BTS and development of confidence indicators

Business and consumer surveys are a necessary complement of quantitative statistical surveys, from which they differ in methods and use. The frequency, rapidity and continuous harmonisation of the surveys within the Joint harmonised EU programme of business and consumer surveys are some of their main qualities. There is an increasing interest in the use of economic surveys for predicting turning points in the economic cycle.

The surveys are successfully applied and used to bring valuable information in domains of economy which are difficult to quantify and are not fully covered by routine statistical reporting. They reflect the atmosphere of business environment and also give information well in advance, which indicates directions of further economic development.

The year 1991 was a transition year with a new conception of business cycle surveys in the Czech Republic. At present, the Czech Statistical Office carries out business cycle surveys regularly monthly in accordance with regulations laid down for harmonised EU surveys as regards the design and contents of questionnaires. The CZSO questionnaires focus on the same fields as the EU harmonised surveys do. The responding groups of enterprises account for 1000 enterprises in industry, 600 enterprises in construction, 600 enterprises in trade, 900 in services and 1100 enterprises for investment survey.

The results for the CR are broken down by size of enterprises, CZ-NACE, MIGs and by region, where possible. The results of the business surveys are presented monthly through verbal analyses, tables, graphs, business cycle mirrors, and confidence indicators, and in the form of aggregate figures or at different levels of detail and different types of breakdown.

The fact that cyclic movements in individual sectors of the economy are not synchronized, but time shifted, may be used to analyse the cyclic development of the economy as a whole. Cyclic impulses enter the economy particularly through demand (private, public, foreign, etc). A change in the demand in a sector that is the first to absorb it will reflect in other, dependent sectors. If these impulses are such that they can be recognized in some available monthly time series, then these series are employed to indicate economic trends and construct confidence leading indicators of the business cycle.

Business cycle information on the enterprise sphere is viewed of in connection with the results from surveying the consumer sphere.

Data source for business cycle and consumer surveys are the CZSO direct surveys in enterprise sphere and a survey carried out among consumers by the GfK Praha company.

With regard to periodicity, the month is taken as the reference period in industry, construction, trade and in services. In the first month of a quarter questions with quarterly periodicity are included in the questionnaires. Twice a year (March/April and October/November) the surveys are extended by questionnaires concerning investment activities in last, current and next years. Ad hoc surveys on labour market were carried out in the year 1999 and 2004.
Methodological explanatory notes

The **composite confidence indicator (Economic Sentiment Indicator)** is a weighted average of seasonally adjusted confidence indicators in industry, construction, trade, in selected services and of the consumer confidence indicator.

The **business confidence indicator** is a weighted average of seasonally adjusted confidence indicators in industry, construction, trade and in selected services.

The **consumer confidence indicator** is the average of four indicators (expected financial situation of consumers, expected total economic situation, expected total unemployment (with inverted sign) and savings expected in 12 months to come).

Since January 2006, new **weighting system** is being used for construction of composite confidence indicator and business confidence indicator: confidence indicator in industry has weight 40%, confidence indicator in construction and trade 5% each, confidence indicator in selected services 30% and consumer confidence indicator has 20% weight in composite confidence indicator. The time series are recalculated backwards to May 2002 (start of the business cycle survey in selected services). Additionally, since January 2006, the average of 2005 is a base of **basic indices** of confidence indicators; data are recalculated and comparable.

The **branch confidence indicators** are constructed as averages of seasonally adjusted weighted business cycle balances. The business cycle balance is the percentage difference between the responses “growth (+)” and “fall (-)”

The **confidence indicator for industry** is the average of seasonally adjusted balances of three indicators (the assessment of total demand, assessment of stocks of final production (with inverted sign) and the expected development of production activity). The **confidence indicator for construction** is the average of two indicators (the assessment of total demand and the expected development of employment). The **confidence indicator for trade** is the average of three indicators (the assessment of economic situation, assessment of stocks (with inverted sign) and the expected development of economic situation). The **confidence indicator for selected services** is the average of three indicators (the assessment of economic situation, the assessment of demand and expected demand).

The data are derived in a weighted manner: sales are used as weights for industry, services and trade, whereas output is the weight for construction. The average registered number of employees is the weight for evaluation of employment indicators.

Results are published immediately after processing:

- in News Releases on the CZSO website: [www.czso.cz](http://www.czso.cz);
- in tables sent to the EC - DG ECFIN and OECD;
- in a comprehensive publication on the Internet;
- in comprehensive printed publication;
- in the CZSO Bulletin;
- in the CZSO News;
- in tables according to the requirements of users; - via the Information Services Department of the CZSO.
Changes in the publication of Business cycle surveys in 2006

1. Time series of basic indices are recalculated to the basic period of year 2005 average
2. Balances of confidence indicators are published with one decimal position
3. Time series of confidence indicator in services is seasonally adjusted and basic indices (to the year 2005 average) are calculated
4. Seasonally adjusted time series of the confidence indicator in services is included into composite confidence indicators. Time series are recalculated back to May 2002 when the survey in services started
5. Due to service indicator inclusion, the weighting system for construction of composite confidence indicator is changed. Thanks to basic indices construction, the time series continuity is not interrupted and they can be displayed graphically (corresponding graphs are included).

Comparison of new and old methodology.
Seasonally adjusted business confidence indicator after including services indicator and new weighting system

All the tables and graphs below display indicators according to new methodology.

Comparison of time series seasonally adjusted by Dainties and Tramo Seats:
Podnikatelský indikátor důvěry

Business Confidence Indicator

Měsíce, Months

Průměr roku 2005 (average of 2005) = 100%

Tramo Seats:

Souhrnný (Composite)  Podnikatelský (Business)
Trendy indikátorů důvěry v průmyslu, stavebnictví, obchodě a ve vybraných odvětvích služeb

*Trends of the confidence indicators in industry, construction, trade and in selected services*

%
Indikátor důvěry ve stavebnictví

Confidence indicator in construction

Indikátor důvěry v obchodě

Confidence indicator in trade
Comparison of confidence indicators and real data

Indikátor důvěry ve vybraných službách
Confidence indicator in selected services

Saldo, Balances

Comparison of confidence indicators and real data

Využití výrobních kapacit a Indikátor důvěry v průmyslu
Capacity Utilisation and Confidence Indicator in Industry

Saldo, Balance
CONFIDENCE OF ENTREPRENEURS AT ITS HISTORIC MAXIMUM
Business cycle survey – October 2006

The balance of composite confidence indicator (indicator of economic sentiment) increased by 1 point in October 2006 compared to the previous month and thus reached the second highest value in its history. The balance of business indicator increased by 0.7 points and thus reached the highest value in its history. The balance of consumer confidence indicator increased by 2.5 points. Compared to October 2005, the composite confidence indicator balance increased by 5.4 points, the business confidence indicator balance by 4.9 points and the consumer confidence indicator balance increased by 6.9 points.

***

In industry, the confidence indicator balance increased by 2 points month-on-month and by 3.3 points year-on-year. In construction, the confidence indicator balance was down by 0.5 points m-o-m but up by 1.5 points y-o-y. In trade, the confidence indicator balance did not change m-o-m and decreased by 0.4 y-o-y. In selected services, the confidence indicator balance was down by 0.7 points m-o-m and up by 8.6 points y-o-y.

In industry, assessment of the current economic situation increased slightly in October compared to the previous month. The assessment of total demand increased as well as the assessment of foreign demand. Stocks of finished goods decreased, respondents say. For next three months, respondents expected growth of both production activity and employment. Stable prices were expected by 73.1% of respondents, 18.0% expected a rise and 8.9% a drop. The respondents expected improvement of their economic situation in both next three and six months. Production capacity utilization in manufacturing industry increased slightly compared to the previous quarter and reached 87.3%, the highest value in its history.
In construction, assessment of the current economic situation remained unchanged in October in comparison to September; the assessment of overall demand improved. For next three months, the respondents expected growth of construction activity and a decrease in employment. Anticipation of no price changes predominates among respondents, according to 83.6% of them. They say they had work secured for 9.7 months ahead. Expectations of economic situation development for next three months were slightly lower, for next six months higher.

Among respondents engaged in trade, assessment of the current economic situation did not change m-o-m in October. Expectations of economic situation development for next three as well as six months were lower than in September. According to respondents, stock of inventories hardly changed in October. Respondents expected increase of sales for next three months. A stable development of the number of employees was expected by 66.7% of respondents, a fifth expected a rise and 13.3% a drop. A rise in prices was expected by 7.0% of respondents, 82.6% expected no changes and 10.4% a decrease.

In selected services, according to respondents, assessment of both the current economic situation and demand increased slightly in October. However, expectations of demand development for next three months decreased. For next three months, a rise in employment was expected by 14.0% of respondents, 65.6% expected no changes and 20.4% a drop. Expectations of economic situation were lower for next three as well as six months.

The survey taken among consumers in October indicated that consumers expected deterioration of the overall economic situation (balance down by 2.9 points) and increase in their own financial situation (balance up by 1.9 points). Compared to September 2006, the percentage of consumers expecting higher unemployment decreased (balance down by 2.1 points). Percentage of the respondents who intend to save money increased by 8.8 points. The consumer confidence indicator increased by 2.5 points in comparison to September.
Comparison of selected indicators in individual branches in October 2006

Assessment of economic situation

Expected economic situation

Expected prices

Expected employment

Table 1 Confidence indicators - basic indices*

<table>
<thead>
<tr>
<th>Indicator</th>
<th>2005</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Oct</td>
<td>Nov</td>
</tr>
<tr>
<td>Average of 2005 = 100%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Confidence indicator for:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Industry</td>
<td>102.9</td>
<td>100.8</td>
</tr>
<tr>
<td>Construction</td>
<td>105.4</td>
<td>102.8</td>
</tr>
<tr>
<td>Trade</td>
<td>101.2</td>
<td>103.4</td>
</tr>
<tr>
<td>Services</td>
<td>100.7</td>
<td>98.2</td>
</tr>
<tr>
<td>Business indicator</td>
<td>102.0</td>
<td>99.9</td>
</tr>
<tr>
<td>Consumers</td>
<td>97.3</td>
<td>103.6</td>
</tr>
<tr>
<td>Composite indicator</td>
<td>101.2</td>
<td>100.6</td>
</tr>
</tbody>
</table>

*) With the exception of consumer indicator, all the data are calculated from seasonally adjusted balances.
### Table 2 Balances of confidence indicators*

<table>
<thead>
<tr>
<th>Indicator</th>
<th>2005</th>
<th></th>
<th>Oct</th>
<th>Nov</th>
<th>Dec</th>
<th>Jan</th>
<th>Feb</th>
<th>Mar</th>
<th>Apr</th>
<th>May</th>
<th>Jun</th>
<th>Jul</th>
<th>Aug</th>
<th>Sep</th>
<th>Oct</th>
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<tbody>
<tr>
<td>Balance (%)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Industry</td>
<td>9.7</td>
<td>7.3</td>
<td>6.0</td>
<td>6.0</td>
<td>7.3</td>
<td>8.6</td>
<td>10.0</td>
<td>11.3</td>
<td>10.0</td>
<td>13.0</td>
<td>11.0</td>
<td>13.0</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Construction</td>
<td>0.5</td>
<td>-2.0</td>
<td>-7.0</td>
<td>-8.5</td>
<td>-6.5</td>
<td>-6.5</td>
<td>-6.0</td>
<td>-6.5</td>
<td>1.0</td>
<td>0.0</td>
<td>2.5</td>
<td>2.0</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Trade</td>
<td>23.7</td>
<td>26.3</td>
<td>25.7</td>
<td>22.3</td>
<td>28.0</td>
<td>23.3</td>
<td>21.6</td>
<td>20.3</td>
<td>23.0</td>
<td>22.3</td>
<td>23.0</td>
<td>23.3</td>
<td>23.3</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Services</td>
<td>37.7</td>
<td>34.3</td>
<td>41.0</td>
<td>42.7</td>
<td>43.3</td>
<td>42.7</td>
<td>39.7</td>
<td>41.7</td>
<td>45.3</td>
<td>44.7</td>
<td>46.3</td>
<td></td>
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<tr>
<td>Business indicator</td>
<td>20.5</td>
<td>18.1</td>
<td>19.5</td>
<td>19.9</td>
<td>20.6</td>
<td>20.8</td>
<td>20.1</td>
<td>21.5</td>
<td>23.7</td>
<td>23.2</td>
<td>25.3</td>
<td>24.7</td>
<td>25.4</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Consumers</td>
<td>-5.6</td>
<td>0.5</td>
<td>-3.2</td>
<td>2.5</td>
<td>0.2</td>
<td>1.9</td>
<td>1.2</td>
<td>3.6</td>
<td>2.2</td>
<td>3.4</td>
<td>3.3</td>
<td>-1.2</td>
<td>1.3</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Composite indicator</td>
<td>15.2</td>
<td>14.5</td>
<td>15.0</td>
<td>16.4</td>
<td>16.5</td>
<td>17.0</td>
<td>16.3</td>
<td>17.9</td>
<td>19.4</td>
<td>19.3</td>
<td>20.9</td>
<td>19.6</td>
<td>20.6</td>
<td></td>
<td></td>
</tr>
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</table>

*) With the exception of consumer indicator, all the data are calculated from seasonally adjusted balances.

**Note**

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