Business Tendency Survey
May 2023

FEDESARROLLO
Centro de Investigación Económica y Social

In May 2023, **the Retail Confidence Index (RCI) stood at 21.5%, representing an increase of 10.4 percentage points compared to the previous month (April 2023 RCI: 11.1%)**. The rise in retail confidence was driven by a favorable perception of the economy for the upcoming semester, which increased by 20.1 pp. Similarly, the positive perception of the current business situation had a favorable impact, experiencing a growth of 9.2 pp. Additionally, the stock levels decreased by 2.0 pp.

On the other hand**, the Industrial Confidence Index (ICI) reached -4.2% in May 2023, marking an increase of 1.8 pp compared to the previous month (April 2023 ICI: -5.9%)**. The positive monthly variation in industrial confidence in April is explained by an increase of 8.3 pp in production expectations for the next quarter. However, this positive trend was offset by a decline of 0.8 pp in current order volume and an increase of 2.3 pp in inventory levels.

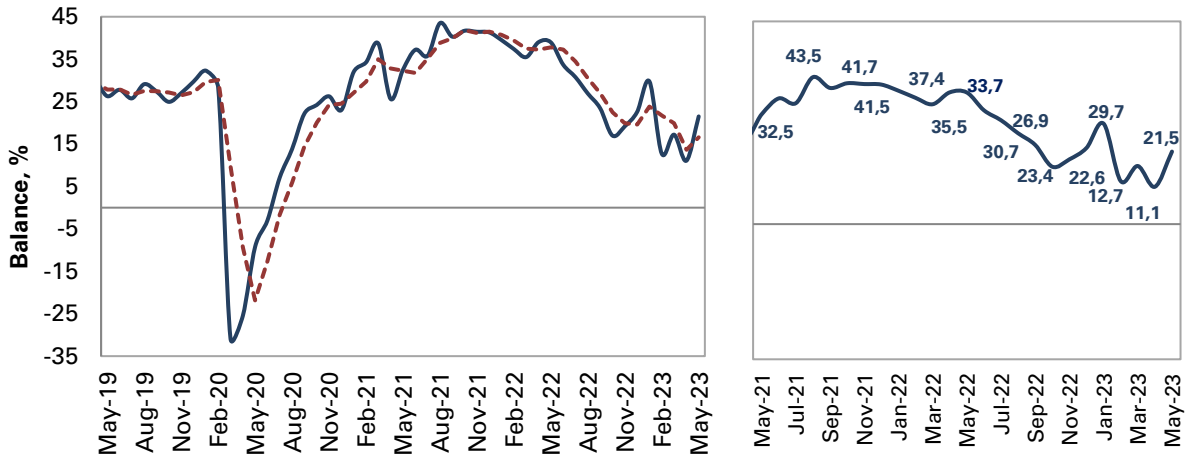
The capacity utilization rate in the industry for May was 73.9%, a decrease of 0.6 pp compared to February 2022. Although companies' perception of the favorability of economic conditions increased, there remains a lack of confidence regarding the sociopolitical conditions for investment.

On the other hand, the construction sector witnessed a decrease in the perception of activity pace and sector expectations for the next quarter compared to the first quarter of 2023. It is also important to highlight the decline in the construction segment concerning the perception of current and upcoming investment favorability in the following months of the year.

Retail Confidence Index – RCI

In May 2023, the Retail Confidence Index (RCI) stood at 21.5%, representing an increase of 10.4 pp compared to the previous month (11.1%). However, the RCI showed a decrease of 17.5 pp compared to May of the previous year (39.0%).

Graph 1. Retail Confidence Index (RCI)



Source: Business Tendency Survey (BTS) – Fedesarrollo.

The RCI brings together three elements: **perception about the business current economic situation, level of stocks and expectations about the economic situation for the next semester.** The results for May 2022 and 2023 are presented in Table 1.

Table 1. Retail Confidence Index Components

Component (Balance, %)	2022	2023	
	May	April	May
Business current situation	63,6	30,8	40,0
Level of stocks	1,0	11,1	9,1
Business expectations for the next 6 months	54,3	13,4	33,5
Retail Confidence Index - RCI	**39,0**	**11,1**	**21,5**

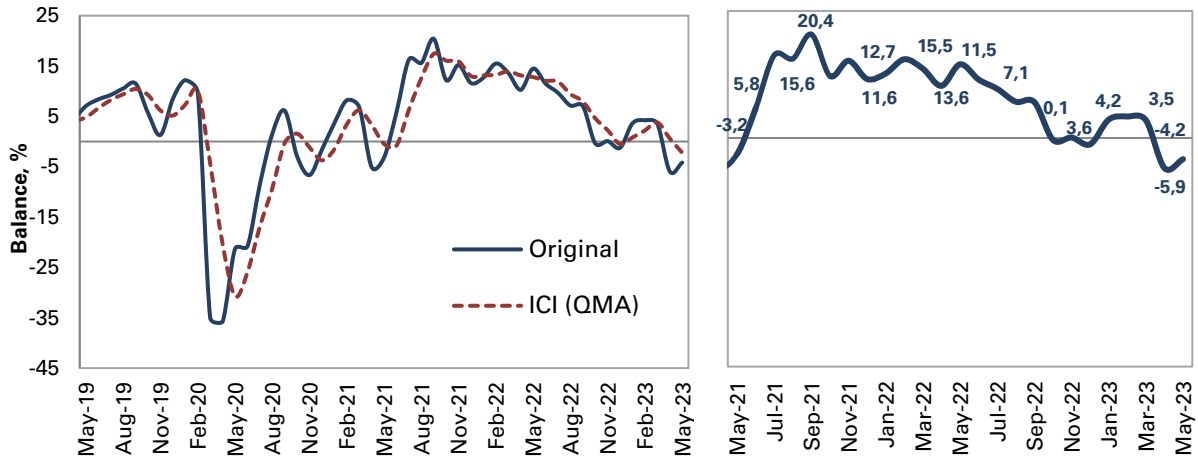
Source: Business Tendency Survey (BTS) – Fedesarrollo.

The increased confidence among retailers compared to the previous month was mainly due to the favorable perception of the current economic situation of the company, which increased by 9.2 pp. Additionally, the positive impact was driven by a 20.1 pp increase in expectations for the economic situation in the upcoming semester. Furthermore, the stock level decreased by 2.0 pp. On an annual basis, the decline in retailers' confidence can be attributed to a 23.6 pp decrease in the perception of the current economic situation of the company, as well as a decline of 20.8 pp in economic expectations for the next semester, and an increase of 8.1 pp in the stock level.

Industrial Confidence Index – ICI

The Industrial Confidence Index (ICI) stood at -4.2% for May 2023. This represents an increase of 1.8 pp compared to the previous month (April 2023 ICI: -5.9%) and a decrease of 18.6 pp compared to the same month in 2022 (May 2022 ICI: 14.4%) (Graph 2). On the other hand, the quarterly moving average reached -2.2%, indicating a decline of 2.8 pp compared to the same indicator for May 2023 (0.6%). This is the lowest quarterly moving average since December 2020 (-3.7%).

Graph 2. Industrial Confidence Index (ICI)



Source: Business Tendency Survey (BTS) – Fedesarrollo.

The ICI has three components: **level of stocks, current volume of orders and production expectations for the next three months**. The results for May 2022 and 2023 are presented in Table 2.

Table 2. Evolution of ICI components

Component (Balance, %)	2022	2023	
	May	April	May
Stocks of finished goods at end of this month	-0,8	4,4	6,7
Current volume of orders	6,6	-24,7	-25,4
Expected production in the next three months	35,9	11,3	19,6
Industrial Confidence Index – ICI	**14,4**	**-5,9**	**-4,2**

Source: Business Tendency Survey (BTS) – Fedesarrollo.

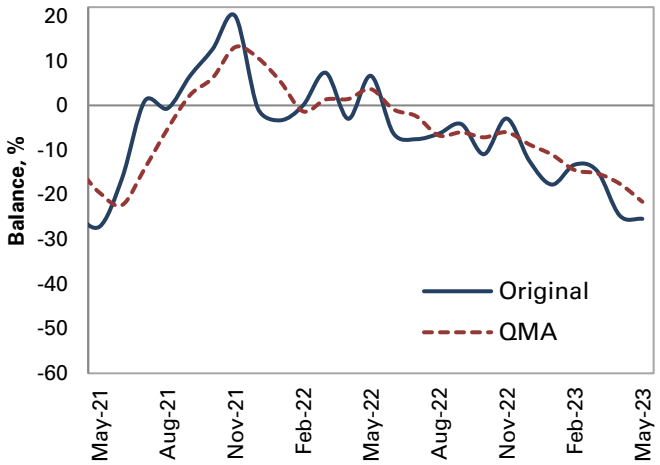
The positive monthly variation in industrial confidence in May is explained by the production expectations for the next quarter, reflecting increased optimism in this aspect, with an increase of 8.3 pp (19.6% compared to 11.3% in April 2023). However, there was a decrease of 0.8 pp in the current order volume (-25.4% compared to -24.7%

in April 2023) and an increase of 2.3 pp in the stock level (6.7% compared to 4.4% in April 2023).

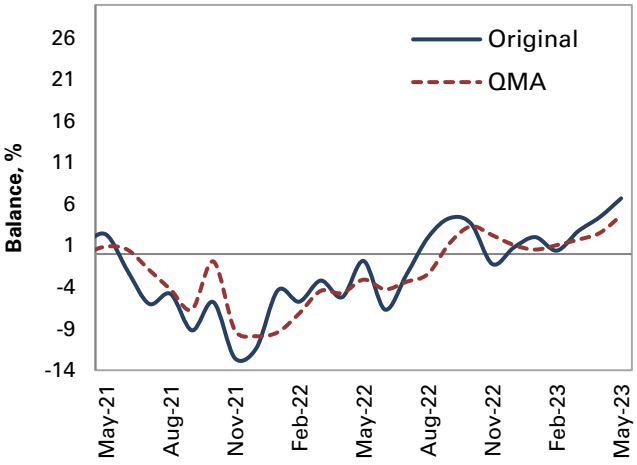
In annual terms, the decline in industrial confidence was mainly explained by a reduction of 32.0 pp in the current order volume and a decrease of 16.3 pp in production expectations for the next quarter. Additionally, the annual variation was influenced by an increase of 7.6 pp in the stock level.

Graph 3. ICI Components

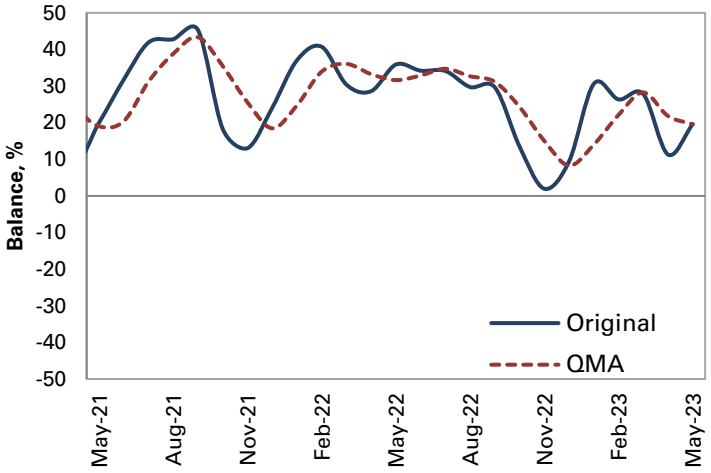
A. Current volume of orders



B. Level of stocks



C. Production expectations for the next trimester

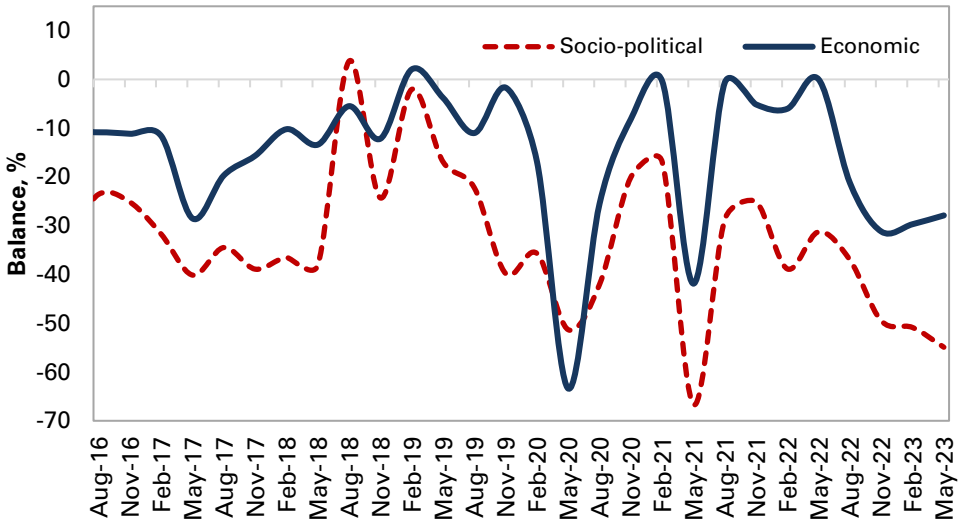


Source: Business Tendency Survey (BTS) – Fedesarrollo.

Quarterly Module: Economic and sociopolitical conditions for investment [1]

In May 2023, the balance of the industrial sector regarding the favorability of **economic** conditions for investment stood at -27.9%, representing an improvement of 1.8 pp compared to the measurement taken in February 2023 (-29.7%) (Graph 4). The results indicate that 43.5% of the respondents consider the current economic conditions to be unfavorable (compared to 43.0% in the previous measurement). Similarly, 15.6% of business owners believe that the current conditions are favorable (compared to 13.3% in the previous measurement), while 40.8% state that they are neutral (compared to 43.7% in the previous measurement).

Graph 4. Favorability of current economic and socio-political conditions for investment



Source: Business Tendency Survey (BTS) – Fedesarrollo

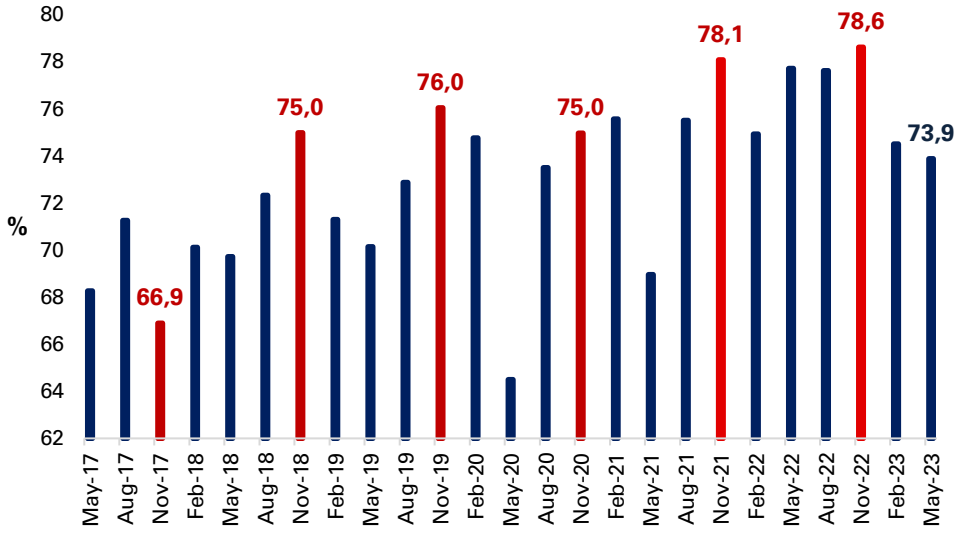
On the other hand, the balance regarding the favorability of **sociopolitical conditions** for investment stood at -54.9%, reflecting a decrease of 4.0 pp compared to the previous quarter (-50.9% in February 2023). The results show that 3.7% of the respondents consider the sociopolitical conditions to be favorable (compared to 6.3% in the previous measurement). Meanwhile, 58.6% of business owners perceive the current conditions as unfavorable, representing an increase of 1.5 pp compared to February 2023 (57.1%), while the remaining 37.6% state that they are neutral (compared to 36.6% in the previous measurement). Therefore, it can be concluded that although there was a partial improvement in the perception of favorability regarding economic conditions, sociopolitical conditions continue to be an important factor in the sector's confidence.

[1] Business Tendency Survey includes a special module asking industrial businesses about their perception of economic and socio-political conditions to invest.

Quarterly Module: Industry Installed Capacity Utilization

In May, the capacity utilization rate (UCI) in the industry stood at 73.9%. Based on this result, the UCI decreased by 0.6 pp compared to the measurement taken in February 2023 (74.5%) and by 3.8 pp compared to May 2022 (77.7%) (Graph 5).

Graph 5. Utilization of installed capacity in the industry



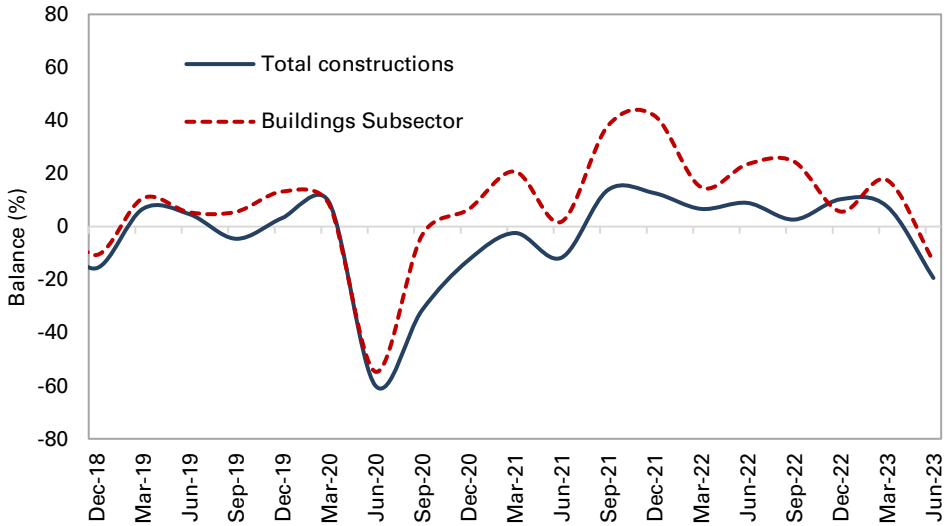
Note: The series of utilization of installed capacity was revised backwards.
Source: Business Tendency Survey (BTS) – Fedesarrollo

Quarterly Construction Survey[2]

In the measurement of the second quarter of 2023, the balance of the current economic situation of companies in the **construction** sector stood at -19.4%, which represents a decrease of 27.0 pp compared to the previous quarter (7.6%) and a decrease of 28.3 pp compared to the same period in 2022 (8.9%). This is the lowest balance since September 2020 (-31.6%). On the other hand, the balance of the **building** subsector was -13.1%, a decline of 30.7 pp compared to the previous quarter (17.5%) and a decrease of 36.6 pp compared to the same quarter of 2022 (23.5%) (Graph 6). This is the lowest balance for the building subsector since June 2020 (-54.7%).

[2] On a quarterly basis, Fedesarrollo conducts a survey focused on businessmen in the construction sector, to know their perception of the current economic situation and their expectations for the future.

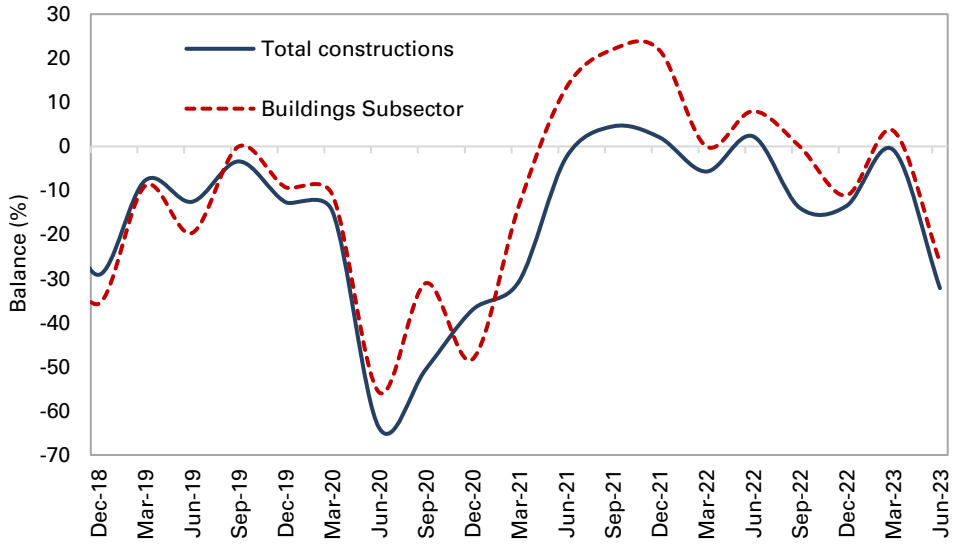
Graph 6. Current situation of companies in the construction sector



Source: Quarterly Construction Survey - Fedesarrollo.

The construction pace indicator stood at -32.1%, indicating a decrease of 31.4 pp compared to the previous quarter (-0.8%) and a decline of 34.4 pp compared to the second quarter of 2022 (2.3%). A similar trend was observed for the building subsector, which recorded a balance of -26.2%, representing a decrease of 29.8 pp compared to the previous quarter (3.6%) and a decline of 34.2 pp compared to the same period a year ago (8.0%) (Graph 7).

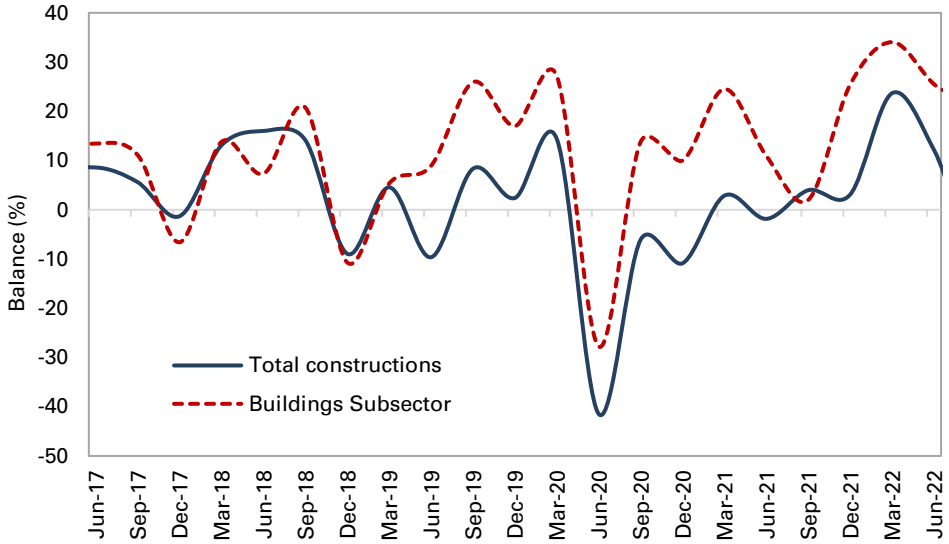
Graph 7. Construction rate compared to the previous year



Source: Quarterly Construction Survey - Fedesarrollo.

The balance of construction expectations for the next quarter stood at -1.4%, showing a decrease of 7.7 pp compared to the previous quarter (6.4%) and a decline of 13.5 pp compared to the same quarter of 2022 (12.1%). In the building subsector, expectations recorded a balance of 6.7%, which represents a decrease of 9.4 pp compared to the previous quarter (16.1%) and a decline of 18.8 pp compared to the same quarter of the previous year (25.5%) (Graph 8). Each of the aforementioned results for the building construction subsector indicates a more pessimistic perception of the current conditions and the outlook for the rest of the year.

Graph 8. Construction expectations for the next quarter



Source: Quarterly Construction Survey - Fedesarrollo.

FEDESARROLLO
Centro de Investigación Económica y Social

Contact us if you would like to have access to disaggregated results by region, industrial sector and other survey questions

+57 1 3259777 ext. 340
comercial@fedesarrollo.org.co

Published June 27, 2023
Comments to **Paula Alejandra González Díaz:** pgonzalez@fedesarrollo.org.co