

Box 2 Survey of Icelandic business sentiment

The Central Bank and the Ministry of Finance have commissioned Gallup to conduct a survey of the expectations and intentions of Icelandic business executives. Surveys of this kind have been conducted for years in many countries and are considered a useful indicator of the economic outlook in conjunction with other economic statistics. It is planned to conduct these surveys twice a year in Iceland.

The first survey was made over the period September 4 to October 8. The sample was made up of the 400 businesses with the highest turnover in Iceland and the response rate was 80%. The executives were questioned about their views on the current economy and outlook, the development of the exchange rate, interest rates and prices, together with various details of their own business operations such as sales turnover, inventories and number of employees. The questions were therefore both qualitative and quantitative.

Responses to the qualitative questions are calculated as indices which are the basis of an overall assessment of the findings. In the course of time a trend will be established, and it will become possible to assess the reliability of the survey as a forecasting tool. The table shows responses to selected questions.

More businesses expect their turnover to increase rather than decrease this year. It is interesting to note that the change in average wages is expected to be 1.7% over the next six months, considerably less than negotiated pay rises in the private sector excluding financial institutions, which are just over 3%. This finding can be interpreted as meaning that businesses foresee rationalisation which will lead to a relative reduction in the number of high-paid employees and/or negative wage drift. Rationalisation can also be inferred from the expectation of a higher profit-to-

turnover ratio this year than in 2001 despite the fact that product prices will rise by less than inputs.

However, according to the survey turnover is expected to fall year-on-year in real terms this year, and the same goes for investments. An index measuring the increase/decrease in number of employees shows that more businesses plan to cut back rather than take on staff in the near future, and that the number of employees will decrease somewhat during the year. Over the next twelve months, businesses expect inflation to be virtually in line with the Central Bank's inflation target, the exchange rate of the króna to weaken by 1½% and the policy interest rate to be 6.8%.

The Gallup survey in September- October 2002¹

% unless otherwise indicated (see footnote 1)

Increase/decrease or no change in the number of employees in the next 6 months	86
Change in number of employees Jan. 1- Dec. 31, 2002....	-2.4
Change in turnover in real terms between 2001 and 2002	-1.6
Change in average wages in next 6 months	1.7
Change in product prices in next 6 months ²	0.8
Change in input prices in next 6 months ³	1.7
The Central Bank policy interest rate 12 months hence....	6.8
Inflation over next 12 months.....	2.6
Change in exchange rate of króna in next 12 months	-1.5

1. The table indicates percentage changes except for interest rates (percentages) and the change in number of employees, which is indicated by an index number. The index values are in the range 0 - 200. An index value close to 100 indicates an equal number of positive and negative responses.

2. Annual change: 1.6%.

3. Annual change: 3.4%.