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# ***Business Barometer***

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## ***About the Business Barometer***

In an attempt to provide timely information about the state of economic activity in Egypt, ECES published the first issue of the Industrial Barometer in 1998. The periodical reported the results of a biannual survey of 165 firms fully drawn from the industrial sector. However, to improve the depth of the report, the survey was expanded in the July 2000 issue to include 35 firms from the construction sector. This step converted the former Industrial Barometer into today's Business Barometer. The survey was further expanded in the July 2002 issue to include 10 firms from the tourism sector. In July 2006, the survey was expanded again to include a total of 320 firms (from 210). In July 2007, another 154 firms were added to the sample. These firms cover the transportation, communications and financial sectors. The new sample includes a total of 474 firms. In addition, a few questions were added to the survey questionnaire regarding the geographic distribution of exports, employment categories, prices of different inputs and types of investments. Starting this edition, the BB includes the new Business Barometer Index (BBI), which is designed to summarize the results of the BB survey in one index reflecting firms' evaluation and expectations of the overall performance of the economy and of the business sector. Detailed information about the sample and questionnaire can be found in the methodology section of the publication.

This edition of the Business Barometer reports the results of a stratified sample of 474 public and private firms. The survey covers their assessment of economic growth and the results of their operations in terms of production, sales, inventories, prices, wages, employment and investments over the first six months of 2008. It also summarizes their expectations for overall future economic performance as well as their own activities for the second half of 2008.

The interpretations and comments expressed in this survey are those of the ECES team, and do not necessarily reflect those of the ECES Board of Directors.

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## Overview

The current edition of the *Business Barometer* (BB) reflects the views of 474 large firms regarding the overall performance of the economy and own activities during the first six months of 2008, and their expectations for the second half of 2008. The surveyed firms cover manufacturing, construction, tourism, transportation, communications and financial intermediation. In addition, this edition includes the new Business Barometer Index (BBI), which is designed to summarize the results of the BB survey in one index reflecting firms' evaluations and expectations of the overall performance of the economy and of the business sector.

With respect to the past six months, the number of firms with positive perceptions about economic growth declined sharply compared to the previous survey. Regarding own activities, relatively fewer firms reported higher production, domestic sales and exports; while relatively more firms reported unchanged production, domestic sales, and exports. In general, the most favorable views were reported by the financial, tourism and construction firms. Less positive perceptions were expressed by transportation, communications and manufacturing firms.

For the next six months, respondents' expectations were similar. Fewer firms anticipate an increase in economic growth compared to the previous survey. In addition, relatively more firms were pessimistic about their own production, domestic sales and exports.

Firms' negative perceptions during the last six months could be mainly explained by the high inflationary pressures that resulted from the recent economic measures undertaken by the government to secure the LE 12 billion required to finance the 30 percent salary increase promised by the President to civil servants and public sector employees in May 2008. These actions—approved by the Parliament—included a raise in the prices of gasoline, diesel and kerosene; an increase in sales tax on local and imported cigarettes by 10 percent and 33 percent, respectively; and a raise in the price of natural gas for energy-intensive industries. In addition, a development tax of LE 27 per ton of clay was imposed on quarries, and an increase in annual vehicle registration fees was put into effect. Tax exemption for private schools and universities and on Treasury bills was removed. The free zone status was discontinued for energy-intensive companies operating in free zones.

As a result of these measures, which were also associated with an increase in food and oil prices worldwide, the year to year inflation rate reached 20.2 percent in June 2008. In addition, food and beverage prices, which represent almost

44 percent of total household expenditures, increased by 27.1 percent in May 2008 compared to the corresponding month in 2007.<sup>1</sup> In an attempt to ease inflationary pressures, the Central Bank of Egypt (CBE) raised the overnight deposit and lending rates four times during the last five months, which resulted in an increase in the overnight deposit rate from 8.75 percent to 10.5 percent and the lending rate from 10.75 percent to 12.5 percent during that period. In addition, the CBE increased its lending and discount rate by one percent to reach 10 percent, after two years of being stable.<sup>2</sup>

The measures undertaken by the government had a negative impact on the capital market, as investors speculated that the government would impose a capital gains tax. Consequently, the Case30 Index tumbled 730 points from 11,787 in April 2008 to 11,057 in May 2008.<sup>3</sup> This sharp decline was the biggest since 2006.

Firms' conservative outlook regarding overall economic performance and own performance reflects their uncertainty about the sustainability of economic growth in the short-run, in light of the overshooting inflation; the slowdown of economic growth in the US, Egypt's major trading partner; and the persistence of high food and oil prices in the short run. To restore firms' confidence in the economy, more rigorous and comprehensive reform measures are needed to curb inflation, resolve fiscal imbalances, and increase the coverage of social safety nets to ease inflationary pressures on poor and limited-income households.

The remainder of this edition of the *Business Barometer* elaborates on the main findings of the survey under four main headings: the level of economic activity (overall growth, production, sales, and inventory and capacity utilization); prices and wages; investment and employment; and finally the constraints facing the surveyed firms.

## The Business Barometer Index

The Business Barometer Index (BBI)<sup>4</sup> was computed using the Principal Components Analysis and based on firms' responses in different sectors covered by BB (see methodology for more details). For comparison purposes, the BBI was estimated for firms' evaluations during three different periods; January–June 2007, July–December 2007 and January–June 2008; and for firms' expectations

<sup>1</sup> Obtained from [www.capmas.gov.eg](http://www.capmas.gov.eg).

<sup>2</sup> Obtained from [www.cbe.org.eg](http://www.cbe.org.eg).

<sup>3</sup> Obtained from [www.mof.gov.eg](http://www.mof.gov.eg).

<sup>4</sup> The authors would like to thank Rashad Hamed, Data Processing Expert, El-Zanaty and Associates, for reviewing the computation of BBI.

during July–December 2007, January–June 2008 and July–December 2008.

The July 2008 BBI (covering the period January–June 2008) reached 48 percent compared to the January 2008 BBI, which amounted to 48.7, with a decline of around 1.4 percent. Comparing the July 2008 BBI with the July 2007 BBI (51.1 percent) revealed a reduction of 6.1 percent.<sup>5</sup> This decline reflects firms' concerns about the health of the Egyptian economy. Both firms' evaluations for the first six months of 2008 and their expectations regarding the remainder of the year had pushed BBI down. However, as will be revealed by the BB findings, the percentage of firms reporting stronger or at least stable performance still exceeds the percentage of firms reporting weaker performance. In addition, firms with positive or stable views about the future outnumber those with a negative outlook.

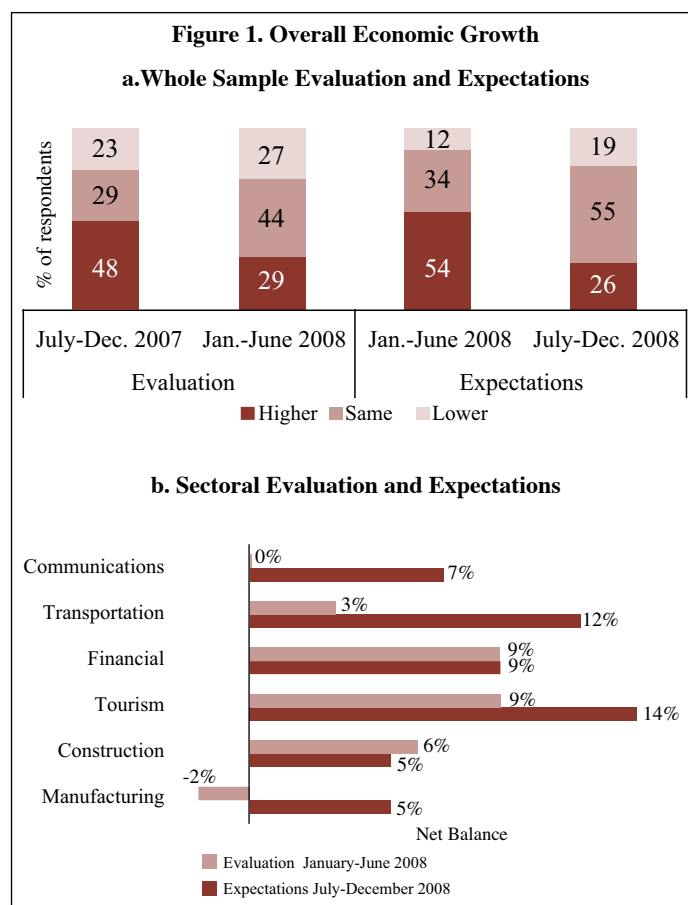
### The Level of Economic Activity

#### Lower economic growth with dampened expectations

During the first six months of 2008, the majority of firms reported steady (44 percent) or higher (29 percent) overall economic growth; while more respondents (27 percent) reported lower economic growth compared to the last six months of 2007 (23 percent). Firms' perceptions about economic growth are consistent with actual real GDP growth rates. According to the Ministry of State for Economic Development, the real GDP growth rate reached 7.5 percent during the third quarter (January–March) of FY 2007/08 compared to 7.3 percent in the corresponding quarter of FY 2006/07. Economic growth during the third quarter of FY 2007/08 was mainly led by domestic consumption, which represented 80.6 percent of GDP, despite its modest decline from 82.7 percent of GDP during the corresponding quarter of FY 2006/07. Exports, which grew by 14.2 percent during the same period, represented 33.7 percent of GDP. The share of imports in GDP increased from 35.5 percent during the third quarter of FY 2006/07 to 39.2 percent of GDP during the corresponding quarter of FY 2007/08. In addition, the share of investment in GDP increased from 22.7 percent to 24.9 percent during the same period.<sup>6</sup>

<sup>5</sup> It should be noted that the first principal component used to compute BBI explained 58 percent, 60 percent and 73 percent of the variance in the July 2007, January 2008 and July 2008 BBI.

<sup>6</sup> Obtained from [www.mop.gov.eg](http://www.mop.gov.eg).



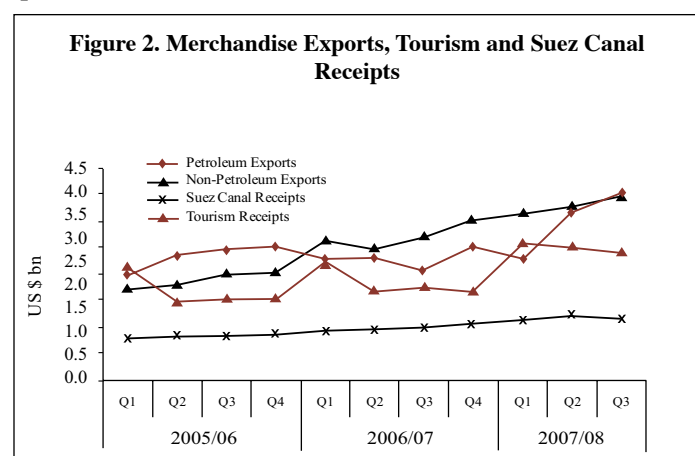
Source: Survey results.

At the sectoral level, relatively more firms in the tourism and financial sectors reported an increase in economic growth; while relatively fewer firms in the construction and transportation sectors reported higher growth. The majority of communications firms reported stable economic growth; while relatively more manufacturing firms reported a decline of economic growth. According to the Ministry of State for Economic Development, the tourism, construction and communications sectors were the main drivers of economic growth during the third quarter of 2007/08. The tourism sector witnessed the highest growth rate (27 percent). The construction and communications sectors experienced a real growth rate of 15.5 percent and 15 percent, respectively. Both the manufacturing and transportation sectors grew at lower rates of 8.5 percent and 8 percent, respectively, during the same period. In general, survey results are consistent with the growth rates achieved by different sectors.<sup>7</sup>

The balance of payments data (from the Central Bank of Egypt) for the third quarter of 2007/08 revealed that tourism receipts grew by 39.3 percent compared to the corresponding quarter of 2006/07. During the same period, petroleum and

<sup>7</sup> Obtained from [www.mop.gov.eg](http://www.mop.gov.eg).

non-petroleum exports increased by 71.8 percent and 29.5 percent, respectively. Suez Canal receipts witnessed a lower increase of 19.2 percent (Figure 2). Services exports rose by 39.5 percent compared to the corresponding quarter of 2006/07. Imports increased by 46.8 percent, reflecting higher import prices. The current account deficit reached US\$ 153 million during the second quarter of FY 2007/08, and turned to a surplus of US\$ 734 million during the third quarter of the same FY. Net foreign direct investment inflows reached US\$ 4,800 million during the second quarter of FY 2007/08, with a growth rate of 19.8 percent compared to the corresponding quarter of FY 2006/07.<sup>8</sup>



Source: Central Bank of Egypt.

Note: Q1: July–September; Q2: October–December; Q3: January–March; Q4: April–June.

Firms' expectations regarding overall economic growth were different in the current issue compared to the previous one. The majority of firms (81 percent) expected stable or higher economic growth during the second half of 2008. However, more firms (55 percent) anticipated stable economic growth for the second half of 2008 compared to 34 percent for the first six months of the same year, while fewer firms (26 percent) expected higher economic growth during the last six months of 2008 compared to 54 percent for the first half of the year. In addition, more firms (19 percent) expected lower economic growth for the last six months of 2008, compared to 12 percent for the first half of the year.

In general, firms were more conservative regarding economic growth prospects during 2008. This could largely reflect the worldwide economic slowdown resulting mainly from higher food and fuel prices, which contributed to aggravating domestic inflationary pressures. In addition, continued fiscal imbalances reinforced firms' pessimism regarding future economic growth. During July–March 2007/08, the government continued its expansionary fiscal policy, which

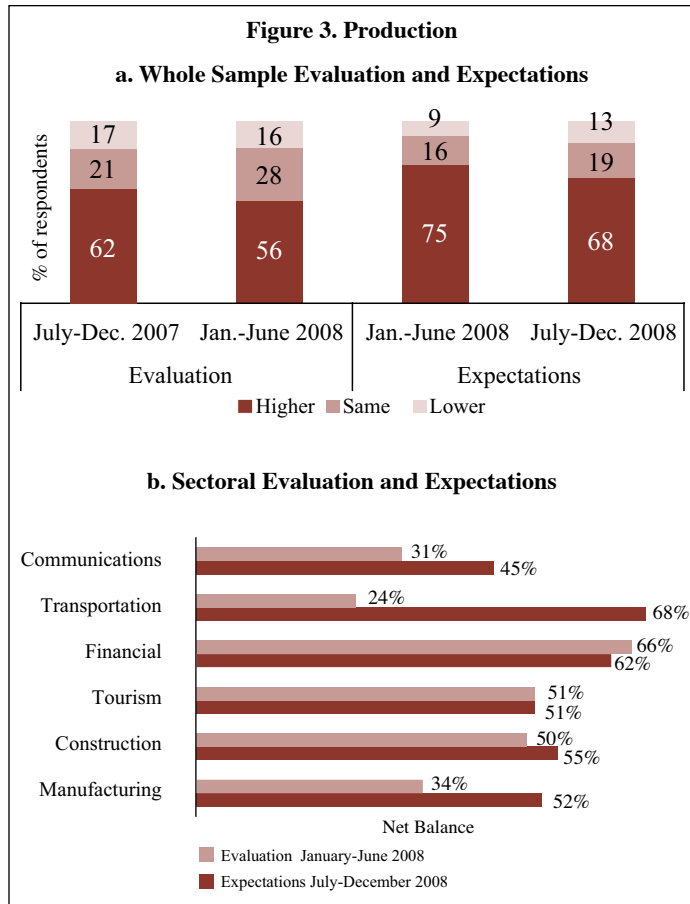
resulted in a 40.3 percent increase in expenditures compared to 28.9 percent increase in revenues. In an attempt to address recent inflationary pressures, the government raised salaries by 15 percent during the period July–March 2007/08 compared to the corresponding period in FY 2006/07. In addition, it increased subsidies during the same period by 134.4 percent, 60 percent of which were allocated to petroleum products, 20 percent to food products, and the remaining 20 percent to grants and social benefits.<sup>9</sup> Consequently, the government fell short of meeting its commitment to reduce the fiscal deficit by one percent annually. Moreover, firms were skeptical about some measures that the government undertook lately such as imposing export bans on some commodities and issuing a new real estate tax law, which is expected to increase the tax burden, not only on households but also on firms. In addition, the problems faced by the government in the establishment of the Agrium fertilizer plant in Damietta would have negative repercussions on future FDI inflows. Although not reflected by the current BB survey, the problems that beset the privatization of Banque du Caire would raise some doubts about the attractiveness of Egypt's business environment.

### *Own production stabilized with slightly lower expectations*

The majority of respondents reported higher (56 percent) or stable (28 percent) production during the first half of 2008. At the same time, slightly fewer firms (16 percent) reported lower production compared to the previous survey (17 percent). Firms' perceptions about production and their activities in general (as will be discussed later) are not consistent with their views regarding economic growth. Firms' negative views about economic growth might have been largely affected by the increased inflation resulting from the economic measures undertaken by the government, which coincided with the time of conducting the survey (end of May 2008). Figure 3b shows that the percentage of firms reporting higher production was highest in the financial, tourism and construction sectors. The performance of the manufacturing, communications and transportation firms was less than average. Within the manufacturing sector, all firms in the wood and wood products, printing, and paint industries reported an increase in production, while all firms in the footwear, leather and non-metal industries reported a decline in production. The percentage of firms in the fertilizers, pottery and transport equipment industries reporting an increase in production was higher than that of firms producing plastic and rubber products.

<sup>8</sup> Obtained from [www.mop.gov.eg](http://www.mop.gov.eg) and [www.cbe.org.eg](http://www.cbe.org.eg).

<sup>9</sup> Obtained from [www.mop.gov.eg](http://www.mop.gov.eg).



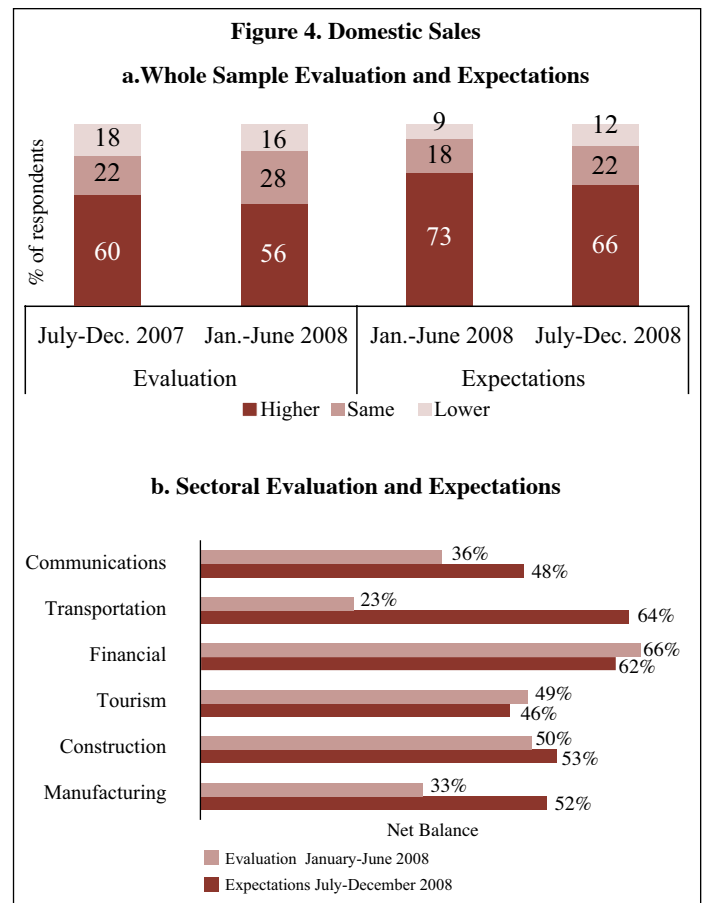
Source: Survey results.

In general, firms were less optimistic about their expected performance during the next six months. The majority of firms expect higher (68 percent) or similar (19 percent) production levels. However, more firms (13 percent) expect to reduce their production during the second half of 2008 compared to 9 percent during the first six months of the same year. Relatively more optimistic expectations were reported by transportation, financial, construction and manufacturing firms. Unexpectedly, tourism and communications firms were less optimistic. Within the manufacturing sector, all firms in the paint industry expect an increase in production. In addition, the percentage of firms in the petroleum, pottery, cement, soap and transportation equipment industries expecting an increase in production was higher than that of firms producing printing, footwear, glass, paper, textile and food products.

**Fewer firms reported higher domestic sales and fairly lower expectations**

During the first six months of 2008, the majority of respondents reported higher (56 percent) or stable (28 percent) domestic sales, compared to 60 percent and 22 percent during the second half of 2007. In addition, fairly

fewer firms (16 percent) reported lower domestic sales during the first six months of 2008, compared to 18 percent during the second half of 2007. The financial, construction and tourism sectors reported higher domestic sales compared to communications, manufacturing and transportation firms. Within the manufacturing sector, all firms in the wood and wood products, printing and paint industries reported an increase in domestic sales, while all firms in the footwear, leather and non-metal industries reported a decline in domestic sales. The percentage of firms in the fertilizers, pottery, and transport equipment industries reporting an increase in domestic sales was higher than that for firms producing plastic, rubber and textiles products.



Source: Survey results.

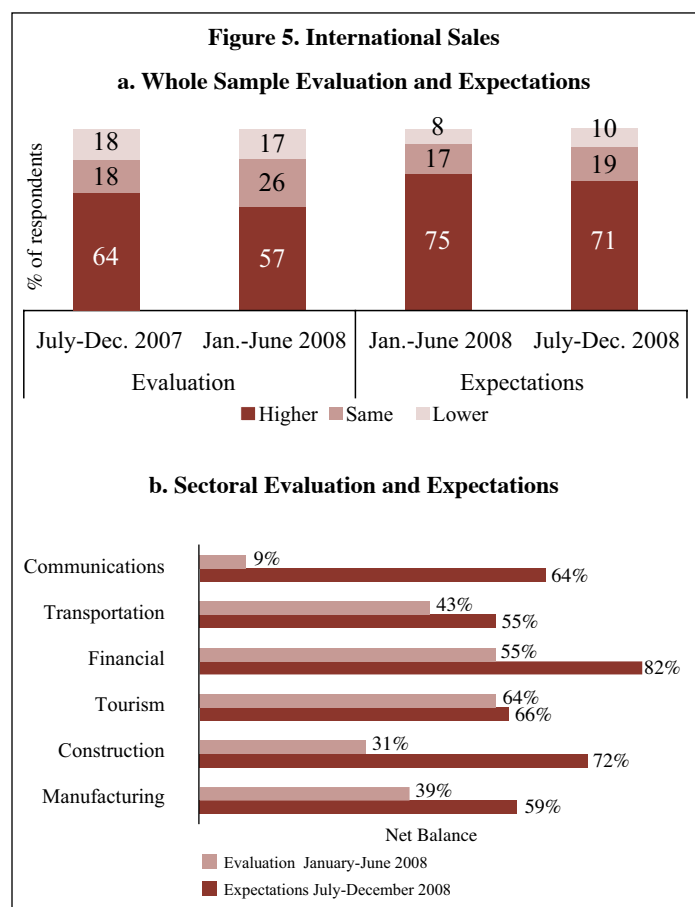
Regarding the coming six months, the majority of firms anticipate higher (66 percent) and stable (22 percent) domestic sales, although their expectations were less optimistic compared to the first half of 2008 (with 73 percent of firms anticipating higher domestic sales). Similarly, more firms (12 percent) expect lower domestic sales during the last six months of 2008 compared to the first half of the same year (9 percent). The percentage of firms expecting an increase in domestic sales was higher in the transportation, financial, construction and manufacturing sectors. Communications



and tourism firms were less optimistic about domestic sales during the second half of 2008. Within the manufacturing sector, firms anticipated an increase in domestic sales, with the exception of firms producing footwear products. The most optimistic firms about domestic sales were those producing paint, pottery, wood and wood products, leather and non-metal products.

**Lower international sales and moderately less optimistic expectations**

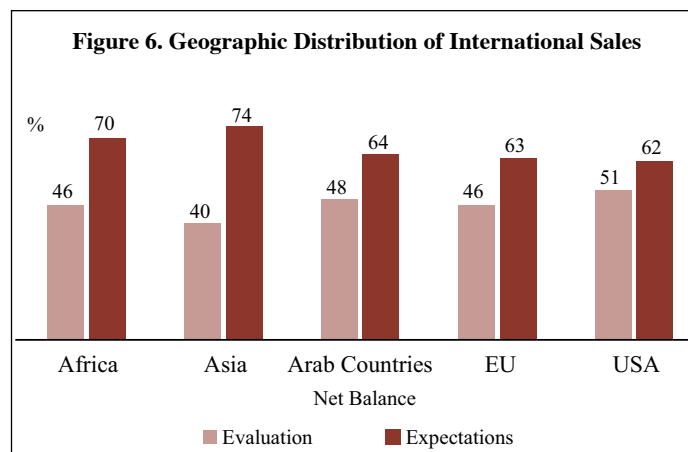
The majority of firms reported higher (57 percent) or steady (26 percent) international sales during the first six months of 2008. The most favorable views were reported by tourism, financial and transportation firms. Manufacturing and construction firms reported less favorable international sales, while communications firms reported a very moderate increase. Within the manufacturing sector, all firms reported an increase in exports, except firms producing cement and leather.



Source: Survey results.

For the coming six months of 2008, the majority of firms anticipated higher (71 percent) and stable (19 percent) international sales, although they were slightly less optimistic compared to the first half of the same year.

Similarly, more firms (10 percent) expect lower international sales during this period compared to 8 percent during the first six months of 2008. The less favorable expectations could be explained by the continued worldwide rise of food and fuel prices and the expected ban of exports of certain commodities, especially food products. Compared to the manufacturing and transportation sectors, firms in the financial, construction, tourism and communications sectors expect higher exports during the next six months. All manufacturing firms anticipated an increase in exports, except those producing cement. The most optimistic firms were those producing soap, paint, wood and wood products and plastic products.



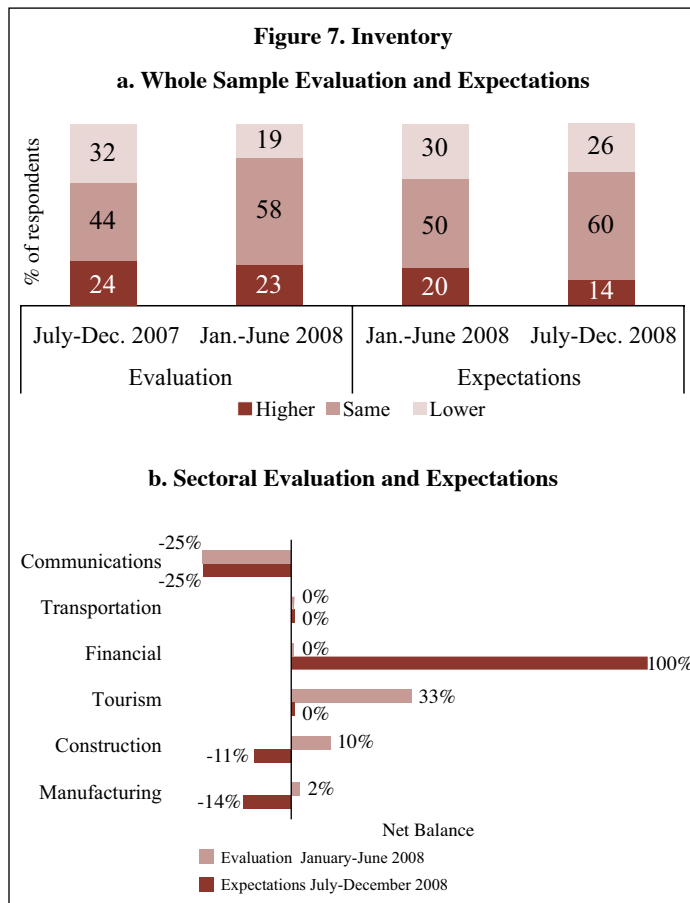
Source: Survey results.

Figure 6 shows that international sales targeted mainly the US, Arab, Africa and EU markets. Lower exports targeted Asian countries. In addition, firms intend to increase their exports to all countries, with special emphasis on Asian and African countries.

**Firms raised inventories and capacity utilization**

The majority of firms maintained (58 percent) or increased (23 percent) their inventories, as a result of sluggish increase in domestic sales and fair decline in exports. Fewer firms (19 percent) reported lower inventories compared to the previous survey (32 percent). Only tourism, construction and manufacturing firms reported an increase in inventories, while financial and transportation firms did not report a change thereof. Communications firms reported a decline in inventories. All firms in wood and wood products, and petroleum industries reported an increase in inventories. The percentage of firms that reported an increase was higher in glass, and non-thermal construction industries, while non-metal, plastic, soap, paper, clothing and textiles firms reported a decrease.

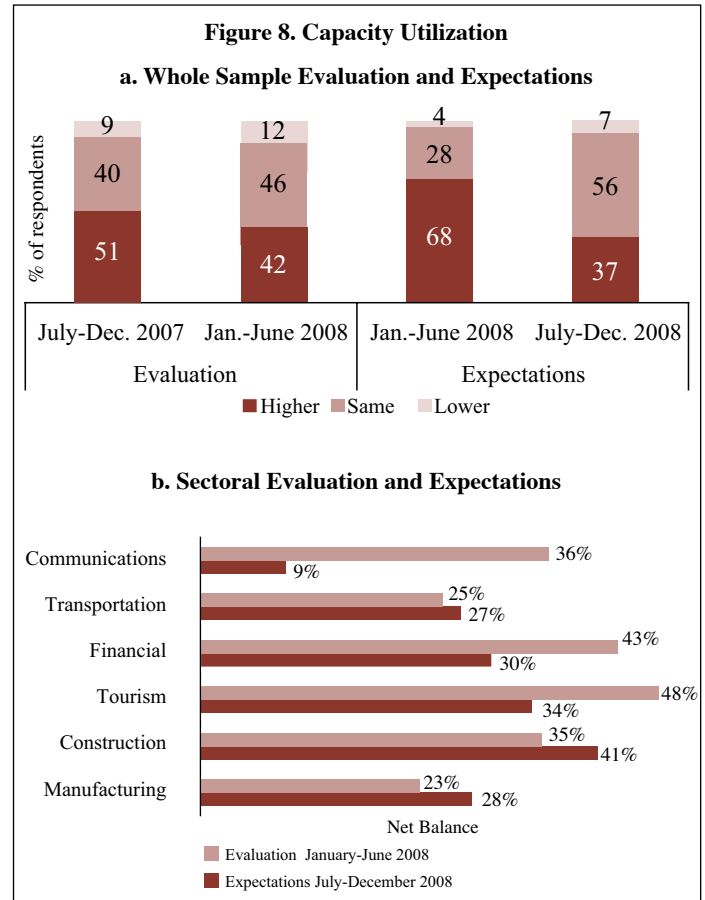
For the next six months, the majority of firms intend to maintain (60 percent) or lower (26 percent) their inventories. In addition, fewer firms (14 percent) expect to increase their inventories compared to the previous survey, where 20 percent of the firms intended to raise them. All financial firms anticipate an increase. Tourism and transportation firms expect stable inventories, while manufacturing, communications and construction firms expect a reduction thereof. In manufacturing, all firms plan to reduce or stabilize their inventories, except petroleum, non-thermal construction, and glass firms.



Source: Survey results.

The majority of firms reported stable (46 percent) or higher (42 percent) levels of capacity utilization. At the same time, more firms (12 percent) reported lower capacity utilization compared to the previous survey (9 percent). Relatively more tourism, financial, communications and construction firms reported an increase of capacity utilization, with relatively fewer transportation and manufacturing firms reporting an increase thereof. In manufacturing, only non-metal, leather, footwear, plastic, rubber and clothing firms reported a decline. For the next six months, the majority of firms intend to maintain (56 percent) or increase (37 percent) capacity utilization. All sectors, especially construction, tourism and

financial firms, expect to increase capacity utilization, with fewer manufacturing and transportation firms reporting such increase. Furthermore, all manufacturing firms plan to increase or stabilize their capacity utilization, except footwear firms.

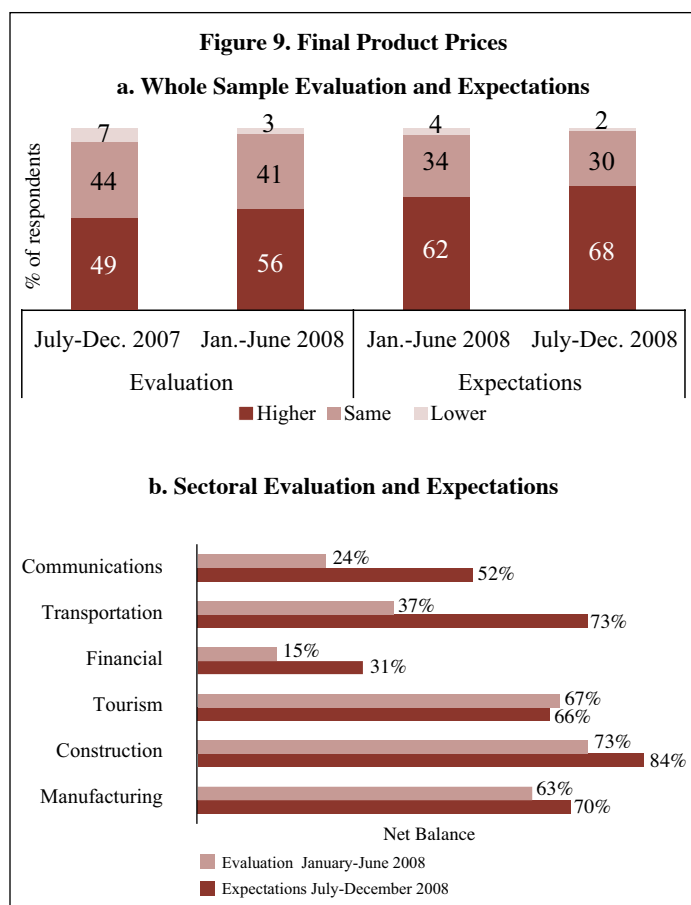


Source: Survey results.

## Prices and Wages

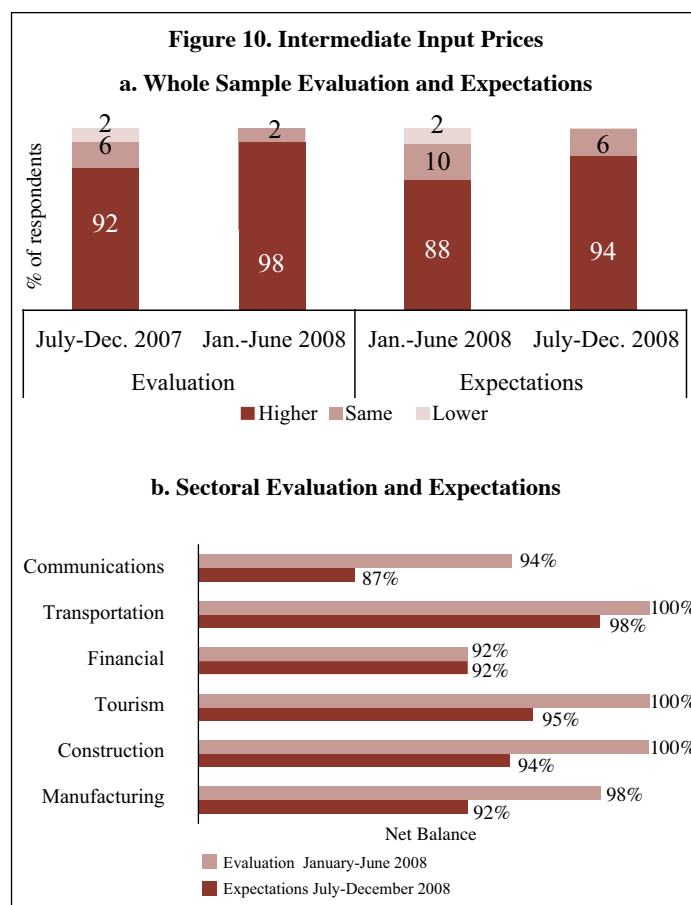
### Higher prices and similar expectations

The majority of firms reported higher (56 percent) or stable (41 percent) output prices. Relatively more firms in the construction, tourism and manufacturing sectors reported an increase in output prices. These results are in line with the persistent increase in real estate prices and the rise in inflation. Within the manufacturing sector, all firms reported increased prices, with the exception of clothing, wood, footwear, leather, plastic and paint firms, which reported stable prices.



Source: Survey results.

For the coming six months of 2008, the majority of firms anticipate higher (68 percent) or stable (30 percent) output prices, with relatively more firms in the construction, transportation, manufacturing and tourism firms expecting an increase thereof. All manufacturing firms anticipate an increase in prices, especially petroleum, glass, pottery, wood, leather and non-metal firms.



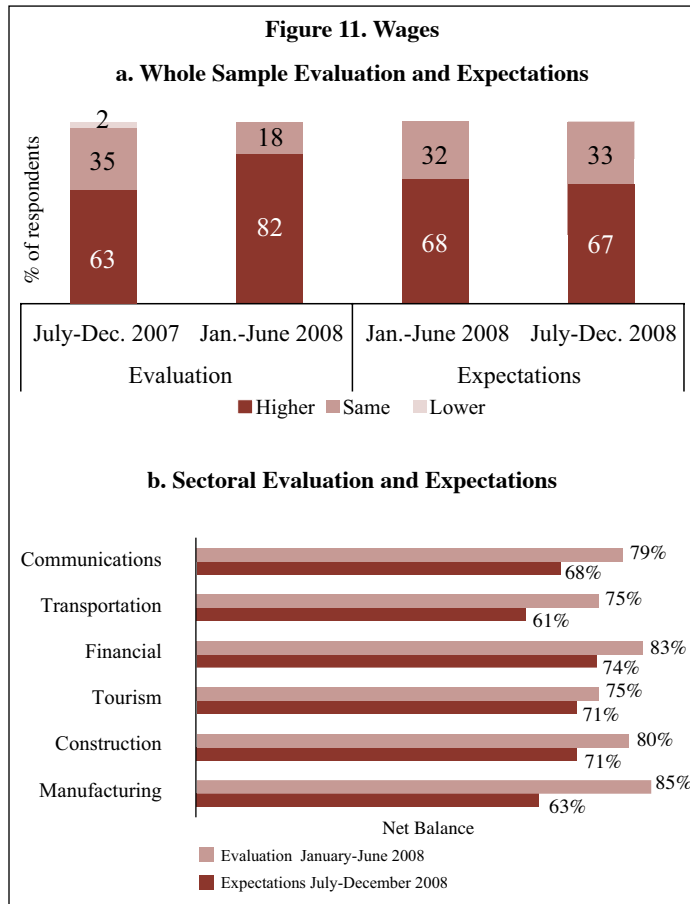
Source: Survey results.

All firms reported higher (98 percent) or stable (2 percent) intermediate input prices. Firms in the construction, tourism and transportation sectors reported an increase in input prices, with slightly fewer firms in the manufacturing, communications and financial sectors reporting an increase thereof. For the second half of 2008, 94 percent of firms expect higher input prices, while 6 percent expect them to remain stable. Relatively more firms in the transportation, tourism, construction, manufacturing and financial sectors expect higher input prices, while relatively less communications firms expect input prices to increase. All manufacturing firms reported higher intermediate input prices, with similar expectations.

**Higher wages and similar expectations**

All firms reported higher (82 percent) or stable wages (18 percent) for the first half of 2008, with relatively more firms in the manufacturing, financial, construction and communications sectors reporting higher wages. Relatively fewer tourism and transportation firms reported an increase in wages. Within the manufacturing sector, all firms reported higher wages, except those producing non-metal products, which reported the same level of wages. Regarding

expectations, all firms anticipate higher (67 percent) or stable (33 percent) wages. Relatively more firms in the financial, tourism, construction, communications, manufacturing and transportation sectors expect higher wages. Within the manufacturing sector, all firms expect an increase in wages, except paint, wood and leather firms, which expect the same level of wages.

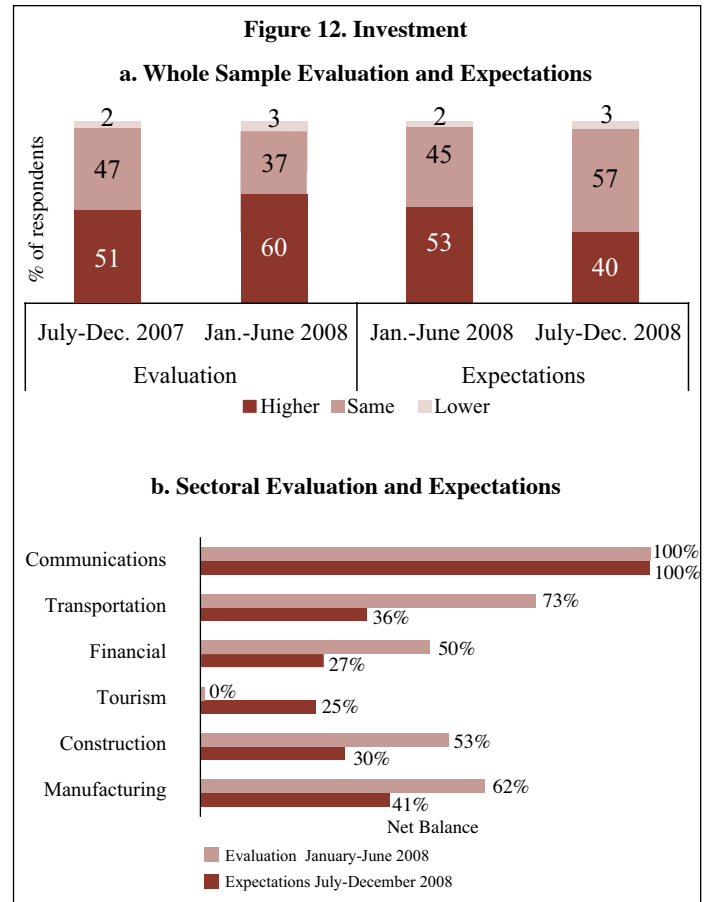


Source: Survey results.

## Investment and Employment

### Higher investment and slightly lower expectations

During the first six months of 2008, the majority of respondents reported higher (60 percent) or stable (37 percent) investment levels. The bulk of investments was directed to machinery and equipment, buildings and land. Relatively more firms in the communications, transportation and manufacturing sectors reported higher investments, followed by construction and financial firms. Only tourism firms reported unchanged investment levels. Within the manufacturing sector, all firms reported higher or stable levels of investment.

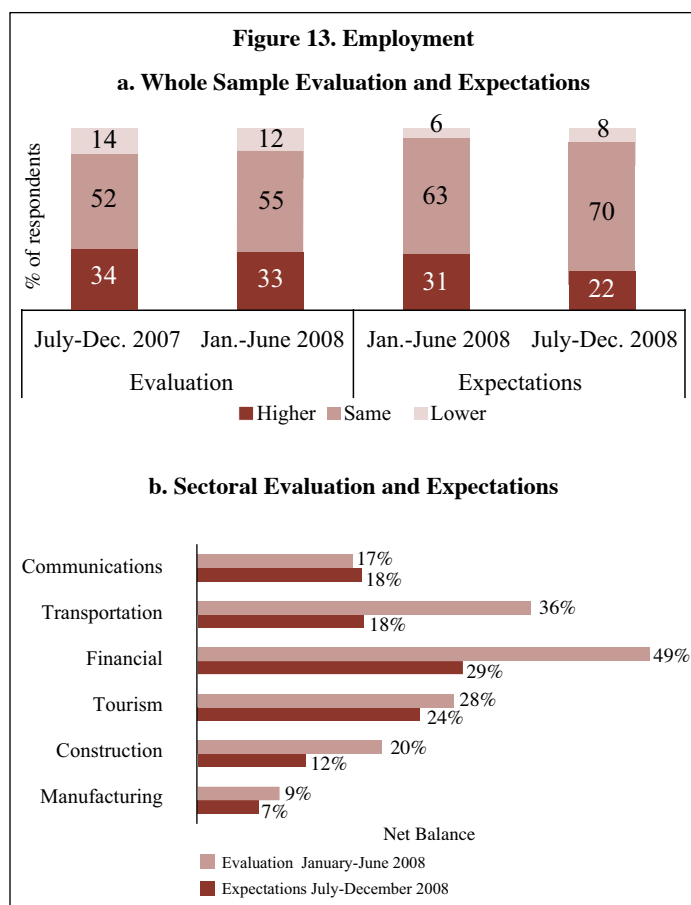


Source: Survey results.

For the coming six months, the majority of firms expect to maintain (57 percent) or increase (40 percent) the levels of investment. All communications firms expect to increase their investments. Relatively fewer firms in the manufacturing, transportation, construction, financial and tourism sectors expect higher investments. Within the manufacturing sector, all firms plan to increase or stabilize investment levels, except beverage and tobacco firms.

### Moderate increase in employment and lower expectations

During the first six months of 2008, firms reported stable (55 percent) or higher (33 percent) employment. The majority of firms hired more blue-collar (17 percent) than white-collar (14 percent) workers; and more temporary (33 percent) than permanent workers (29 percent). Firms in the financial, transportation and tourism sectors hired more workers, while relatively fewer firms in the construction, communications and manufacturing sectors reported more employment. Within the manufacturing sector, all firms reported higher or stable employment levels, while relatively more plastic, footwear, textiles, soap, glass, and paper firms, reported lower employment.



Source: Survey results.

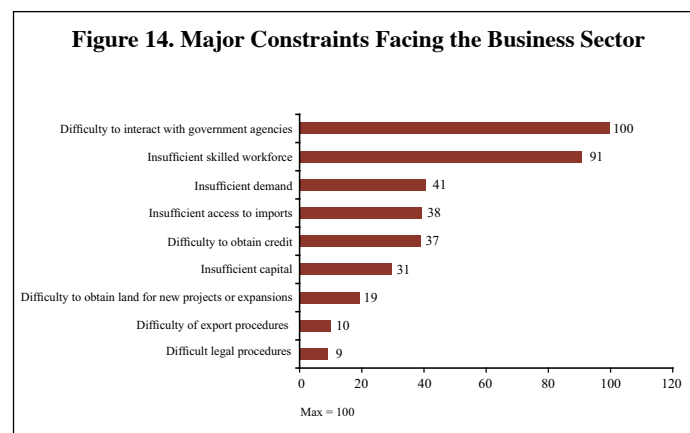
For the coming sixth months of 2008, firms expect to maintain (70 percent) or increase (22 percent) employment. Relatively more firms in the financial and tourism sectors expect to increase their employment than firms in other sectors. Within the manufacturing sector, all firms plan to increase or stabilize their employment levels, while relatively more footwear, paper, plastic, soap, textiles, and metal firms plan to reduce employment.

## Business Constraints

**Major constraints: difficulty in dealing with government bureaucracy, insufficient skilled workers and insufficient demand**

In the previous edition of the BB, the majority of firms expressed concern about high input prices, dealing with government bureaucracy, insufficient skilled workforce, and difficulty of legal procedures. In the current survey, firms were more concerned about dealing with government bureaucracy, lack of skilled workers and insufficient demand. Firms also voiced concern about insufficient access to imports and difficulty to obtain credit. Figure 14 illustrates

constraints reported by firms as major factors affecting their performance.



Source: Survey results.

**Table 1. Survey Results: Summary of Business Sector Evaluation and Expectations<sup>1</sup>**

(%)

Indicator	Business Sector						Manufacturing Sector						Construction Sector						Tourism Sector														
	Evaluation		Expectations		Evaluation		Expectations		Evaluation		Expectations		Evaluation		Expectations		Evaluation		Expectations		Evaluation		Expectations										
	Jan. - June 2008	July - Dec. 2008	Higher	Lower	Same	Net Balance <sup>2</sup>	Jan. - June 2008	July - Dec. 2008	Higher	Lower	Same	Net Balance <sup>2</sup>	Jan. - June 2008	July - Dec. 2008	Higher	Lower	Same	Net Balance <sup>2</sup>	Jan. - June 2008	July - Dec. 2008	Higher	Lower	Same	Net Balance <sup>2</sup>									
<b>Economic growth</b>	29	44	27	2	26	55	19	7	28	42	30	-2	22	61	17	5	29	48	23	6	23	59	18	5	35	39	26	9	30	54	16	14	
<b>Business activity</b>	56	28	16	40	68	19	13	55	53	28	19	34	66	20	14	52	64	21	14	50	66	23	11	55	63	25	12	51	65	21	14	51	
Production	56	28	16	40	66	22	12	54	52	29	19	33	65	22	13	52	64	22	14	50	64	25	11	53	62	25	13	49	61	24	15	46	
Domestic sales	57	26	17	40	71	19	10	61	56	27	17	39	69	21	10	59	54	23	23	31	79	14	7	72	71	22	7	64	73	20	7	66	
International sales	23	58	19	4	14	60	26	-12	23	56	21	2	14	58	28	-14	23	64	13	10	14	61	25	-11	33	67	0	33	20	60	20	0	
Inventory	42	46	12	30	37	56	7	30	40	43	17	23	36	56	8	28	46	43	11	35	48	45	7	41	56	36	8	48	43	48	9	34	
Level of capacity utilization <sup>3</sup>																																	
<b>Prices</b>	56	41	3	53	68	30	2	66	64	35	1	63	71	28	1	70	75	23	2	73	84	16	0	84	69	29	2	67	73	20	7	66	
Final product prices	98	2	0	98	94	6	0	94	98	2	0	98	92	8	0	92	100	0	0	100	96	2	2	94	100	0	0	100	95	5	0	95	
Intermediate input prices	82	18	0	82	67	33	0	67	86	13	1	85	63	37	0	63	80	20	0	80	71	29	0	71	77	21	2	75	71	29	0	71	
Wage level	60	37	3	57	40	57	3	37	64	34	2	62	44	53	3	41	53	47	0	53	30	70	0	30	40	20	40	0	42	41	17	25	
Investment	33	55	12	21	22	70	8	14	27	55	18	9	19	69	12	7	34	52	14	20	23	66	11	12	33	62	5	28	26	72	2	24	
Employment																																	

Indicator	Transportation						Communications						Financial Intermediaries																			
	Evaluation		Expectations		Evaluation		Expectations		Evaluation		Expectations		Evaluation		Expectations		Evaluation		Expectations		Evaluation		Expectations									
	Jan. - June 2008	July - Dec. 2008	Higher	Lower	Same	Net Balance <sup>2</sup>	Jan. - June 2008	July - Dec. 2008	Higher	Lower	Same	Net Balance <sup>2</sup>	Jan. - June 2008	July - Dec. 2008	Higher	Lower	Same	Net Balance <sup>2</sup>	Jan. - June 2008	July - Dec. 2008	Higher	Lower	Same	Net Balance <sup>2</sup>								
<b>Economic growth</b>	30	43	27	3	32	48	20	12	14	72	14	0	24	59	17	7	34	41	25	9	34	41	25	9	34	41	25	9				
<b>Business activity</b>	45	34	21	24	77	14	9	68	48	35	17	31	62	21	17	45	71	24	5	66	74	14	12	62	74	14	12	62				
Production	44	35	21	23	72	20	8	64	50	36	14	36	63	22	15	48	71	24	5	66	74	14	12	62	74	14	12	62				
Domestic sales	58	27	15	43	70	15	15	55	36	37	27	9	73	18	9	64	73	9	18	55	82	18	0	82	82	18	0	100	0	0	100	
International sales	0	100	0	0	0	100	0	0	0	75	25	-25	0	75	25	-25	0	0	0	0	100	0	0	0	100	0	0	100				
Inventory	38	49	13	25	32	63	5	27	36	64	0	36	17	75	8	9	43	57	0	43	33	64	3	30	33	64	3	30				
Level of capacity utilization <sup>3</sup>																																
<b>Prices</b>	39	59	2	37	73	27	0	73	31	62	7	24	55	42	3	52	25	65	10	15	36	59	5	31	36	59	5	31				
Final product prices	100	0	0	100	98	2	0	98	94	6	0	94	87	13	0	87	92	8	0	92	92	8	0	92	92	8	0	92				
Intermediate input prices	75	25	0	75	61	39	0	61	79	21	0	79	68	32	0	68	83	17	0	83	74	26	0	74	74	26	0	74				
Wage level	73	27	0	73	36	64	0	36	100	0	0	100	100	0	0	100	50	50	0	50	27	73	0	27	27	73	0	27				
Investment	41	54	5	36	21	76	3	18	27	63	10	17	21	76	3	18	52	45	3	49	34	61	5	29	34	61	5	29				
Employment																																

<sup>1</sup> Numbers represent percent of total responses. Higher, same and lower may not add up to 100 due to rounding.

<sup>2</sup> "Net balance" represents the percentage of respondents indicating «higher» minus the percentage of respondents indicating «lower».

<sup>3</sup> Higher = approaching full capacity; Same = normal capacity utilization; Lower = below capacity utilization.

**Table 2. Survey Results: Summary of Business Sector Evaluation<sup>1</sup>**

(%)

Indicator	July - December 2005			January - June 2006			July - December 2006			January - June 2007			July - December 2007			Jan. - June 2008									
	Higher	Same	Lower	Higher	Same	Lower	Higher	Same	Lower	Higher	Same	Lower	Higher	Same	Lower	Higher	Same	Lower	Net Balance <sup>2</sup>						
<b>Economic growth</b>	40	39	21	19	28	34	38	-10	36	43	21	15	51	35	14	37	48	29	23	25	29	44	27	2	
<b>Business activity</b>																									
Production	41	37	22	19	45	30	25	20	44	36	20	24	52	34	14	38	62	21	17	45	56	28	16	40	
Domestic sales	42	33	25	17	39	34	27	12	44	35	21	23	53	31	16	37	60	23	18	42	56	28	16	40	
International sales	46	29	25	21	46	28	26	20	45	31	24	21	51	37	12	39	64	18	18	46	57	26	17	40	
Inventory	22	45	33	-11	25	46	29	-4	27	48	25	2	30	44	26	4	24	44	32	-8	23	58	19	4	
Level of capacity utilization <sup>3</sup>	32	48	20	12	25	47	28	-3	37	48	15	22	41	46	13	28	51	40	9	42	42	46	12	30	
<b>Prices</b>																									
Final product prices	30	55	15	15	41	51	8	33	41	51	8	33	40	52	8	32	49	44	7	42	56	41	3	53	
Intermediate input prices	70	20	10	60	81	16	3	78	81	16	3	78	80	18	2	78	92	6	2	90	98	2	0	98	
Wage level	57	42	1	56	72	25	3	69	62	37	1	61	76	23	1	75	63	35	2	61	82	18	0	82	
<b>Primary inputs</b>																									
Investment	30	61	9	21	38	51	11	27	42	49	9	33	40	57	3	37	51	47	2	49	60	37	3	57	
Employment	19	56	25	-6	26	54	20	6	26	56	18	8	27	58	15	12	34	52	14	20	33	55	12	21	

**Table 3. Survey Results: Summary of Business Sector Expectations<sup>1</sup>**

(%)

Indicator	January-June 2006			July-December 2006			January-June 2007			July-December 2007			January-June 2008			July - Dec. 2008									
	Higher	Same	Lower	Higher	Same	Lower	Higher	Same	Lower	Higher	Same	Lower	Higher	Same	Lower	Higher	Same	Lower	Net Balance <sup>2</sup>						
<b>Economic growth</b>	56	36	7	49	48	37	14	34	58	35	7	51	54	39	7	47	54	34	12	42	26	55	19	7	
<b>Business activity</b>																									
Production	72	18	10	62	73	20	7	66	72	22	6	66	79	15	6	73	75	16	9	66	68	19	13	55	
Domestic sales	66	24	10	56	68	23	9	59	69	25	6	63	78	17	5	73	73	18	9	64	66	22	12	54	
International sales	74	22	4	70	74	19	7	67	71	26	3	68	79	18	3	76	75	17	8	67	71	19	10	61	
Inventory	18	43	39	-21	26	45	29	-3	26	50	24	2	8	66	26	-18	20	50	30	-10	14	60	26	-12	
Level of capacity utilization <sup>3</sup>	57	36	7	50	65	29	6	59	69	27	4	65	61	35	4	57	68	28	4	64	37	56	7	30	
<b>Prices</b>																									
Final product prices	43	51	6	37	50	46	4	46	56	39	5	51	45	51	4	41	62	34	4	58	68	30	2	66	
Intermediate input prices	64	32	4	59	70	26	4	66	75	22	3	72	76	23	1	75	88	10	2	86	94	6	0	94	
Wage level	65	35	0	65	68	32	1	67	70	30	1	69	65	34	1	64	68	32	0	68	67	33	0	67	
<b>Primary inputs</b>																									
Investment	51	49	0	51	59	41	0	59	61	39	0	61	61	39	0	61	53	45	2	51	40	57	3	37	
Employment	22	63	15	8	33	55	12	21	35	54	11	24	33	57	10	23	31	63	6	25	22	70	8	14	

<sup>1</sup> Numbers represent percent of total responses. Higher, same and lower may not add up to 100 due to rounding.  
<sup>2</sup> "Net balance" represents the percentage of respondents indicating «higher» minus the percentage of respondents indicating «lower».  
<sup>3</sup> Higher = approaching full capacity; Same = normal capacity utilization; Lower = below capacity utilization.

## Methodology

Due to the lack of timely real-side data on the Egyptian economy, in 1998 ECES created and conducted a biannual survey targeting the most important sectors affecting economic activity. Aside from providing useful information on business sector views about past performance, the survey also sheds light on the sector's expectations for future production, prices, employment, and investment. Starting the July 2007 issue, the survey has been based on a sample of large firms (in terms of activity levels) in the manufacturing, construction and tourism sectors, in addition to transportation, communications and financial sectors. It will continue to be conducted biannually in June and December.

In 1998, the survey was confined to the manufacturing sector. The decision to include the construction sector in 2000 was based on several observations. First, it was noticed that the government made a great effort to provide adequate infrastructure. This led to a significant increase in the construction sector's share in economic activity from 4.94 percent of GDP in FY1989/90 to 6 percent in FY1998/99. Furthermore, the sector absorbs virtually 8 percent of total employment in the Egyptian economy. The sector investment is rapidly expanding, with the private sector implementing over 80 percent of such investment.

In June 2002, ECES expanded the sample to include the tourism sector due to its relative importance as Egypt's largest foreign exchange earner. The contribution of this sector to GDP exceeds the average of 1.5 percent reported in national accounts. Estimates of tourism's direct and indirect impact on GDP reached 11 percent of GDP in 2000. The sampled firms cover the two main activities in the tourism sector, namely hotels and travel agencies.

In the July 2006 edition, the sample was revised to reflect the contribution of the manufacturing, construction and tourism sectors to GDP and the role of public and private enterprises in generating value added within each sector in accordance with the Ministry of Planning data for 2004/05. Also, the sample of firms was increased to 320 firms (from 210 firms) to allow a broader coverage of large businesses in the economy. Sectoral breakdown of the sample was as follows: 227 manufacturing firms, 50 construction firms and 43 tourism firms.

The structure of the manufacturing sector's sample was also revised to reflect the contribution of each industry to manufacturing value added and the importance of public versus private production within each industry based on

CAPMAS Annual Industrial Statistics 2004 (for the private sector) and 2003/04 (for the public sector). Manufacturing sub-sectors are: food; beverages and tobacco; spinning and weaving; ready-made clothes; wood and furniture; paper and its products; printing; shoes; leather and leather products; rubber products; chemicals and chemical-related products; non-metal mining products; basic metal products; and transportation equipment.

In the July 2007 issue, the sample was further expanded to include an additional 154 firms covering three more sectors; namely transportation (57 firms), communications (28 firms) and financial intermediaries sectors (65 firms) and an additional 4 firms were added from the construction sector. The number of firms in each sector reflects its share in the 2005/06 GDP. These sectors were selected for their growing contribution in economic activity. In addition, the questionnaire was revised to include more details about firms' evaluation of the geographic distribution of exports, the prices of different intermediate inputs, namely raw materials, energy and maintenance costs, the type of investment: in machinery and equipment, land and buildings, and finally the type of employment, whether white or blue collar. Questions about firms' expectations regarding the geographic distribution of exports and the price of intermediate inputs, by type, were also added to the questionnaire. Three more questions were added to the questionnaire: firms' evaluation of research and development (R&D) spending, support received from the government (such as export subsidies) and sources of finance. The types of constraints that face firms' activities were expanded to include other constraints such as: dealing with government procedures, legal procedures, export procedures, land availability, credit cost and procedures.

The survey elicits responses of firms on current levels of activity in terms of production, sales in domestic and international markets, inventories, the level of capacity utilization, the prices of final products and of intermediate inputs, as well as wages, employment and investment. The survey also probes the changing nature of constraints on business, as well as assessment of overall economic growth (see attached questionnaire).

In July 2008, a new Business Barometer Index (BBI) was constructed to summarize firms' responses about their evaluation and expectations regarding the overall economic performance and their own activities in one single index. The computation of BBI depended on the multivariate statistical analysis, which is usually used for manipulation of survey data. There are several multivariate



statistical techniques, of which the Principal Components Analysis (PCA)<sup>1</sup> was used to explain changes among observed variables, in terms of fewer unobserved variables usually called principal components, eigenvectors, factors or loadings. PCA attempts to identify underlying principal components that explain the pattern of correlations within a set of observed variables. It is often used to identify a small number of factors that explain most of the variance that is observed in a much larger number of observed variables. The principal components (PC) are modeled as linear weighted combinations of those observed variables. For a set of observed variables  $X_i$ , where  $i=1, \dots, n$ ,  $PC_j$  can be written as:

$$PC_j = a_{j1}x_1 + a_{j2}x_2 + \dots \dots \dots a_{jn}x_n$$

where:

$a_{ji}$  represents the weights for the  $i$ th variable ( $X_i$ ) in the  $j$ th PC ( $j=1, \dots, m$ ;  $m < n$ ).<sup>2</sup> The PCs are ordered in such a way that the first PC explains the largest possible amount of variation in the original data, under the constraint that the sum of the squared weights is equal to 1. The following components are not correlated with the first principal component and explain additional but less variation than the first principal component. The values of the first principal component are normalized to take the values between 0 and 100, and the mean value represents the value of BBI.

<sup>1</sup> Vyas, S., and L. Kumaranayake. 2006. "Constructing Socio-Economic Status Indices: How to Use Principal Components Analysis." Health Policy Plan 21(6): 459–68.

<sup>2</sup> EVIEWS is the statistical package used to run PCA and compute the eigenvalues, eigenvectors of the covariance matrix and PCs.

*ECES would like to express its deep appreciation to all companies that participated in the completion of the questionnaire in due time, and would welcome any comments or suggestions for further improvement.*



### Business Barometer

(Biannual Survey: July 2008)

Respondent Name: ..... Position: .....

Enterprise Name: .....

Nature of Activity: ..... Specialization: .....

Telephone Number: .....

Sector: .....  Public  Private

Year of Foundation: ..... Number of Employees: .....

Address: ..... Email Address: .....

Date of Interview: ..... Surveyed Period: (January 2008 – June 2008)

#### 1- During the past six months relative to the preceding six months:

%

- |   |  |  |                                |     |
|---|--|--|--------------------------------|-----|
| - Was your production/volume of activity:                             | <input type="checkbox"/> Higher                    | <input type="checkbox"/> Normal        | <input type="checkbox"/> Lower | ___ |
| - Was your sales volume/size of activity in the domestic market:      | <input type="checkbox"/> Higher                    | <input type="checkbox"/> Normal        | <input type="checkbox"/> Lower | ___ |
| - Was your sales volume/size of activity in the international market: |  |  |                                |     |
| - <i>European Union</i>   | <input type="checkbox"/> Higher                    | <input type="checkbox"/> Normal        | <input type="checkbox"/> Lower | ___ |
| - <i>United States of America</i>                                     | <input type="checkbox"/> Higher                    | <input type="checkbox"/> Normal        | <input type="checkbox"/> Lower | ___ |
| - <i>Arab Countries</i>   | <input type="checkbox"/> Higher                    | <input type="checkbox"/> Normal        | <input type="checkbox"/> Lower | ___ |
| - <i>Asia (excluding Arab countries)</i>                              | <input type="checkbox"/> Higher                    | <input type="checkbox"/> Normal        | <input type="checkbox"/> Lower | ___ |
| - <i>Africa (excluding Arab countries)</i>                            | <input type="checkbox"/> Higher                    | <input type="checkbox"/> Normal        | <input type="checkbox"/> Lower | ___ |
| - Did prices of your products/ projects:                              | <input type="checkbox"/> Rise                      | <input type="checkbox"/> Stay the same | <input type="checkbox"/> Fall  | ___ |
| - Did prices of your inputs:  |  |  |                                |     |
| - <i>Raw materials</i>  | <input type="checkbox"/> Rise                      | <input type="checkbox"/> Stay the same | <input type="checkbox"/> Fall  | ___ |
| - <i>Energy</i>   | <input type="checkbox"/> Rise                      | <input type="checkbox"/> Stay the same | <input type="checkbox"/> Fall  | ___ |
| - <i>Maintenance</i>  | <input type="checkbox"/> Rise                      | <input type="checkbox"/> Stay the same | <input type="checkbox"/> Fall  | ___ |
| - Did your wage level:  | <input type="checkbox"/> Rise                      | <input type="checkbox"/> Stay the same | <input type="checkbox"/> Fall  | ___ |
| - Did your inventories:   | <input type="checkbox"/> Rise                      | <input type="checkbox"/> Stay the same | <input type="checkbox"/> Fall  | ___ |
| - Was your capacity utilization:                                      | <input type="checkbox"/> Approaching full capacity | <input type="checkbox"/> Normal        | <input type="checkbox"/> Below | ___ |
| - Did your employment, from:  |  |  |                                |     |
| - <i>White-collar:</i>  |  |  |                                |     |
| - <i>Permanent</i>  | <input type="checkbox"/> Rise                      | <input type="checkbox"/> Stay the same | <input type="checkbox"/> Fall  | ___ |
| - <i>Temporary</i>  | <input type="checkbox"/> Rise                      | <input type="checkbox"/> Stay the same | <input type="checkbox"/> Fall  | ___ |
| - <i>Blue-collar:</i>   |  |  |                                |     |
| - <i>Permanent</i>  | <input type="checkbox"/> Rise                      | <input type="checkbox"/> Stay the same | <input type="checkbox"/> Fall  | ___ |
| - <i>Temporary</i>  | <input type="checkbox"/> Rise                      | <input type="checkbox"/> Stay the same | <input type="checkbox"/> Fall  | ___ |

- Did your investment in:
- *Land*  Rise  Stay the same  Fall \_\_\_
  - *Buildings*  Rise  Stay the same  Fall \_\_\_
  - *Machinery & Equipment*  Rise  Stay the same  Fall \_\_\_
  - Did your expenditure on R&D  Rise  Stay the same  Fall \_\_\_
  - Did the value of subsidies that your firm benefit from (if applicable)  Rise  Stay the same  Fall \_\_\_

**2- What were your sales/size of activity in Egyptian pounds during:** The year before the survey period:-----  
The survey period: -----

**3- In the past six months, did the economy grow:**  Faster  At the same rate  Slower

**4- What are your company's main sources of finance from the following list, ranking your choices on a scale from 1 to 4 (1 for the lowest and 4 for the highest source):**

	Source	Rank
1-	Own funds/business partner	
2-	Bank credit	
3-	Issuing bonds	
4-	Stock market (selling stocks)	

**5- Is your production currently constrained:**  Yes  No

If yes, please rank on a scale from 0 to 4 the following constraints to your production process, where 0 indicates not a constraint and 4 refers to severe constraints.

	0	1	2	3	4
- Insufficient demand					
- Insufficient capital					
- Insufficient access to imports					
- Insufficient skilled workforce					
- Complicated export procedures					
- Difficulty to obtain credit					
- High interest rate on loans					
- Difficulties related to terms of obtaining a bank credit					
- Difficulty to obtain land (for new projects or expansions)					
- Complicated legal procedures					
- Difficulty in interacting with government agencies					
- Other factors (please specify):-----					

**6- In the next six months, do you expect:**

%

- |  |                               |  |                               |     |
|--|-------------------------------|--|-------------------------------|-----|
| - Your production/volume of activity to:                             | <input type="checkbox"/> Rise | <input type="checkbox"/> Stay the same | <input type="checkbox"/> Fall | ___ |
| - Your sales volume/size of activity in the domestic market to:      | <input type="checkbox"/> Rise | <input type="checkbox"/> Stay the same | <input type="checkbox"/> Fall | ___ |
| - Your sales volume/size of activity in the international market to: |                               |  |                               |     |
| - <i>European Union</i>  | <input type="checkbox"/> Rise | <input type="checkbox"/> Stay the same | <input type="checkbox"/> Fall | ___ |
| - <i>United States of America</i>                                    | <input type="checkbox"/> Rise | <input type="checkbox"/> Stay the same | <input type="checkbox"/> Fall | ___ |
| - <i>Arab countries</i>  | <input type="checkbox"/> Rise | <input type="checkbox"/> Stay the same | <input type="checkbox"/> Fall | ___ |
| - <i>Asia (excluding Arab countries)</i>                             | <input type="checkbox"/> Rise | <input type="checkbox"/> Stay the same | <input type="checkbox"/> Fall | ___ |
| - <i>Africa (excluding Arab countries)</i>                           | <input type="checkbox"/> Rise | <input type="checkbox"/> Stay the same | <input type="checkbox"/> Fall | ___ |
| - Prices of your products/projects to:                               | <input type="checkbox"/> Rise | <input type="checkbox"/> Stay the same | <input type="checkbox"/> Fall | ___ |
| - Prices of your inputs to:  |                               |  |                               |     |
| - <i>Raw Materials</i>   | <input type="checkbox"/> Rise | <input type="checkbox"/> Stay the same | <input type="checkbox"/> Fall | ___ |
| - <i>Energy</i>  | <input type="checkbox"/> Rise | <input type="checkbox"/> Stay the same | <input type="checkbox"/> Fall | ___ |
| - <i>Maintenance</i>   | <input type="checkbox"/> Rise | <input type="checkbox"/> Stay the same | <input type="checkbox"/> Fall | ___ |
| - Wage level to:   | <input type="checkbox"/> Rise | <input type="checkbox"/> Stay the same | <input type="checkbox"/> Fall | ___ |
| - Inventories to:  | <input type="checkbox"/> Rise | <input type="checkbox"/> Stay the same | <input type="checkbox"/> Fall | ___ |
| - Capacity Utilization to:   | <input type="checkbox"/> Rise | <input type="checkbox"/> Stay the same | <input type="checkbox"/> Fall | ___ |

**7- In the next six months, what are you planning to do about the following items:**

- |                                    |                                   |                                   |                                   |
|------------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|
| - Workforce:                       | <input type="checkbox"/> Increase | <input type="checkbox"/> Maintain | <input type="checkbox"/> Decrease |
| - <i>White-Collars:</i>            | <input type="checkbox"/> Increase | <input type="checkbox"/> Maintain | <input type="checkbox"/> Decrease |
| - <i>Permanent</i>                 | <input type="checkbox"/> Increase | <input type="checkbox"/> Maintain | <input type="checkbox"/> Decrease |
| - <i>Temporary</i>                 | <input type="checkbox"/> Increase | <input type="checkbox"/> Maintain | <input type="checkbox"/> Decrease |
| - <i>Blue-Collars:</i>             | <input type="checkbox"/> Increase | <input type="checkbox"/> Maintain | <input type="checkbox"/> Decrease |
| - <i>Permanent</i>                 | <input type="checkbox"/> Increase | <input type="checkbox"/> Maintain | <input type="checkbox"/> Decrease |
| - <i>Temporary</i>                 | <input type="checkbox"/> Increase | <input type="checkbox"/> Maintain | <input type="checkbox"/> Decrease |
| - Investment:                      | <input type="checkbox"/> Increase | <input type="checkbox"/> Maintain | <input type="checkbox"/> Decrease |
| - <i>Land</i>                      | <input type="checkbox"/> Increase | <input type="checkbox"/> Maintain | <input type="checkbox"/> Decrease |
| - <i>Buildings</i>                 | <input type="checkbox"/> Increase | <input type="checkbox"/> Maintain | <input type="checkbox"/> Decrease |
| - <i>Machinery &amp; Equipment</i> | <input type="checkbox"/> Increase | <input type="checkbox"/> Maintain | <input type="checkbox"/> Decrease |

**8- In the next six months, do you expect the economy to grow**

- Faster                       At the same rate                       Slower