



CENTRALE BANK VAN ARUBA

BUSINESS PERCEPTION INDEX NUDGES UPWARD DURING THE SECOND QUARTER OF 2020

Summary report

Results for the second quarter of the year 2020

The Central Bank of Aruba (CBA) recently concluded its Business Perception Survey (BPS) for the second quarter of 2020. The BPS assesses the economic perceptions and sentiments of local businesses as well as the continued impact of the COVID-19 pandemic on economic conditions and business activities.

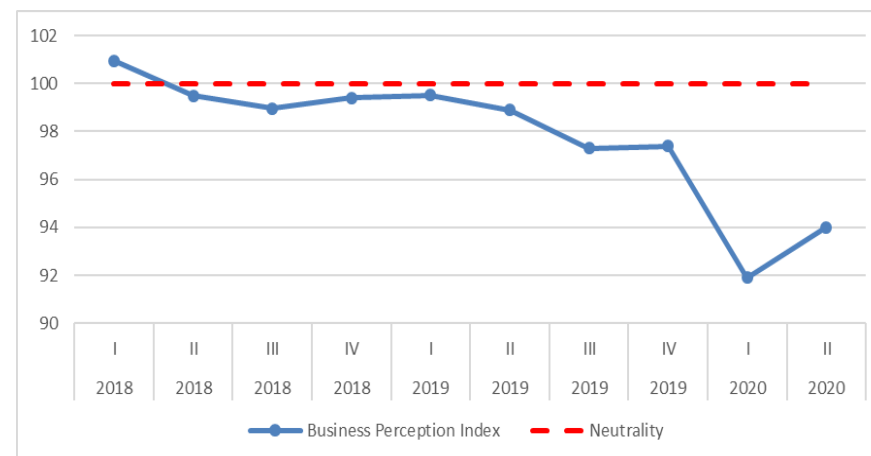
The Business Perception Index (BPI), comprising the current and short-term economic conditions, inched up by 1.8 index points to 94.0 during the second quarter of 2020. The overall BPI indicates an initial improvement in business sentiments since the largest drop registered last quarter (See Chart 1)¹. The change in sentiments was largely due to improvements in short-term future economic conditions, as Aruba moves into a new normal and re-opened the border for tourism activities

Economic Conditions

The *current economic condition* index noted a contraction of 1.4 index points to 92.5, down from 93.9 in the first quarter of 2020. The *short-term future economic condition* index recovered by 5.6 index points, i.e., from 90.8 in the first quarter of 2020 to 96.4 in the second quarter of 2020 (See Table 1). In the next 12 months, the percentage of surveyed firms expecting negative economic growth remained largely negative (86.8 percent).

¹ 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

Chart 1: Business Perception Index



Source: Centrale Bank van Aruba

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.

Almost 50 percent of business respondents (49.5 percent) pointed out that the COVID-19 continued to have a significant impact on their business sales; 4.2 percentage points less when compared to 53.7 percent in the first quarter. More than 60 percent expect the impact of the COVID19

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

pandemic to linger for more than 12 months, this is 20 percentage points more compared to the first quarter. As for the business emergency funds provided by the Government of Aruba, more than 40 percent of business respondents applied during the second quarter, compared to 32.6 percent that were considering to register for additional emergency funding.

Table 1: Business Perception Survey (General results)

	Q2-2020		
	Improvement (%)	No change (%)	Worsening (%)
A. Current economic condition	10.4	16.5	73.1
1. The economic conditions in Aruba	0.0	5.5	94.5
2. The activities of your business	3.3	17.6	79.1
3. The investments of your business	12.1	34.1	53.8
4. The number of employees that work for your company	26.4	8.8	64.8
B. Expected short-term economic conditions	17.6	45.1	37.4
1. The economic conditions in Aruba	23.1	18.7	58.2
2. The activities of your business	27.5	44.0	28.6
3. The investments of your business	13.2	58.2	28.6
4. The number of employees that work for your company	6.6	59.3	34.1

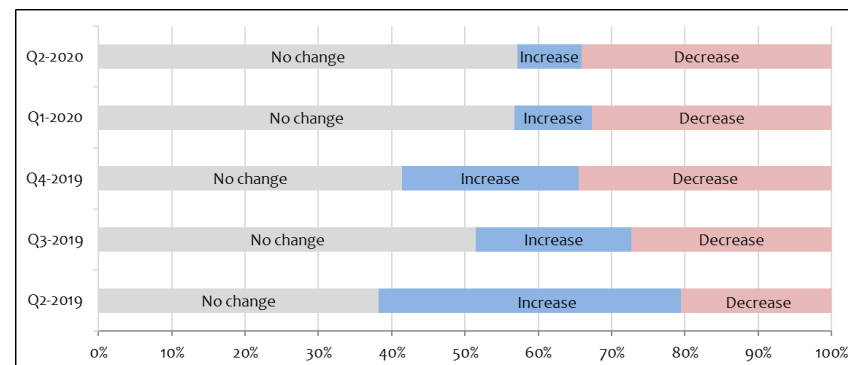
Source: Centrale Bank van Aruba

Employment and Wages

In the second quarter of 2020, the percentage of surveyed companies reporting 'no change' in the number of employees increased by 0.3 percentage point, from 56.8 percent in the first quarter of 2020 to 57.1 percent in the quarter under review. Meanwhile, the percentage recording 'improvement' conditions contracted by 2.8 percentage points, whereas the amount of surveyed companies reporting 'worsening' conditions rose by 2.5 percentage points (see Chart 2).

With reference to average wages during the second quarter of 2020, the percentage of surveyed companies reporting 'no change' in the average wage cost dropped by 3.4 percentage points, from 46.3 percent in the first quarter of 2020 to 42.9 percent in the quarter under review. Meanwhile, the percentage recording 'improvement' conditions contracted by 20.3 percentage points and those reporting 'worsening' conditions intensified by 23.7 percentage points.

Chart 2: Perceived developments in employment



Source: Centrale Bank van Aruba

Sales and Profitability

During the second quarter of 2020, the percentage of surveyed firms reporting to be profitable decreased by 10.0 percentage points to 63.7 percent. Almost 80 percent of business respondents saw a decrease in business sales. The surveyed firms registering 'increases' in sales, declined by 15.5 percentage points during the second 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	II
PROFITABILITY - PROFITS (%)						
1. No change	13.5	11.8	6.1	17.9	8.4	6.6
2. Increase	54.1	35.3	30.3	28.6	12.6	6.6
3. Decrease	0.0	23.5	39.4	35.7	52.6	50.6
Total	67.6	70.6	75.8	82.1	73.7	63.7
PROFITABILITY - LOSSES (%)						
1. No change	5.4	8.8	3.0	3.6	3.2	2.2
2. Increase	0.0	5.9	6.1	10.7	10.5	19.8
3. Decrease	27.0	14.7	15.2	3.6	12.6	14.3
Total	32.4	29.4	24.2	17.9	26.3	36.3
SALES (%)						
1. No change	16.2	8.8	15.2	21.4	14.7	12.1
2. Increase	45.9	50.0	39.4	42.9	23.2	7.7
3. Decrease	37.8	41.2	45.5	35.7	62.1	80.2
Total	100.0	100.0	100.0	100.0	100.0	100.0
In percentages of all respondents.						

‘improvement’ and ‘no change’ in investments dropped by 5.8 and 11.2 percentage points, respectively.

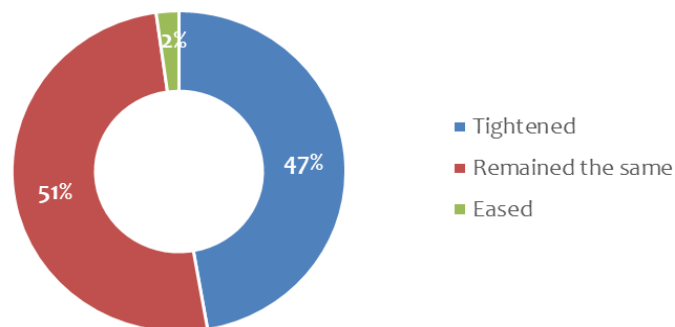
With regard to *expected short-term investment activities*, during the second quarter of 2020, most of the surveyed businesses (58.2 percent) foresee that the current conditions will not change during the next 6 months. Those reporting ‘worsening’ in short-term investment conditions dropped by 37.7 percentage points, from 66.3 percent in the first quarter of 2020 to 28.6 percent in the quarter under review. At the same time, the percentage of surveyed businesses indicating ‘improvement’ conditions, expanded by 10.0 percentage points.

During the quarter under review, the percentage of respondents with investment plans over the next 12 months decreased by 4.9 percentage points to 58.3 percent in the second quarter of 2020. According to 47.3 percent of business respondents, the terms and conditions for obtaining business financing tightened during the second quarter of 2020. Those indicating that the terms and conditions remained the same dropped by 12.7 percentage points to 50.5 percent in the quarter under review (See Chart 3).

Investment and Financing Activity

During the second 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 17.0 percentage points, from 36.8 percent in the first quarter of 2020 to 53.8 percent in the quarter under review. The percentage of firms signaling

Chart 3: Terms and conditions for obtaining finance during Q2 2020 (In % of all respondents)



Source: Centrale Bank van Aruba

During the second quarter of 2020, the majority (63.7 percent) of the surveyed firms expected the annual effective financing rate to be between 5 percent and 8 percent, compared to 54.7 percent in the first quarter of 2020. Those foreseeing the annual effective financing rate to be less than 5 percent, fell from 19.0 percentage point to 16.5 percentage points.

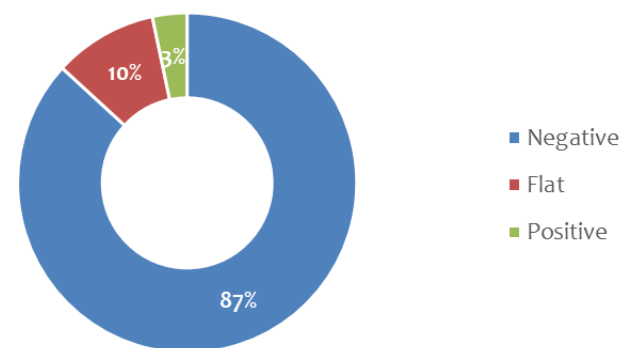
Inflation and Economic Growth

During the second quarter of 2020, the majority (44.0 percent) of the surveyed businesses expected inflation to be between zero percent and 3 percent, while 23.1 percent foresaw 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 (59.3 percent) expected prices to remain the same during the second quarter of 2020. The number of surveyed businesses with expectations of price increases noted a downturn of 5.6 percentage points to 17.6 percent in the quarter under review. During this quarter, the number of firms expecting a drop in prices grew by 1.0 percentage point.

In terms of business expectations for economic growth in the next 12 months, the percentage of surveyed firms presuming negative and flat economic growth contracted slightly by 1.6 and 1.7 percentage points, respectively to 86.8 and 9.9 percent in the second quarter of 2020. The percentage of respondents with positive economic growth expectations, grew by 3.3 percentage points (Chart 4).

Chart 4: Economic growth (GDP) over the next 12 months reported in Q2 2020 (In % of all respondents)



Source: Centrale Bank van Aruba



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August 3, 2020

Annex 1: Business perception Survey (by sectors)

	Q2-2020
1. Index current economic condition	92.5
a. Manufacturing (excl. manufacture of refined petroleum products)	90.0
b. Electricity, gas and water supply, manufacture of refined petroleum products	90.0
c. Construction	95.0
d. Wholesale and retail trade, repair of motor vehicles and household goods	92.0
e. Hotels and restaurants	91.4
f. Transport, storage and communication	93.3
g. Financial intermediation	93.5
h. Real estate and other business activities	94.5
i. Health, other community and personal service activities	91.9
2. Index short-term future economic condition	96.4
a. Manufacturing (excl. manufacture of refined petroleum products)	90.0
b. Electricity, gas and water supply	98.6
c. Construction	93.1
d. Wholesale and retail trade, repair of motor vehicles and household goods	95.5
e. Hotels and restaurants	97.2
f. Transport, storage and communication	93.8
g. Financial intermediation	95.5
h. Real estate and other business activities	96.7
i. Health, other community and personal service activities	98.6
3. Business Perception Index	94.0
a. Manufacturing (excl. manufacture of refined petroleum products)	90.0
b. Electricity, gas and water supply, manufacture of refined petroleum products	93.3
c. Construction	94.9
d. Wholesale and retail trade, repair of motor vehicles and household goods	93.3
e. Hotels and restaurants	93.6
f. Transport, storage and communication	93.5
g. Financial intermediation	94.3
h. Real estate and other business activities	95.4
i. Health, other community and personal service activities	94.5

Source: Centrale Bank van Aruba