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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 the previous edition, the Business Barometer includes two indices designed to summarize firms' evaluation and expectations for four successive periods. For detailed information about the sample, questionnaire and calculating the BB indices, visit the ECES website (www.eces.org.eg) under Business Barometer.

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 2009. It also summarizes their expectations for overall future economic performance as well as their own activities for the second half of 2009.

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

This 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 half of 2009, and their expectations for the second half of 2009. The surveyed firms cover manufacturing, construction, tourism, transportation, communications and financial intermediation.

With respect to the past six months, more firms reported lower economic growth compared to the previous survey. Regarding own activities, the majority of firms reported lower production, domestic sales and exports. Firms' negative perceptions during the last six months could be mainly explained by decelerating overall economic growth. The real GDP growth rate has declined to 4.3 percent in the third quarter of 2008/09 compared to 7.4 percent in the corresponding quarter of 2007/08. Average inflation declined from a high of 22.4 percent during the period July-September 2008 to an average of 13.3 percent in the period January-March 2009.¹ The inflation decline could be mainly attributed to the fall in world prices of oil and food.

Comparing the balance of payments data for the third quarter of 2008/09 with those of the third quarter of 2007/08 reveals that tourism receipts decreased by 17.2 percent, Suez Canal receipts by 22.3 percent, non-petroleum exports by 20.5 percent, petroleum exports by 33.1 percent, services receipts by 31.2 percent, imports by 20.6 percent and private transfers by 14.9 percent. The current account deficit reached \$0.9 billion in the third quarter of 2008/09 compared to a surplus of \$0.7 billion during the third quarter in 2007/08.²

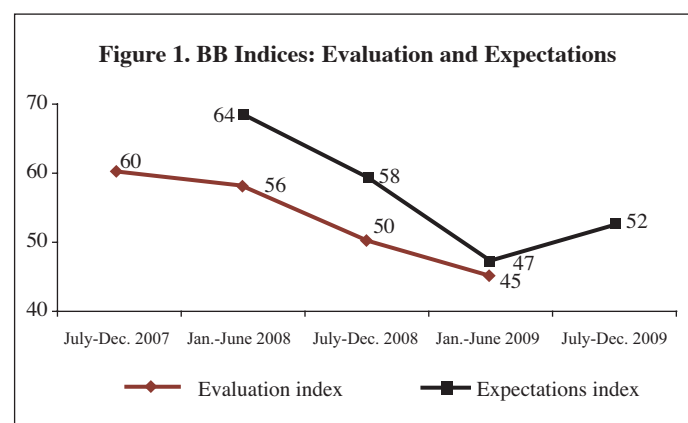
For the upcoming six months, respondents' expectations are positive. A greater number of firms anticipate an increase in economic growth compared to the previous survey. In addition, relatively more firms are optimistic about their own production, domestic sales and exports, signaling that the negative impact of the global crisis is subsiding and that they anticipate increased economic growth, own production, sales and exports. Firms' positive outlook regarding overall economic growth

and own performance is a reflection of improvement in the international economic outlook. Furthermore, the government announced a financial stimulus package of EGP 15 billion to activate demand, but it is still too early to assess whether that amount has been adequate, timely and efficiently disbursed.

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

The Business Barometer Indices

The Business Barometer Indices (BBI) were computed using the Principal Components Analysis and are based on firms' responses in the different sectors covered by the BB. Figure 1 portrays the two computed indices, one reflecting evaluation while the other presents expectations, for four consecutive periods.



Source: Authors' calculations based on survey results.

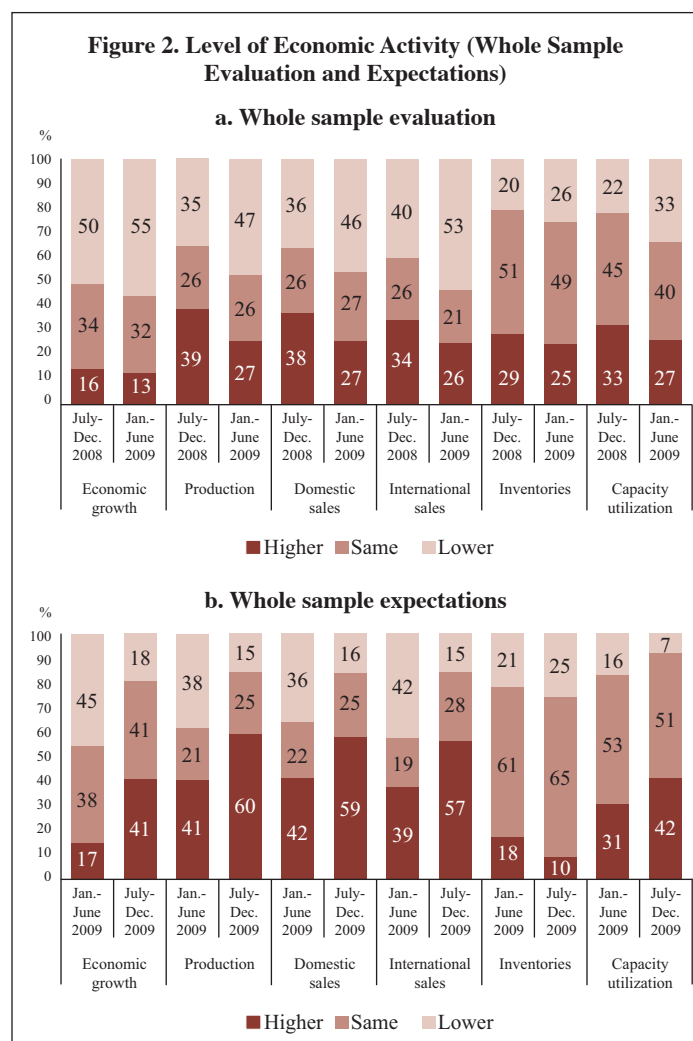
The figure shows that the evaluation index has declined during the four periods of coverage. This persistent downward trend reflects the slowdown of the Egyptian economy, which was further exacerbated by the global economic crisis. Regarding expectations, the index has declined from 64 percent for the period January-June 2008 to reach a low of 47 percent in January-June 2009, although it increased for the first time in the period July-December 2009 (by 5 percentage points) reflecting

¹ Data obtained from the Ministry of Finance.

² Data obtained from the Ministry of Finance.

firms' expectation that the negative impact of the crisis is abating and that they now have a more optimistic outlook for the economy. The negative effects on the indices are mainly the result of responses on overall growth, level of production, and domestic and international sales.

The Level of Economic Activity



Source: Survey results.³

Lower economic growth with positive expectations

During the first six months of 2009, more firms (55 percent) reported lower economic growth compared to the last six months of 2008 (50 percent),⁴ while fewer respondents reported steady (32 percent) or higher (13 percent) overall economic growth. Firms' perceptions about economic growth are in line with actual real GDP

growth rates. Real GDP growth declined to 4.3 percent in the period January-March 2009 compared to a real GDP growth rate of 7.4 percent in the period January-March 2008.⁵ According to the Ministry of State for Economic Development, real GDP growth rate was 4.7 percent in the first 9 months of FY 2008/09 compared to 7 percent in the corresponding period of FY 2007/08.

Firms' expectations regarding overall economic growth are positive compared to the previous issue.⁶ The majority of firms (82 percent) anticipate stable or higher economic growth during the second half of 2009. More firms (41 percent) expect higher economic growth in the upcoming six months of 2009 compared to 17 percent in the first six months of 2009, while fewer firms (18 percent) expect lower economic growth during the next six months of 2009 compared to 45 percent in the first half of 2009.

At the sectoral level, most firms have reported a decrease in economic growth. The percentage of firms indicating a decrease in economic growth was highest in the tourism sector, while slightly fewer firms in manufacturing, construction, transport, communications and financial services reported a slowdown in economic growth.⁷ According to the Ministry of State for Economic Development, all sectors have been negatively affected by the global crisis with the exception of two sectors that remained resilient, namely, extractive industries and communications. Figure 3 shows the actual decline in growth of key sectors⁸ in the economy as reported by the Ministry of State for Economic Development. It is noteworthy that survey results are largely consistent with the decline in growth rates reported in various sectors.

⁵ Data obtained from the Ministry of State for Economic Development: www.mop.gov.eg.

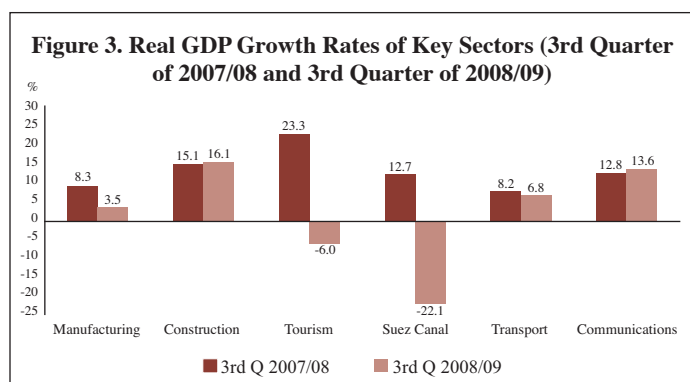
⁶ See Figure 2b.

⁷ See Table 3.

⁸ Data obtained from the Ministry of State for Economic Development: www.mop.gov.eg.

³ Survey results are summarized in Tables 1 and 2.

⁴ See Figure 2a.



Source: Ministry of State for Economic Development.

Production decreased with higher expectations

The majority of respondents reported lower (47 percent) or stable (26 percent) production during the first half of 2009 as shown in Figure 2a. At the same time, slightly fewer firms (27 percent) reported higher production compared to the previous survey (39 percent). As per Table 3, the percentage of firms that reported lower production was highest in the tourism (77 percent) and transport (55 percent) sectors, while the percentage of firms reporting lower production was lesser in the financial services, communications, manufacturing and construction sectors.

In general, firms have expressed favorable expectations about their own production during the next six months. The majority of firms expect higher (60 percent) or similar (25 percent) production levels, while fewer firms (15 percent) expect to decrease their production during the second half of 2009 compared to (38 percent) during the first six months of 2009. At the sectoral level, the majority of firms expect higher production during the next six months. Relatively more optimistic expectations were reported by financial services, construction, transport and manufacturing firms. Communications and tourism firms were less optimistic.⁹

More firms reported lower domestic sales with favorable expectations

During the first six months of 2009, a greater number of respondents reported lower (46 percent) or stable (27 percent) domestic sales, compared to (36 percent) and (26 percent) respectively during the second half of 2008 as shown in Figure 2a. In addition, fairly fewer

firms (27 percent) reported higher domestic sales during the first six months of 2009, compared to 38 percent during the second half of 2008. At the sectoral level, relatively more tourism and transport firms reported lower domestic sales compared to firms in the financial services, communications, manufacturing, and construction sectors successively.

With regards to the coming six months, the majority of firms anticipate higher (59 percent) or stable (25 percent) domestic sales.¹⁰ Similarly, fewer firms (16 percent) expect lower domestic sales during the second half of 2009 compared to the first half of 2009 (36 percent). The percentage of firms expecting an increase in domestic sales was higher in the financial services, construction, transport, and manufacturing sectors. Communications and tourism firms were less optimistic about domestic sales in the second half of 2009.

Lower international sales and positive expectations

The majority of firms reported lower (53 percent) or steady (21 percent) international sales during the first six months of 2009 as shown in Figure 2a. The most unfavorable views were reported by tourism, financial services, and transport firms. Manufacturing and construction firms reported slightly more favorable views with regards to international sales. Communications firms expressed the most favorable views in terms of international sales during the first half of 2009 as all firms reported higher international sales.

For the coming six months of 2009, more firms anticipate higher (57 percent) and stable (28 percent) international sales (Figure 2b), with fewer firms (15 percent) expecting lower international sales during the upcoming period compared to 42 percent during the first six months of 2009. At the sectoral level, the majority of firms in the construction, transport and manufacturing sectors expect higher exports, while fewer firms in the communications and financial services sectors anticipate higher exports during the same period. Tourism firms do not anticipate an increase in exports over the upcoming six months.¹¹ The favorable expectations mainly reflect the general

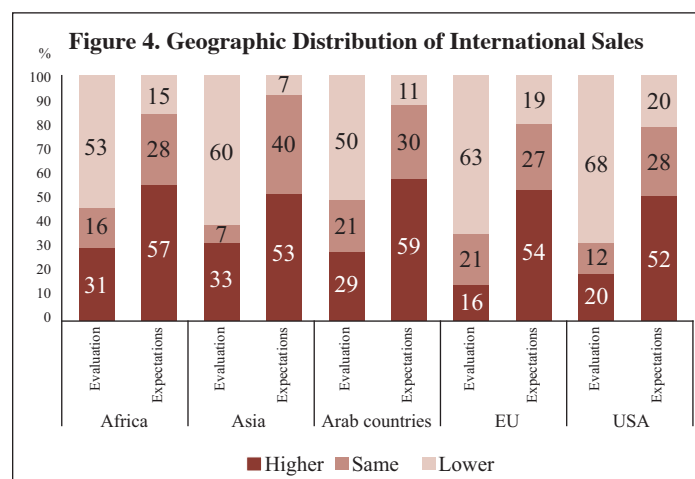
⁹ See Table 3.

¹⁰ See Figure 2b.

¹¹ See Table 3.

perception that the worst of the crisis is now over and that the global economy is about to bounce back.

In general, Figure 4 shows positive export expectations for the second half of 2009 compared to international sales during the first half of 2009. Expectations are highest for exports to Arab countries, followed by Africa, the EU, Asia and the US (in that order).



Source: Survey results.

Decreased inventories and lower capacity utilization with higher expectations

The majority of firms maintained (49 percent) or decreased (26 percent) their inventories as a result of decrease in domestic sales and decline in exports as per Figure 2a. Twenty-five percent of firms reported higher inventories as compared to 29 percent in the previous survey. At the sectoral level, the majority of firms in transport, communications, tourism, and construction reported no change in inventories.

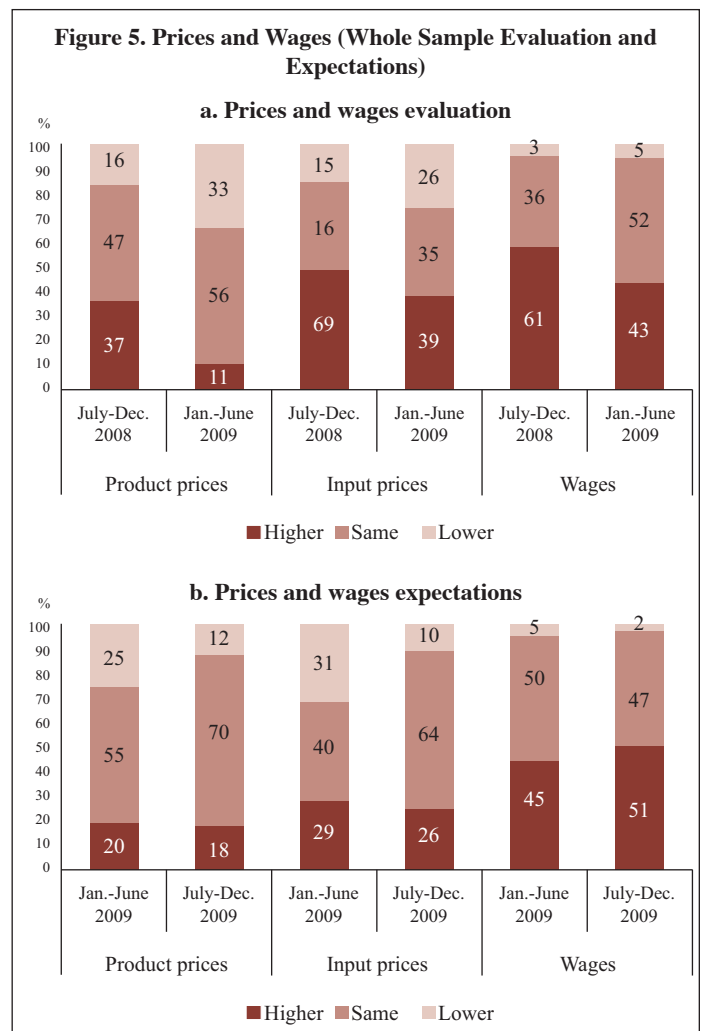
For the next six months, the majority of firms intend to maintain (65 percent) or decrease (25 percent) their inventories (Figure 2b). In addition, fewer firms (10 percent) expect to increase their inventories compared to the previous survey, where 18 percent of firms expect them to increase. All firms in construction and communications and most firms in tourism expect stable inventories in the next six months of 2009, whereas most firms in the transport and manufacturing sectors expect either a decrease or no change in inventories.¹²

¹²See Table 3.

The majority of firms reported stable (40 percent) or lower (33 percent) levels of capacity utilization. At the same time, fewer firms (27 percent) reported higher capacity utilization compared to the previous survey (33 percent). Relatively more firms in tourism reported lower capacity utilization.

For the next six months, the majority of firms expect capacity utilization to remain unchanged (51 percent) or to increase (42 percent),¹³ with fewer firms (7 percent) expecting lower capacity utilization compared to the previous survey (16 percent). The majority of firms in all six sectors expect to increase or maintain capacity utilization over the next six months.

Prices and Wages



Source: Survey results.

¹³See Figure 2b.

Lower prices and stable expectations

The majority of firms reported lower (33 percent) or stable (56 percent) output prices compared to 16 percent and 47 percent in the previous six months as shown in Figure 5a. These results are in line with the decrease in inflation from 20.2 percent in June 2008 to 10.2 percent in May 2009.¹⁴ While most firms in all sectors reported no change or a decrease in output prices, 68 percent and 20 percent of firms in construction reported no change or increases in prices, respectively.¹⁵

For the coming six months of 2009, the majority of firms anticipate stable output prices (70 percent). Moreover, the percentage of firms anticipating lower output prices decreased substantially to 12 percent compared to 25 percent in the first half of 2009, reflecting improved demand expectations. Similarly, the percentage of firms expecting higher output prices decreased to 18 percent in the second half of 2009 as compared to 20 percent in the first half of 2009. At the sectoral level, the majority of firms in all sectors expect stable output prices over the next six months.

The majority of firms reported higher (39 percent) or stable (35 percent) intermediate input prices in the first six months of 2009. Relatively more firms in the tourism, transport and manufacturing sectors reported an increase in intermediate input prices, while more firms in financial services, communications, and construction reported a decrease in their intermediate input prices.

For the second half of 2009, 64 percent of firms expect stable input prices, while 10 percent of firms expect lower input prices as shown in Figure 5b. Similarly, the percentage of firms anticipating increased intermediate input prices in the second half of 2009 declined to 26 percent compared to 29 percent in the first half of 2009. At the sectoral level, more than 50 percent of firms in all sectors expect stable input prices.

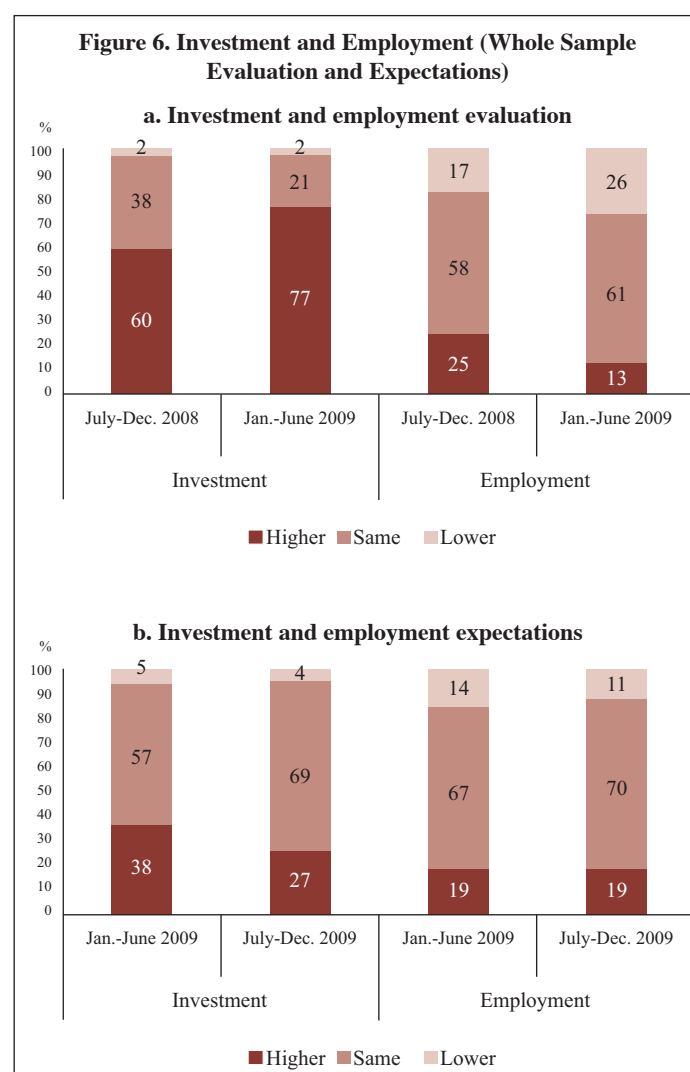
Stable wages and more favorable expectations

The majority of firms reported higher (43 percent) or stable wages (52 percent) for the first half of 2009 as per Figure 5a. Relatively more firms in manufacturing

reported higher wages over the first half of 2009, while 50 percent or more firms in all other sectors reported stable wages over the same period.

Regarding expectations, the majority of firms anticipate higher (51 percent) or stable (47 percent) wages, whereas some 2 percent of firms expect lower wages (Figure 5b). At the sectoral level, the majority of firms in the communications and transport sectors expect stable wages in the upcoming six months, while the majority of firms in the financial services, construction, tourism, and manufacturing sectors expect higher wages.

Investment and Employment



Source: Survey results.

¹⁴Data obtained from the Central Bank of Egypt: <http://www.cbe.org.eg>.

¹⁵See Table 3.

Higher investment and stable expectations

During the first six months of 2009, the majority of respondents reported higher (77 percent) or stable (21 percent) investment levels as shown in Figure 6a. The bulk of investments was directed to machinery and equipment, and buildings and land. The higher investment levels reported by firms during the first half of 2009 are in line with the increases reported by the Ministry of Finance in investments, which grew by 15.5 percent during July-March 2008/09. It is noteworthy, however, that the growth rate of investments achieved in the last nine months is lower than that in 2007/08 (28.5 percent).¹⁶ At the sectoral level, the majority of firms in all sectors reported higher investments.

For the coming six months, the majority of firms expect to maintain (69 percent) or increase (27 percent) the levels of investment (Figure 6b). At the sectoral level, the majority of firms in all sectors expect the levels of investment to remain unchanged.

Decrease in employment and stable expectations

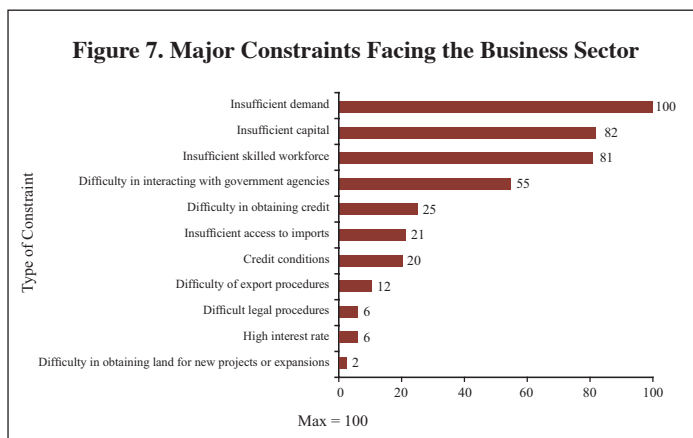
During the first six months of 2009, firms reported stable (61 percent) or lower (26 percent) employment as per Figure 7a. The majority of firms in all sectors reported lower or unchanged employment. For the coming six months, firms expect to maintain (70 percent) or increase (19 percent) employment. Fewer firms (11 percent) expect to lower employment in the second half of 2009 compared to 14 percent in the first half of 2009. At the sectoral level, the majority of firms in construction, transport, tourism, and manufacturing expect to maintain employment levels, while more firms in the communications sector expect stable or lower employment levels, and more firms in the financial services sector expect stable or higher employment.

Business Constraints

Major constraints: insufficient demand, insufficient capital and insufficient skilled workforce

In the current BB edition, the majority of firms expressed concern about insufficient demand, insufficient capital and insufficient skilled workers. Firms also expressed concern

about difficulty in interacting with government agencies. Other constraints include difficulty in obtaining credit, insufficient access to imports, strict credit conditions, and difficulty of export procedures. Figure 7 illustrates the constraints reported by firms as major factors affecting their performance. When probing for the key skills that are most needed in the labor market, they included factory managerial positions, quality controllers, technical experts and agriculture engineers.



Source: Survey results.

¹⁶Data obtained from the Ministry of Finance.

Table 1. Survey Results: Summary of Whole Sample Evaluation (July - December 2006 to January - June 2009)¹ (%)

Indicator	July - December 2006			January - June 2007			July - December 2007			January - June 2008			July - December 2008			January - June 2009			
	Higher	Same	Lower	Higher	Same	Lower	Higher	Same	Lower	Higher	Same	Lower	Higher	Same	Lower	Higher	Same	Lower	
Economic growth	36	43	21	51	35	14	48	29	23	25	29	44	27	2	16	34	50	-34	
Business activity																			
Production	44	36	20	52	34	14	62	21	17	45	56	28	16	40	39	26	35	4	
Domestic sales	44	35	21	53	31	16	60	23	18	42	56	28	16	40	38	26	36	2	
International sales	45	31	24	51	37	12	64	18	18	46	57	26	17	40	34	26	40	-6	
Inventory	27	48	25	30	44	26	24	44	32	-8	23	58	19	4	29	51	20	9	
Level of capacity utilization ³	37	48	15	41	46	13	51	40	9	42	42	46	12	30	33	45	22	11	
Prices																			
Final product prices	41	51	8	40	52	8	49	44	7	42	56	41	3	53	37	47	16	21	
Intermediate input prices	81	16	3	80	18	2	92	6	2	90	98	2	0	98	69	16	15	54	
Wage level	62	37	1	76	23	1	63	35	2	61	82	18	0	82	61	36	3	58	
Primary inputs																			
Investment	42	49	9	40	57	3	51	47	2	49	60	37	3	57	60	38	2	58	
Employment	26	56	18	27	58	15	34	52	14	20	33	55	12	21	25	58	17	8	

Table 2. Survey Results: Summary of Whole Sample Expectations (January - June 2007 to July - December 2009)¹ (%)

Indicator	January - June 2007			July - December 2007			January - June 2008			July - December 2008			January - June 2009			July-December 2009			
	Higher	Same	Lower	Higher	Same	Lower	Higher	Same	Lower	Higher	Same	Lower	Higher	Same	Lower	Higher	Same	Lower	
Economic growth	58	35	7	54	39	7	54	34	12	42	26	55	19	7	17	38	45	-28	
Business activity																			
Production	72	22	6	79	15	6	75	16	9	66	68	19	13	55	41	21	38	3	
Domestic sales	69	25	6	78	17	5	73	18	9	64	66	22	12	54	42	22	36	6	
International sales	71	26	3	79	18	3	75	17	8	67	71	19	10	61	39	19	42	-3	
Inventory	26	50	24	8	66	26	20	50	30	-10	14	60	26	-12	18	61	21	-3	
Level of capacity utilization ³	69	27	4	61	35	4	68	28	4	64	37	56	7	30	31	53	16	15	
Prices																			
Final product prices	56	39	5	45	51	4	62	34	4	58	68	30	2	66	20	55	25	-5	
Intermediate input prices	75	22	3	76	23	1	88	10	2	86	94	6	0	94	29	40	31	-2	
Wage level	70	30	1	69	34	1	68	32	0	68	67	33	0	67	45	50	5	40	
Primary inputs																			
Investment	61	39	0	61	39	0	53	45	2	51	40	57	3	37	38	57	5	33	
Employment	35	54	11	24	33	57	31	63	6	25	22	70	8	14	19	67	14	5	

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

² «Net balance» represents the percentage of respondents indicating «higher» minus the percentage of respondents indicating «lower».

³ Higher = approaching full capacity; Same = normal capacity utilization; Lower = below capacity utilization.

Table 3. Survey Results: Summary of Business Sector's Evaluation and Expectations¹

%

Indicator	Manufacturing Sector						Construction Sector						Tourism Sector												
	Evaluation			Expectations			Evaluation			Expectations			Evaluation			Expectations									
	Jan. - June 2009	July - Dec. 2009	Net Balance ²	Higher	Same	Lower	Jan. - June 2009	July - Dec. 2009	Net Balance ²	Higher	Same	Lower	Jan. - June 2009	July - Dec. 2009	Net Balance ²	Higher	Same	Lower							
Economic growth	16	28	56	-40	38	45	17	21	25	43	32	-7	61	21	18	43	2	12	86	-84	23	56	21	2	
Business activity																									
Production	30	25	45	-15	60	27	13	47	52	32	16	36	64	29	7	57	2	21	77	-75	37	33	30	7	
Domestic sales	29	26	45	-16	60	26	14	46	51	33	16	35	64	29	7	57	2	21	77	-75	37	33	30	7	
International sales	25	23	51	-26	58	30	12	46	50	0	50	0	75	25	0	75	0	20	80	-80	0	20	80	-80	
Inventory	25	45	30	-5	12	60	28	-16	38	49	13	25	0	100	0	0	21	75	4	17	0	96	4	-4	
Level of capacity utilization ³	26	38	36	-10	43	49	8	35	39	42	18	21	42	53	5	37	14	36	50	-36	29	64	7	22	
Prices																									
Final product prices	12	49	39	-27	20	67	13	7	20	68	13	7	23	75	2	21	5	35	60	-56	23	60	16	7	
Intermediate input prices	36	32	32	4	27	60	13	14	29	32	39	-10	29	66	5	24	47	41	12	35	18	79	3	15	
Wage level	52	45	3	49	51	48	1	50	46	50	4	42	54	46	0	54	40	51	9	30	53	42	5	48	
Primary inputs																									
Investment	80	18	2	78	29	67	4	25	61	35	4	57	39	61	0	39	70	30	0	70	0	90	10	-10	
Employment	11	63	26	-15	16	71	13	3	20	60	20	0	16	79	5	11	7	67	26	-19	16	72	12	4	
Indicator	Transportation						Communications						Financial Intermediaries												
	Evaluation			Expectations			Evaluation			Expectations			Evaluation			Expectations									
	Jan. - June 2009	July - Dec. 2009	Net Balance ²	Higher	Same	Lower	Jan. - June 2009	July - Dec. 2009	Net Balance ²	Higher	Same	Lower	Jan. - June 2009	July - Dec. 2009	Net Balance ²	Higher	Same	Lower							
Economic growth	7	43	50	-43	43	30	27	16	0	38	62	-62	24	41	34	-10	8	40	52	-45	51	42	8	43	
Business activity																									
Production	18	27	55	-37	64	14	21	43	14	38	48	-34	45	21	34	11	26	25	49	-23	72	22	6	66	
Domestic sales	18	27	55	-37	64	15	22	42	14	38	48	-34	45	21	34	11	26	25	49	-23	72	22	6	66	
International sales	20	10	70	-50	70	10	20	50	100	0	0	100	50	0	50	0	25	0	75	-50	50	25	25	25	
Inventory	0	100	0	0	0	67	33	-33	0	100	0	0	0	100	0	0	-	-	-	-	-	-	-	-	
Level of capacity utilization ³	24	48	28	-4	32	68	0	32	25	62	13	12	38	49	13	25	40	40	20	20	60	40	0	60	
Prices																									
Final product prices	9	57	34	-25	18	71	11	7	10	69	21	-11	3	69	28	-25	5	75	20	-15	9	85	6	3	
Intermediate input prices	43	43	14	29	29	71	0	29	30	30	40	-10	30	50	20	10	0	50	50	-50	0	100	0	0	
Wage level	32	68	0	32	45	54	2	43	28	69	3	25	34	63	3	31	26	59	15	11	62	36	2	60	
Primary inputs																									
Investment	100	0	0	100	33	67	0	33	100	0	0	100	0	100	0	0	80	20	0	80	10	90	0	10	
Employment	5	71	23	-18	16	75	9	7	21	45	34	-13	7	59	34	-27	22	52	26	-4	38	59	3	35	

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

² «Net balance» represents the percentage of respondents indicating «higher» minus the percentage of respondents indicating «lower».

³ Higher = approaching full capacity; Same = normal capacity utilization; Lower = below capacity utilization.