



CENTRALE BANK VAN ARUBA

## BUSINESS PERCEPTION INDEX PLUNGES DURING THE FIRST QUARTER OF 2020: MORE THAN 80 percent OF SURVEYED BUSINESSES EXPECT NEGATIVE GROWTH

Summary report

Results for the first quarter of the year 2020

**The Central Bank of Aruba (CBA) recently concluded its Business Perception Survey for the first quarter of 2020. In its expanded digital design, the online survey also assessed the impact of the COVID-19 pandemic on economic conditions and business activities.**

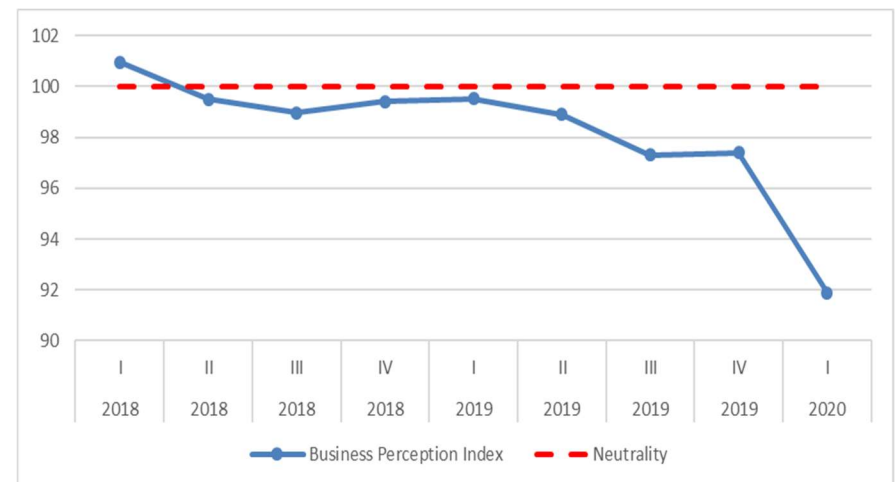
The Business Perception Index (BPI), comprising the current and short-term economic conditions, plummeted by 5.5 index points to 91.9 during the first quarter of 2020. The overall BPI indicates significant deterioration in business sentiments and is the largest drop registered to date since the introduction of the Business Perception Survey (BPS) in 2002 (See Chart 1)<sup>1</sup>.

### Economic Conditions

The *current economic condition* index noted a contraction of 5.1 index points to 93.3, down from 98.4 in the fourth quarter of 2019. The *short-term future economic condition* index narrowed by 5.2 index points, i.e., from 96.0 in the fourth quarter of 2019 to 90.8 in the first quarter of 2020 (See Table 1). In the next 12 months, the percentage of surveyed firms expecting negative economic growth surged markedly, i.e., by 56.3 percentage points to 88.4 percent.

In terms of the impact of the COVID-19 pandemic, the expanded Business Perception Survey also assessed the expected impact on business sales, the need for emergency business funds, and the expected economic impact.

**Chart 1: Business Perception Index**



Source: Centrale Bank van Aruba

More than 50 percent of business respondents pointed out that the COVID-19 had a significant impact on their business sales. Close to 40

percent of business respondents are optimistic but are neutral in regards to their thoughts about economic developments in Aruba. Between 100 and 110 indicates a situation of optimism in business sentiments.

<sup>1</sup> The index can vary between 90 and 110. Between 90 and 100 indicates a situation of pessimism. An index of exactly 100 indicates that businesses are neither pessimistic nor

percent expect the impact of the COVID19 pandemic to linger for more than 12 months. Additionally, almost one-third (32.6 percent) of business respondents reported that they intend to apply for the business emergency funds provided by the Government of Aruba.

**Table 1: Business Perception Survey (General results)**

	Q1-2020		
	Improvement (%)	No change (%)	Worsening (%)
<b>A. Current economic condition</b>	12.1	38.2	49.7
1. The economic conditions in Aruba	6.3	22.1	71.6
2. The activities of your business	13.7	28.4	57.9
3. The investments of your business	17.9	45.3	36.8
4. The number of employees that work for your company	10.5	56.8	32.6
<b>B. Expected short-term economic conditions</b>	2.9	25.0	72.1
1. The economic conditions in Aruba	1.1	5.3	93.7
2. The activities of your business	5.3	16.8	77.9
3. The investments of your business	3.2	30.5	66.3
4. The number of employees that work for your company	2.1	47.4	50.5

Source: Centrale Bank van Aruba

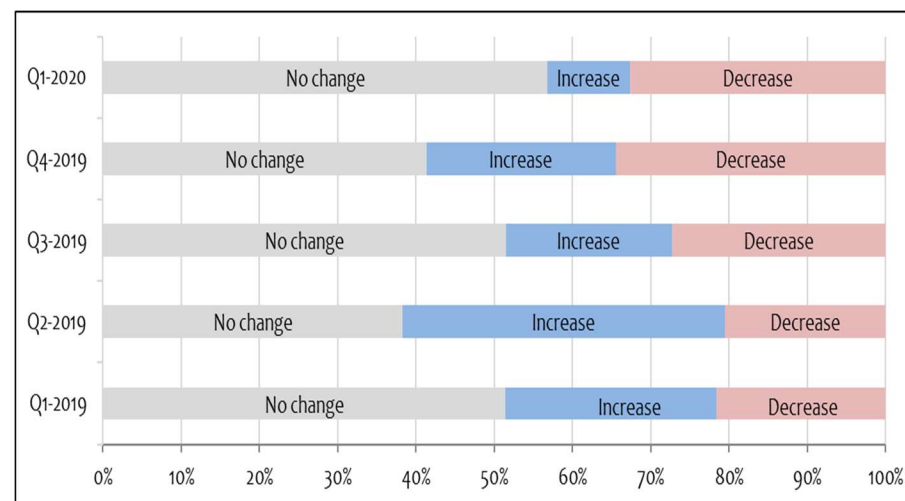
## Employment and Wages

In the first quarter of 2020, the percentage of surveyed companies reporting ‘no change’ in the number of employees increased by 15.4 percentage points, from 41.4 percent in the last quarter of 2019 to 56.8 percent in the quarter under review. Meanwhile, the percentage recording ‘improvement’ and ‘worsening’ conditions contracted by 13.6 percentage points, and 1.8 percentage points, respectively (see Chart 2).

With reference to average wages during the first quarter of 2020, the percentage of surveyed companies reporting ‘no change’ in the average

wage cost surged by 21.3 percentage points, from 25.0 percent in the last quarter of 2019 to 46.3 percent in the quarter under review. Meanwhile, the percentage recording ‘improvement’ conditions contracted by 21.9 percentage points.

**Chart 2: Perceived developments in employment**



Source: Centrale Bank van Aruba

## Sales and Profitability

During the first quarter of 2020, the percentage of surveyed firms reporting to be profitable decreased by 8.4 percentage points, from 82.1 percent to 73.7 percent. Almost two-thirds (62.1 percent) of business respondents saw a decrease in business sales. The surveyed firms registering ‘increases’ in sales, declined by 19.7 percentage points during the first quarter of 2020 (See Table 2).

**Table 2: Perceived developments in profitability and sales in percentage of all respondents**

	2019				2020
	I	II	III	IV	I
<b>PROFITABILITY - PROFITS (%)</b>					
1. No change	13.5	11.8	6.1	17.9	8.4
2. Increase	54.1	35.3	30.3	28.6	12.6
3. Decrease	0.0	23.5	39.4	35.7	52.6
<b>Total</b>	<b>67.6</b>	<b>70.6</b>	<b>75.8</b>	<b>82.1</b>	<b>73.7</b>
<b>PROFITABILITY - LOSSES (%)</b>					
1. No change	5.4	8.8	3.0	3.6	3.2
2. Increase	0.0	5.9	6.1	10.7	10.5
3. Decrease	27.0	14.7	15.2	3.6	12.6
<b>Total</b>	<b>32.4</b>	<b>29.4</b>	<b>24.2</b>	<b>17.9</b>	<b>26.3</b>
<b>SALES (%)</b>					
1. No change	16.2	8.8	15.2	21.4	14.7
2. Increase	45.9	50.0	39.4	42.9	23.2
3. Decrease	37.8	41.2	45.5	35.7	62.1
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

### Investment and Financing Activity

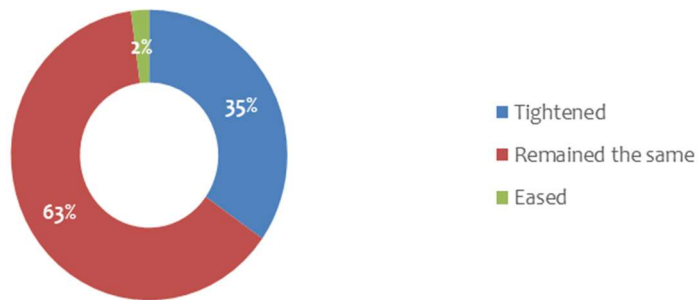
During the first quarter of 2020, the surveyed businesses noted a deterioration in investments, as the percentage of surveyed firms

indicating ‘worsening’ investment conditions registered an upturn of 5.8 percentage points, from 31.0 percent in the fourth quarter of 2019 to 31.8 percent in the quarter under review. The percentage of firms signaling ‘improvement’ in investments dropped by 13.1 percentage points, while those reporting ‘no change’ increased by 7.3 percentage points.

With regard to expected short-term investment activities, similar sentiments were expressed. In the first quarter of 2020, most of the surveyed businesses (66.3 percent) foresee conditions to get worst during the next 6 months. Those reporting ‘no change’ in short-term investment conditions dropped by 28.1 percentage points, from 58.6 percent in the fourth quarter of 2019 to 30.5 percent in the quarter under review. At the same time, the percentage of surveyed businesses indicating ‘improvement’ conditions, fell by 21.0 percentage points.

During the quarter under review, the percentage of respondents with investment plans over the next 12 months decreased by 4.7 percentage points to 63.2 percent in the first quarter of 2020. According to 35 percent of business respondents, the terms and conditions for obtaining business financing tightened during the first quarter of 2020. Those indicating that the terms and conditions remained the same dropped by 15.4 percentage points to 63.2 percent in the quarter under review (See Chart 3).

Chart 3: Terms and conditions for obtaining finance during Q1 2020 (In % of all respondents)



Source: Centrale Bank van Aruba

During the first quarter of 2020, the majority (54.7 percent) of the surveyed firms expected the annual effective financing rate to be between 5 percent and 8 percent, compared to 85.7 percent in the fourth quarter of 2019. Those foreseeing the annual effective financing rate to be less than 5 percent, grew substantially from zero percentage point to 19.0 percentage points.

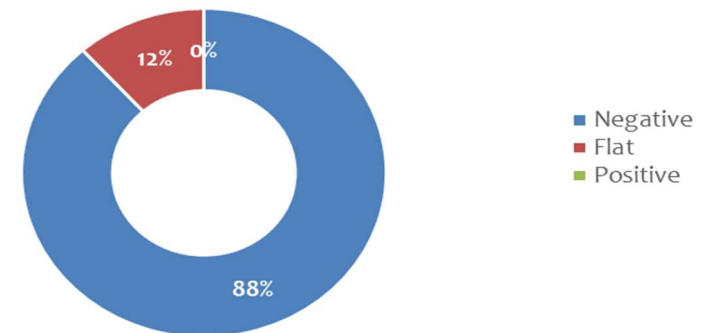
### Inflation and Economic Growth

During the first quarter of 2020, the majority (53.7 percent) of the surveyed businesses expected inflation to be between zero percent and 3 percent, while 17.9 percent foresee an inflation between 2 percent and 3 percent.

With regard to the prices for products and services over the next 12 months, more than half of business respondents (54.7 percent) expected prices to remain the same during the first quarter of 2020. The number of surveyed businesses with expectations of price increases noted a downturn of 26.8 percentage points to 23.2 percent in the quarter under review. During this quarter, the number of firms expecting a drop in prices grew by 15.0 percentage points.

With reference to the business expectations for economic growth in the next 12 months, the percentage of surveyed firms presuming negative economic growth jumped by 56.3 percentage points to 88.4 percent in the first quarter of 2020. The percentage of respondents with flat and positive economic growth expectations, decreased by 49.1 percentage points, and 7.1 percentage points, respectively (Chart 4).

Chart 4: Economic growth (GDP) over the next 12 months reported in Q1 2020 (In % of all respondents)



Source: Centrale Bank van Aruba



## CENTRALE BANK VAN ARUBA

### Annexes

Centrale Bank van Aruba

May 12, 2020

#### Annex 1: Business perception Survey (by sectors)

	Q1-2020
1. Index current economic condition	93.3
a. Manufacturing (excl. manufacture of refined petroleum products)	103.3
b. Electricity, gas and water supply, manufacture of refined petroleum products	90.0
c. Construction	94.3
d. Wholesale and retail trade, repair of motor vehicles and household goods	92.7
e. Hotels and restaurants	91.6
f. Transport, storage and communication	93.6
g. Financial intermediation	94.1
h. Real estate and other business activities	92.6
i. Health, other community and personal service activities	90.0
2. Index short-term future economic condition	90.8
a. Manufacturing (excl. manufacture of refined petroleum products)	92.2
b. Electricity, gas and water supply	90.0
c. Construction	90.6
d. Wholesale and retail trade, repair of motor vehicles and household goods	90.0
e. Hotels and restaurants	90.6
f. Transport, storage and communication	90.0
g. Financial intermediation	92.1
h. Real estate and other business activities	90.3
i. Health, other community and personal service activities	90.0
3. Business Perception Index	91.9
a. Manufacturing (excl. manufacture of refined petroleum products)	97.8
b. Electricity, gas and water supply, manufacture of refined petroleum products	90.0
c. Construction	92.2
d. Wholesale and retail trade, repair of motor vehicles and household goods	91.2
e. Hotels and restaurants	91.1
f. Transport, storage and communication	91.7
g. Financial intermediation	93.1
h. Real estate and other business activities	91.3
i. Health, other community and personal service activities	90.0

Source: Centrale Bank van Aruba