

# Quarterly Report

# Mype

# Bussines Confidence Index

July - September 2020



# FIRST REPORT Mype Business Confidence Index

JUNE 2020

## BUSINESS DYNAMICS IN THE MICRO AND SMALL BUSINESS SEGMENTS

You run a multinational or a MYPE, your opinion counts the same

### I. CONCEPTUAL FRAMEWORK

Like the Medium and Large Company, the Micro and Small Company (MYPEs) segments have their own rhythm, bets and behavior logic within a competitive market.

For a greater depth of study, the Microenterprise is subdivided according to its gross income in:

- Subsistence Microenterprise, being the economic units that generate annual gross income of up to \$ 14,400.
- Simple Accumulation Microenterprise, economic units that generate annual gross income of up to \$ 50,000.
- Expanded Accumulation Microenterprise (Micro Top), we will define the economic units that generate annual gross income up to \$ 100,000.



We will define Small Businesses as the economic units that have the capacity to generate annual gross income of up to \$ 1,000,000.

With this report, the door is opened to enter a series of future publications in which the expectations that entrepreneurs of Micro and Small Enterprises have about the economic situation of the country and their businesses will be explored on a quarterly basis.

The methodological basis of the National Institute of Statistics of Spain is adopted. A key element will be the Business Confidence Index that measures the confidence of MYPEs entrepreneurs belonging to the different sectors of the economy of our country: Agriculture, Commerce, Production, Services and Transportation among Others, analyzing

The evolution and projection of each of them, therefore, can be used to anticipate the evolution of the economy.

**The objective of this index is to know the vision that the entrepreneurs of the MYPE have about the situation and expectations of their business, so, in short, it serves to synthesize**

their opinion about the economic situation of the country, as well as, to identify areas that require policies and measures for attention from the government, financial and technical institutions that support MSEs.

This indicator is very important for the economic growth of the country, since according to expectations, MYPEs entrepreneurs make one decision or another, in 3 possible scenarios:



- **Optimistic:** When they believe that the economy is going to present positive growth in the coming months and they see the investment profitable.
- **Neutral:** They do not notice significant changes in the economy.
- **Pessimistic:** This is not the time for investment and increased production, since they assume there will be an economic decline.

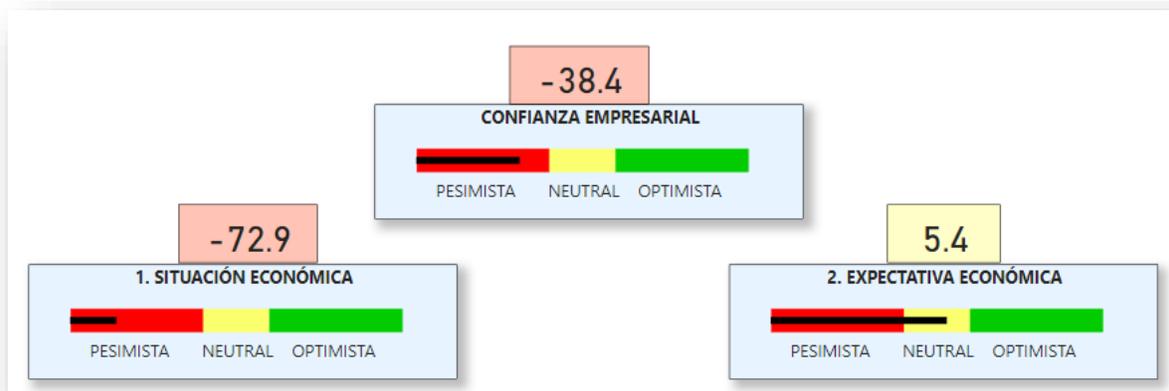
The data is obtained from the surveys carried out with MYPE entrepreneurs throughout the country regarding the progress of their business in the last quarter and their expectations for the coming quarter. Some aspects that must be answered are: sales, employment, investment and sales prices.

You are invited to consult Annex 1, which contains a methodological description in greater detail.

## II. BASE START RESULT FOR THE BUSINESS CONFIDENCE INDEXCONFIDENCE INDEX

This study is the starting point on which tendency in the II quarter will be established, which will define the business dynamic from the SME segment in El Salvador. The study was carried out during the last week of June 2020 to a stratified sample per Marketing Segment; it was done through random selection across the entire country of El Salvador.

**Figure 1.**  
**Enterprise Confidence of SMEs in El Salvador for the II Quarter of 2020**



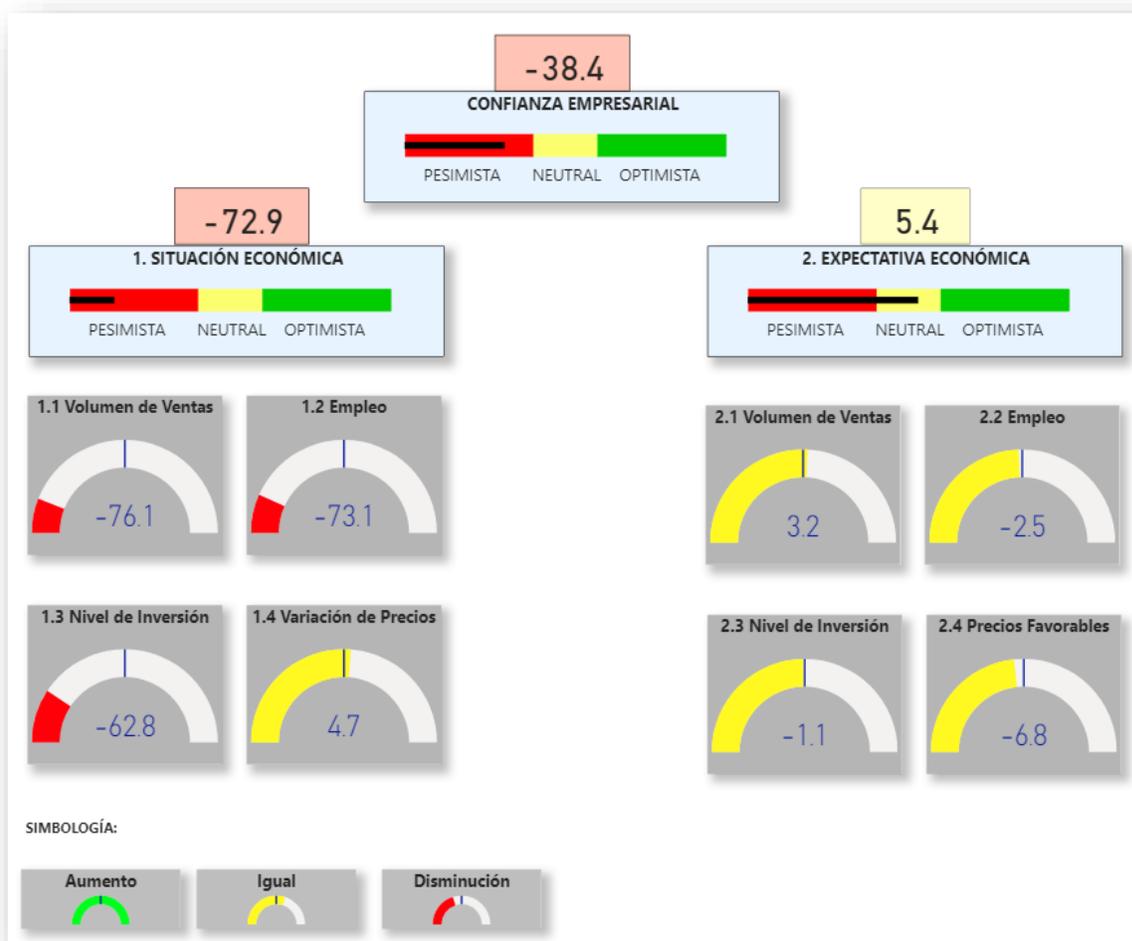
The Second Quarter of 2020 has been characterized by the mobilization restrictions given to the population due to the inexistence of a treatment or a vaccine to fight the COVID-19 virus, which has directly affected the production activity of many economic segments and sectors by different measures. SMEs have been one of the most affected segments; this has been confirmed by the **Pessimistic** valuation on Business Confidence that entrepreneurs have transmitted.

The negative atmosphere on the confidence of business owners is the result of the performance of their business during this year in the period from April till June. This gets combined with the Economic Expectation of their businesses that has a neutral qualification, which is a synonym for uncertainty and shows what they foresee for the coming quarter (July-September).

In the following figure, the behavior from the sales volume of the last quarter can be seen and also the behavior that is expected for the next quarter; other factors that can be seen are the level of employment, the level of investment, and the variance of prices from goods. On the left side of the figure, there are the results of the ending quarter in comparison with the past period, and on the right side of the graphic, you can find the perception that business owners have of the quarter that is starting in connection to the one that is coming to an end.

Figure 2.

### Current Situation and Economic Expectations from SMEs in El Salvador



These perception indicators reflect the difference between favorable responses and unfavorable responses, and they can oscillate between -100 (everyone has a negative perception) and +100 (everyone has a positive perception). If the result is positive, it means that business owners' valuations contain more positive opinions than pessimistic opinions.

**Sales Volume.** Generally speaking, sales made during the second Quarter of 2020 were inferior to the results obtained from the First Quarter of the same year. From every 100 surveyed entrepreneurs, for 76 of them, the second quarter was **worse** than the previous one. Also, 24 had a **better** Sales Volume in comparison to the I Quarter. Finally, the big majority of them considered that the behavior of Sales for the upcoming Trimester will be the same as the ones from the ending Trimester.

1. **Employment.** The employment rate in SMEs segments is characterized by a loss of occupation, which is expected to behave with the same tendency for the Third Quarter of 2020. From every 100 surveyed entrepreneurs, 73 manifested that they now counted with fewer employees in their businesses. Contrarily, 27 said that they now had a bigger workforce.
2. **Investment Levels.** 62 of every 100 entrepreneurs reported making smaller investments in merchandise, machinery, and equipment during the second Quarter of 2020. Also, they expected a similar behavior for the upcoming period.
3. **Price Variance.** Both, during the present situation and for the upcoming Quarter, SMEs entrepreneurs manifested that there will be stability in the prices of the products they commercialize.

Figure 3.

### Business Confidence per Market Segment



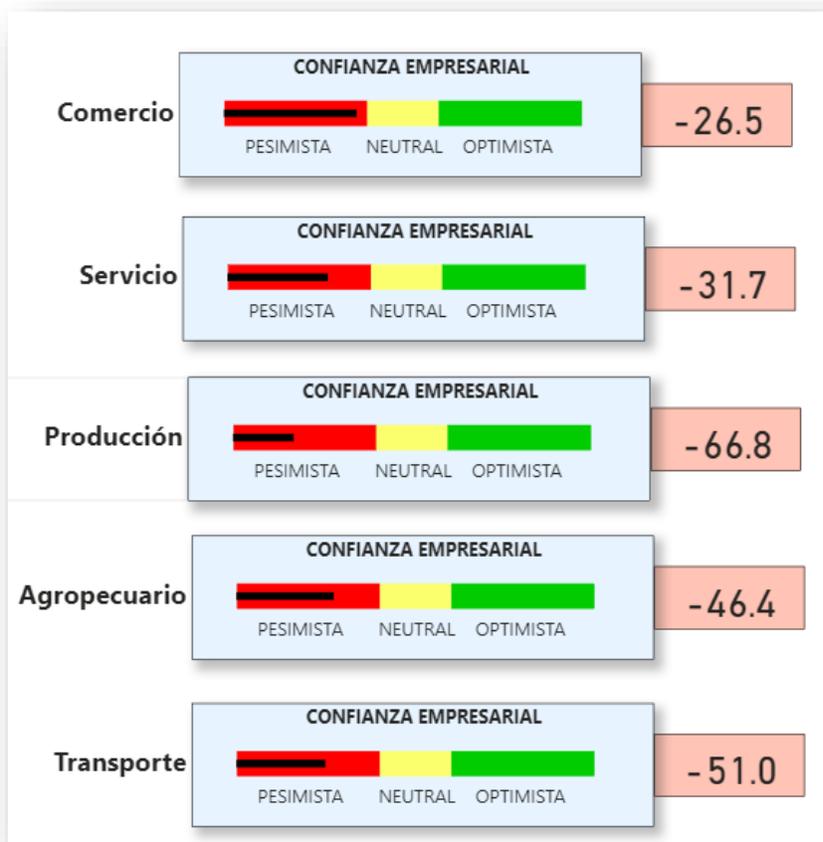
Based on figure 3, it can be observed that business results at the end of the Second Quarter go in the same direction for the 4 market segments that make up SMEs; all of them have an unfavorable vision about their businesses' dynamic. This opinion is much stronger for Subsistence Micro-Enterprises which are located at the basis of the pyramid; they have an indicator of -43.4.

And, although the Expanded Accumulation Microenterprise has an indicator of -36.9, the Business Confidence continues being pessimistic. This can be described as the best-

prepared segment or the one that has the biggest adaptation capacity to face the crisis generated by COVID-19.

**Figure 4.**

**Business Confidence per Economic Sector**



In assessing the confidence of SMEs business owners per Economic Sector, there is also a pessimistic atmosphere. Commerce has received the least negative impact with an indicator of 26.5, followed by Services with a -31.7. Finally, the most affected activities have been the ones related to production with an indicator of -66.8.

In figure 5, when talking about Small Enterprises in the Production Sector the level of Business Confidence behaves clearly without variations at the end of the Second Quarter of 2020. Nonetheless, Micro-enterprises of the same sector have been the economic sector that has suffered the biggest setback.

Figure 5.

**Business Confidence per Economic Sector regarding Expanded Accumulation Enterprises and Small-sized Enterprises**



To conclude, it is possible to say that the Business Confidence of SMEs entrepreneurs for the Second Quarter of 2020 is **pessimistic**, indistinctly of the Market Segment to which they belong or the Economic Sector where they perform. In the immediate future, there are no predicted changes in the Uncertainty Behaviour.

Another important conclusion that can be extracted, are the factors that hinder the good performance of SMEs, with 39.28% of the interviewees having manifested that they are unable to level up their businesses due to financial difficulties. Another relevant element according to 26.86% of the respondents is the scarcity of merchandise.

Finally, for 22.35% of the requestees, an important factor is the government and municipal regulations aimed at containing the pandemic.

	Agropecuario	Comercio	Producción	Servicios	Transporte	Total
% Dificultades Financieras	26.32	46.92	46.15	38.46	21.43	<b>39.28</b>
% Escasez de Mercadería	13.16	27.69	15.38	25.00	7.14	<b>26.86</b>
% Disposiciones Gobierno	31.58	16.92	23.08	23.08	42.86	<b>22.35</b>
% Disminución de Demanda	31.58	16.92	23.08	28.85	28.57	<b>21.90</b>
% Aumento de Competencia	10.53	12.31	23.08	9.62		<b>11.96</b>
% Situaciones Familiares	5.26	2.31				<b>2.93</b>
% Delincuencia		0.77		3.85		<b>2.03</b>