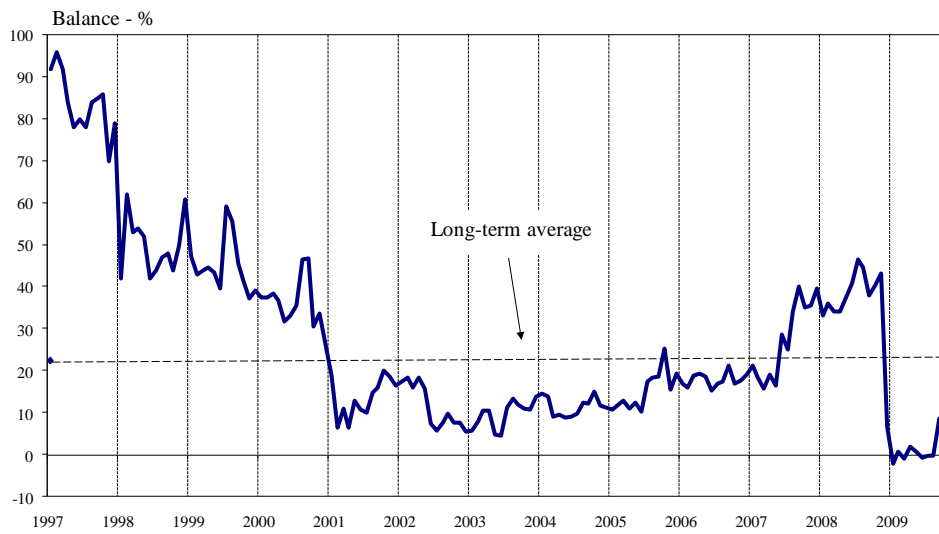


Figure 17. Business climate in service sector

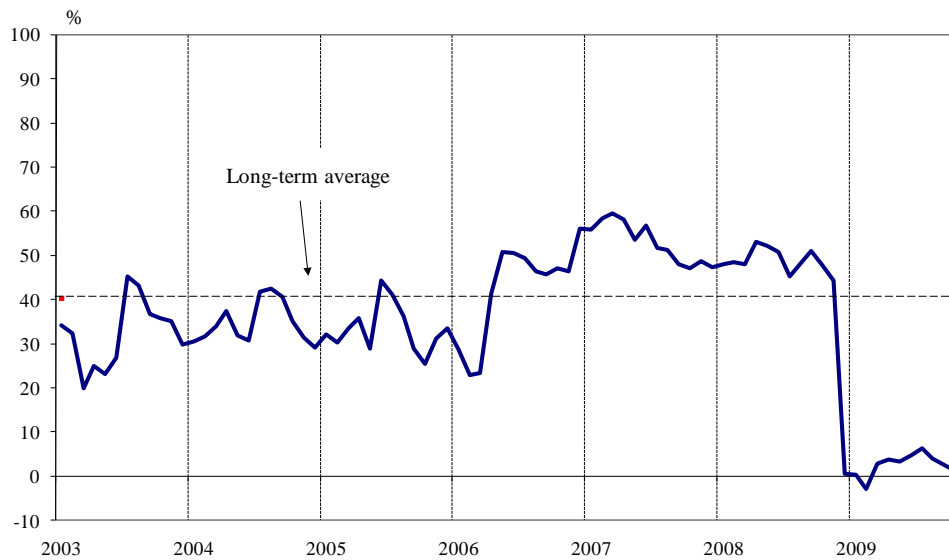
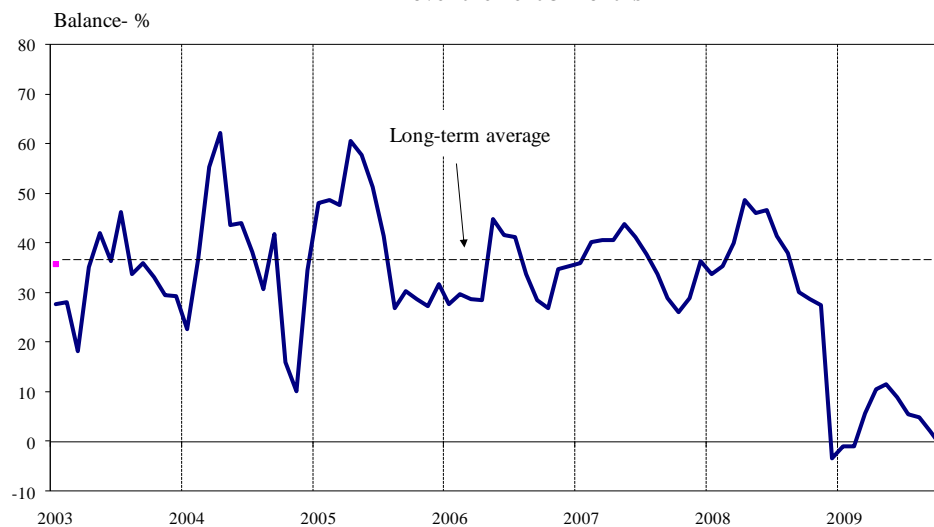
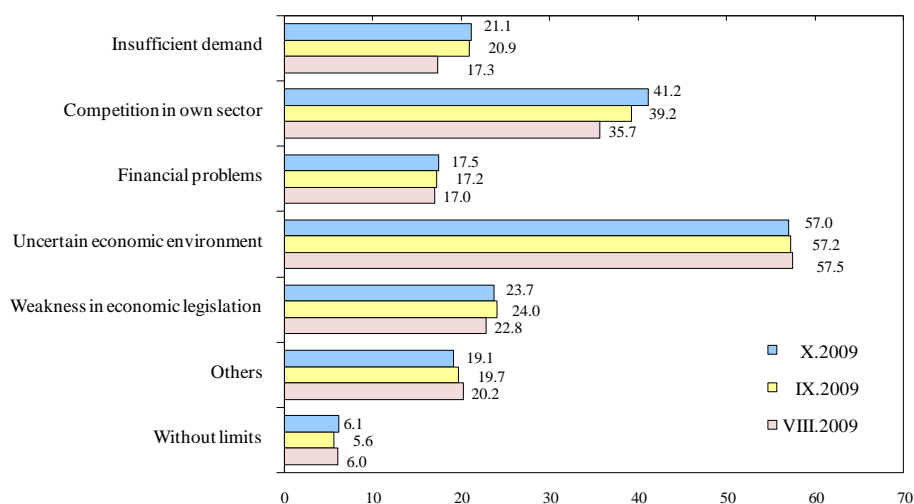


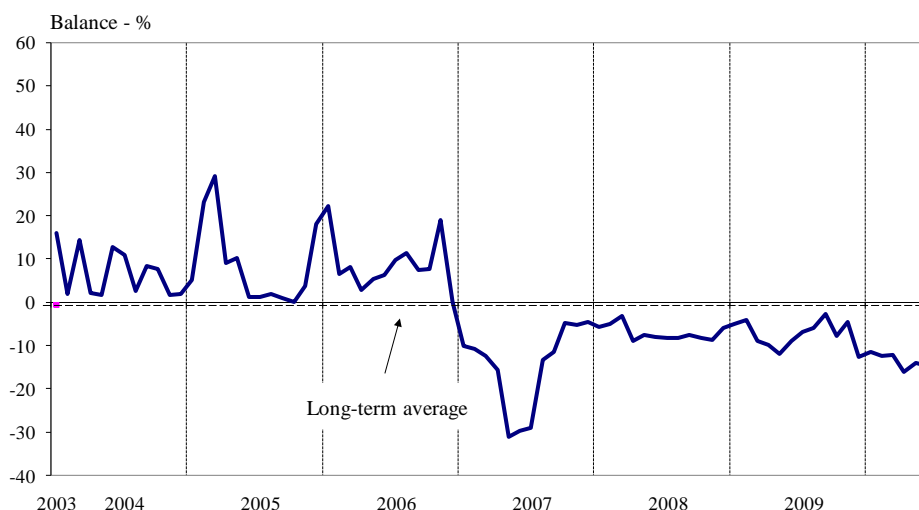
Figure 18. Expectations about the demand for services over the next 3 months



**Figure 19. Factors limiting the activity in service sector
(Relative share of enterprises - %)**



**Figure 20. Price expectations in service sector
over the next 3 months**



¹ Since May 2002 all business surveys are co-financed by the NSI and the European Commission according to the agreement signed between these two institutions. NSI has the undertaken to conduct the surveys according to the Harmonized EU Programme. Any notice or publication of NSI reflects the author's view and the Commission is not liable for any use that may be made of the information contained therein.

² The replies of questions from the inquiries are presented in a three-fold ordinal scale of the following type: "up", "unchanged", "down" or "above normal", "normal", "below normal". The balances of assessments are calculated as a difference of the relative shares of extreme variants of answers. **The Business climate indicator** is a geometric mean of balances of assessments of the present business situation and the expected business situation of enterprises in the next 6 months.

³ The total Business Climate Indicator is a weighed average of four branch business climate indicators: in industry, construction, retail trade and service sector, as the last indicator of the business climate in service sector is included in the total time series since May 2002.

⁴ Excl. trade.