

Business Tendency Survey October 2020



In October, the Retail Confidence Index (RCI) was 24.2%, compared to the previous month, which represents an increase of 2.0 pp mainly due to an increase in the current economic situation and a reduction in the level of stocks. The Industrial Confidence Index registered a balance of -3.0%, compared to the previous month; this represents a decrease of 9.1 pp, mainly due to a reduction in the business expectations for the next 6 months, a reduction in the current volume of orders and an increase in the stocks at the end of the month.

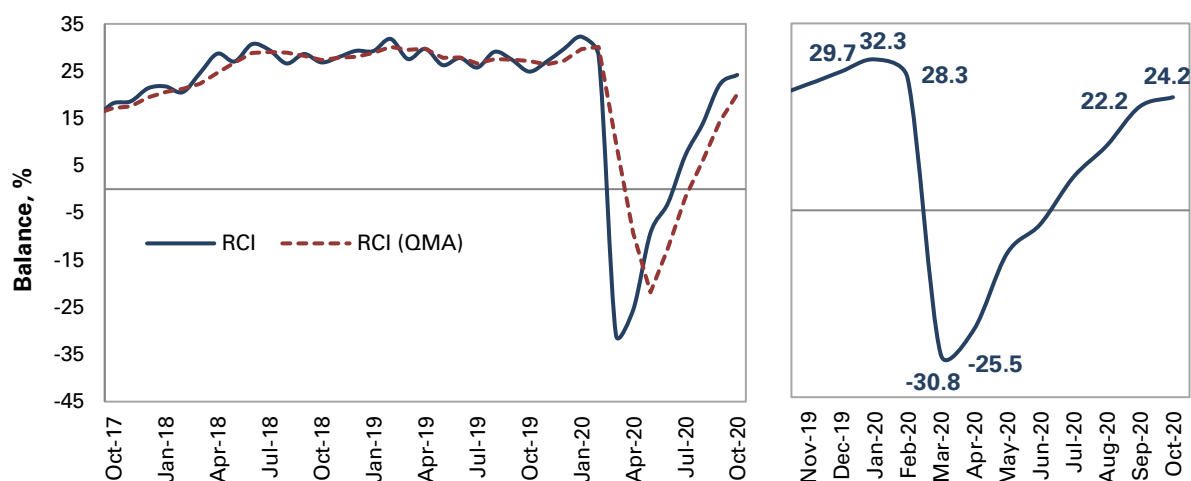
In October, 12.1% of the companies presented problems in its operations, 88.7% of which were related to COVID-19. The percentage of companies who said that the number of employees had decreased compared to January 2020 was 31.6%. Only 28.1% of firms has cash on hand for more than eight weeks of expenses.

In the third quarter of 2020, the profitability of the export activity, the exported value in dollars and the balance of export orders, increased compared to the previous quarter and the indicator of exporters expectations on the performance of their activity in the next three months decreased.

Retail Confidence Index – RCI

In October, the Retail Confidence Index (RCI) was 24.2%, which represents an increase of 2.0 percentage points (pp) compared to last month and a decrease of 0.7 pp relative to October 2019 (Graph 1).

Graph 1. Retail Confidence Index (RCI)



Source: Business Tendency Survey (BTS) – Fedesarrollo.

The RCI brings together three elements: **perception about business current economic situation, level of stocks and expectations about the economic situation for the next semester**. The results for October of the last two years are summarized in Table 1.

Table 1. Retail Confidence Index Components

Component (Balance, %)	2019	2020	
	October	September	October
Business current situation	44.5	32.4	38.5
Level of stocks	7.6	-2.0	-6.8
Business expectations for the next 6 months	37.9	32.2	27.3
Retail Confidence Index - RCI	24.9	22.2	24.2

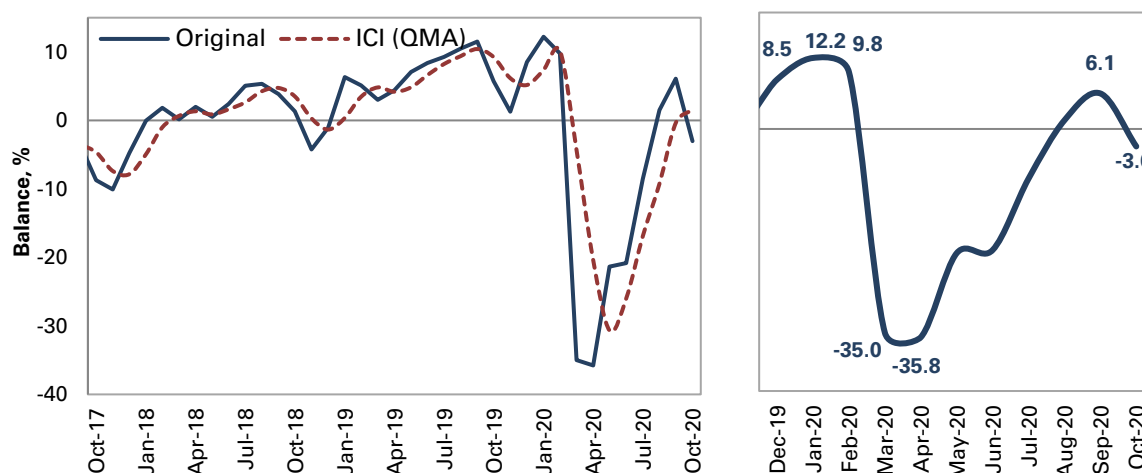
Source: Business Tendency Survey (BTS) – Fedesarrollo

In October, the growth in retailer’s confidence compared to the previous month was mainly due to an increase of 6.1 pp in the indicator of business current situation and a reduction of 4.8 pp in the level of stocks. Meanwhile, the expectation’s indicator for the next semester decreased 4.9 pp. On the other hand, compared to October 2019, the result was mainly due to a decrease of 10.6 pp in the expectation’s indicator for the next semester and a decrease of 6.0 pp in the current economic situation. On the other hand, the level of stocks decreased 14.4 pp.

Industrial Confidence Index – ICI

In October, the Industrial Confidence Index (ICI) stood at -3.0% in its original series, which represents an decrease of 9.1 percentage points (pp) compared to last month and a decrease of 8.6 pp relative to October 2019. Finally, its quarterly moving average was 1.6%, which is equivalent to an increase of 1.9 pp compared to last month (Graph 2).

Graph 2. Industrial Confidence Index (ICI)



Source: Business Tendency Survey (BTS) – Fedesarrollo

The ICI has three components: **level of stocks¹, current volume of orders and production expectations for the next three months**. In the original series, the increase of the ICI compared to the previous month was mainly due to a decrease of 20.2 pp the expected production for the next three months, an increase of 6.2 pp in the level of stocks and a reduction of 0.9 pp in the current volume of orders. Excluding seasonal variations, there was an increase in the current volume of orders and a decrease in the expected production for the next quarter and in the level of stocks compared to September (Graph 3).

Table 2. Evolution of ICI components

Component (Balance, %)	2019		2020
	October	September	October
Stocks of finished goods at end of this month	-0.4	-4.1	2.0
Current volume of orders	-1.0	-15.3	-16.2
Expected production in the next three months	17.6	29.5	9.3
Industrial Confidence Index - ICI	5.7	6.1	-3.0

Source: Business Tendency Survey (BTS) – Fedesarrollo

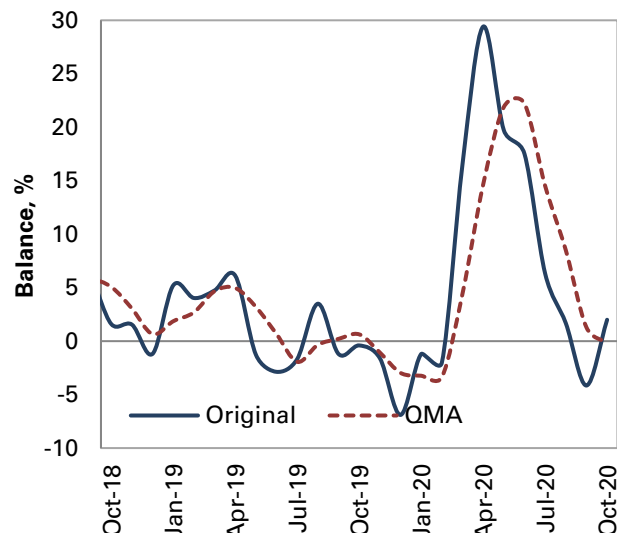
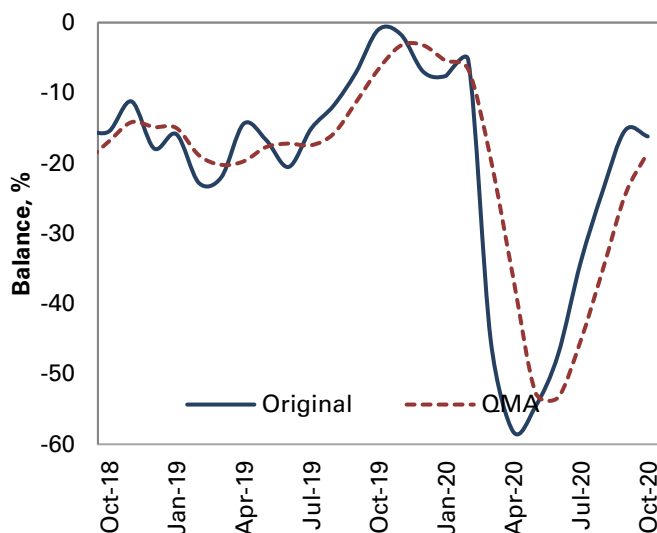
The downturn in industrial confidence compared to October 2019 was due to a decrease of 15.1 pp in the current volume of orders, a reduction of 8.3 in the expected production in the next three months and an increase of 2.4 pp in the level of stocks (Table 2).

Graph 3. ICI Components

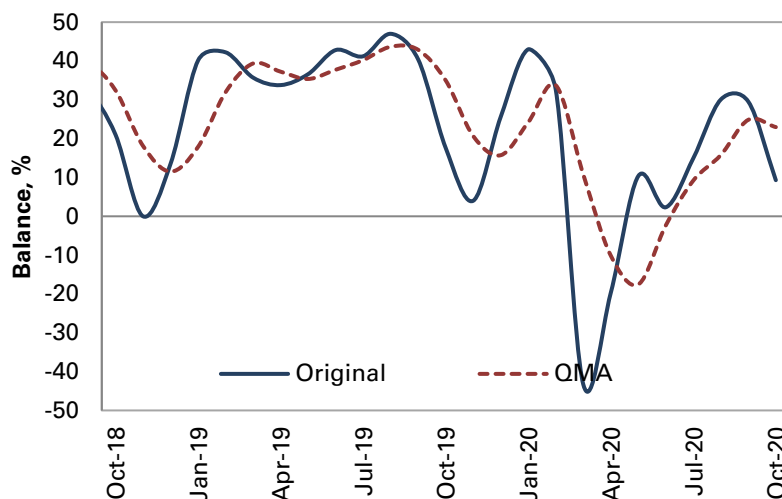
A. Current order volume

B. Level of stocks

¹ Both industrial producers and retailers are asked if the level of stocks is high, low or normal. The balance corresponds to the difference between the percentage of respondents who answered that it is "high" and those who indicated that it is "low." A decrease in the balance is equivalent to an improvement since employers perceive lower levels of inventories.



C. Production expectations for the next three months



Source: Business Tendency Survey (BTS) – Fedesarrollo

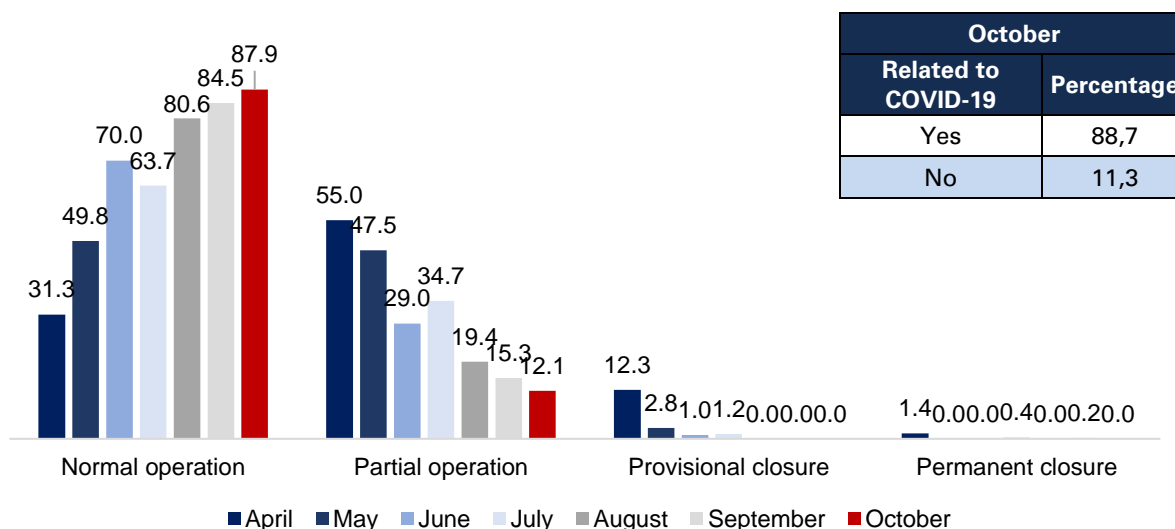
COVID-19

In order to identify the impact on the business sector caused by COVID-19 and the containment measures decreed by the National Government, the Business Opinion Survey identified four main aspects that may be affected. These are: i) the company's operation status, ii) expectations of operation status, iii) employment and iv) financial fragility.

In October, regarding the degree of operation of the company, 87.9% of the firms did not present an impact on their operation, 12.1% operated partially and none of the companies had a provisional closure or a permanent closure (Graph 4). Regarding the companies that had some degree of impairment in their operations, 88.7% stated that this was due to COVID-19.

Regarding the previous month, in October the percentage of firms that are on normal operation increased 3.4 pp, conversely the percentage that are on partial operation decreased 3.2 pp, the percentage that are in provisional closure remained constant and the proportion which are in permanent closure decreased 0.2 pp.

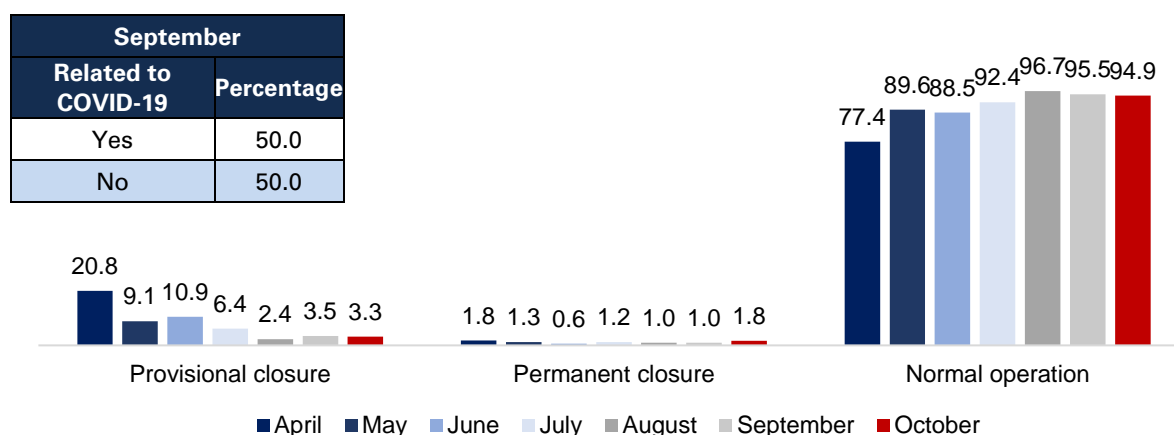
Graph 4. Operation status of the company and its relation to COVID-19



Source: Business Tendency Survey (BTS) – Fedesarrollo

In the next three months 3.3% of the companies expect to carry out a provisional closure, 1.8% foresee a permanent closure meanwhile the remaining 94.9% do not plan to carry out any disrupt in their operations (Graph 5). In respect to September the proportion of companies who do not expect any closure in the next three months decreased 0.6 pp, in contrast, the proportion who foresee a permanent increased 0.8 pp, and the proportion who expect a provisional closure decreased 0.2 pp. The percentage of companies that associates the impact on their operation status to the COVID-19 was 50.0%.

Graph 5. Operation status expectative and its relation to COVID-19



Source: Business Tendency Survey (BTS) – Fedesarrollo

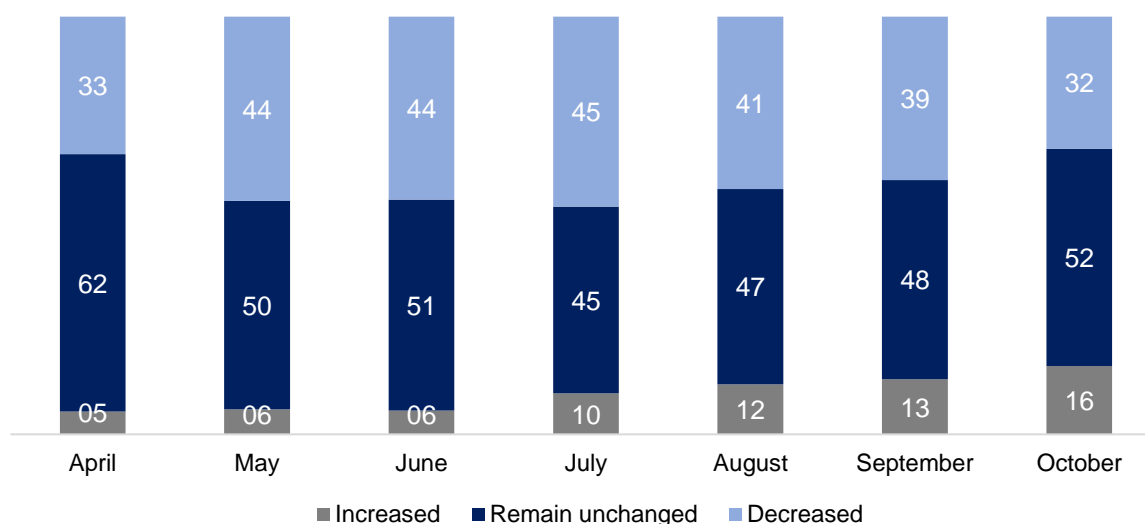
AQUI

In comparison with January 2020, 0.6% of the companies increased the number of employees more than 50%, 1.0% increased it more than 25%, 14.8% of companies rose the number of workers between 1% and 25%, meanwhile 52.0% kept their staff unchanged. 25.3% of the firms reduced their employees in a range between 1% and 25%,

the percentage of companies that reduced the number of their workers between 25% and 50% was 4.9%, and the remaining 1.4% reduced it more than 50%.

Compared to September the percentage of companies who increased the number of employees raised 3.2 pp, also the percentage of companies in which the number of employees remained unchanged increased 4.3 pp, while the percentage of companies who decreased the number of employees lessened 7.5 pp (Graph 6).

Graph 6. Number of employees in comparison with January 2020.



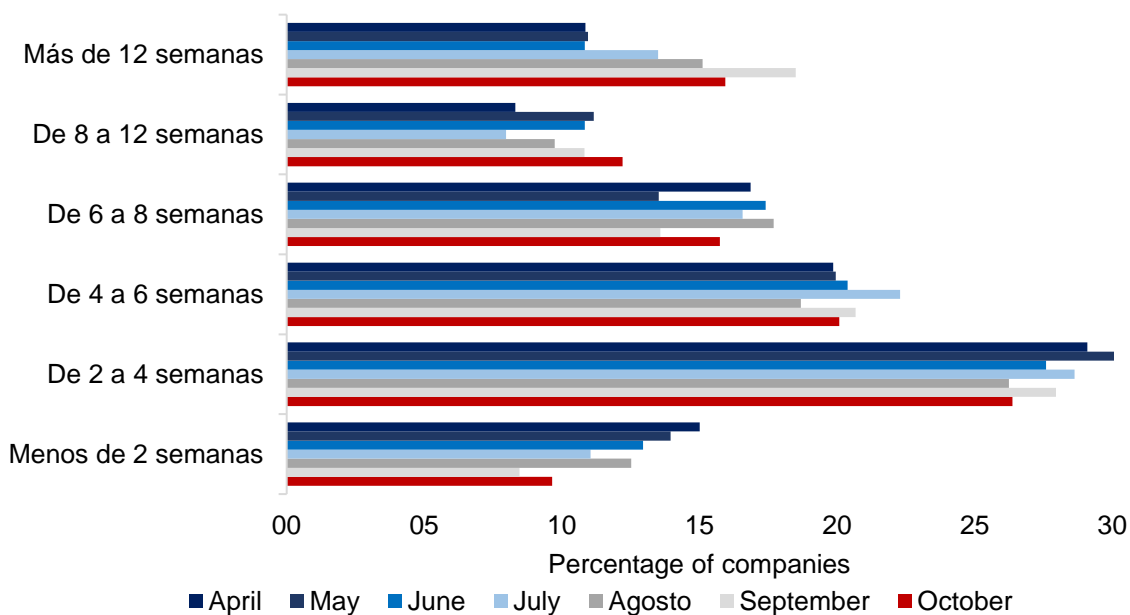
Source: Business Tendency Survey (BTS) – Fedesarrollo

The percentage of companies who considers having cash on hand worth of less than 2 weeks of expenses² is 9.6%, meanwhile 26.4% considers having cash on hand worth of between 2 and 4 weeks of expenses. The percentage of firms who consider having the capacity to respond to commitments between 4 and 6 weeks' of expenses is 20.1%, 15.7% consider it to be between 6 and 8 weeks, 12.2% claims to have cash on hand between 8 and 12 weeks, the remaining 15.9% of companies have cash to pay more than 12 weeks of expenses.

In comparison with the previous month, the percentage of companies who considers to have cash on hand worth of less than 2 weeks' of expenses increased 4.1 pp, the percentage who considers having cash on hand worth of between 2 and 4 weeks' of expenses decreased 1.6 pp. The percentage of firms who consider having the capacity to respond to commitments between 4 and 6 weeks of expenses decreased 0.6 pp. The companies who consider it to be between 6 and 8 weeks increased 2.2 pp, the ones who claim to have cash on hand between 8 and 12 weeks increased 1.4 pp, and the remaining companies who have cash to pay more than 12 weeks of expenses decreased 2.6 pp (Graph 7).

² Refers to all its fixed costs (wages, social benefits, rent, etc.)

Graph 7. Maximum of weeks with cash on hand to pay all expenses.

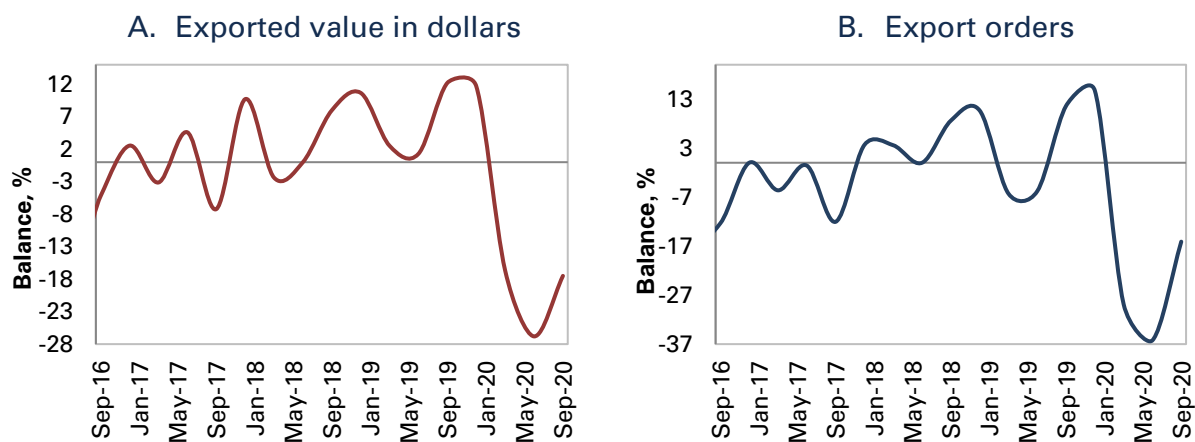


Source: Business Tendency Survey (BTS) – Fedesarrollo

Exports³

During the third quarter of 2020, the balance of answers about exported value in dollars was -17.5%, which indicates that the percentage of respondents with decreasing exports was greater than the percentage with increasing exports relative to the previous quarter. This result represents an increase of 9.3 pp compared to the previous quarter and a decrease of 29.7 pp compared to the same quarter of 2019. On the other hand, the balance of export orders was -16.1%. which implies an increase of 20.1 pp compared to the previous quarter and a decrease of 27.6 pp relative to the same quarter of 2019 (Graph 4).

Graph 4. Exported value in dollars and export orders in the first quarter of 2020 compared to the same quarter of the previous year

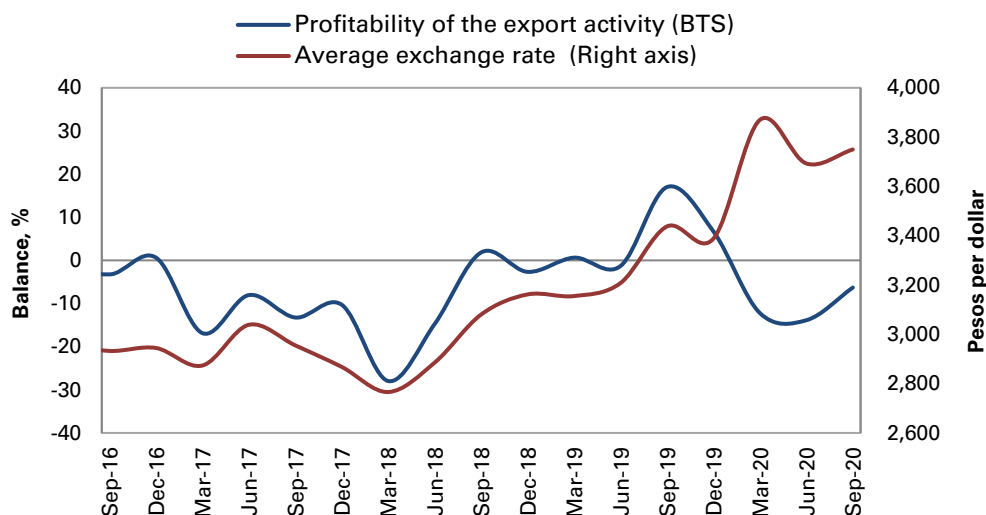


Source: Business Tendency Survey (BTS) – Exports module (Fedesarrollo).

³On a quarterly basis, the Business Tendency Survey includes a special module for the industrial sector, which inquires about the expectations and the perception of industrialists about the value exported in dollars and export orders.

Regarding the perception about exports profitability, the balance was -6.3%, which is equivalent to a 7.6 pp increase compared to the previous quarter and a 23.3 pp decrease relative to the same quarter of 2019. The balance of exports profitability in this quarter is not related to the behavior of the exchange rate (Graph 5).

Graph 5. Profitability exports activity and exchange rate



Source: Business Tendency Survey (BTS) – Fedesarrollo and Central Bank of Colombia.

For the third quarter of 2020, the Plan Vallejo System (11.9%), the Dollar-currency exchange rate of the buyer country (9.8%) and the Colombian information and marketing services (7.7%) were the most favorable factors for the export activity. Specifically, the balance of the Plan Vallejo System decreased 3.8 pps compared to the same quarter of 2019. On the other hand, the most unfavorable factors were economic situation of the purchasing country (-20.3%), the production costs (-18.9%) and the international transport (-18.2%). Relative to the previous quarter, balances of economic situation of the purchasing country increased 11.6 pp and the production costs increased 2.1 pp.

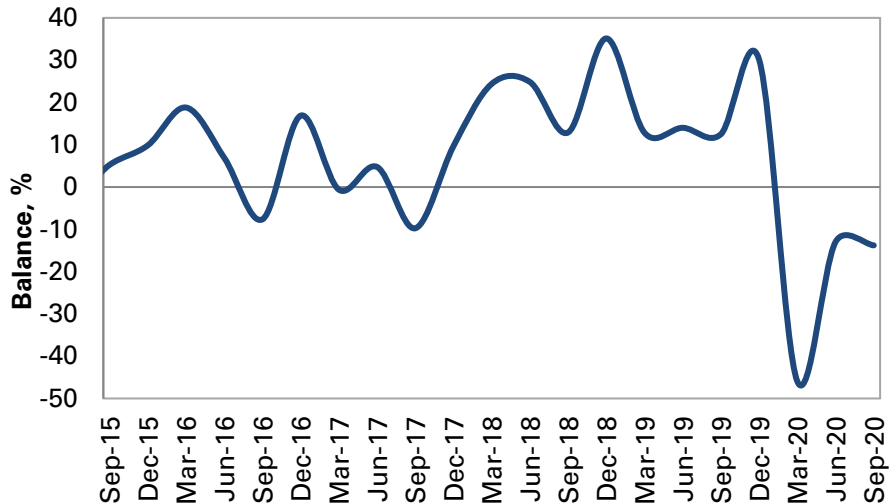
Table 3. Main factors that affected the export activity

Factor (Balance, %)	2019-III	2020-II	2020-III
Economic situation of the purchasing country	-4,8	-31,9	-20,3
Internal transportation in Colombia	-11,6	-29,0	-18,2
International transport	-28,6	-24,6	-14,7
Port services in Colombia	-28,6	-21,0	-18,9
Production costs	-6,9	-15,2	4,2
Availability and cost of credit	1,4	-7,2	5,6
Export procedures in Colombia	-3,4	-5,8	0,0
Competitive position in the target markets	-4,1	-5,8	2,1
Trade policies of the purchasing countries	-5,5	0,0	-3,5
Dollar-currency exchange rate of the buyer country	0,0	4,4	9,8
Plan Vallejo System	15,7	10,7	11,9
Colombian information and marketing services	4,8	10,9	7,7
Peso-dollar exchange rate	21,9	12,3	5,6

Source: Business Tendency Survey (BTS) – Exports module (Fedesarrollo).

The balance of exporters' expectations regarding the performance of their activity in the next three months was -13.8%, which is equivalent to a 0.8 pp decrease compared to the previous measurement and a 26.3 pp decrease compared to the third quarter of 2019 (Graph 6). In this measurement, 18.1% of respondents said that their exports will increase over the next three months, while 31.9% believe that their exports will decrease, and 50.0% expect them to remain the same.

Graph 6. Three-month expectations of exported value in dollars



Source: Business Tendency Survey (BTS) – Exports module (Fedesarrollo)



Contact us if you would like to have access to disaggregated results by region, industrial sector and other survey questions

+57 1 3259777 ext. 340
comercial@fedesarrollo.org.co

Published November 25, 2020

Comments to Tatiana García Hernández: tgarcia@fedesarrollo.org.co