

## Box 2 Survey of Icelandic business sentiment

In September, the Central Bank and the Ministry of Finance commissioned Gallup to conduct its third survey of the expectations and intentions of the 400 largest companies in Iceland. Responses were received from 302. As before, executives were questioned about their views on the current economic situation 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.

Businesses appear to be reasonably content with the economic situation. The state of the economy index measured 187 of a possible 200, a record reading. Six months ahead the result is similar: 189, also the highest figure for that horizon. On a twelve-month scenario, optimism begins to wane slightly, with the index slipping to 179, marginally lower than in previous surveys.

Turnover and recruitment plans confirm the picture given by the economy indices and indicate that an upswing is beginning again. As far as the number of employees is concerned, a clear difference emerges compared to earlier surveys. In September 2003 the index for the number of employees six months ahead

is much higher, and statistical data also show a clear watershed. Turnover is on the increase as well, although the difference from the February survey is not as marked. Nonetheless, responses suggest that investment will contract this year and in 2004; it is not unlikely that the aluminium industry programme has some effect on these plans.

In February, fisheries sector companies were significantly more pessimistic and dissatisfied about the state of the economy than other employers. This gap has virtually disappeared, but the fisheries sector still takes a more pessimistic longer-term view and foresees smaller turnover growth in 2004 than other sectors – apart from public sector enterprises. Accordingly, fisheries companies seem reluctant to hire staff.

Business in the Greater Reykjavík Area and regional Iceland show no difference in attitudes towards general economic conditions at present and six months ahead, but regional companies are more pessimistic about the outlook one year ahead.

As before, executives expect the prices of their own products to increase by less than inputs, and inflation expectations have inched up since the February survey. The general view is that the króna will remain steady and that the Central Bank will raise its policy interest rate over the next twelve months.

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

	<i>September</i>	<i>February</i>	<i>September</i>
<i>% unless otherwise indicated</i>	<i>2002</i>	<i>2003</i>	<i>2003</i>
State of the economy index.....	157	131	187
Increase/decrease or no change in the number			
of employees in next 6 months (index) .....	88	97	132
Change in the number of employees.....	-2.4 <sup>2</sup>	-0.3 <sup>2</sup>	5.4 <sup>3</sup>
Change in turnover (in real terms).....	-1.6 <sup>4</sup>	3.8 <sup>4</sup>	4.4 <sup>5</sup>
Change in product prices in next 12 months .....	1.6	1.3	1.1
Change in input prices in next 12 months .....	3.4	1.8	2.0
The Central Bank policy interest rate 12 months hence .....	6.8	5.4	5.6
Inflation over next 12 months .....	2.6	2.1	2.9
Change in the exchange rate of the króna in next 12 months .....	-1.5	-2.8	-0.5

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.

2. From beginning to end of respective year. 3. From end-2003 to mid-2004. 4. Between respective and preceding year. 5. Between 2003 and 2004.