

“Cloudy Autumn”

Main economic trends in October 2023

based on the results of the New Monthly Enterprises Survey,
#NRES

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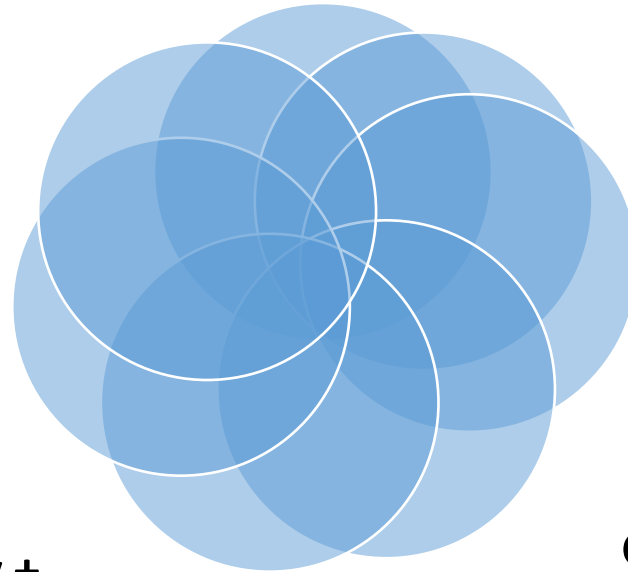
ABOUT THE NEW RAPID ENTERPRISES SURVEY

Monthly survey

The recent data were collected on **October 16 - 31, 2023**

18 surveys have already been conducted (since May 2022)

Sectors: **Industry + (Retail, Agro)**



SAMPLE: **534 enterprises** were surveyed in **October**

Enterprises of **all sizes**

Geography: **21 out of 27** regions of Ukraine

Main results



Speed of recovery is a bit slow-downing: the business optimism for 3- and 6-month perspective is respectively high but has stopped growing during recent months

Main results 1. Uncertainty



Uncertainty in the **6-month** perspective doesn't change significantly



Uncertainty in the **3-month** perspective slightly increase for production and sales



Uncertainty in the **2-year** perspective remains high and without changes

Main results 2: business activity, production, export indicators



6-month expectations regarding enterprises' business activity and the overall economic environment **worsened**



The share of enterprises operating **at almost full and at full capacity** increased after three months of lowering (59% vs 55% in September), **BARI** (Business Activity Recovery Index) is **high** comparing to the previous year but **decreasing** in relation to the previous month



Production performance vs previous months **slightly worsened**, while **3-months expectations** decreasing **second month in a row**



Export improved a bit compared to **previous results** while expectations remain **without significant changes**

Main results 3: impediments, economic policy



“Danger for work” moved from the 2nd to 3rd place in the list of impediments to doing business



Interruptions in electricity remain at the 6th position on the List of impediments to doing business third month in a row



Neutral assessments on government’s economic policy dominate



Impediments to doing business in wartime

Obstacles to production growth: the pre-war context

Quarterly, we use the list of obstacles to production growth from the long-term “Business Tendency Survey”*

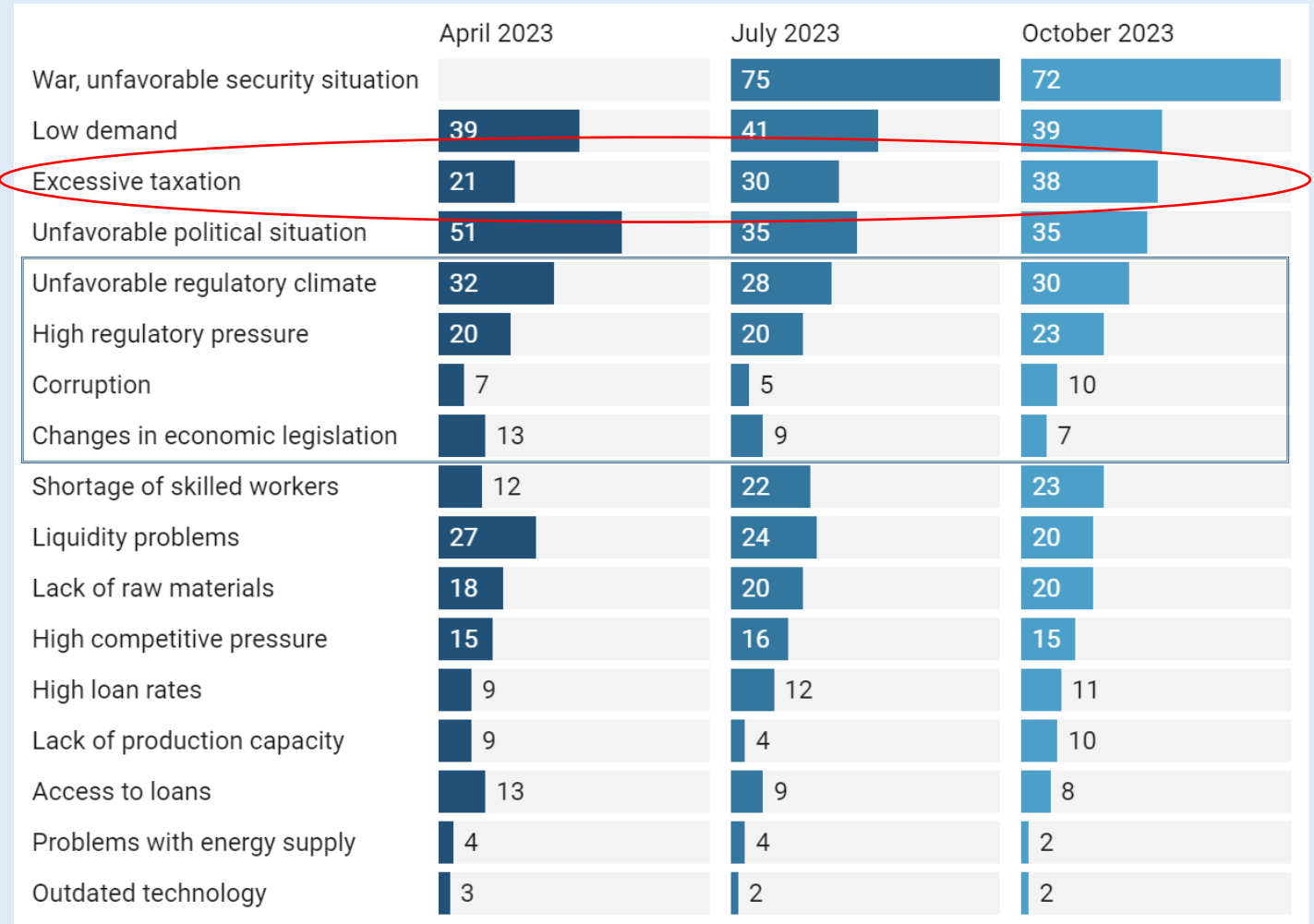
In October 2023, the war and unfavorable security situation was mentioned most often among the obstacles to production growth

The 2nd, 3rd, 4th and 5th places respectively were taken by **low demand**, **excessive taxation** (further increase compared to April and July), **unfavorable political situation****, and **unfavorable regulatory climate***** (slight increase of *high regulatory pressure* and *corruption* in October)

* The last wave of the Business Tendency Survey of Enterprises before the full-scale russian invasion was conducted in February 2022

**In April 2023, a separate option “war” was not yet listed among the answer options, so the respondents may have included the war under the obstacle “unfavorable political situation”

***The regulatory climate is a combined indicator consisting of “high regulatory pressure”, “changes in legislation”, and “corruption”

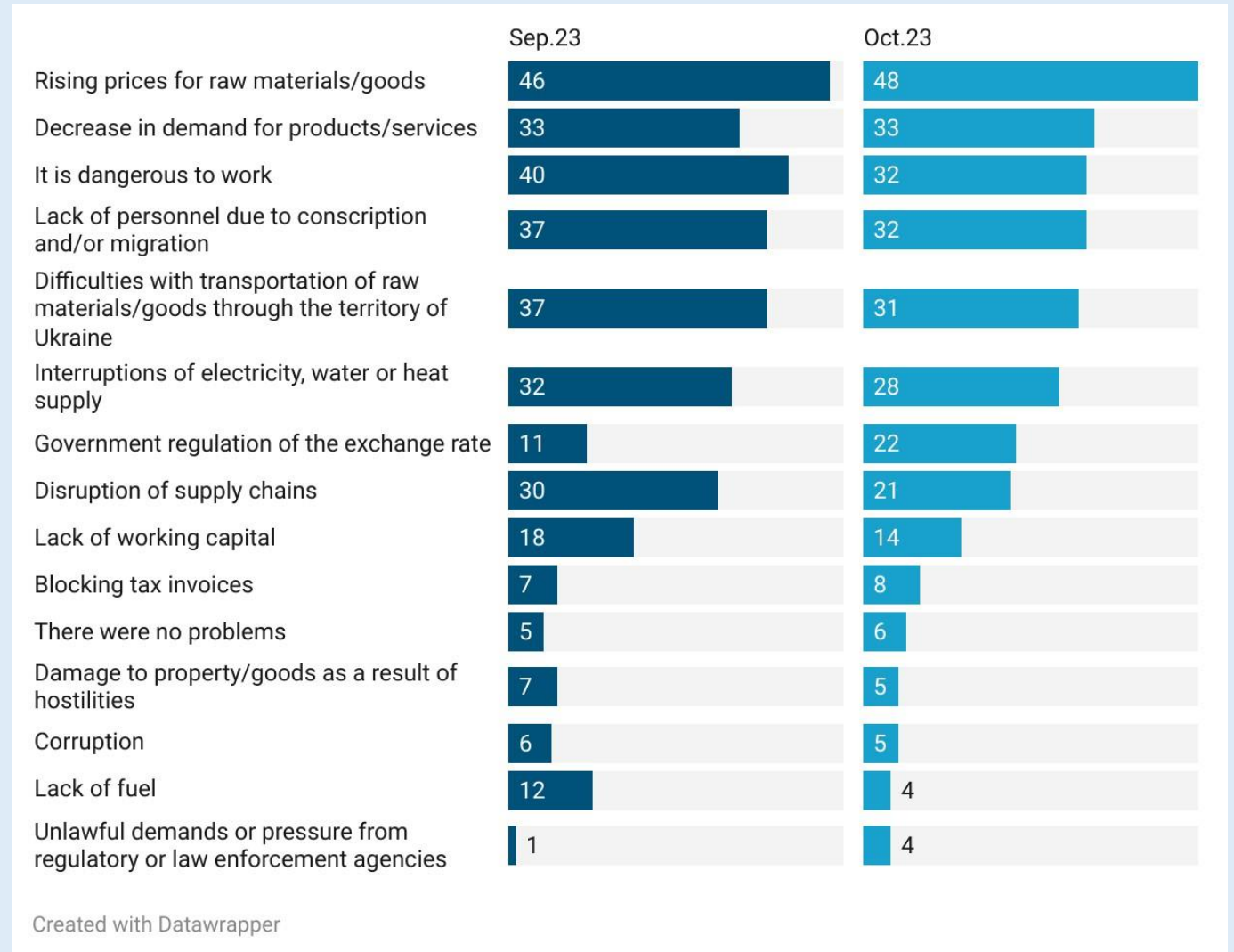


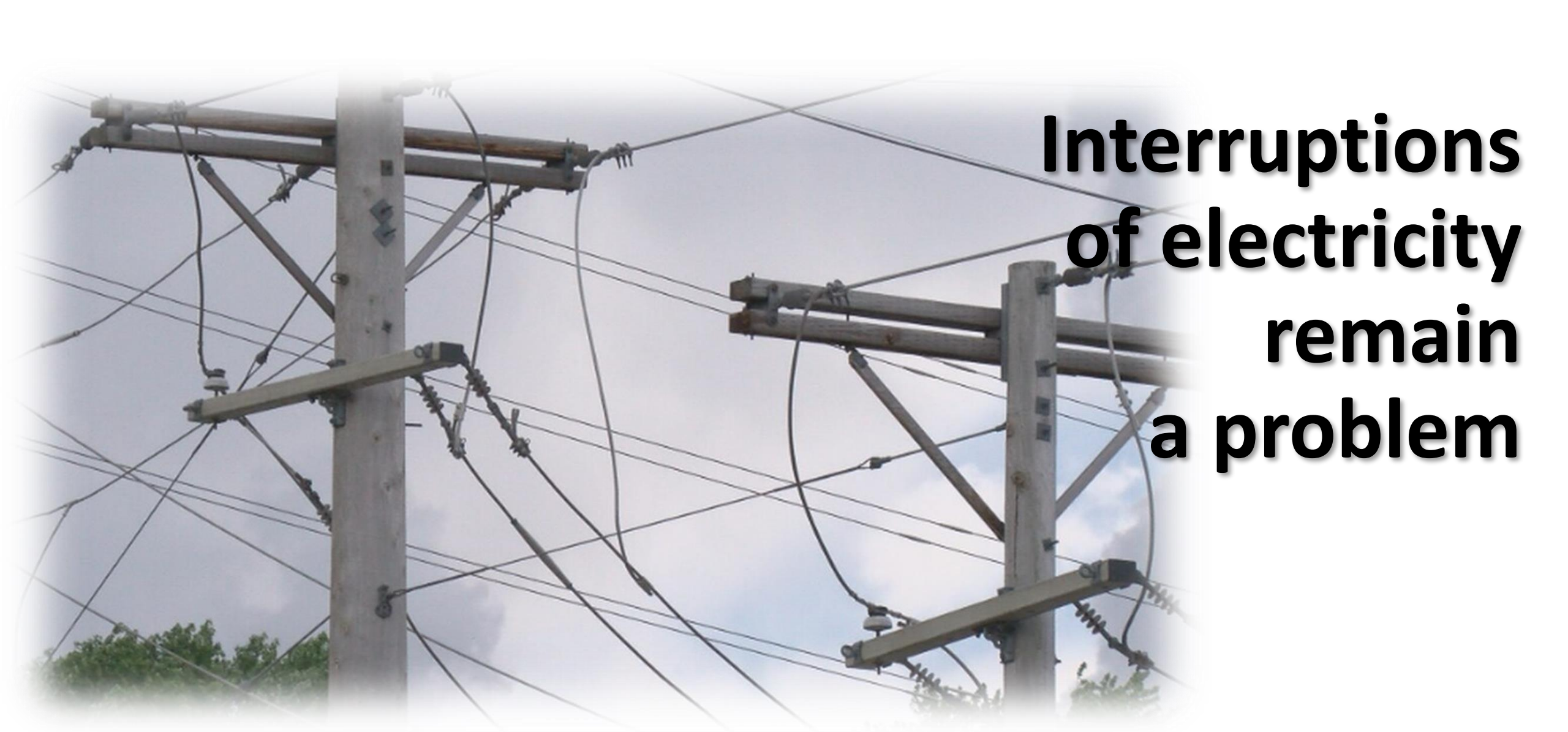
Sources: QES 2002-2022, NRES 2022-2023

The main impediments to doing business in wartime, % respondents

There are several changes in the list of impediments in October compared to September 2023

- The impediment **“rising prices for raw materials and goods”** still holds the 1st place and **has slightly increased its value**
- **“Decrease in demand”** moved up from the 5th to the 2nd place, while its value has not changed compared to the previous month
- The **“It is dangerous to work”** impediment decreased its value from 40% to 32% and moved down from the 2nd to the 3rd place, which it shares with the **“lack of personnel”**
- In October, **“lack of personnel”** remains at the 3rd place in spite of decreasing the value from 37% to 32%
- **“Electricity interruptions”**, despite the decrease of their value from 32% to 28%, **have remained at the 6th place already third month in a row**
- **Corruption** and **pressure from law enforcement agencies** are not significant problems



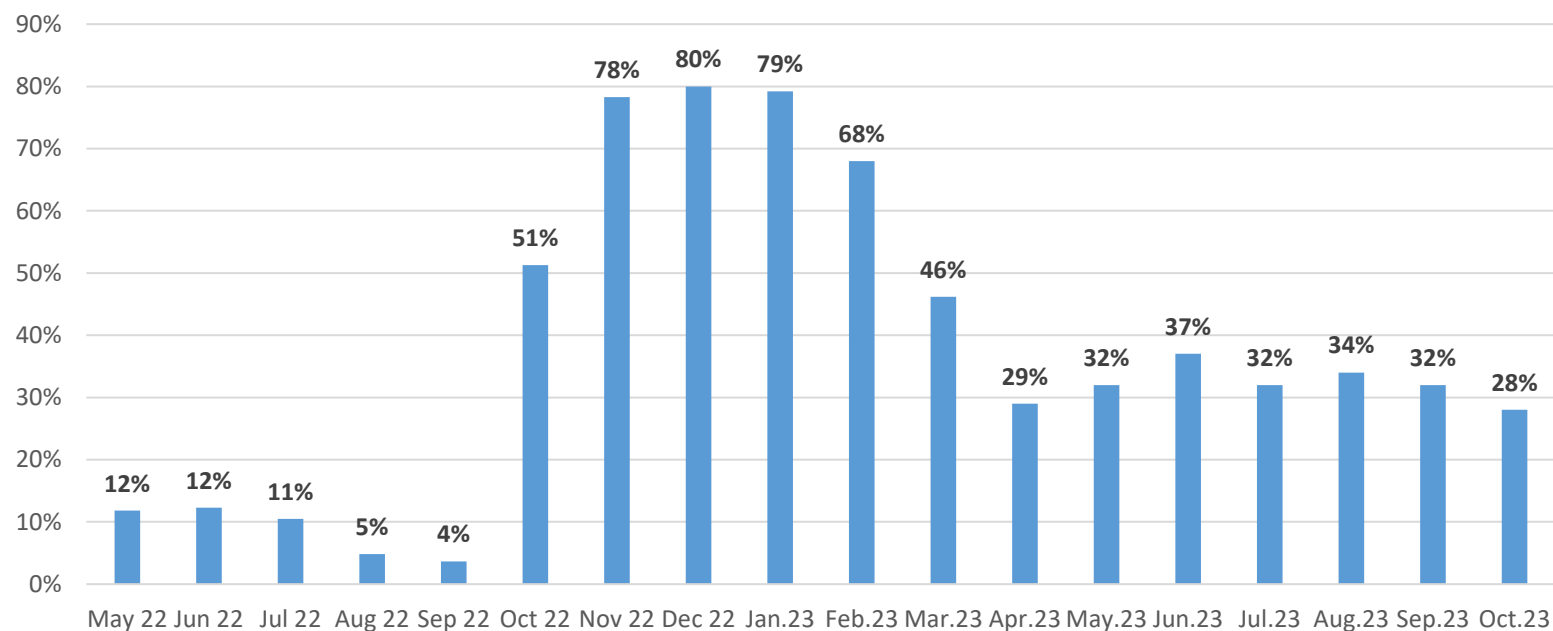



Interruptions of electricity remain a problem

In spite of lowering the value "Electricity" still remains a problem

- In October 2023, the percentage of the respondents who indicated **electricity and water supply as impediment to doing decreasing the value second month in a row**
- In the list of obstacles, **interruptions in electricity remained at the 6th place already three month**

Interruptions with electricity as impediment for doing bussiness, % of repondents



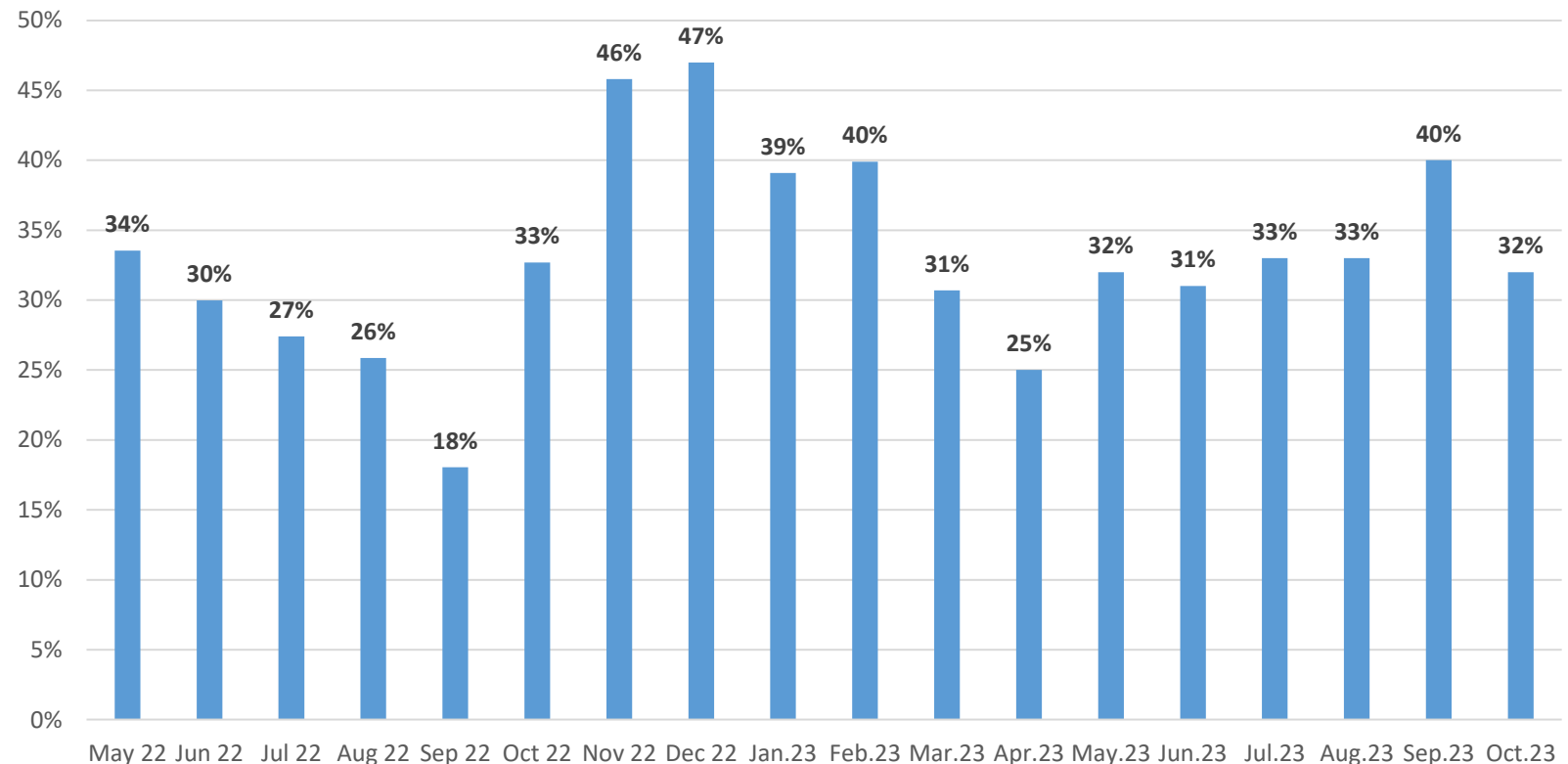


**“It is dangerous
to work” still
dangerous**

“It is dangerous to work” as an impediment to doing business remains among the top three ones

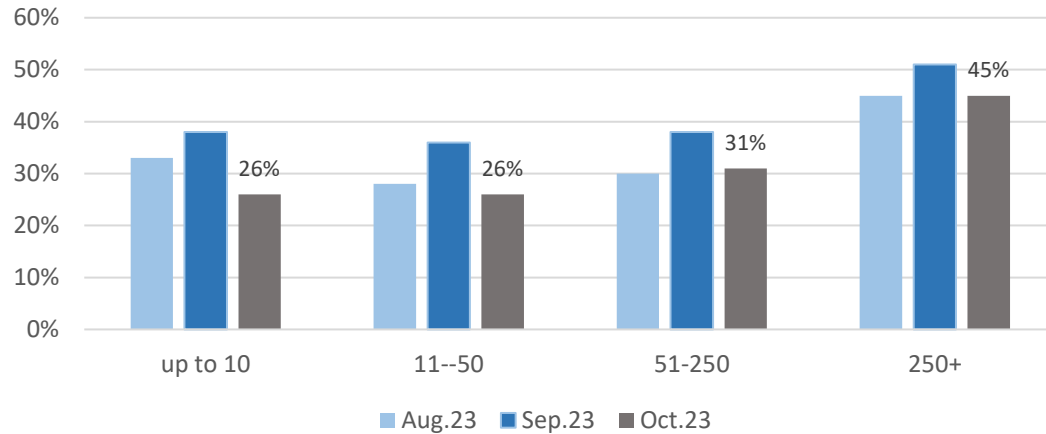
- In October 2023, the share of enterprises that reported that **it was dangerous to work** decreased from 40% to 32%
- **In the list of obstacles, “it is dangerous to work” moved down from the 2nd to the 3rd place and remained in the top three places**

"It is dangerous to work", % of respondents



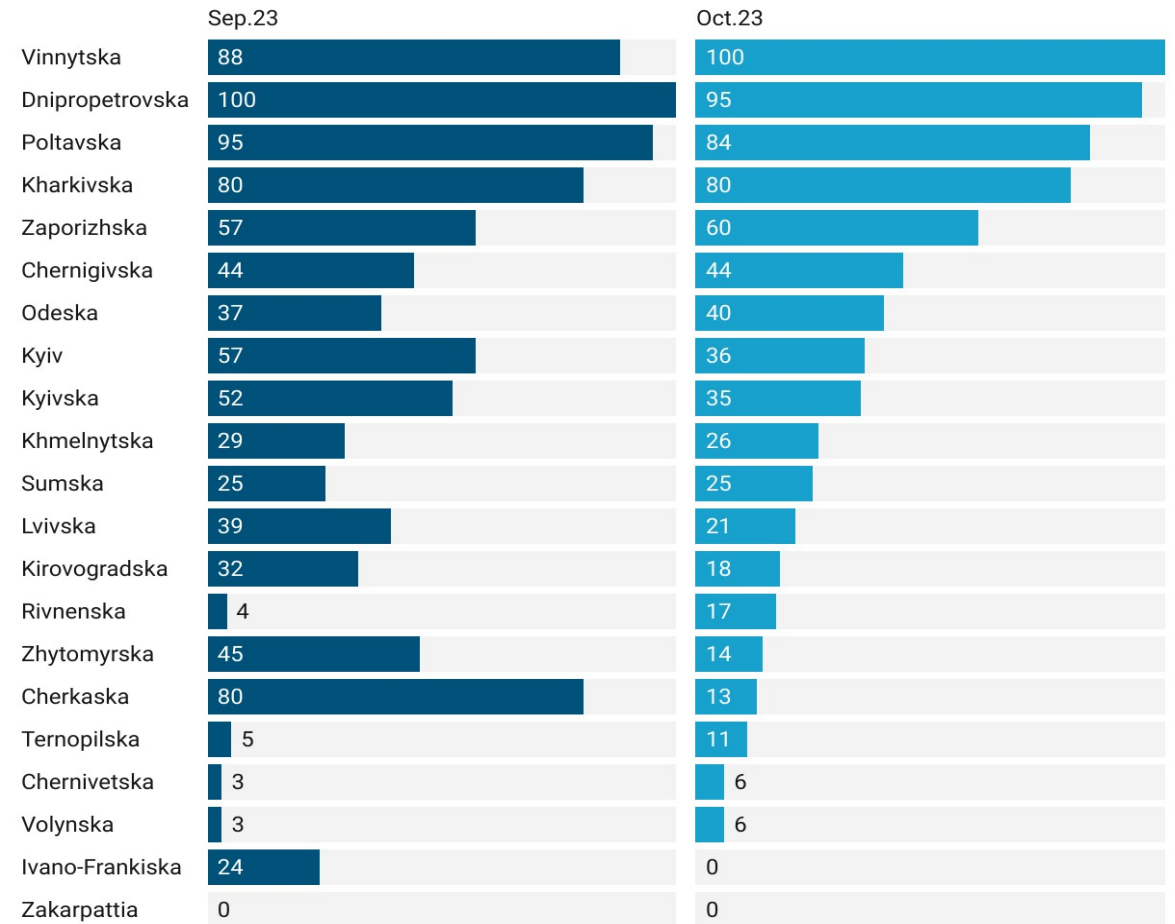
“It is dangerous to work” in different dimensions

“It is dangerous to work” by the size groups, % respondents



- % of enterprises that chose “it is dangerous to work” decreased in spite of the size group however remains the highest for large enterprises
- 80+% of respondents in Vinnytska, Dnipropetrovska, Poltavska and Kharkivska oblast consider insecure conditions as an impediment

“It is dangerous to work” by oblast, % of respondents



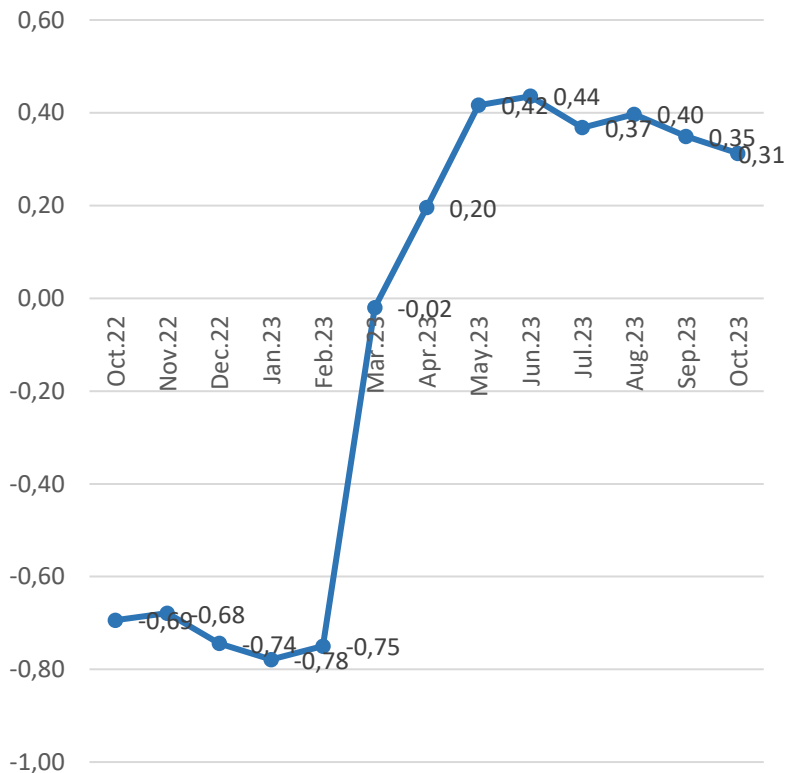
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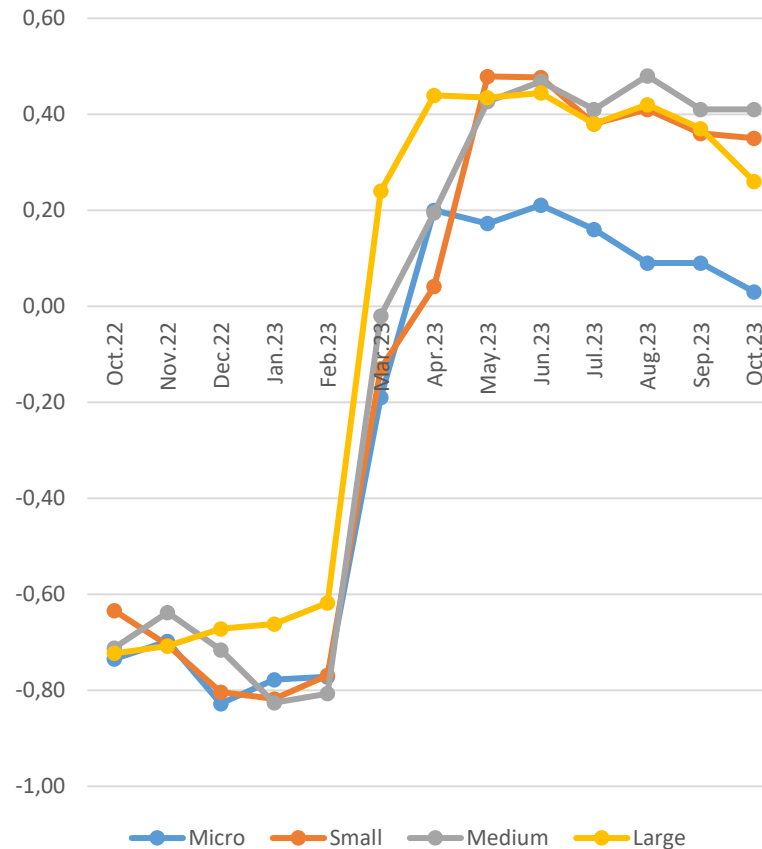
Changes over the past year

Business Activity Recovery Index (compassion of “now” vs “how it was a year ago“)

Business Activity Recovery Index
(Balance between better/worse assessments comparing to the previous year)



Business Activity Recovery Index
(by size)



In October 2023, the **Business Activity Recovery Index (BARI)** remains relatively high but continues to decrease comparing to the previous month

This happened:

- Due to the **decrease** in the share of enterprises reported that business activity is better than it was previous year (from 48% to 43%)
- **The share of those for whom nothing has changed has increased** (from 40% to 45%)

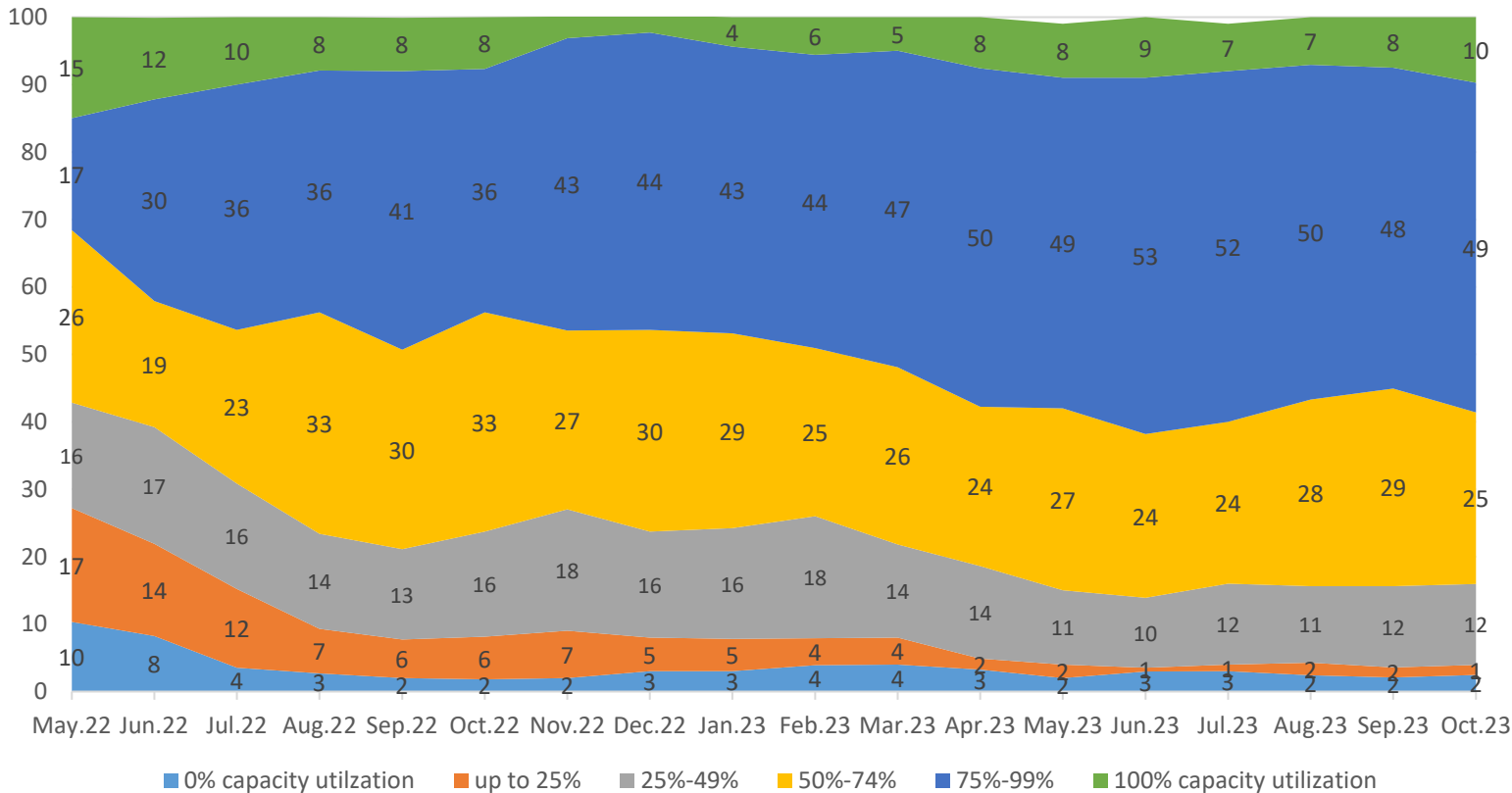
At the same time:

- **There is no significant change** in the share of those for whom situation is worse (12% vs 13% in September)

SIZE: In October vs September, the value of the **BARI worsened for micro and large business**

“Now” vs. “before February 24, 2022”: recovery or stagnation?

% of capacity utilization compared to "before February 24, 2022", % of respondents



In October 2023, the three-month trend of production recovery slowdown has been interrupted:

- The share of enterprises working at **almost full (75%-99%)** and **full capacity (100% and more)** increased from 55% in September to 59% in October

At the same time:

- % of enterprises that **do not operate at all** remain without changes already several month in a row
- **Only 15%** of enterprises operate at **lower than 50% capacity**

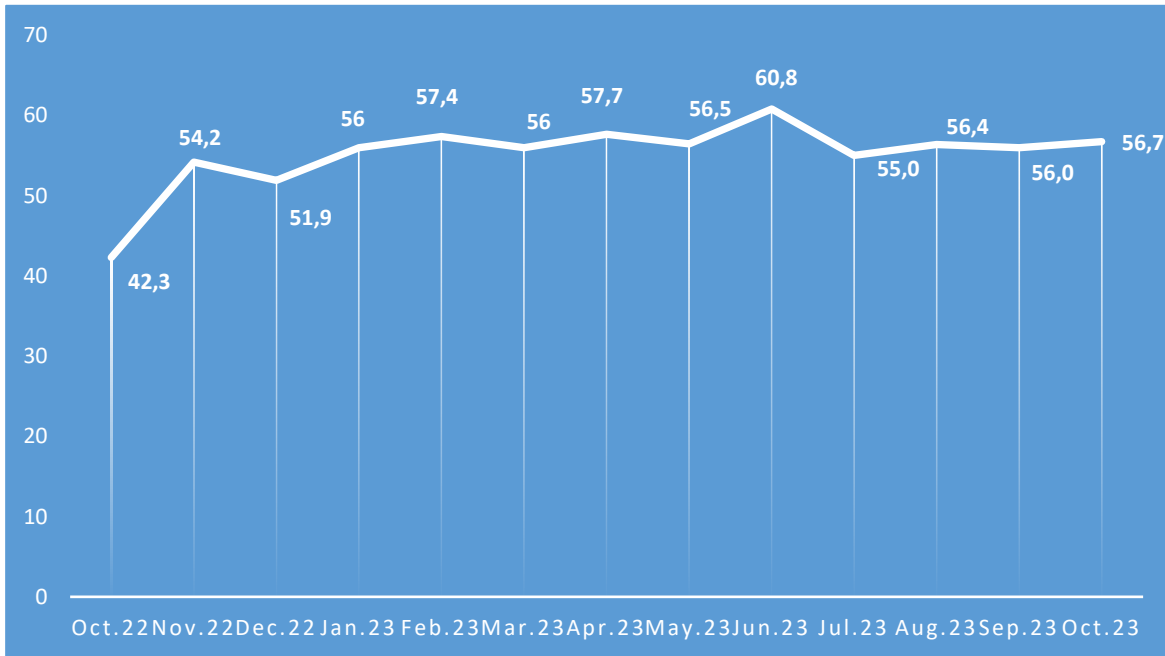


Future and Uncertainty

Long-term uncertainty without changes

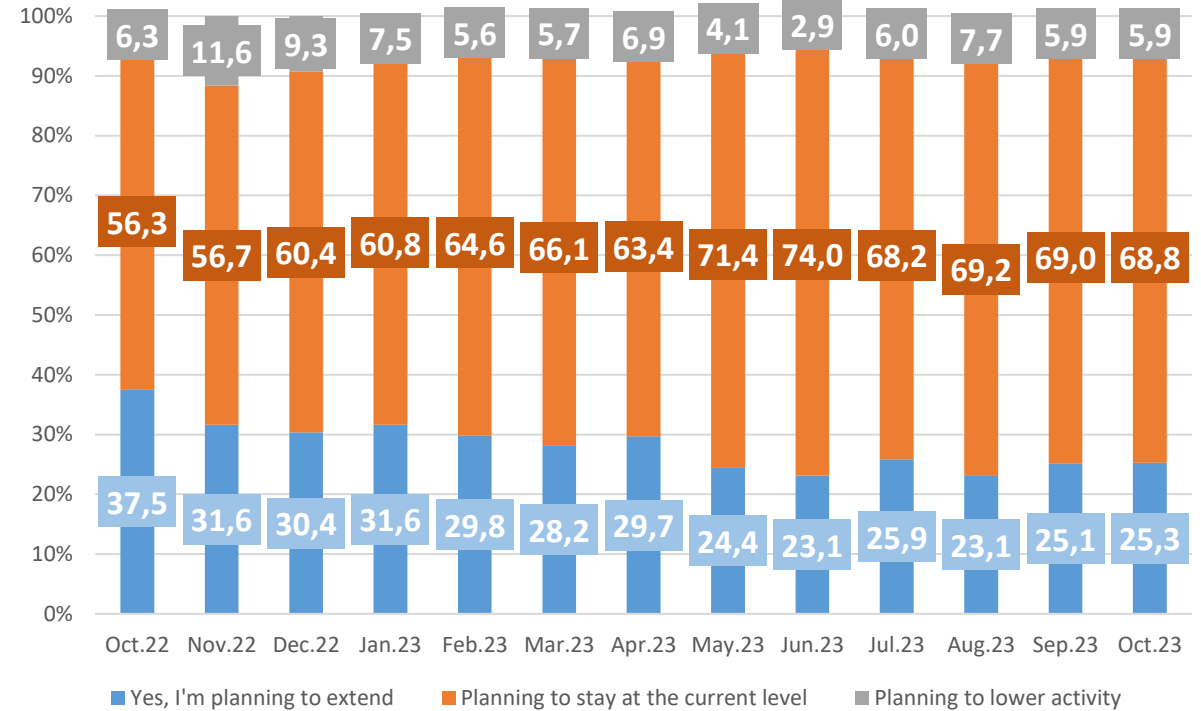
Uncertainty in the two-year perspective

“It is hard to predict what will be with the activities of our enterprise in 2 years“, % of answers



% of enterprises that have no idea about their plans for 2 years remains without significant changes

Expectations in the two-year perspective

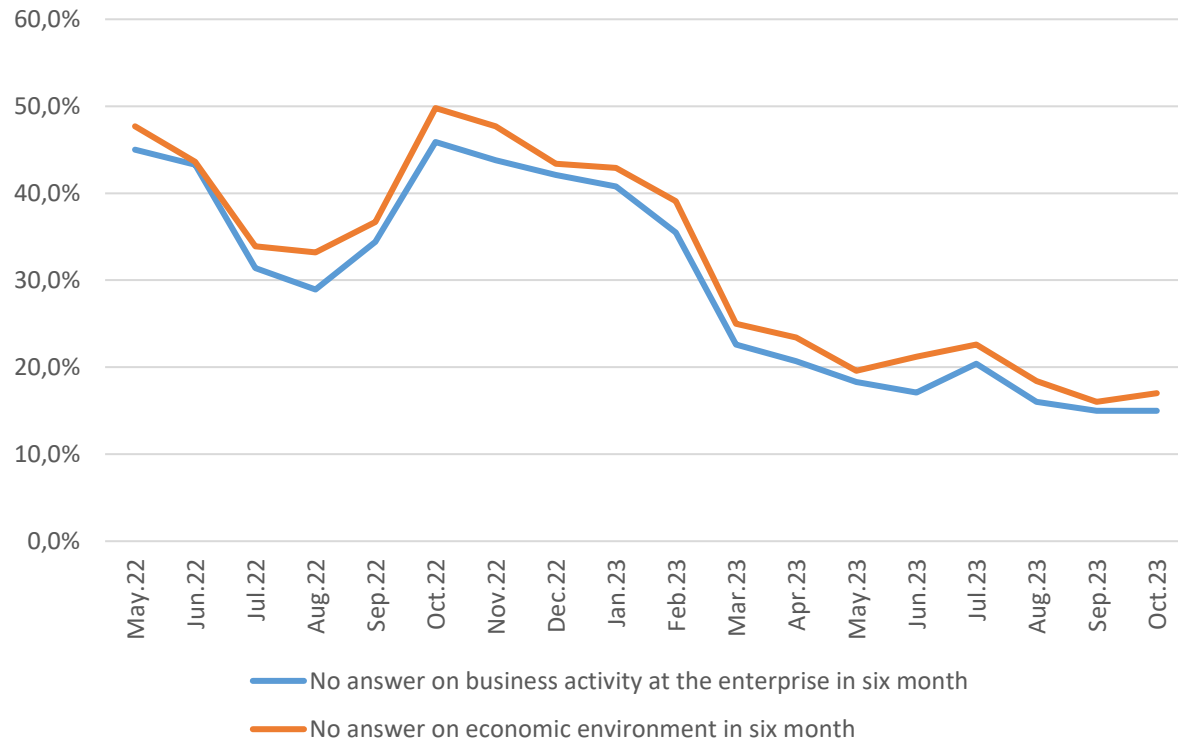


- *Plans of enterprises for distant future remained without significant changes*

Uncertainty 6-month perspective without changes, in 3-month increased for production and sales

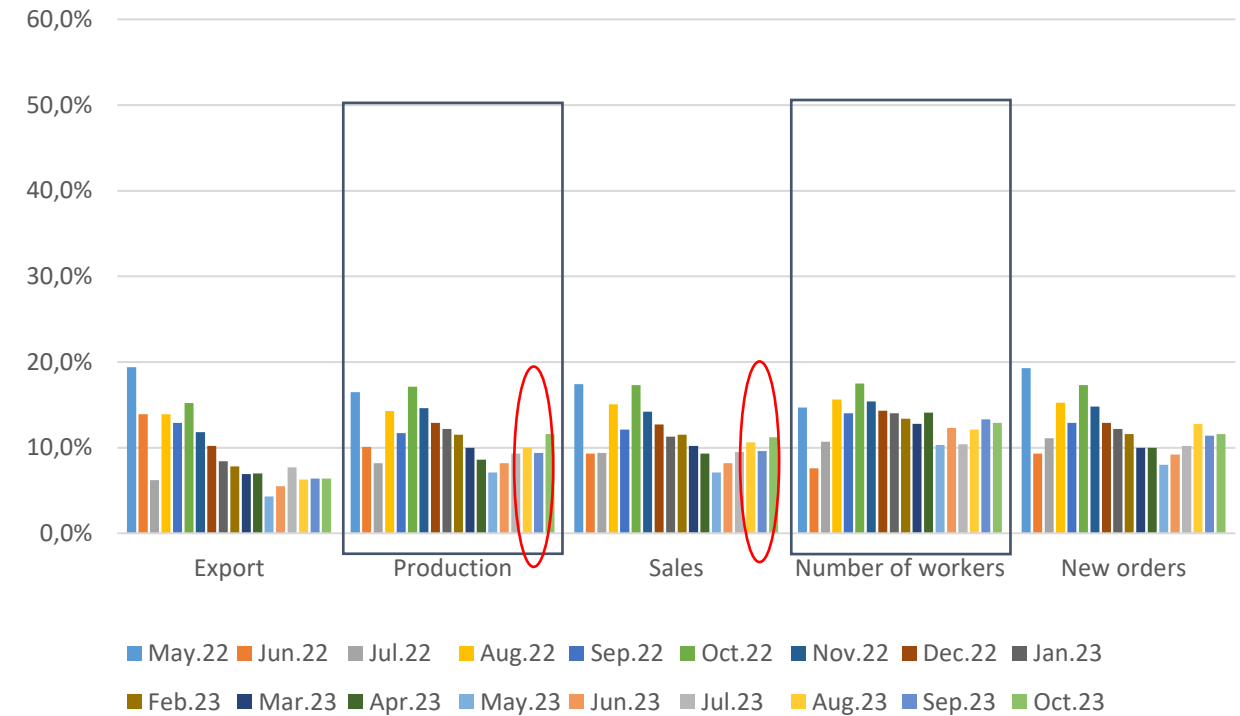
Half-year horizon

% that no answer the questions about 6 months changes on...



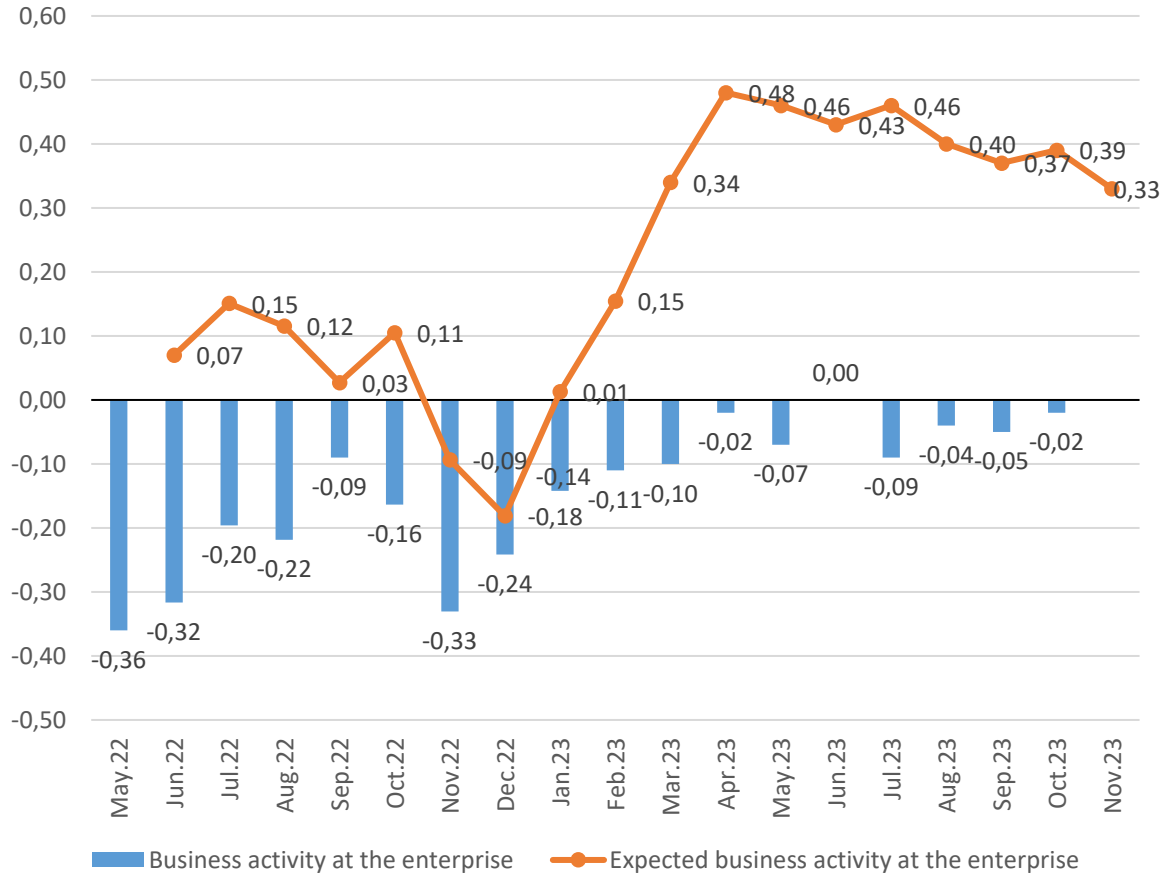
Three-month horizon

% that no answer about 3 months changes on...

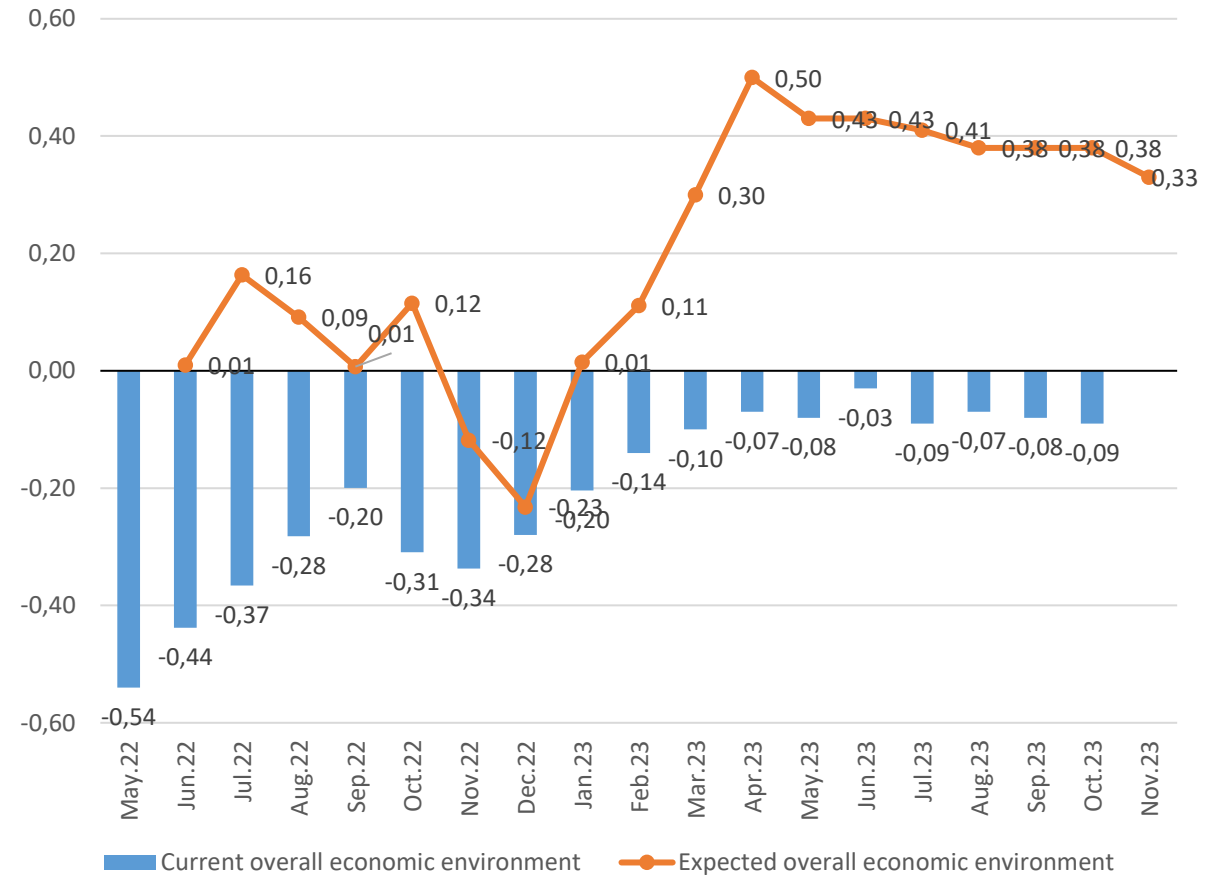


6 months perspective: expectations worsened

Business activity at the enterprise



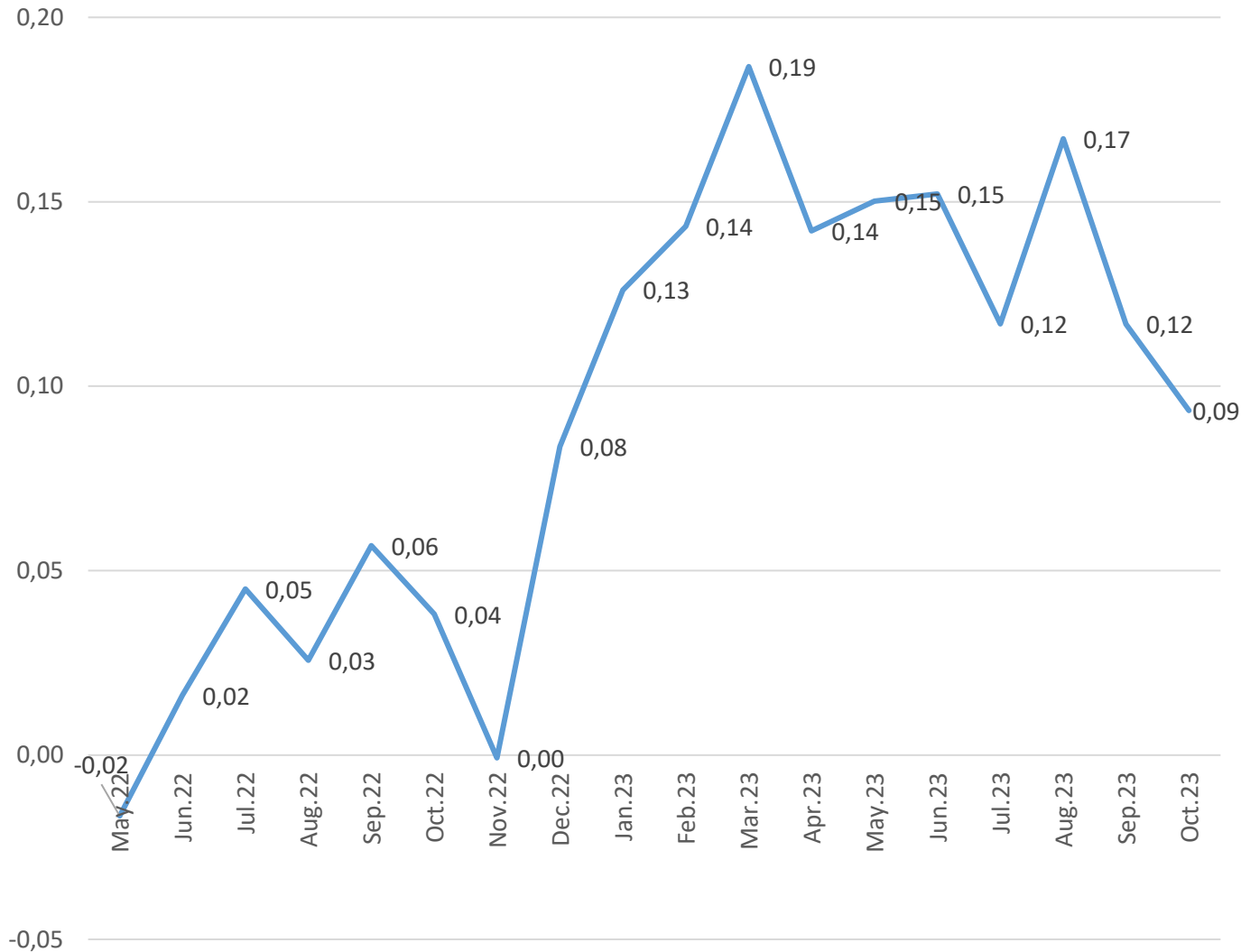
Overall economic environment in the country





Enterprises' past performances and expectations

Industrial Confidence Indicator (ICI)*



ICI decreasing for the second month in a row

Fluctuations of the index components are the following:

- **The production expectation (PI) decreased** from 0.41 to 0.36
- Component **stocks of finished goods (SFG) without significant changes** (-0.10 in September and -0.09 in October)
- Component **volume of new orders (VNO) also without significant changes** (-0.16 vs -0.17 in October 2023)

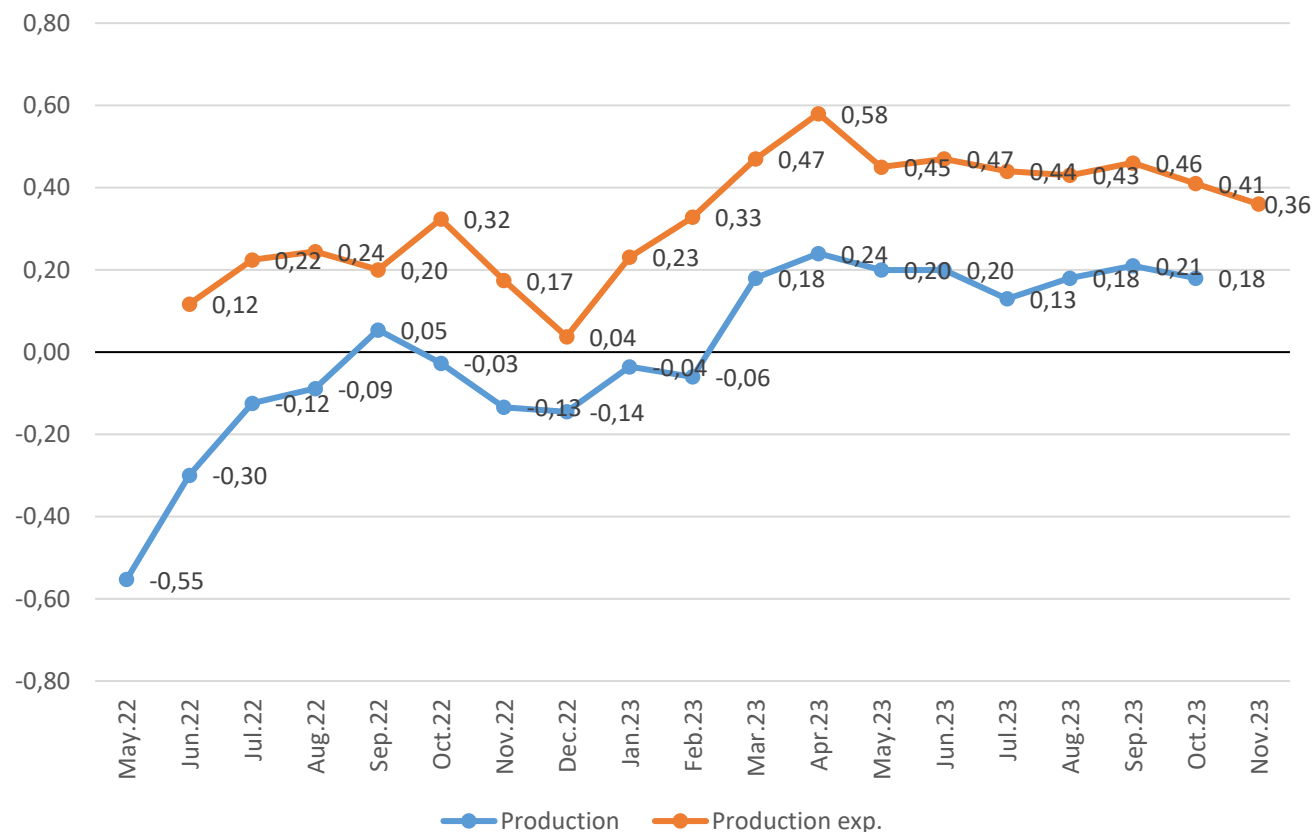
* $ICI = PI + VNO + (-SFG) / 3$

Production optimism decreasing second month in a row

In October vs. September (expectations)

- The share of enterprises **planning growth of production** in the next 3-4 months **decreased a bit** (from 41.7% in September to 40.5% in October)
- The share of enterprises that **planning decrease** in production **increased** (from 2.9% to 5.3%)
- The share of enterprises that **planning to have no change in production** during the next three months **without significant changes** (55.4% in September and 54.2% in October)

Production, balance indicators

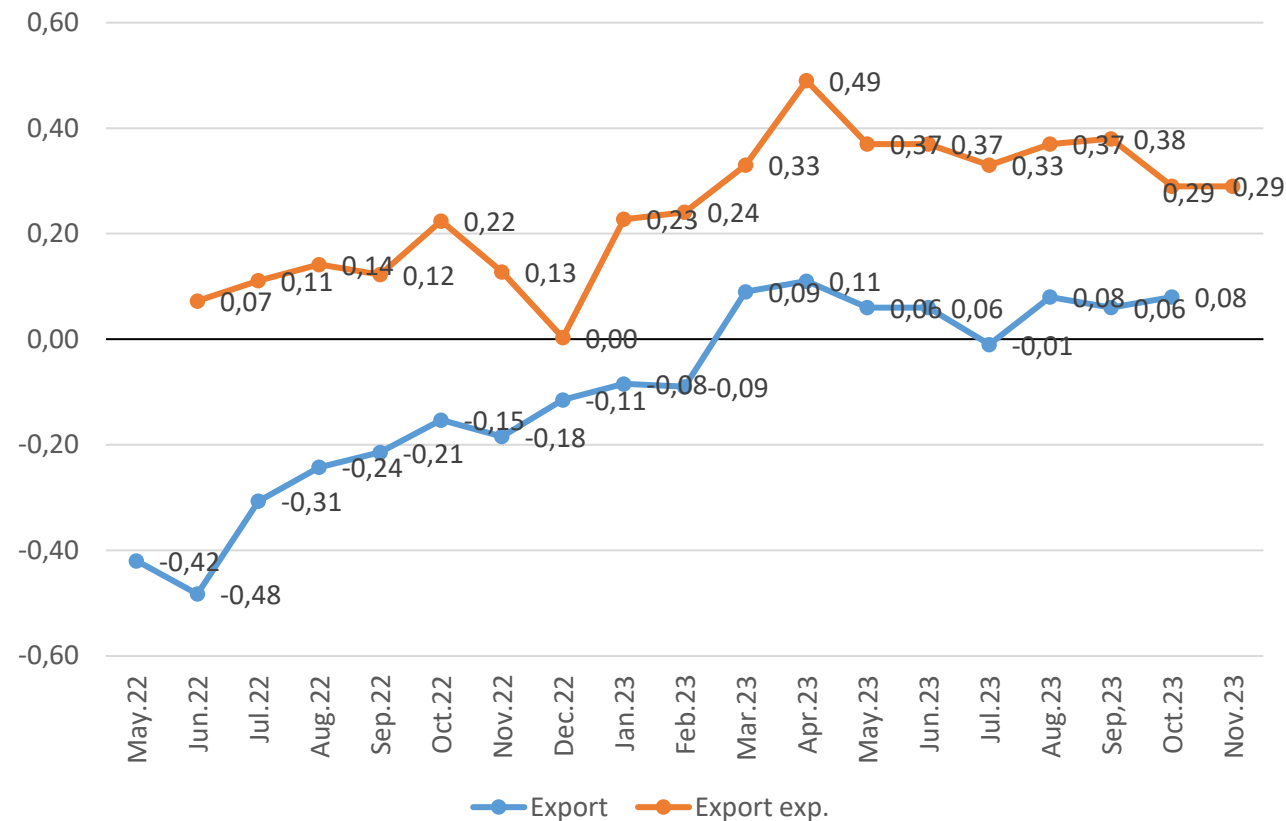


Export: improved (a bit) past performance, expectations without changes

In October vs. September (past performance)

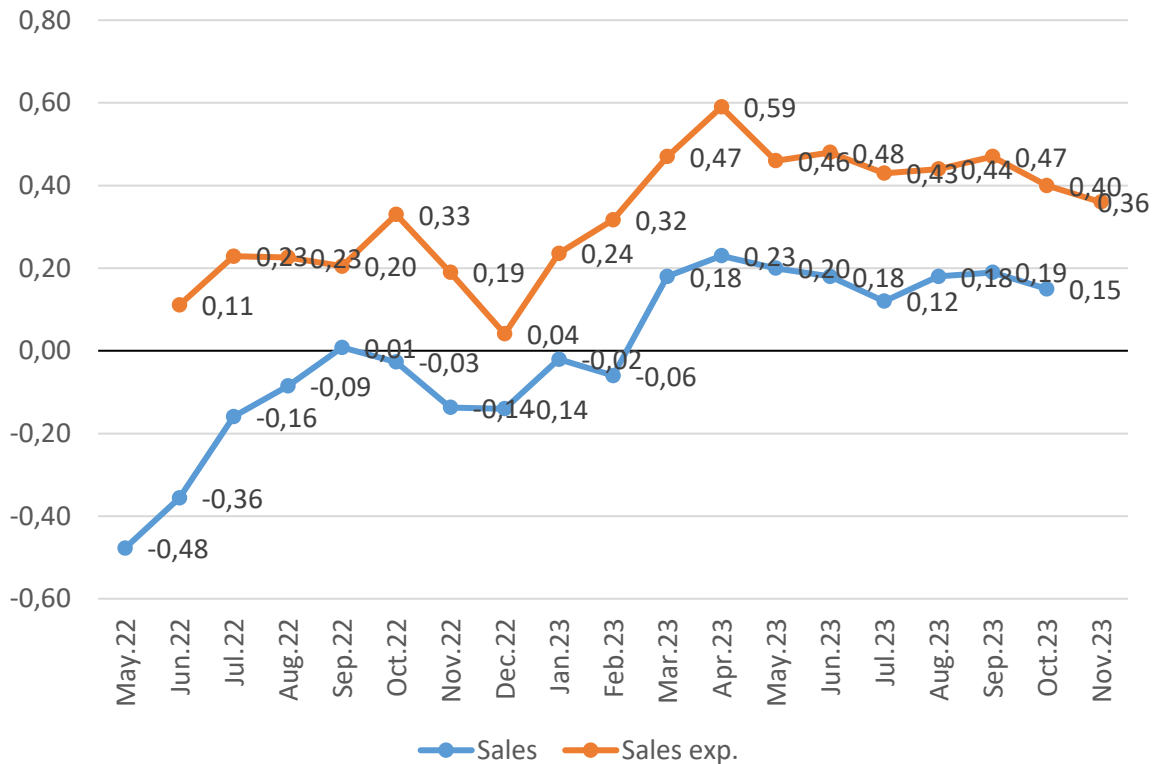
- The share of enterprises reporting **growth of export decreased from 23.9% to 21.2%**
- The share of enterprises informing **reducing export also decreased** (from 19.9% in September to 17.9% in October)
- The share of enterprises that have no change in **export volumes during the next three months increased from 56.2% to 60.9%**

Export, balance indicators

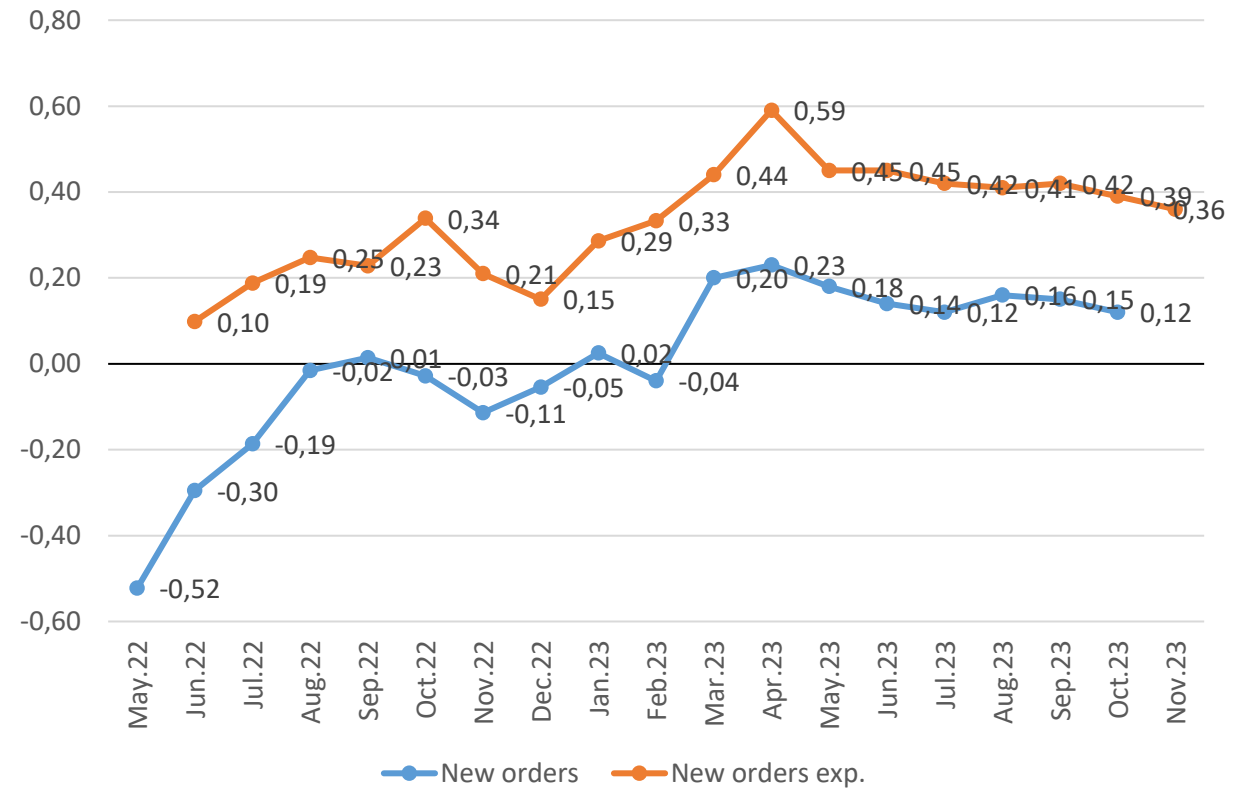


Sales and new orders: worsening results and expectations

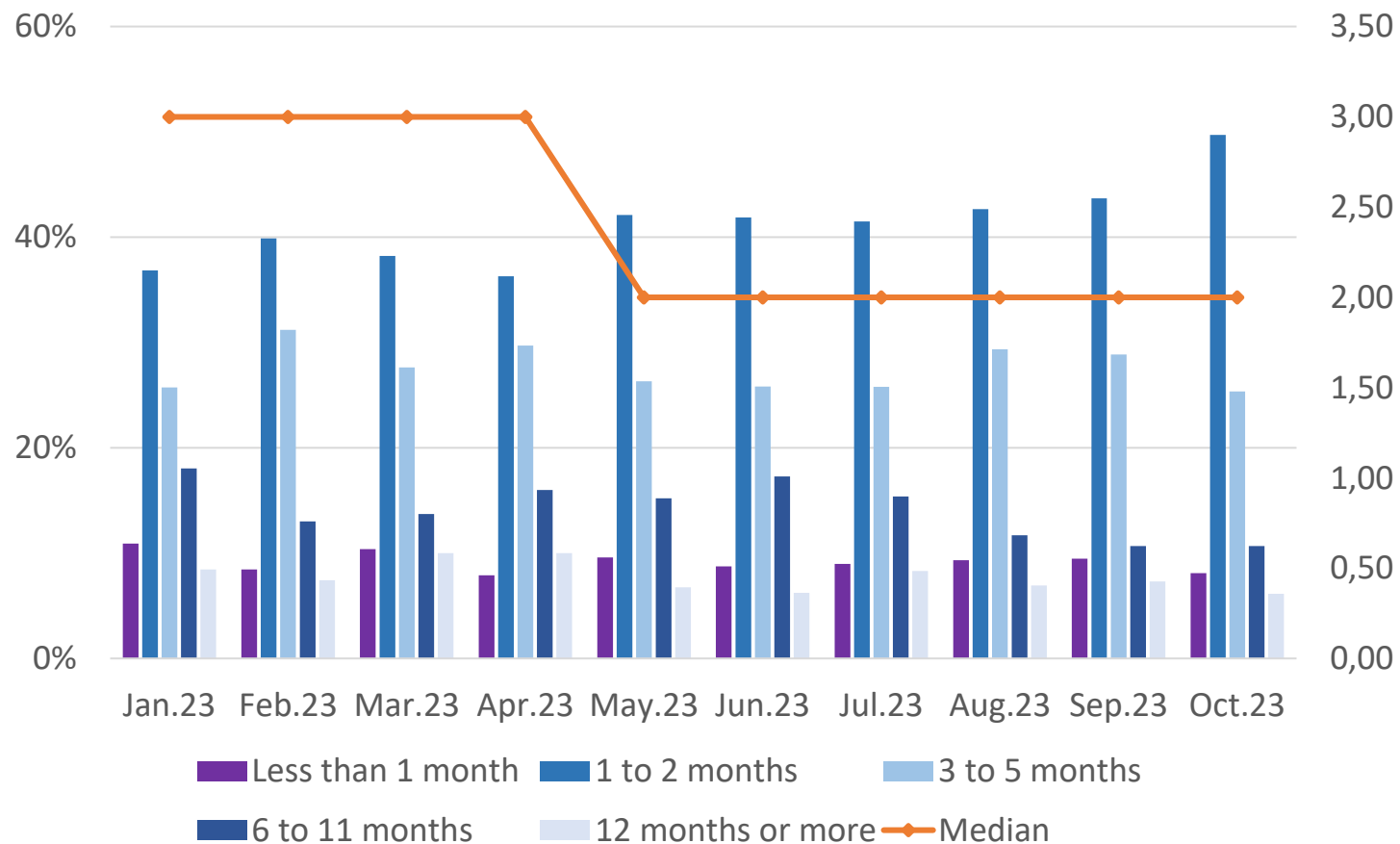
Sales



New orders



Less stable order book



In October 2023, the average order book for the surveyed enterprises remained at the previous level

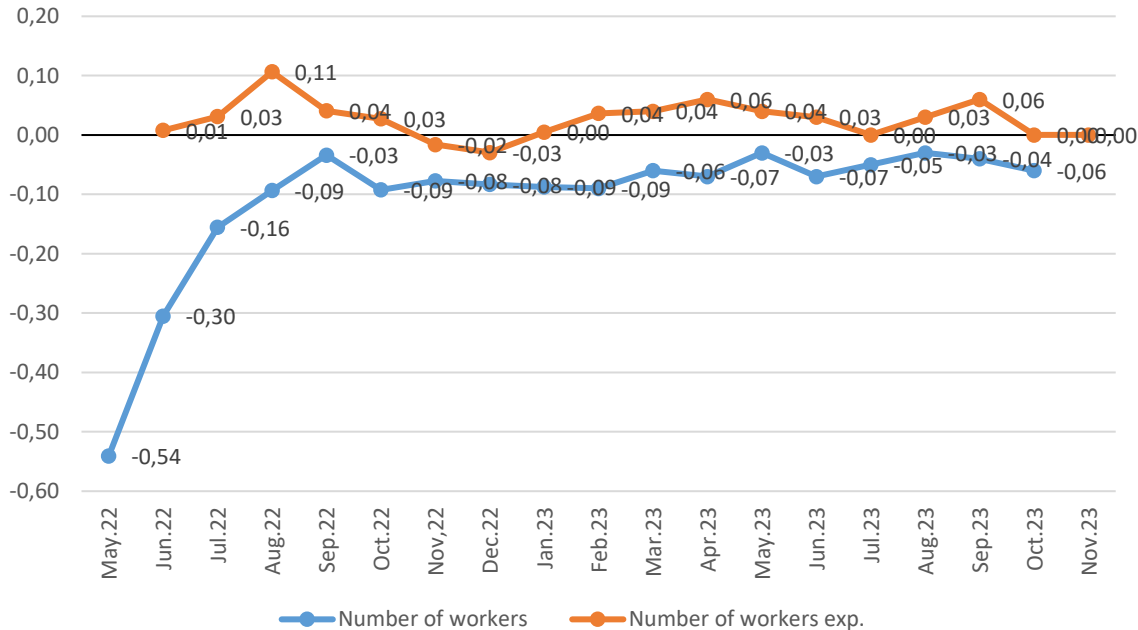
- **The average term for new orders remains at 2 months (median) after declining from three months in January-April 2023**
- **However, the share of the enterprises that have orders for no more than 2 months increased to 58%. It was at 51%-53% level from May to September 2023**



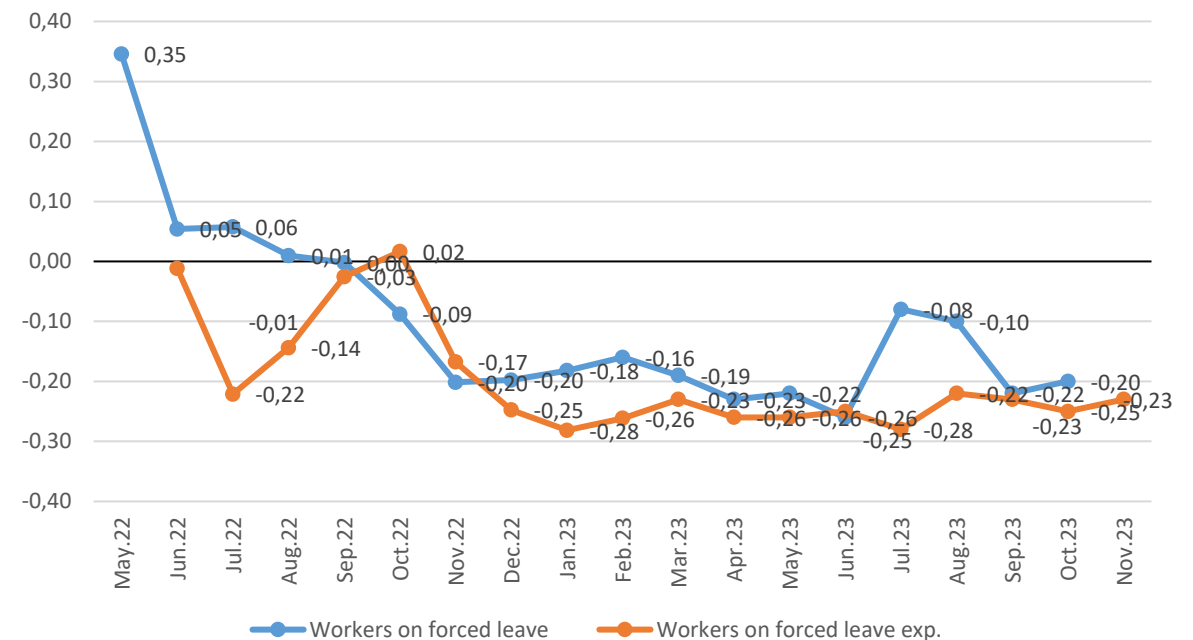
Employment and labor market

Employment: without significant changes

Number of workers



Number of workers on forced leave

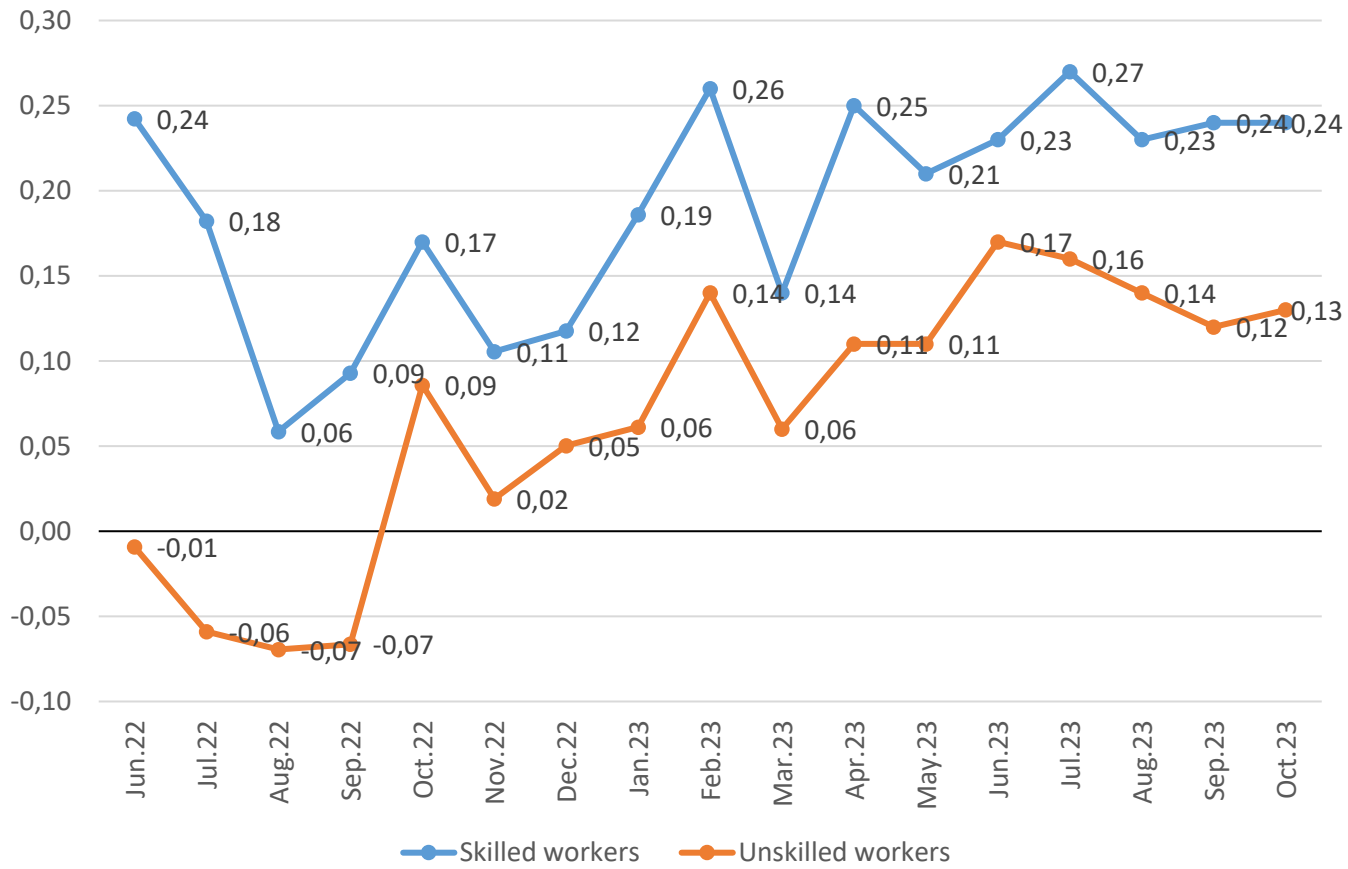


- % of enterprises **planning employment growth** in the next 3-4 month is **3.9%** (3% in September)
- % of enterprises **intending to reduce** the number of employees **increase a bit** (from 3.0% in September to 4.1% in October)
- % of enterprises at which **no changes in employment are expected** **lowered from 94.0% to 92.0%**

- % of enterprises that **will increase the number of employees on forced leave slightly increase 0.7% to 1.2%**
- % of enterprises that **are going to reduce** employees on forced leave **decrease a bit from 26.9% in September to 25.1%**
- % **unchanged slightly increase from 72.3% to 73.7%**

Problems in finding workers still the same

Problems with finding workers



In October **problems with finding skilled workers remains the same, as well as problems with unskilled workers** where indicator almost unchanged after three month of gradually lowering

Skilled workers:

- % of those who reported that it is **more difficult** to find such workers **increased** (from 25.7% to 27.7%).
- **At the same time** % of those to whom it is **easier** to search for skilled workers almost unchanged (1.5% in September and 1.9% in October)

Unskilled workers:

- % of those who report that it is **easy** to find them is **without significant changes** (5.7% in September and 5.3% in October) **as well as** % of those to whom this is **harder** (18.0% in September and 18.8% in October)

Assessments of government's economic policy



Distribution of answers regarding assessments of Government's economic policy without significant changes



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- In October 2023, the share of **positive assessments** of government policy on business support **has remained unchanged since August** – at **8% for the third month in a row**
- **The share of neutral assessments** of the government policy on business support **is 57%**, as in was in September
- **The share of the undecided respondents slightly decreased** from 20% in September to 19% in October 2023

New monthly enterprise survey. Methodology

The need for comprehensive information on the economic situation is crucial for economic policy in wartime. The Institute for Economic Research and Policy Consulting conducts a monthly enterprise survey using the **Business Tendency Survey** approach to quickly collect information on the current economic state at the enterprise level. The methodology is designed to assess the situation from the “base level”: the judgments and expectations of key economic agents such as entrepreneurs and business managers.

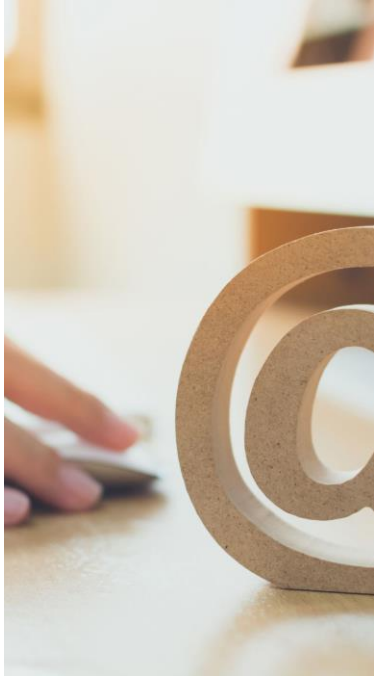
The monthly survey consists of two parts: the regular one and the special one. Respondents will regularly answer questions on the changes in key activity indicators and short-term forecasts for future changes in the same indicators: output (production), sales, exports, debt, new orders, employment, etc. We will also focus on estimates and expectations of the changes in the business climate and business activity at the enterprise in the next six months.

The special part of the Monthly survey provides information on specific topics. A special part examines the enterprises' problems, the war's impact on production volumes, export activity, basic business needs, and the assessment of government policy.

This survey uses a panel sample that includes **500+ enterprises located in 21 of 27 regions of Ukraine**, including Vinnytsya, Volyn, Dnipropetrovsk, Zhytomyr, Zakarpattia, Zaporizhzhia, Ivano-Frankivsk, Kyiv, Kirovohrad, Lviv, Odesa, Poltava, Rivne, Sumy, Ternopil, Kharkiv, Khmelnytsky, Cherkasy, Chernivtsi and Chernihiv regions and the Kyiv city.

The field stage of the 18-th wave lasted from October 16 to October 31, 2023. The enterprise managers compared the work results in October 2023 with September 2023, assessed the indicators at the time of the survey (October 2023), and gave forecasts for the next two, three, or six months, depending on the question. In certain issues (where indicated), the work results were compared with the pre-war period (before February 24, 2022).

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