

Free Zones World Economic Barometer

F-WEB NOTE 2018-Q2

The World Free Zones Organization, in cooperation with the Kiel Institute for the World Economy, has launched the Free Zones World Economic Barometer (F-WEB) a quarterly, survey-based sentiment indicator designed to gauge current momentum and future trends of economic activity in free zones around the globe. The results of the second quarter 2018 round, conducted in the second half of June, suggest that activity in the free zones remains on a firmly increasing trend. 56 percent of surveyed free zones describe their current economic situation as good, compared to only 2 percent reporting poor conditions. This results in an F-WEB indicator of current economic situation of 54, up from 46 in the previous quarter. Expectations for economic conditions in three month time remain even more optimistic, with the F-WEB indicator of the expected economic situation up to 64 from 62 in Q1.

The F-WEB questionnaire consists of a set of questions related to economic performance in the free zones that will be asked every quarter in order to establish a history of results that can be used to extract information. In addition a small number of questions is included that will be asked at a lower frequency or irregularly as a reaction to specific developments.

The questions are qualitative in nature and can be answered by choosing positive answers (increasing, improving, good), negative answers (decreasing, deteriorating, poor) or neutral answers (unchanged, more or less the same, normal) from dropdown menus.

The aim of the F-WEB is to condense the available information into one single number. To this end positive answers get the value of 100 and negative answers the value of -100. Neutral answers get the value of 0. Our indicator value is then calculated as the aggregate value of received answers divided by the number of respondents to each answer. The index value is 100 when all participants give positive answers and -100 when there are uniformly negative answers. An index value of 0 results in the case of 100 percent neutral answers or in the case that the same number of positive and negative answers is given.

In this note we present a summary of the results from 2018Q2, the second round of F-WEB. An extensive description of the questionnaire can be found in the first World Free Zones Economic Outlook (WFZEO), produced by the World Free Zones Organization in cooperation with the Kiel Institute for the World Economy.

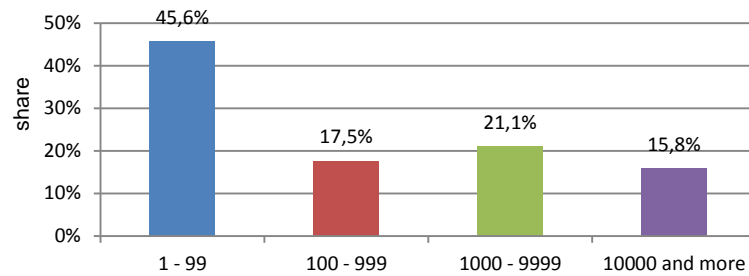
F-WEB 2018-Q2 RESULTS

General information

The 2018Q2 round is the second round of the newly established F-WEB. It was conducted between June 18 and July 1, 2018. Participants from 57 free zones in 36 countries completed the questionnaire.

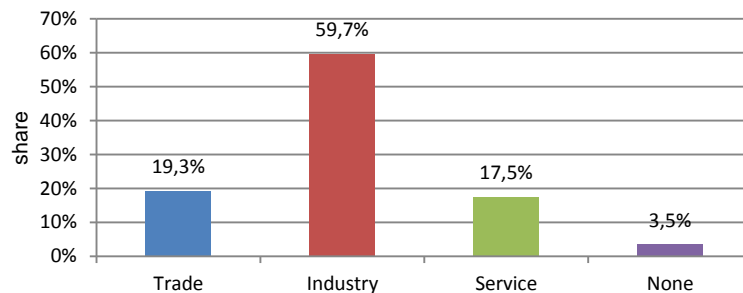
Almost half of the respondents represent free zones with less than 100 employees, while the remaining number of respondents is relatively evenly spread over free zones with size of between 100 and 1000 employees, between 1000 and 10000 employees, and free zones with more than 10000 employees.

Distribution of participating free zones by number of employees



Almost 60 percent of the free zones responding had a focus on industrial activity. Service and trade each account for close to 20 percent of participating free zones. Only a very small number of the free zones have no clear focus on a specific sector.

Distribution of participating free zones by dominant sector

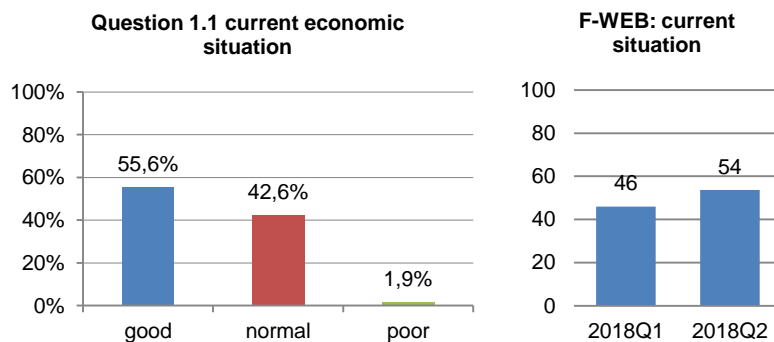


Current economic situation

General situation

1.1 “Overall, how do you assess the current economic situation in your Free Zone, taking into account the usual seasonal pattern?”

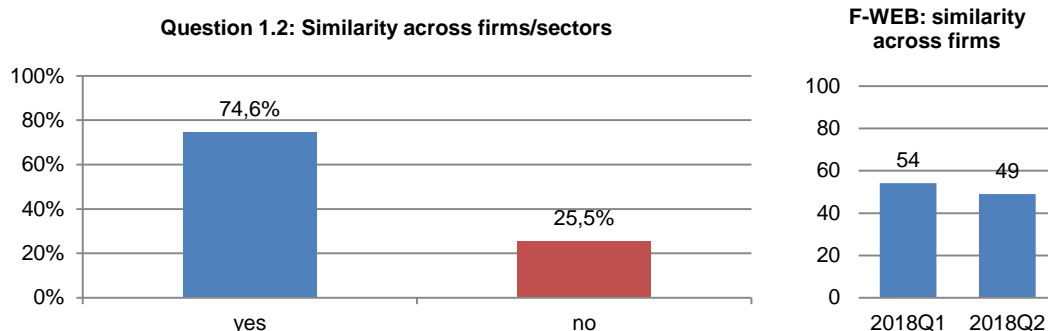
According to the answers, the majority regards the situation as good (56 percent), only 2 percent are experiencing a poor situation. The resulting F-WEB indicator value is 54, which is an improvement with respect to the situation three months ago.



Structural Pattern

1.2 “Is the current economic situation similar in all sectors/most companies hosted by your Free Zone (answer yes) or are there pronounced differences across sectors/companies (answer no)?”

A large majority (75 percent) of free zones reports that all firms or sectors, respectively, in their free zone experience similar economic situations; only one in four free zones describe the situation of sectors/firms in the free zone as substantially diverse. The F-WEB indicator for similarity of economic conditions takes the value 49, slightly below the Q1 value of 54.

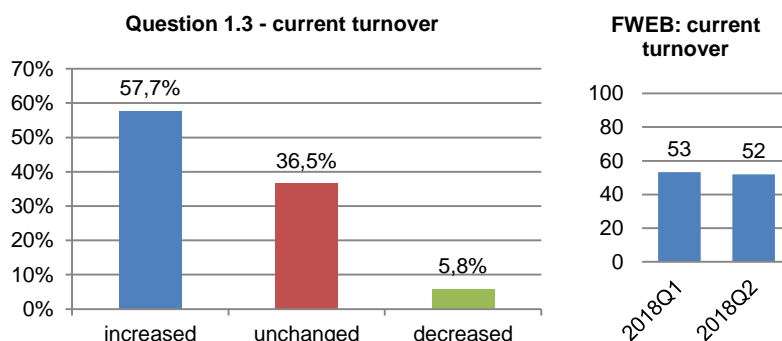


Detailed dimensions

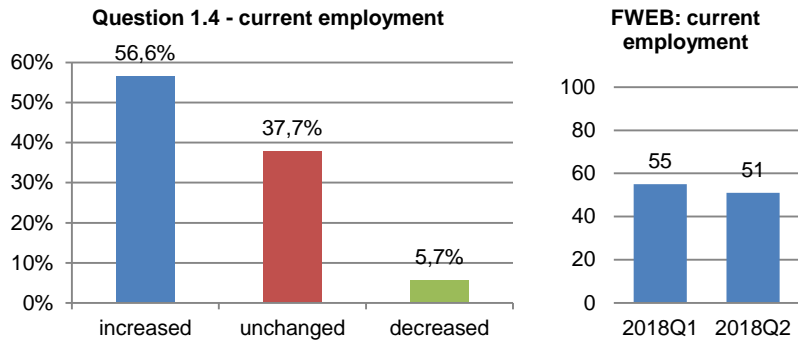
1.3 – 1.6 These questions relate to the recent developments in more detailed economic dimensions: “Compared to the previous three months and taking into account the usual seasonal pattern...” how has developed turnover, employment, investment and profitability, respectively?

Generally, there is a large majority of free zones reporting positive developments, no more than 6 percent of respondents observed deteriorating activity.

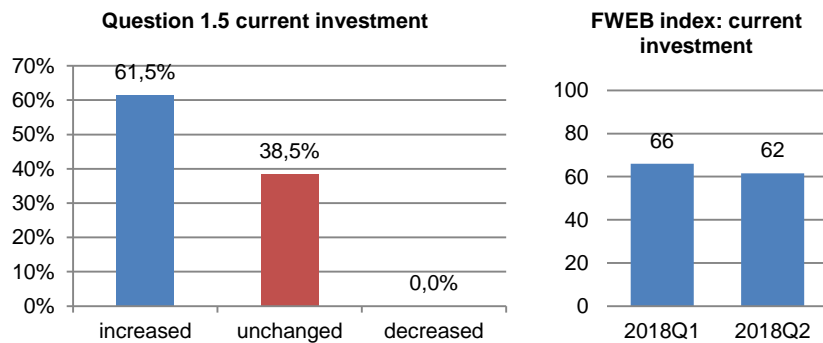
In the case of turnover, 58 percent of respondents saw an increase with respect the previous 3 months, 37 percent little change, and less than 6 percent reported decreasing business. The F-WEB indicator value for current turnover in 2018Q1 is 52, almost the same as in the first quarter.



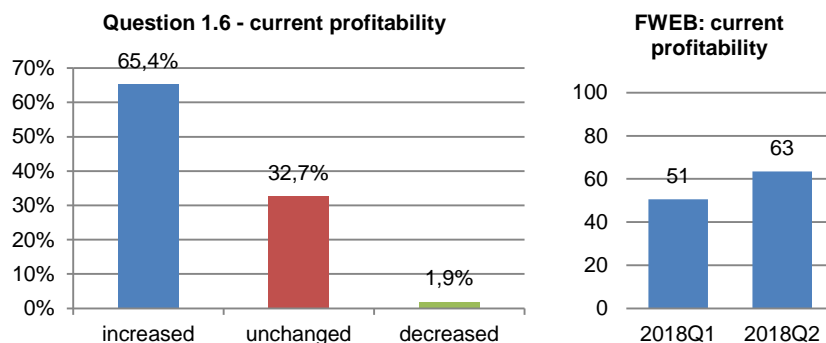
Employment has been increased compared to three months before in 57 of the free zones, almost the same share as in the case of turnover. Also the share of free zones reporting negative developments in terms of employment is very similar at close to 6 percent. As a result, the F-WEB indicator for current employment at 51 is close to that for turnover. The reduction in this indicator from the previous survey is also small but somewhat more pronounced than in the case of turnover.



The assessment of the recent evolution of investment remains particularly upbeat, with 62 percent of free zones reporting increasing investment (down from 71 percent in Q1) and no free zone reporting cutbacks. The F-WEB indicator for current investment has declined slightly to 62.



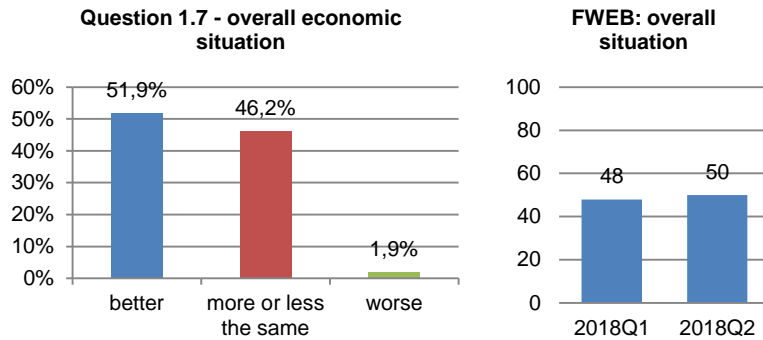
Profitability has increased over the past three months in almost two thirds of the free zones. A relatively large share of free zones (32.7 percent) reports unchanged conditions with respect to this element, whereas the share of negative answers is very low, at 2 percent. The resulting F-WEB indicator for current profitability has increased from Q1 to 63.



Relative assessment

1.7 "Compared to the economic situation in your host country how do you assess the overall economic situation?"

According to the answers to this question, most free zones (52 percent) have fared better over the past three months than their host countries in general. Only 2 percent underperformed with respect to the rest of the country. The F-WEB indicator for relative performance of free zones comes in at 50.

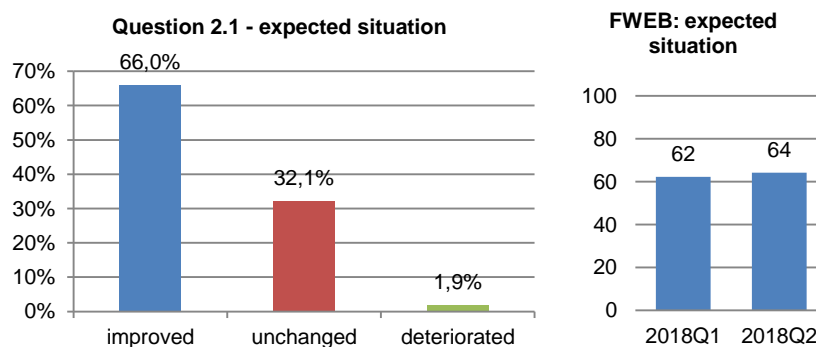


Expectations

General situation

2.1 “Overall, compared to the current situation, how do you expect economic conditions in your Free Zone over the next 3 months?”

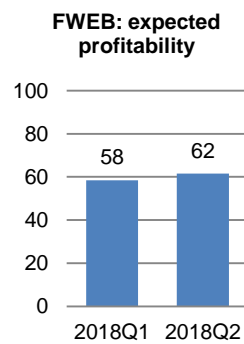
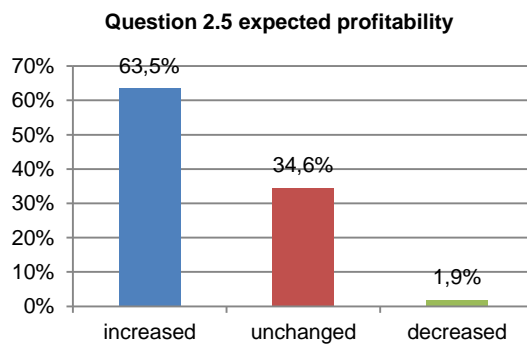
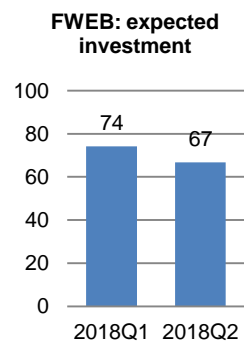
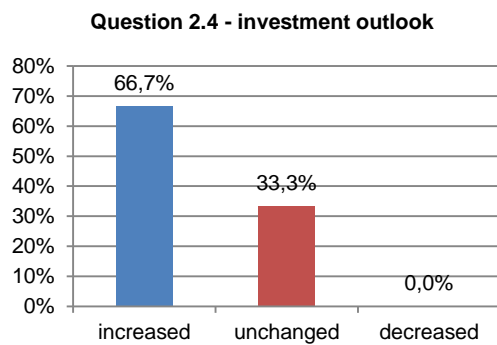
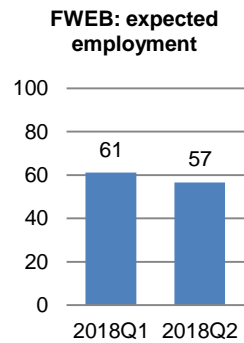
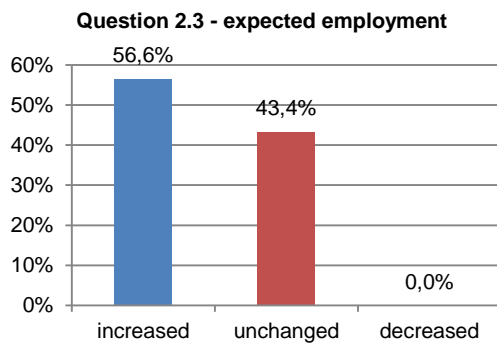
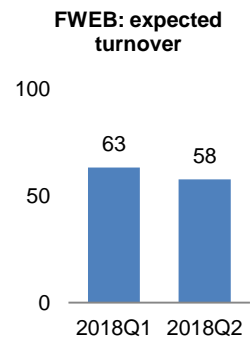
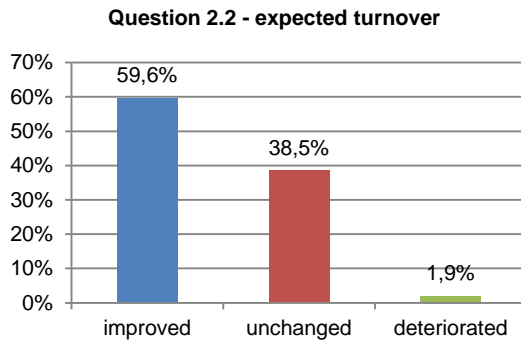
The already positive attitude with respect to economic developments in the near future has improved further since our last survey. A majority of 66 percent of free zones expects their economic situation to improve over the next three months. 32 percent expect no change, only 2 percent expect their situation to worsen in the months to come. The F-WEB indicator for the expected situation has increased to 64.



Detailed dimensions

2.2–2.5 These questions relate to the expectations for developments in specific economic dimensions in the near future: “Overall, compared to the current situation, how do you expect developments in your Free Zone over the next 3 months” ... with respect to turnover, employment, investment and profitability, respectively?

The expectations of respondents with respect to turnover, employment, investment and profitability over the next three months remain optimistic on balance, although the F-WEB indicators have come down slightly with the exception of profitability. Almost 60 percent of free zones expect increases of turnover, slightly less (56.6 percent) foresee a rise in employment, two thirds of the respondents expect increased investment, and 63.5 percent of respondents expect profitability to improve. Almost no free zone is particularly worried about the outlook in the very short-term. The F-WEB indicator value for expected turnover now stands at 58, the respective values for expected employment at 57 and for expected investment at 67. While these indicators came in a notch below their values in the Q1 survey, the F-WEB indicator for expected profitability rose to 62.

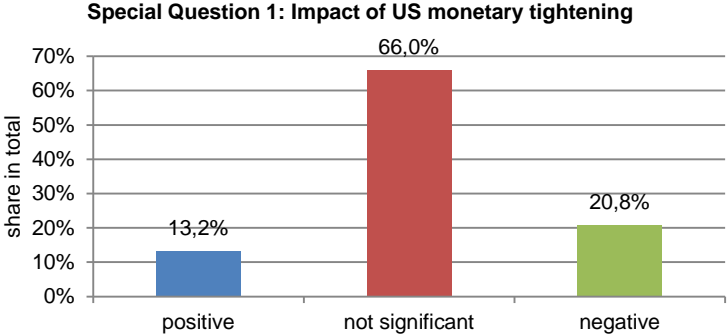


Special focus questions

In this section of the questionnaire we ask questions regularly, but at a lower than quarterly frequency, or spontaneously in response to specific economic or political developments that may have an impact on free zones. In the first round two special questions were asked.

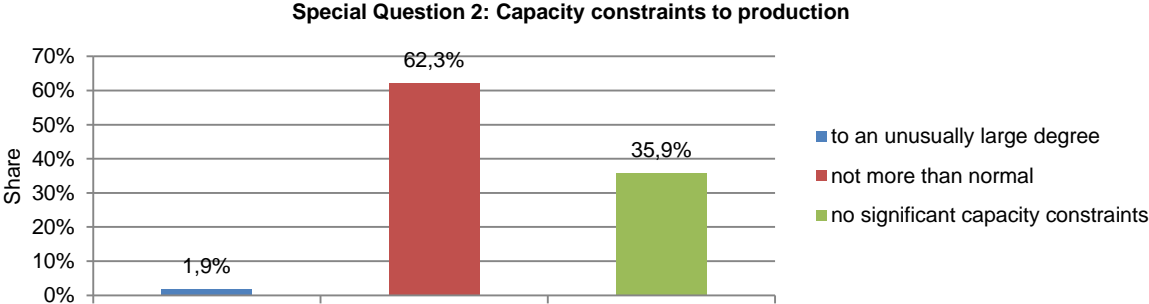
Special question 1: “How do you expect monetary tightening in the US to impact on economic conditions in your free zone?”

The US central bank has started to raise policy rates from zero already at the end of 2015, but the pace of tightening has increased recently. Given the robust expansion of the US economy and substantial fiscal stimulus the Federal Reserve is expected to continue to raise interest rates for the time being, and the real money market interest rate (Fed Funds rate adjusted for consumer price inflation) is expected to approach positive territory in the months to come. In the past, rising US interest rates have sometimes been associated with a stronger US dollar and tightening financial conditions also in other parts of the world, especially developing countries and emerging economies. Related concerns are, however, currently not very pronounced among the free zones surveyed. Only around 20 percent of free zones expect their economic environment to be negatively affected by monetary tightening in the US. 66 percent do not expect a significant impact on activity in the free zone, and 13 percent even regard US monetary policy trends as a positive factor for their economic performance.



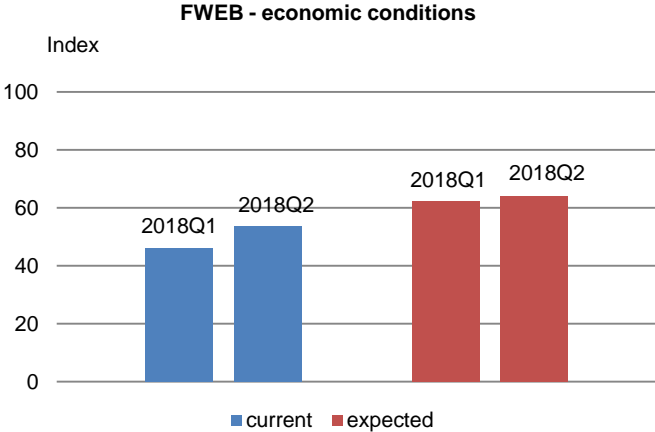
Special question 2: “To what extent is current production in your free zone limited by capacity constraints?”

Economic slack in the advanced economies has been more and more shrinking as a result of the historically long economic expansion that followed the global financial crisis. In many countries, unemployment is at multi-year lows and survey results indicate that capacity utilization in industry is at very high levels. Against this backdrop, we wondered to what extent at the current juncture insufficient capacity may be a limiting factor for expanding production in the free zones. According to the answers, production capacity is currently no particular constraint., 36 percent of free zones see no significant capacity constraints, 62 percent regard capacity utilization as being not higher than normal, and only 2 percent report an unusually large degree of capacity utilization.



Summary

In 2018Q2, the F-WEB survey continues to paint a positive picture of the economic situation in the free zones. The large majority of participants regard current conditions as having improved from three months before, with the balance of positive and negative answers – the F-WEB index of current economic conditions – having risen from 46 in the 2018Q1 survey to 54 in the current survey. The balance of positive answers over negative answers is even larger, when it comes to expectations for the immediate future. The F-WEB indicator value for expected economic conditions has risen from 62 to 64.



A closer look at the various elements of business activity reveals that free zones reporting improvements of the current situation compared to the past three months in turnover, employment, investment and profitability, respectively, uniformly outnumber by a large margin those reporting deteriorations. The outlook for the next three months is even better in most dimensions, as the respective F-WEB indicators for the expected developments in turnover, employment and investment are uniformly higher. Only regarding profitability the balance of participants expecting improvements is not higher than for the assessment of the respective recent performance.

