

BOX 1: EXPECTATIONS VS REALITY. HOW ACCURATE ARE FIRMS IN PREDICTING SHORT TERM BUSINESS CONDITIONS?¹

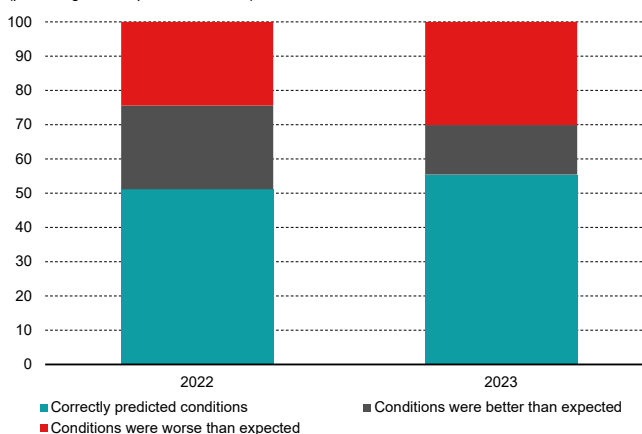
This box replicates the analysis of firm's accuracy of expectations that featured in the fourth quarter of 2022 edition of the Business Dialogue for 2023 and compares the findings to those found a year earlier. To assess firms' ability to accurately predict short-term business conditions, we compare the predictions of firms as reported during the first contact made during 2023 to the outcomes reported during the second interview held with the same companies in 2023. The analysis for 2023 is based on the responses of 90 companies that were interviewed twice during the year.

In the first meeting of 2023, 59% of these firms expected conditions to improve over the following three months, while the share of firms expecting conditions to worsen was 8%. As a result, the net balance exceeded 50%, while 26% expected unchanged conditions. The share of firms that had expected conditions to improve in the first meeting of 2022 was 45%, while the share of firms expecting worse conditions was exactly equal to that in 2023.

In comparison, 50% of firms participating in a second interview in 2023 stated that current business conditions had improved in recent months, while 17% stated that conditions worsened, for a net balance of 33%. The remaining 33% claimed that conditions remained the same. This was broadly similar to the results of 2022 although fewer firms claimed that current business conditions improved in the second meeting of 2023.

When we compare reported outcomes with the predictions made by these same firms in their first meeting for 2023, we find that 55% correctly predicted the direction of change in business conditions for their firm, compared to 51% in 2022 (see Chart 1). The majority of those who have made correct predictions in 2023 (70%) had anticipated an improvement which was later confirmed in the second meeting. Additionally, the share that correctly predicted worsening business conditions stood at 11%, while the remaining 20% successfully predicted unchanged business conditions. Consequently, this

Chart 1
EXPECTATIONS vs CURRENT BUSINESS CONDITIONS
(percentage of companies contacted)



Source: Central Bank of Malta Business Dialogue.

¹ Prepared by Warren Deguara and Erica Maria Brincat. Principal Economist and Senior Economist respectively within the Economic Projections and Conjunctural Analysis Office.

means that almost half of all surveyed firms incorrectly anticipated developments in activity in 2023.

The share of firms that experienced conditions which were worse than what they had predicted in the first meeting was double that which experienced conditions that were surprised on the upside. In 2022, these two were equal.

Even though uncertainty for this group of firms has receded from 11% in 2022 to 8% in 2023, and thus implying that firms may have had more or better information to make a prediction, these findings imply that many firms still find it challenging to forecast activity and budget accordingly. Moreover, it seems that a number of firms might have been too optimistic during the year.