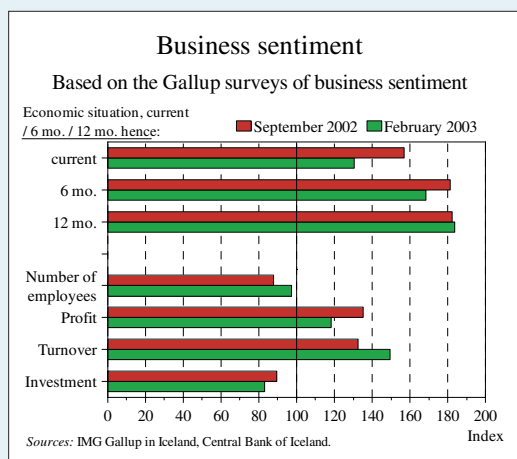


## Box 2 Survey of Icelandic business sentiment

For the second time, the Central Bank and the Ministry of Finance commissioned Gallup to conduct a survey of the expectations and intentions of the 400 largest companies in Iceland. The first survey was in September 2002 and the survey discussed here was made in February this year. As before, executives were questioned about their views on the current economy and outlook, and the development of prices, the exchange rate and interest rates, 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.



A comparison between the two surveys reveals that executives were not as satisfied with the economic situation and outlook this February as they were in September 2002, as the chart shows. However, they are equally optimistic about the economic situation twelve months ahead, and their indices for turnover and number of employees have risen. Indices for profit and investment are down. However, this is not to say that sentiment is particularly pessimistic: Almost three out of every four respondents expects profit this year to be similar to or greater than in 2002. Executives at fisheries companies seem to have weaker expectations about the future than those in other sectors. Businesses in the Greater Reykjavík Area also foresee brighter prospects than those in regional Iceland. The table shows responses to selected questions.

Businesses expect turnover to grow by an average of just under 5% this year, while in last autumn's survey they

### Gallup surveys of business sentiment<sup>1</sup>

	September 2002	February 2003
% unless otherwise indicated		
Increase/decrease or no change in the number of employees in next 6 months (index) .....	88	97
Change in the number of employees in the respective year .....	-2.4	-0.3
Change in turnover on previous year (in real terms) .....	-1.6	4.6
Change in average wages in next 6 months ....	1.7	2.2
Change in product prices in next 12 months ...	1.6	1.3
Change in input prices in next 12 months .....	3.4	1.8
The Central Bank policy interest rate 12 months hence .....	6.8	5.4
Inflation over next 12 months .....	2.6	2.1
Change in the exchange rate of króna in next 12 months .....	-1.5	-2.8

1. The table indicates percentage changes except for interest rates (percentage points) 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.

foresaw a contraction in gross turnover in 2002. Accordingly, there are virtually no plans to cut back on staff this year, while last autumn they predicted redundancies over 2002. Some measure of wage drift is also apparently expected. Overall, average wages were expected to rise by 2.2% over the following six months; when the survey was taken in February, negotiated wage rises for 2003 had already gone into effect. In line with expectations of lower inflation than last September, executives foresaw smaller rises in product and input prices, although they still expected inputs to increase by more than products. Responses to questions about the policy interest rate both last September and this February seem to reflect the rates in effect at the time the survey was conducted. It is interesting to note that executives expected more weakening of the króna twelve months ahead than they did in September 2002. At the time of the February survey, the króna had strengthened somewhat since the autumn and decisions on aluminium and hydropower investment programmes had just been taken.