

Quarterly Business Survey

SECOND QUARTER 2018

VOLUME 6 ISSUE 2



About the survey

The Quarterly Business Survey is conducted by the MMA with the aim of obtaining a quick assessment of current business trends and expected future economic activity.

The respondents of the business survey are senior managers or top management of businesses who has an overall view of the business situation. The questions cover the views of the senior management (for the past quarter and expectation for the next quarter) on the direction of change in various business variables such as sales, output, prices, exports, capacity utilisation and employment which are useful for analysing and predicting economic activity. The qualitative response for these questions takes the form of either increase, decrease or no change.

The business survey for Q2-2018 was conducted from 11 July 2018 to 24 July 2018. Survey forms were sent out to 170 large enterprises in the construction; manufacturing; tourism and; wholesale and retail trade sectors. The survey sample is based on information provided by the Maldives Inland Revenue Authority. A total of 104 enterprises responded during the survey period which represents an overall response rate of 61%.

The accounting concept, net balance approach, has been used in converting qualitative responses to quantitative numbers. All responses are weighted based on their relative size within their respective sector. Net balances measure the difference between the percentage of respondents who gave positive responses and the percentage of respondents who gave negative responses.

Care should be taken when interpreting the results of individual sectors as constraints in sample selection limit the representativeness of certain industries within each sector.

The MMA would like to thank all the parties who contributed to the survey, especially the survey respondents.

Summary of survey results

A large number of survey respondents in the construction; manufacturing and; wholesale and retail trade sector experienced a prominent upturn in their business activity during the second quarter of the year, suggesting a favourable economic condition during the period. However, as the quarter coincided with the off-peak season of the year, respondents in the tourism sector reported a decline in their business activity. Moving forward, a substantial number of respondents are optimistic about their business prospects for the third quarter of the year, although the respondents in the construction sector foresee their business activity to moderate.

On the employment side, the overall position remained mixed during the second quarter. A majority of the respondents in the manufacturing and; wholesale and retail trade sector stated that their employment level either increased or remained unchanged during the period, while a noticeable number of respondents in the construction and tourism sector mentioned a reduction in the employment numbers. For the upcoming quarter, respondents in all the sectors anticipate a similar level of employment level as the current quarter.

Looking at business costs, respondents in the construction; tourism and; wholesale and retail trade sector cited that their labor costs in Q2-2018 were on the same level as Q1-2018, while respondents in the manufacturing sector experienced an increase. Meanwhile, a considerable number of respondents in all sectors except for the construction sector reported an increase in their input costs during the quarter. Looking ahead, the respondents in all the four sectors anticipate their labor costs to remain unchanged in the next quarter. With regard to input costs, respondents from the tourism and; wholesale and retail trade sector expect further increase in input costs. Nevertheless, the respondents in the construction and manufacturing sector foresee the same input costs as the review quarter.

As for prices charged in the review quarter, with the commencement of the off-peak season in the tourism sector, a majority of the respondents indicated a fall in prices during Q2-2018. Additionally, some of the representatives in the wholesale and retail trade sector reported a reduction in prices, which can be attributed to Ramadan sales. The respondents in the remaining sectors stated that their prices stayed unchanged from the preceding quarter. Considering the future expectations of prices charged, respondents in all three sectors except for the tourism sector anticipate the prices charged to remain unchanged in the next quarter. Respondents in the tourism sector anticipate a weakening in prices in the third quarter, reflecting the business constraints in the sector such as competition and insufficient demand.

Summary of responses by sector

Construction sector

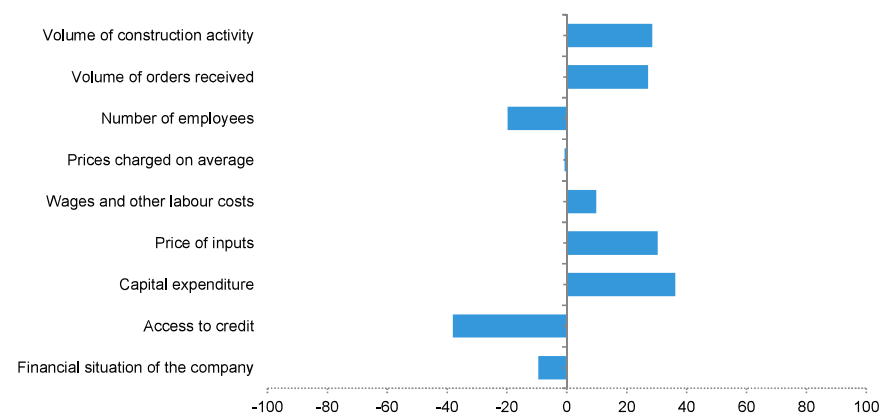
Current situation

Similar to the first quarter, the construction sector continued its advancement during Q2-2018 as indicated by the positive net balances of 28% and 27% on volume of construction activity and orders received, respectively (Figure 1). While a majority of the respondents indicated an increase in the volume of construction activity in Q2-2018 when compared with Q1-2018, a majority of the respondents reported no change in the volume of orders received. As for business costs, a majority of the respondents cited no change in input and labour costs, while positive net balances of 30% and 10% were recorded for these two indicators in Q2-2018 when compared with Q1-2018, respectively. Sixty-four percent of the respondents also mentioned no change in expenditure on capital, while the remaining indicated an increase during the quarter. As for prices charged, 89% of the respondents cited that the prices charged by them remained unchanged during the period. However, employment level recorded a negative net balance of 20% although a majority of the respondents recorded no change in their level of employment. With regard to the financial situation of the company, 55% of the respondents reported no change, while 27% quoted a decrease in Q2-2018 when compared with Q1-2018. In addition, 43% of the respondents state that access to credit has tightened in the review quarter when compared with Q1-2018.

Expectations for the next quarter

While a majority of the respondents anticipate the volume of construction activity and orders during Q3-2018 to remain similar when compared with Q2-2018, a moderate increase is expected in the volume of construction activity (with a positive net balance of 20%) despite the expectation of a slight decline

Figure 1: Changes in business indicators in Q2-2018 compared with Q1-2018



* Changes in business indicators are shown as net balances. This is the difference between the percentage of business units choosing positive answers (increase/better/ease) and that choosing negative answers (decrease/worse/tight).

** Detailed survey responses are provided in Table 1 of appendix.

in incoming orders during Q3-2018 as recorded by the negative net balance of 9% (Figure 2). Reflecting the modest outlook for the sector, a majority of the respondents foresee no change in employment numbers in Q3-2018, while 33% expect an increase in employment. Looking at business costs, 83% and 73% of the respondents expect no change in labour costs and input prices, respectively. As for prices charged, 77% of the respondents anticipate prices charged to remain unchanged from Q2-2018. On the investment front, 33% of the respondents plan to increase their capital expenditure, while the majority anticipated no change in capital expenditure during Q3-2018. Meanwhile, a large majority of the respondents anticipate credit access to remain unchanged from Q2-2018. As for the financial situation of the company, 41% of the respondents expect their financial situation to remain the same in Q3-2018 compared with Q2-2018, while 35% expect their financial situation to weaken in Q3-2018.

Factors limiting business growth

Respondents in the construction sector highlighted shortage of skilled labour and delays in payment as the most significant factors limiting business growth. In addition, cost of raw materials, competition within own sector and access to bank credit were also highlighted as important factors that limit business growth (Figure 3).

Figure 2: Expectations on changes in business indicators in Q3-2018 compared with Q2-2018

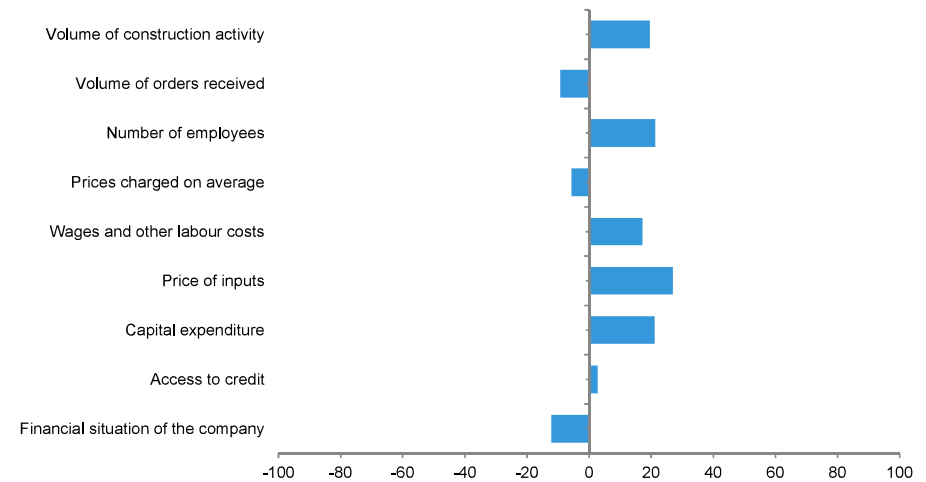
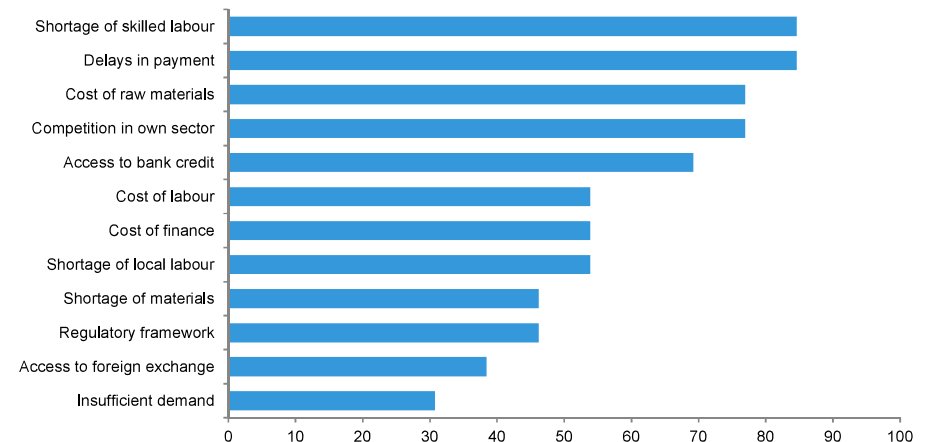


Figure 3: Significant factors limiting business activities in Q2-2018



Manufacturing sector

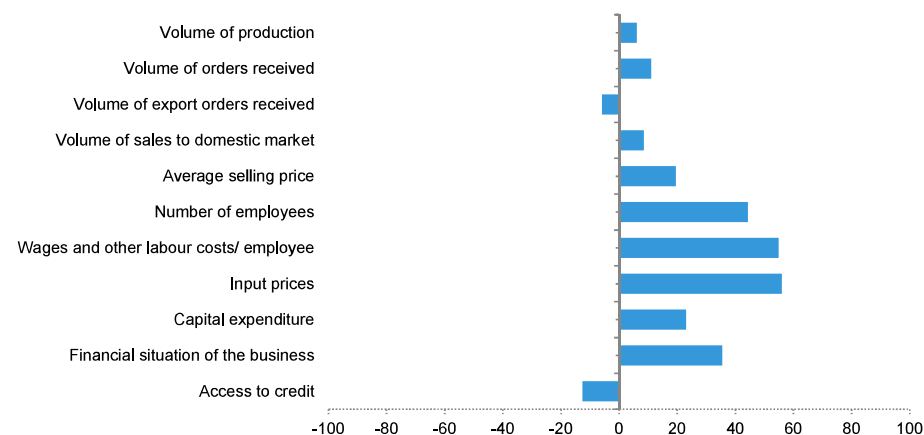
Current situation

The performance of the manufacturing sector remained positive in Q2-2018 when compared with the previous quarter as 51% and 54% of the respondents indicated an increase in the volume of production and orders received, respectively. Activity in the sector is reported to have stemmed from domestic demand as a majority of the respondents reported an increase in the volume of sales to domestic market during the quarter. As for businesses which export, 94% of the respondents indicated no change in the volume of export orders received in Q2-2018, while the remaining reported a decrease. Employment level increased during Q2-2018 as reported by 51% of the respondents, while 42% stated no change in employment when compared with the last quarter. Looking at business costs, labour costs were reported to have increased by 56% of the respondents during the review quarter. Fifty-six percent of the respondents also indicated an increase in prices of input, while the remaining reported no change. As for the average selling price, 22% of the respondents cited an increase in the average selling price, while 76% indicated no change in Q2-2018 when compared with Q1-2018. Seventy-seven percent of the respondents stated that their capital expenditure remained unchanged from Q1-2018, while the rest reported an increase. A majority of the respondents also reported an increase in the financial situation of the company. As for credit access, 87% claimed no change while the remaining reported credit access to have tightened during the quarter (Figure 4).

Expectations for the next quarter

The performance of the manufacturing sector is expected to remain buoyant in the next quarter as indicated by the increased expectations for the volume of production, orders received and sales to domestic market – net balances of 40%, 44% and 43%, respectively. However, the volume of export orders is anticipated to remain unchanged by 92% of the respondents. As for average

Figure 4: Changes in business indicators in Q2-2018 compared with Q1-2018



* Changes in business indicators are shown as net balances. This is the difference between the percentage of business units choosing positive answers (increase/better/ease) and that choosing negative answers (decrease/worse/tight).

** Detailed survey responses are provided in Table 1 of appendix.

selling price, 98% foresee no change in average selling prices during Q3-2018 compared with Q2-2018. Eighty-two percent of the respondents also anticipate employment level to remain the same as in Q2-2018, while the remaining expect an increase in Q3-2018. Looking at business costs, a majority of the respondents expect labour costs and input prices to remain unchanged. As for investment plans, 80% of the respondents foresee no change in capital expenditure, while the remaining expect it to increase during Q3-2018. Meanwhile, 55% of the respondents anticipate their financial situation to improve in Q3-2018. Credit access is expected to remain unchanged as reported by 93% of the respondents, while 7% of the respondents anticipate a tighter access to credit in Q3-2018 when compared with Q2-2018 (Figure 5).

Factors limiting business growth

As per the survey respondents, competition within the sector, cost of raw material, cost of labour and delays in payments were the most common factors limiting business growth in the manufacturing sector (Figure 6).

Figure 5: Expectations on changes in business indicators in Q3-2018 compared with Q2-2018

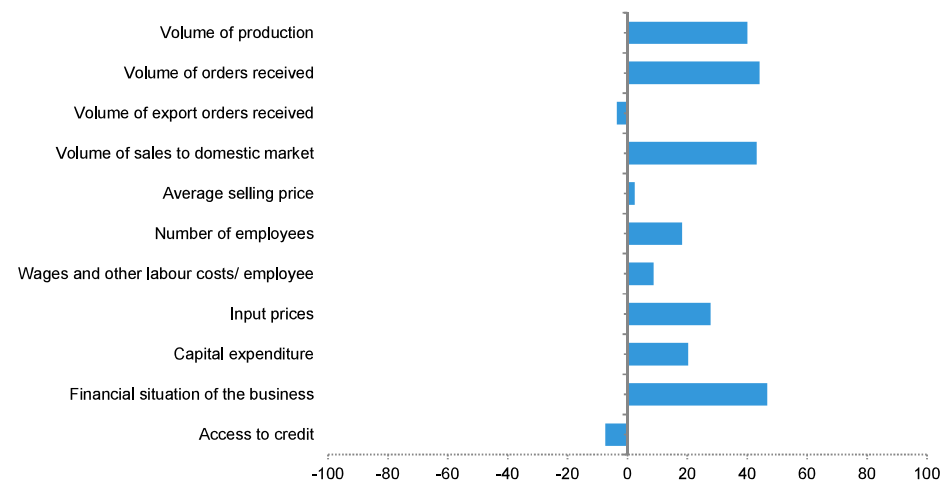
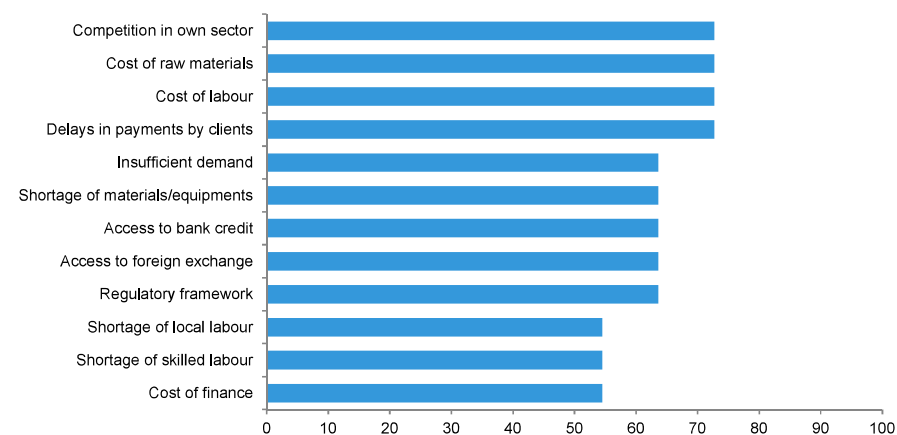


Figure 6: Significant factors limiting business activities in Q2-2018



Tourism sector

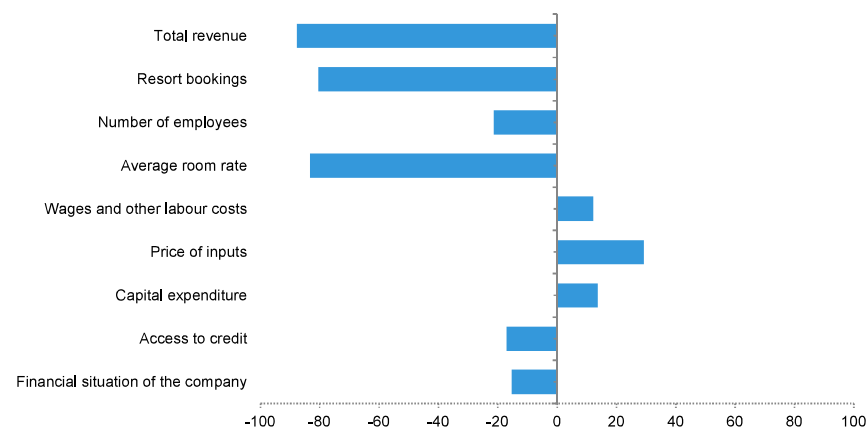
Current situation

Reflecting the commencement of the off-peak season, a majority of the respondents indicated a decrease in total revenue and resort bookings in Q2-2018 when compared with Q1-2018 – negative net balances of 88% and 81%, respectively (Figure 7). Similarly, 92% of the respondents also reported a decrease in the average room rate during the quarter. As for employment numbers, a majority of the respondents cited no change in employment while 31% reported a decrease, which reflects the base effect of the peak season in the sector. Looking at business costs, half of the respondents cited no change in labour costs, while half of the respondents reported prices of input to have increased during the quarter. A negative net balance of 17% was recorded for access to credit, although a majority of the respondents reported no change. Meanwhile, 43% of the respondents claimed that capital expenditure increased during Q2-2018 over the preceding quarter. As for financial situation of the company, a majority of the respondents cited no change in Q2-2018, while 30% reported a decrease during the period.

Expectations for the next quarter

The tourism sector is expected to pick up in the next quarter, with most of the respondents anticipating an increase in resort bookings and total revenue. However, 64% of the respondents expect the average room rate to decrease further in Q3-2018 when compared with Q2-2018, while 27% anticipate an increase. While a majority of the respondents anticipate employment numbers to remain unchanged during Q3-2018, 18% of the respondents expect an increase. As for business costs, a majority of the respondents foresee labour costs to remain unchanged, while input prices are expected to increase in the

Figure 7: Changes in business indicators in Q2-2018 compared with Q1-2018



* Changes in business indicators are shown as net balances. This is the difference between the percentage of business units choosing positive answers (increase/better/ease) and that choosing negative answers (decrease/worse/tight).

** Detailed survey responses are provided in Table 1 of appendix.

next quarter. On the investment front, 59% of the respondents expect an increase in capital expenditure, while 27% foresee no change in Q3-2018. Seventy-nine percent of the respondents foresee no change in access to credit, while 18% anticipate it to tighten further. As for the financial situation of the company, the majority expect no change, while 27% anticipate financial situation to ease in Q3-2018 compared to Q2-2018 (Figure 8).

Factors limiting business growth

The tourism sector respondents indicated competition within the sector as the most significant factor that limits business growth. Additional factors reported by the respondents include insufficient demand, cost of labour and shortage of skilled labour (Figure 9).

Figure 8: Expectations on changes in business indicators in Q3-2018 compared with Q2-2018

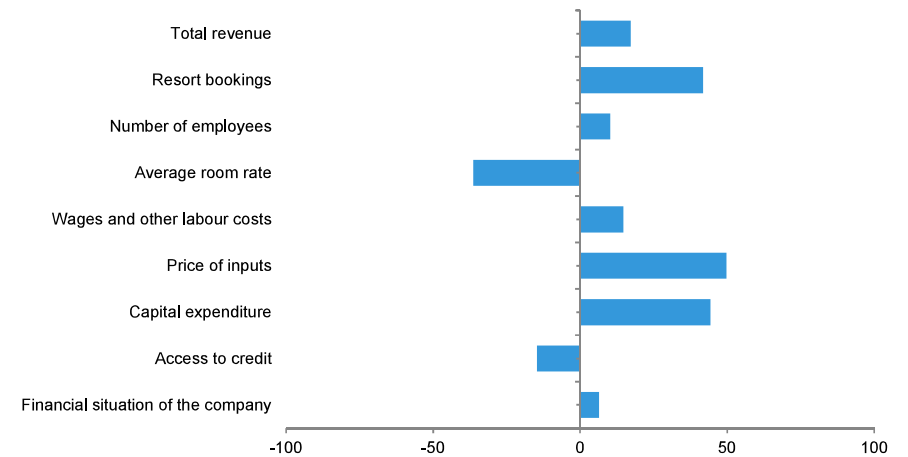
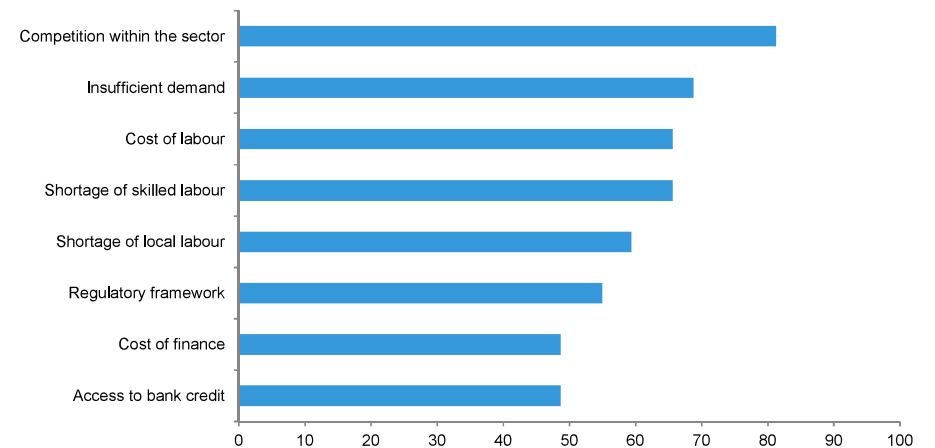


Figure 9: Significant factors limiting business activities in Q2-2018



Wholesale and retail trade sector

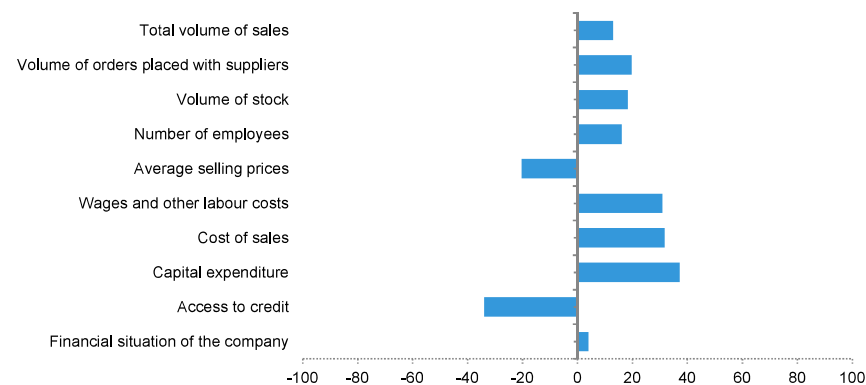
Current situation

Wholesale and retail trade sector continued its buoyant performance in Q2-2018 as shown by the key indicators. A majority of the respondents indicated an increase in the total volume of sales and orders placed with suppliers – net balances of 13% and 20%, respectively (Figure 10). Similarly, 49% of the respondents reported an increase in the total volume of stock in Q2-2018 over the preceding quarter. Looking at the level of employment, 67% of the respondents claimed no change while 25% reported an increase in their employment levels during the quarter. As for business costs, a majority of the respondents reported no change in labour costs, while the majority indicated an increase in cost of sales. In comparison to Q1-2018, 71% of the respondents cited that the average selling price remain unchanged during Q2-2018, while 25% reported a decrease. With regard to investments, 42% reported an increase in capital expenditure while 54% indicated no change. Similar to previous quarters, access to credit remained unchanged in Q2-2018 as reported by the majority of the respondents. However, 37% of the respondents indicated that credit access tightened during the review quarter. As for the financial situation of the company, 39% of the respondents indicated no change, while 32% reported an improvement in their financial situation during Q2-2018.

Expectations for the next quarter

The performance of the wholesale and retail trade sector is expected to remain strong in the next quarter as a majority of the respondents anticipate the volume of sales and orders places with suppliers to increase in Q3-2018 when compared with Q2-2018. As for stock volume, 39% of the respondents foresee an increase,

Figure 10: Changes in business indicators in Q2-2018 compared with Q1-2018



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while 37% expect no change in the volume of stock. Similar to Q2-2018, a majority of the respondents anticipate their employment levels and labour costs to remain the same in the next quarter. A majority of the respondents also expect no change in the average selling price. However, 56% of the respondents foresee an increase in cost of sales in Q3-2018 over Q2-2018. Moreover, an increase in capital expenditure is expected by 26% of the respondents while 70% foresee no change. As for credit access and the financial situation, a majority of the respondents expect it to remain unchanged during Q3-2018 (Figure 11).

Factors limiting business growth

In analysing the factors that limit growth opportunities for businesses in the wholesale and retail sector, respondents highlighted access to foreign exchange as the major factor that limits business growth. This was followed by rent, competition within the sector and logistical constraints (Figure 12).

Figure 11: Expectations on changes in business indicators in Q3-2018 compared with Q2-2018

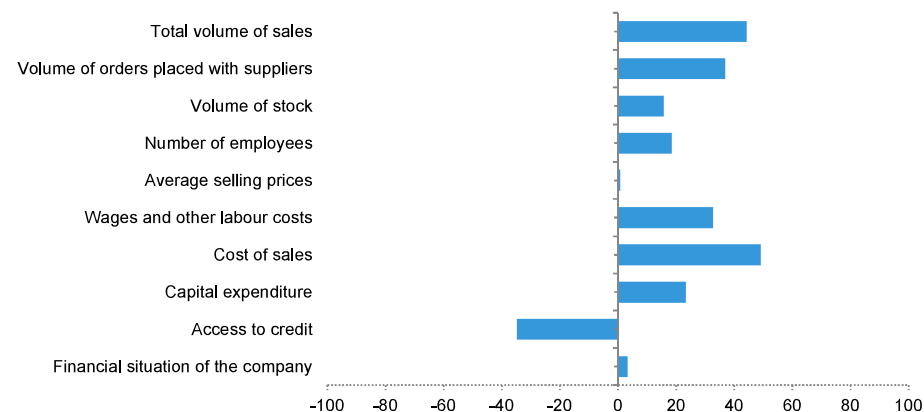
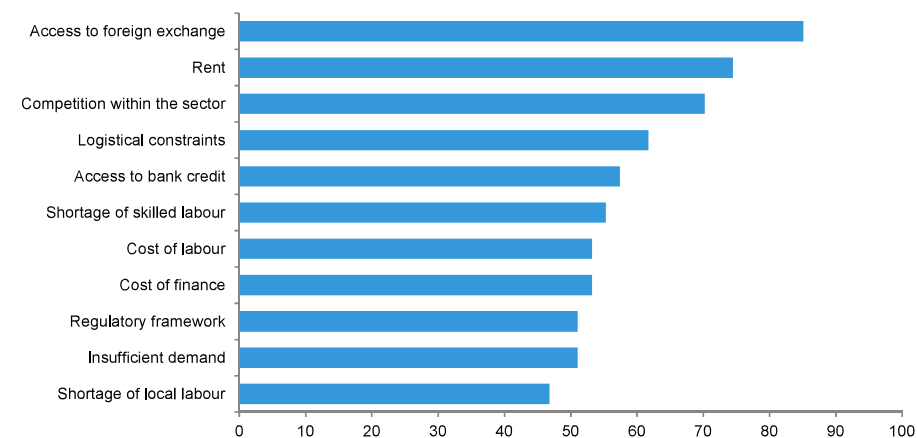


Figure 12: Significant factors limiting business activities in Q2-2018



Appendix

Table 1: Views on the direction of change in business indicators by sector

	Assessment of Q2-2018 compared with Q1-2018				Expectations for Q3-2018 compared with Q2-2018			
	Percentage of enterprises choosing			Net balance	Percentage of enterprises choosing			Net balance
	Increase/ Better/Ease	No change	Decrease/ Worse/Tight		Increase/ Better/Ease	No change	Decrease/ Worse/Tight	
Construction sector								
Volume of construction activity	56	16	28	28	28	64	8	20
Volume of orders received	27	73	0	27	26	38	35	-9
Number of employees	12	55	32	-20	33	56	12	21
Prices charged on average	5	89	6	-1	9	77	14	-6
Wages and other labour costs	15	81	5	10	17	83	0	17
Price of Inputs	30	70	0	30	27	73	0	27
Capital expenditure	36	64	0	36	33	56	12	21
Access to credit	5	52	43	-38	5	93	2	3
Financial situation of the company	18	55	27	-9	23	41	35	-12
Overall business situation	14	59	27	-13	28	37	35	-7
Manufacturing sector								
Volume of production	51	4	45	6	51	38	11	40
Volume of orders received	54	4	43	11	53	38	9	44
Volume of export orders received	0	94	6	-6	2	92	6	-3
Volume of sales to domestic market	51	6	43	9	53	37	10	43
Average selling price	22	76	2	20	2	98	0	2
Number of employees	51	42	7	44	18	82	0	18
Wages and other labour costs/ employee	56	42	1	55	9	91	0	9
Input prices	56	44	0	56	28	72	0	28
Capital expenditure	23	77	0	23	20	80	0	20
Financial situation of the business	47	42	11	35	55	36	9	47
Access to credit	0	87	13	-13	0	93	7	-7
Overall business situation	47	42	11	35	51	43	6	45

*Percentages may not total 100 due to rounding.

*Net balance is the difference between the percentage of business units choosing positive answers (increase/better/ease) and that choosing negative answers (decrease/worse/tight).

	Assessment of Q2-2018 compared with Q1-2018				Expectations for Q3-2018 compared with Q2-2018			
	Percentage of enterprises choosing			Net balance	Percentage of enterprises choosing			Net balance
	Increase/ Better/Ease	No change	Decrease/ Worse/Tight		Increase/ Better/Ease	No change	Decrease/ Worse/Tight	
Tourism sector (resorts)								
Total revenue	6	0	94	-88	55	7	38	17
Resort bookings	10	0	90	-81	62	17	21	42
Number of employees	9	60	31	-21	18	74	8	10
Average room rate	8	0	92	-83	27	9	64	-36
Wages and other labour costs	31	50	19	12	16	83	1	15
Price of inputs	50	30	20	29	51	48	1	50
Capital expenditure	43	28	29	14	59	27	14	44
Access to credit	3	77	20	-17	3	79	18	-15
Financial situation of the company	15	55	30	-15	27	52	21	6
Overall business situation	8	18	74	-66	53	17	30	22
Wholesale and retail trade sector								
Total volume of sales	52	9	39	13	63	19	19	44
Volume of orders placed with suppliers	50	20	30	20	55	27	18	37
Volume of stock	49	20	31	18	39	37	23	16
Number of employees	25	67	9	16	20	78	2	19
Average selling price	4	71	25	-20	15	70	14	1
Wages and other labour costs	36	59	5	31	37	59	4	33
Cost of sales	54	25	22	32	56	37	7	49
Capital expenditure	42	54	5	37	26	70	3	23
Access to credit	3	61	37	-34	8	50	42	-35
Financial situation of the company	32	39	28	4	31	42	27	3
Overall business situation	33	51	16	17	52	34	14	38

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