MAIN FINDINGS FROM THE 2021Q1 ROUND OF CONTACTS WITH NON-FINANCIAL CORPORATIONS

Summary

Information gathered during contacts made between January and March 2021 indicates that two-thirds of local firms continue to assess current business conditions as weak and well below pre-COVID-19 levels, while a third reported positive developments.

Moreover, over 40% of contacts expect business activity to remain unchanged over the next few months. Yet around one quarter of firms are optimistic that business will improve shortly, with the rest evenly divided between those expecting a deterioration or signalling uncertain prospects. Most responses on future expectations revolved around the effectiveness and efficiency of the international roll-out of vaccines and lifting of COVID-19 restrictions.

The vast majority of contacts reported that input and selling prices had remained unchanged recently.

Almost 70% of respondents reported that investment plans continued as scheduled, with a further 13% reporting postponement. The share of respondents reporting cancellations remained small. However, a non-negligible percentage (15%) stated that they have no planned investments.

The employment situation remained broadly stable, with the vast majority of firms reporting unchanged employment plans.

In the first quarter of 2021, a total of 60 telephone/virtual meetings with leading non-financial corporations and institutions were conducted. These include 17 manufacturing companies, 27 services-oriented companies, nine wholesale and retail companies, six construction or real estate companies and one public institution. More information on the structure, methodology and evolution of the CBM Business Dialogue exercise is provided in Box 1.

Current business conditions remain weak

Information gathered between January and March 2021 indicates that — on balance — overall business conditions remain weak. Indeed, 66% of the firms interviewed in the first quarter of 2021 expressed the view that their business activity was negative (see Chart 1). This percentage is broadly unchanged from that in the last quarter of 2020, when 65% of firms interviewed assessed business conditions...
for their companies to be negative. Nevertheless, the number of firms that expressed that their business conditions during the quarter were positive rose from 27% in the last quarter of 2020, to 32% in the first three months of this year. This was reflected in a decline in the number of neutral responses. Thus, while on balance business conditions are still weak, there is some improvement when compared to the previous quarter.

The pandemic and the associated containment measures have severely affected business activity within the services sector. Indeed, business conditions within the services sector continued to be particularly sluggish as around 85% of the services-oriented firms contacted in the last quarter of 2020 and first quarter of 2021 assessed their current business activity as negative (see Table 1). These firms operate in a vast range of services sub-sectors including maritime, travel, hospitality and events, and in the maintenance, repair and overhaul (MRO) industry. This sector has been especially affected by different containment measures that have been imposed during the past year.

At the same time, most construction and real estate firms assessed their current business activity as negative. When compared to the last quarter of 2020, significantly more firms have reported negative business activity.

Although the pandemic has severely affected business conditions within the wholesale and retail sector, a slight majority of firms interviewed during the first quarter of 2020 reported positive business conditions. Indeed, despite a re-introduction of restrictions in March 2021, the majority of firms within this sector reported positive business conditions, which is a marked improvement over the responses in the final quarter of 2020.

With regards to the manufacturing sector, one can observe a marginal worsening in business sentiment. Nevertheless, responses within this sector are mixed. Indeed, firms within the pharmaceutical, printing and packaging and, to a lesser extent, electronics sub-sectors reported positive business conditions, with some firms claiming that they are exceeding pre-pandemic levels. In contrast, a portion of firms manufacturing electronic products and firms involved in design solutions, and food and beverages assessed their business conditions as negative.

Given that firms had indicated their concerns on supply-chain disruptions during the initial stages of the pandemic (see Box 1), the Bank has continued to gather intelligence on this aspect. Over the first three months of 2021, responses on supply-chain disruptions were mixed. However, most companies noted that these had diminished compared to the first half of 2020. Approximately half of the manufacturing firms interviewed did not experience any disruptions with the supply of intermediate inputs in the first quarter whereas the rest mentioned that some delays have persisted, which caused additional operational disruptions and/or costs. Wholesale and retail firms were much more prone to delays and shortages over the past two quarters than other sectors.

Moreover, during the three months under consideration, firms were asked to provide their initial assessment of the impact of Brexit on their companies. Most of the companies interviewed were either not impacted by Brexit or only mentioned minor issues due to limited or no interaction with the UK market. Yet, a small number of firms mentioned that they are currently experiencing or anticipating disruptions, including shortages, delays, cost increases and product clearance issues, especially when using road freight. The Brexit impact is likely to have a heterogeneous impact on the different sectors, and the topic will continue to feature during future interviews.
Prices remain stable

In general, contacts described their pricing situation as stable. During the first quarter of 2021, 76% of firms interviewed reported no change in input prices, marginally up from 72% in the last quarter of 2020 (see Chart 2). A fifth of firms experienced an increase in input costs, marginally lower than in the fourth quarter of 2020. The share of firms reporting input price decreases remained small.

Firms that experienced a rise in input costs mentioned a decline in global capacity and a substantial rise in transport costs as the main contributors. Moreover, businesses continued to incur additional costs related to COVID-19 safety measures.

Similarly, Chart 3 shows that most of the firms contacted in the two quarters under review have kept their selling prices unchanged. Nonetheless, 17% of the firms interviewed in the first quarter of 2021 said that they had to adjust their selling prices upwards, mainly to reflect the rise in their input and/or operating costs. The share of companies who increased their selling prices in the first quarter of 2021 was larger than in the previous quarter. On the other hand, some firms – particularly those operating in service-oriented industries – offered discounts or reduced their selling prices to attract demand.

Expectations have become more stable

Looking ahead, most firms contacted during the first quarter of 2021 anticipate their business activity to remain the same in the next three months. In fact, 43% of the firms that were contacted in the first quarter of 2021 expect business conditions to remain unchanged, a substantial increase from the 10% of firms contacted in the fourth quarter of 2020 (see Chart 4). Additionally, while uncertainty in the first quarter of 2021 remained high at 16%, this declined sharply from 36% in the previous quarter. This suggests that businesses have become more accustomed to the pandemic situation, possibly as a result of learning behaviour as well as the relatively fast pace of vaccination
in Malta. The decrease in uncertainty is mirrored in a significant increase in the share of respondents expecting unchanged business conditions. Nevertheless, while uncertainty about business activity seems to have receded, there were simultaneously fewer firms expecting an improvement in their business activity, and fewer firms expecting worse conditions.

The more stable outlook and receding uncertainty is primarily driven by service-oriented and manufacturing companies (see Table 1). Indeed, most firms categorised as service-oriented companies interviewed during the first quarter of 2021 do not expect major changes to their business activity in the next three months, a substantial increase when compared to the previous quarter. At the same time, fewer firms have expressed uncertainty about their business conditions. Moreover, 15% of the companies interviewed expect business conditions to improve.

Similarly, 41% of firms contacted between January and March 2021 in the manufacturing sector expect their current level of order books to be sustained over the next few months, also a sharp increase when compared with those in the previous quarter. However, 24% of the manufacturing firms – most of which operate in the pharmaceutical or medical segments – expect business conditions to improve in the next few months. In contrast, 29% of manufacturing firms are expecting a decline in their order books. Some of the firms that are expecting a drop in order books had exhibited a surge in orders or an unexpected level of demand in the preceding months, which is expected to normalise in the near future.

With regards to the wholesale and retail sector, 44% of the companies operating within this sector are optimistic that business conditions will improve, with none of the firms interviewed expecting a deterioration. However, this reflects the fact that companies interviewed during March – when containment measures were escalated – were anticipating COVID-19 restrictions to be lifted in April. Still, the level of uncertainty among wholesale and retail firms remains elevated. On the other hand, the construction and real estate sector is also optimistic about the future business activity, with two-thirds of companies expecting an improvement in business conditions.

During the initial stages of the pandemic in the second quarter of 2020, a substantial number of firms had halted their investment plans, primarily due to the elevated level of uncertainty. Yet, since the third quarter of 2020, the survey reveals an increase in the percentage of firms who have restarted their investment plans. Indeed, the majority of companies contacted between January and March 2021 reported that their investment plans remain on track (see Chart 5). In fact, 69% of the firms contacted in the first quarter of 2021 reported that they persevered with their planned capital expenditure, up from 63% in the previous quarter, partly because some projects would have been
committed far in advance. Furthermore, the share of the contacts claiming that they postponed or paused their investment plans and adopted a ‘wait-and-see’ approach broadly halved to 13%. Fewer firms postponed their investment plans in the first quarter of 2021 compared to the previous quarter. Moreover, very few firms – all of which operate in service-oriented industries – cancelled their projects. Around 15% of the contacts made in the first quarter claimed that they did not have any investments planned, compared to 8% recorded in the previous quarter. This share was highest in the construction sector.

Looking at investment plans by sector, over 80% of the manufacturing companies continued with their plans, while only 6% postponed their investments (see Table 1). A similar scenario was observed in the wholesale and retail sector as well as in the construction and real estate sector and, to a lesser extent, in the services sector. In services, a few companies cancelled their plans at least for the foreseeable future.

Most respondents (81%) claimed that they did not alter their employment plans, compared to 67% in the last quarter of 2020 (see Chart 6). Nonetheless, some firms reported stopping all overtime work during the pandemic, while most firms confirmed that the Wage Supplement Scheme remains essential to maintain employment around current levels. Moreover, 9% of the firms interviewed continued to expect increases in their staff complement. These are mostly firms operating in sectors that were less impacted by the pandemic. Nevertheless, fewer firms had plans to increase staff headcount in the first quarter of 2021 when compared to the previous quarter. Just over 10% of the contacts interviewed in the last two quarters stated that

---

1 In addition to the Government’s wage supplement, many firms were also beneficiaries of other government schemes such as the rent refund scheme and the electricity bill refund scheme. These schemes continued to provide support to businesses during difficult times although to a much lesser extent than the wage supplement.
they expect their staff levels to decrease. However, in some cases this was a result of voluntary redundancies.

Analysing employment by sector, the situation is generally stable, as in all sectors the majority of contacts reported unchanged employment plans (see Table 1). However, firms in the manufacturing sector were more likely than those in other sectors to decrease their staff complement in the near future. Moreover, no contacts in the wholesale and retail sector, and in the construction and real estate sector reported plans to decrease their headcount, while only 8% of services firms reported a decline. The wholesale and retail sector had the highest percentage of firms reporting that they plan to increase their staff headcount, although the vast majority reported unchanged hiring plans.

BOX 1 – THE CBM BUSINESS DIALOGUE

As part of its efforts to obtain a deeper insight into the main developments and trends on a sectoral level, in 2016 the CBM launched a business dialogue exercise. This involves establishing and maintaining regular contact with major non-financial corporations, authorities, and other institutions in Malta to obtain real-time insights on recent performance, expectations for business activity, employment, and prices. Similar exercises are carried out by other central banks including the European Central Bank (ECB). This exercise has been instrumental in enhancing economic analysis at the Bank. The information collected is also an essential input in the Bank’s projections. Its purpose is to supplement official economic indicators, which are often published with a lag and provide limited insights into the main issues faced by firms. In addition, respondents are given the opportunity to share their perceptions regarding sectoral developments or topical issues of economic relevance. Such qualitative information provides the Bank with an opportunity to better and more fully understand the underlying drivers of current and anticipated economic developments. These insights are then utilised as a source of information to better analyse data in the Bank’s reports, to supplement existing models for forecasting purposes, as well as to inspire research.

The aim of this Box is to briefly describe the process that underlines the CBM business dialogue exercise and how it has developed over time. In addition, it serves as an introduction to a quarterly publication of the main results and insights gathered from this exercise. Moreover, this box outlines the main themes that emerge following the exceptional circumstances emanating from the COVID-19 pandemic during 2020.

The structure and evolution of the CBM Business Dialogue

The selection of companies utilises convenience sampling, which is a type of non-probability sampling method that relies on data collection from population members who

---

2 Prepared by Warren Deguara, Erica Caruana and Jude Darmanin, Senior Economists within the Economic Analysis Department of the Central Bank of Malta.
3 More information on the ECB’s dialogue with non-financial companies can be found on this link.
4 The exact content of these conversations is strictly confidential, anonymised and protected in terms of the Data Protection Act. Confidentiality is protected by ensuring that only the small team of economists working on the survey have access to information identifying individual companies.
are conveniently available to participate in a study. Although in convenience sampling no inclusion criteria are identified for the selection of subjects, the selected firms for the CBM contacts are generally large companies. This sampling framework is chosen due to its simplicity and ease to carry out. It is also quite flexible and cost effective and thus, it is very ideal for this sort of exercise given the limited resources. Moreover, large companies tend to have more breadth of information regarding specific sectoral developments and they would also cover a significant share of activity in their respective sector. Given that the sampling method is non-probabilistic, and it over-represents large companies, the information collected during these dialogues might not be fully representative of overall sentiment. Nevertheless, the Bank also contacts representatives from authorities and institutions which themselves maintain regular contacts with small and medium-sized businesses.

The meetings are conducted by a team of the Bank’s economists, generally with top-level representatives of the corporations, using a semi-structured survey. This partly includes common questions that are largely unchanged from one round to the next, although the Bank occasionally puts forward ad hoc questions to selected institutions when deemed relevant. These meetings take the form of a discussion rather than a survey and thus, respondents can deviate towards any other topic relating to their business or the environment in which they operate. This allows a far greater wealth of information and provides deeper insights that are otherwise very difficult to obtain. Conversations usually focus on developments during the previous year and the outlook for the current year and the next. The companies also provide an overview of their operations and whether these have changed since the previous meeting. Participants are also asked to provide their assessment of developments in company revenue, production levels, order books, market trends and competition in the previous months. In the case of companies operating in multiple sectors, company representatives are asked to provide a more disaggregated overview on how different segments of the business are performing, including developments in export performance where relevant.

The interviews also focus on developments in input costs and selling prices, as well as employment and working conditions, investment plans and company financing. From time to time, participants are also asked open-ended questions on topical issues such as climate change and digitalisation, as well as factors restricting business success. The last question offers an opportunity for participants to raise any remaining issues that may be of concern to them which were not covered in the survey.

The CBM Business Dialogue before and during the COVID-19 pandemic

Given the unprecedented circumstances brought about by the pandemic, the CBM business dialogue exercise underwent significant changes. Before the COVID-19 pandemic and the subsequent containment measures, the CBM contacts exercise took the form of a 30 to 45-minute face-to-face meetings with participating institutions at the companies’ premises. Due to the restrictions brought about by the COVID-19 pandemic, the CBM contacts shifted to telephone or video call meetings.

To accommodate telephone interviewing and shorter conversations, and to account for the rapidly changing environment as a result of the pandemic, the structure of the interview was
modified. Conversations started to focus on developments in the preceding quarter and the outlook for the current quarter and beyond instead of the previous, current and next years. Since the pandemic, respondents have also been asked to comment on disruptions in supply chains resulting from the pandemic and to comment on any changes in input costs and selling prices. Conversations are then steered towards changes in short-term employment and investment plans, as well as the take up and effectiveness of COVID-related government assistance, such as the wage supplement scheme. More recently, the potential impact of Brexit on the company’s operations, where relevant, was also addressed.

Secondly, since information regarding the impact of the pandemic was very scarce during its early stages, the exercise changed from a quarterly to a daily exercise. Between January 2016 and February 2020, between 20 and 25 meetings were held each quarter. Over this period, a total of 203 different companies and institutions were contacted. These comprised 51 manufacturing companies, 72 service-oriented firms, 25 wholesalers and retailers, 13 construction firms, 10 real estate agencies and 32 private/public institutions (see Chart 7a). Since the outbreak of the COVID-19 pandemic in Malta in March 2020, a total of 416 meetings with 142 different companies and institutions from all economic sectors were conducted to assess the impact of this unprecedented situation (see Chart 7b). The overall distribution of the companies contacted before and during the COVID-19 pandemic did not change much. However, one should note that a few small to medium-sized firms contacted before the pandemic were no longer surveyed.

Between March 2020 and March 2021.
since the onset of the pandemic, whereas a small number of new larger firms have been interviewed over the past year.

The main developments and themes emerging throughout the COVID-19 pandemic

Many of the companies contacted are heavily dependent on imports, including from countries heavily affected by border restrictions and nationwide lockdowns. Therefore, during the initial stages of the spread of the virus, the exercise allowed the Bank to gauge companies’ initial assessment about the implications for global supply chains. When the pandemic spread to Europe, it was possible to discuss how and to what extent production was likely to be affected. As economic conditions worsened, contacts with businesses helped economists to quickly gauge, in broad terms, the extent of disruptions in March and April and how these evolved as governments shifted from full-scale lockdowns to targeted containment measures.

Since March 2020, several developments took place – particularly the deterioration in overall sentiment – predominantly reflecting concerns on prolonged lockdown periods in many countries, successive waves of infections, rising global unemployment rates and the associated decreases in disposable income. Three themes were frequently cited as having significantly impacted local companies’ performance over the past year.\(^6\)

Supply chain disruptions

The COVID-19 pandemic is having significant social and economic repercussions across all parts of the world. Muted demand and restrictions on movement have created uncertainty everywhere. Knowing who are the most critical and vulnerable suppliers, and which risks pose an imminent threat, is vital to ensuring continuation of supply.

Firms in the manufacturing, wholesale and retail sectors were more likely to experience some disruptions in supply of stock and/or input materials. The most predominant disruptions were shortages of components used in production, significant delays, material price increases and transport/delivery cost increases. Firms experienced significant disruptions in supplies from suppliers based in France, Italy, Spain and the United Kingdom, but also when sourcing input from North Africa and China. These disruptions occurred either due to lockdowns and restrictions in supplier countries, or due to a lack of available transport by sea, land and air. Some firms had increased their stock levels in early March in anticipation of supply disruptions, which helped when dealing with major delays in the following months. Others were constrained to seek alternative suppliers, usually leading to higher costs. However, this strategy was not an option for some firms due to long-term commitments with current suppliers. The situation started to improve towards the beginning of the third quarter of 2020, when firms claimed that delivery times of inputs improved considerably. On the other end of the chain, some firms mentioned that they

\(^6\) Sectoral coverage is broad; however, due to the nature of the sampling method used, coverage of some subsectors, such as self-employed, retail and catering services, is limited given the predominance of smaller firms. Since a lot of these firms were severely impacted by the pandemic due to their dependence on the tourism industry, their absence from the exercise is a limitation that should be mentioned.
were finding it difficult to export their products towards the United States, certain non-continental European countries and also to France in particular in the first half of 2020. This was due to temporary factory shutdowns in these countries or strict border controls in neighboring countries.

**Containment measures**

In order to limit the spread of COVID-19 in Malta, the Government – on the advice of national health authorities – implemented several containment measures which firms were obliged to adhere to. These measures included travel restrictions, and the closure of non-essential outlets and service providers as well as quarantining requirements. Many of these measures were gradually lifted in the summer of 2020, but some were re-introduced late in the third quarter.

Business activity in the manufacturing and construction sectors was impacted by these containment measures, but to a much lesser extent than in the services, and wholesale and retail sectors. Firms with a direct link to the tourism industry, such as hotels and restaurants, were constrained to shut down activity. After hotels were allowed to re-open and welcome guests, occupancy rates remained very low and these companies incurred a significant loss in revenue. Similarly, caterers experienced a considerable drop in turnover due to social distancing measures that forced the cancellation or postponement of mass events, while real estate agents faced a period of no income due to postponements of contract signings. Retailers were also impacted, though most turned to online sales to counter this drop. Local tourism and online sales, though, have not been sufficient to make up for the decline in international tourism and traditional retail outlet sales.

The main containment measures restricting business activity among manufacturing and construction firms included mandatory quarantine and the inability of vulnerable people and parents of young children to go to work. Due to the nature of most jobs in these sectors, several workers were unable to telework. The issue was more prominent in the first two months of the pandemic. In some cases, during this period, mandatory quarantine turned out to be beneficial given the initial slump in activity and very low rate of capacity utilisation. However, in the later stage of the pandemic certain companies that were not able to utilise teleworking resorted to other measures such as dividing their staff complement into ‘bubbles’ and shortening shifts to avoid mingling in common areas.

**Government support measures**

Since the onset of the pandemic, the Government introduced several fiscal and liquidity support measures to aid struggling businesses and boost economic recovery. Some companies – especially services-oriented ones – reported that they only managed to keep hold of all their employees specifically because they qualified and were able to benefit from the Government’s wage supplement scheme. As long as these firms remain able to continue to benefit from this scheme, company representatives stated that they do not intend to let go of any of their employees. Our contacts also confirmed that the voucher scheme was very effective in generating demand for hospitality and accommodation services, and consumer goods during the period it was implemented. This had a positive effect primarily on hotels, restaurants and retailers.
### Table 1
**SECTORAL REPLIES**  
*(percentage of companies contacted)*

<table>
<thead>
<tr>
<th></th>
<th>Construction and Real Estate</th>
<th>Wholesale and Retail</th>
<th>Services</th>
<th>Manufacturing</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2020 Q4</td>
<td>2021 Q1</td>
<td>2020 Q4</td>
<td>2021 Q1</td>
</tr>
<tr>
<td><strong>How do you assess current business conditions?</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Positive</td>
<td>43</td>
<td>40</td>
<td>11</td>
<td>56</td>
</tr>
<tr>
<td>Negative</td>
<td>43</td>
<td>60</td>
<td>67</td>
<td>33</td>
</tr>
<tr>
<td>Neutral</td>
<td>14</td>
<td>0</td>
<td>22</td>
<td>11</td>
</tr>
<tr>
<td><strong>How do you expect business activity to develop in the next few months?</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Improve</td>
<td>20</td>
<td>67</td>
<td>33</td>
<td>44</td>
</tr>
<tr>
<td>Worsen</td>
<td>80</td>
<td>33</td>
<td>11</td>
<td>0</td>
</tr>
<tr>
<td>Remain the same</td>
<td>0</td>
<td>0</td>
<td>11</td>
<td>33</td>
</tr>
<tr>
<td>Uncertain</td>
<td>0</td>
<td>0</td>
<td>44</td>
<td>22</td>
</tr>
<tr>
<td><strong>Did you experience any changes in input prices?</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Increased</td>
<td>0</td>
<td>0</td>
<td>50</td>
<td>44</td>
</tr>
<tr>
<td>Decreased</td>
<td>20</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Unchanged</td>
<td>80</td>
<td>100</td>
<td>50</td>
<td>56</td>
</tr>
<tr>
<td><strong>Did you change your selling prices?</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Increased</td>
<td>0</td>
<td>0</td>
<td>22</td>
<td>33</td>
</tr>
<tr>
<td>Decreased</td>
<td>43</td>
<td>0</td>
<td>0</td>
<td>11</td>
</tr>
<tr>
<td>Unchanged</td>
<td>57</td>
<td>100</td>
<td>78</td>
<td>56</td>
</tr>
<tr>
<td><strong>How have you changed your employment plans?</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Increased</td>
<td>20</td>
<td>0</td>
<td>0</td>
<td>22</td>
</tr>
<tr>
<td>Decreased</td>
<td>20</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Unchanged</td>
<td>60</td>
<td>100</td>
<td>100</td>
<td>78</td>
</tr>
<tr>
<td><strong>How have you changed your investment plans for this year?</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Continued as scheduled</td>
<td>83</td>
<td>80</td>
<td>44</td>
<td>78</td>
</tr>
<tr>
<td>No investments planned</td>
<td>17</td>
<td>20</td>
<td>11</td>
<td>11</td>
</tr>
<tr>
<td>Postponed/put on hold</td>
<td>0</td>
<td>0</td>
<td>44</td>
<td>11</td>
</tr>
<tr>
<td>Cancelled</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

Source: Central Bank of Malta Business Dialogue.