



SURVEY OF ECONOMIC ACTIVITY

FOURTH QUARTER 2004

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INTRODUCTION & GENERAL OVERVIEW

Chart 1. Business Responses by Sector

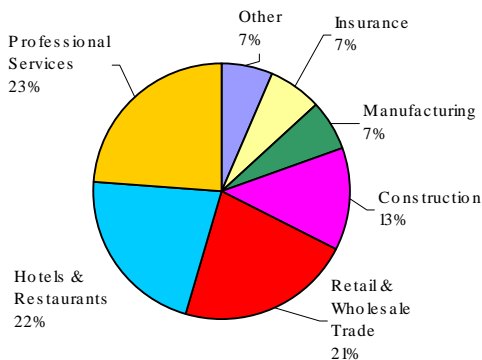


Chart 2. Business Responses by Island

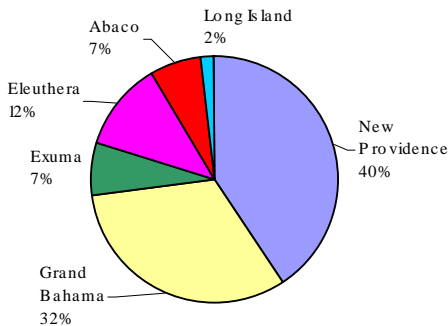
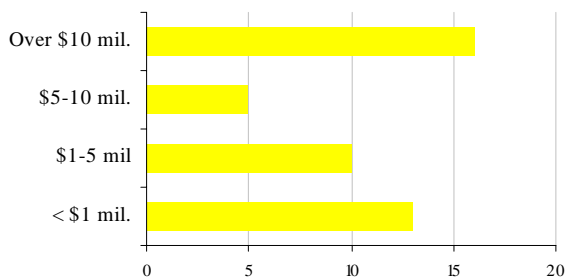


Chart 3. Shareholders' Equity (No. of Firms)

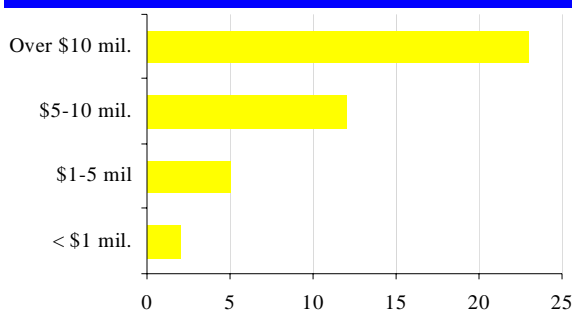


In January 2005, the Central Bank launched the first Survey of Economic Activity (SEA) to collect feedback on current conditions and expectations from among non-bank private sector business. Through this exercise, the Bank seeks to obtain better information on how macro-economic trends are affecting various segments of the economy, shedding current light on consumption and investment trends and on business intentions on future hiring and investments. While domestic credit trends, tourism and foreign currency inflow data provide broad indicators of economic performance, the SEA is designed to capture opinionated feedback on how these impacts are felt throughout private sector business, including those with local ownership. The survey also responds to a need to assess activities which have significance independent of tourism and foreign investments, and to gauge the geographic distribution of economic activity. Opinion surveys of this nature are common among central banks. This particular exercise is modelled after the frameworks used in the US, UK and Japan. The next SEA will be conducted during June 2005 and will provide updated assessments for the first half of 2005.

The introductory SEA targeted 100 large and medium sized businesses throughout the Bahamas, and all of the administrators in the local government districts throughout the Family Islands. Responses were obtained from 39 businesses and 11 Family Island District Administrators, regarding market, employment and financing conditions during the last quarter of 2004. The private sector respondents, on average, represented enterprises with more than 70 percent in combined market share in their respective sectors. Some 20 of these had annual sales over \$10 million and over two-thirds had shareholders' equity of at least \$1 million.

Over a third of the responding enterprises had operations on multiple Family Islands, and half reported operations in both New Providence and Grand Bahama. Only 28.3 percent had operations exclusively confined to New Providence; 19.6 percent exclusively to Grand Bahama, and 15.2 percent exclusively to the Family Islands. As to the

Chart 4. Annual Sales (No. of Firms)



sectors of operations, 23 percent of the enterprises were engaged in general professional and other services, with the others representing hotels and restaurants (22 percent), the retail and wholesale (distribution) trade (21 percent), manufacturing (7 percent), insurance (7 percent) and others (large agriculture and fisheries consolidators) (7 percent). Meanwhile, one quarter of the businesses surveyed indicated that their operations covered more than one sector of the economy.

The number of persons employed by the responding companies ranged from 4 to 687, with an average of 120. Of the 4,985 employees that the survey captured, the majority (85.6%) represented full-time employees, while the remainder were part-time or on a contractual basis—most widely observed among the services, construction and wholesale and retail trade sectors. Bahamian citizens represented 90.7 percent of the employed and non-Bahamians the remaining 9.3 percent.

GENERAL FINDINGS

The result of the survey indicate that private businesses viewed profitability and other operating conditions as comparatively improved at the end of 2004, and had more favourable expectations for 2005. Employment conditions are expected to be stable to firming on average, and businesses signalled that the level of investments was likely to increase. To the extent that the results are representative of a significant number of Bahamian owned enterprises, this amounts to an expected increase in economic stimulus from domestic investments, alongside the anticipated boost from foreign investments.

Businesses were asked to rank a series of issues, which they considered to be important enough to have an impact on their operations. The top four issues identified, in order of importance were the general economic climate, lack of skilled employees, marketing problems and regulation & paperwork.

The significance of the results varied by island and by industry. Private enterprises in New Providence had more favourable assessments of their conditions than elsewhere in The Bahamas, while in Grand Bahama there was more forward looking optimism

Chart 5. Current Market Conditions (No. of Firms)

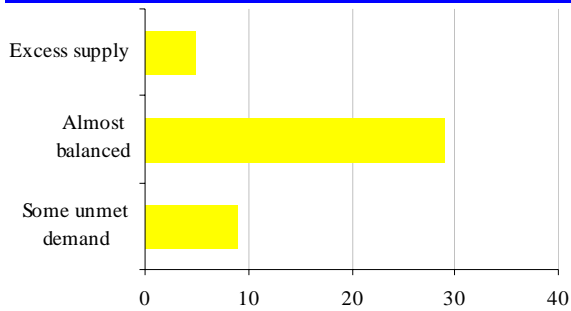


Chart 6. Current and Expected Sales Conditions (% of Firms)

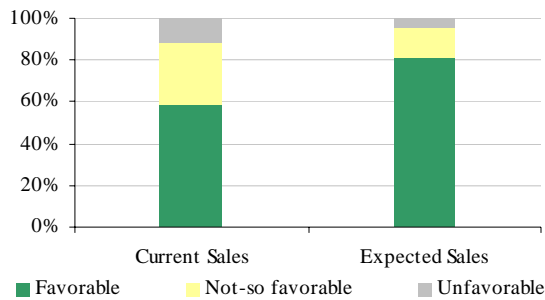
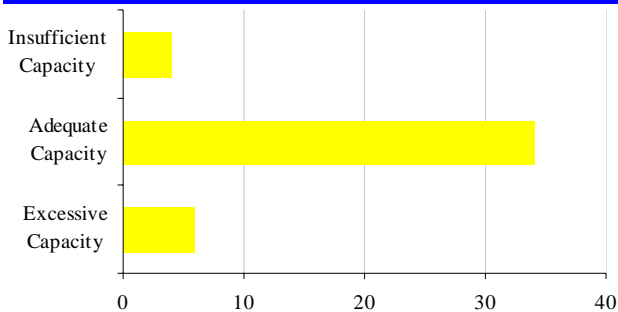


Chart 7. Current Production (No. of Firms)



relative to the eventual recovery from the hurricanes. In the Family Islands, expectations were more upbeat in the sub-economies with significant tourism developments underway; however one high ranking concern among these economies was the undersupply of skilled labour and the expressed need for improved infrastructure. A significant number of Family Island communities were not expecting to participate in the general pickup in activity during 2005.

Supply and Demand Conditions

Over three-quarters of the responding businesses opined that their sales conditions were more favourable in the fourth quarter of 2004 than in the same quarter a year earlier. Less than 20 percent indicated that the quarter’s sales were “not-so-favourable” and the remaining 6.7 percent reported more “unfavourable” sales conditions. As to expectations for 2005, the majority of the businesses (90.9%) forecasted favourable sales conditions. Overall, year-on-year profits in the fourth quarter of 2004 were disclosed as higher or unchanged for more than half of the businesses surveyed. Moreover, 90.9 percent of the responding firms expected stable to increased profits in 2005.

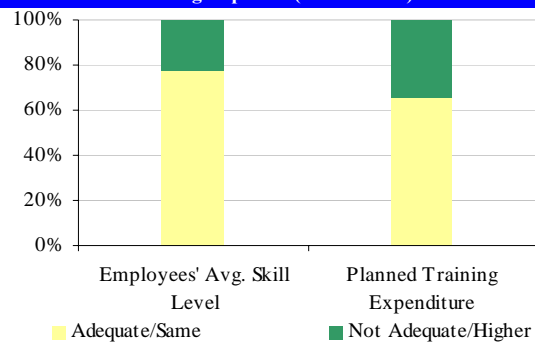
Looking ahead to 2005, only 9.1 percent of businesses expected not-so-favourable or unfavourable conditions. Supporting the favourable outlook, 67.4 percent of the respondents found that their respective sectoral demand and supply conditions were almost balanced in the fourth quarter of 2004 and 20.9 percent felt that they had some unmet demand. Only 11.6 percent of the respondents indicated that they were encountering excess supply conditions.

As regards production levels, over three-quarters of the firms responding stated that they were operating at adequate capacity; 13.6 percent, at excess capacity; and 9.1 percent at insufficient capacity. The majority of the businesses (81.3%) stated that current inventory levels were adequate whereas the remaining were split between excessive and insufficient levels. These assessments had significant bearing on how businesses viewed staffing levels and on their revealed intentions about hiring in the short-term.

Chart 8. Current and Expected Employment Conditions (% of Firms)



Chart 9. Employees' Skill Level and Planned Training Expense (% of Firms)



Employment Conditions

A majority (86.7%) of the companies surveyed opined that employment levels in their respective firms were adequate during the quarter under review. When indicated, excessive employment assessments were rather common among retail and service-related businesses in New Providence and Grand Bahama. In contrast, the construction sector in New Providence had higher incidences of insufficient staffing. Most of the surveyed businesses (77.8%) indicated that they were satisfied with the skills level of their employees. In instances where businesses were unsatisfied, they indicated that training expenditure would either remain at the same level or increase over the next 12 months. None of the respondents indicated that they would spend less on training in 2005. Nearly all of the companies surveyed estimated that they would hire more staff or maintain existing levels of employment in the short-term.

Business Financing Environment

Most businesses identified internal resources in the form of cash and deposits as the main source of financing for their activities, followed by loans from financial institutions and then, other liquid assets. In response to how capital expenditures would be allocated over the next twelve months the average ranking was first on new equipment and machinery, followed by renovation of existing facilities, expansion of facilities, and purchase of new building/land.

SECTOR REVIEW

Construction

The profile of construction companies surveyed included 6 large firms, where 3 have operations only in New Providence and the remainder had operations throughout The Bahamas. All have annual sales of over \$5 million, together employing over 500 employees. Despite having positive revenue expectations for 2005, the majority of construction businesses that have operations in New Providence reported that sales during the last quarter of 2004 were not-so-favourable while those with a presence in more than one island in addition to New Providence opined that current sales were at a satisfactory level. The majority of construction companies surveyed stated that while current market conditions were almost balanced, production capacity could be further improved provided they had an increased supply of skilled labour; and that they would keep or hire more skilled labour. All reported increases in input prices and the majority

stated that they had opted to increase output prices. Year-on-year (YOY) profit levels at the end of 2004 were unchanged or lower than in 2003.

Retail and Wholesale Trade

The retail and wholesale trade sector companies surveyed included 10 mostly multi-island firms, nine of which had over \$1 million in shareholders' equity and all having more than \$5 million in annual sales. Six of the firms had operations in more than one island. Most of these large businesses indicated that supply and demand conditions were almost balanced in the fourth quarter and that they were experiencing favourable sales levels. Sales were expected to remain on a positive trend during 2005. Firms indicated that there were upward pressures in both input and output prices and signalled that planned capital expenditures in the short-term would be concentrated on renovations. While on average no increased hiring was planned, the sector expected higher profits in 2005.

Hotels & Restaurants (Family Islands)

In an effort to capture the tourism sector activity outside of New Providence, the driving engine of the industry, this portion of the survey targeted mainly Family Island establishments (70 percent of the respondents). Reflecting the small and mid-size scale of the businesses across such geographical divide, half of the surveyed operations disclosed shareholders' equity of less than \$1 million, but approximately three-quarters were able to record over \$1 million in annual sales. These operators indicated that market conditions and sales levels were fairly favourable on a comparative basis. However year-on-year profits were assessed lower than in the fourth quarter of 2003. Almost half of the businesses surveyed indicated that they expected to expand staffing.

Services

The services sector firms respondents (inclusive of private utilities companies and professionals) included 11 firms, each with annual sales over \$5 million. Among these businesses, sales conditions were viewed as favourable in the fourth quarter of 2004 and production levels fairly adequate. A majority felt that supply and demand conditions were almost balanced, and most indicated that they were experiencing higher profits compared to 2003. About a quarter of the firms surveyed expected to expand staffing in 2005 and had a positive outlook for market conditions and profits.

Insurance

The feedback suggests favourable sales conditions in the life insurance sector, although firms believed that there was some unmet demand. Companies indicated that prices of products were increasing at a slower rate than input costs. Current employment levels were considered adequate.

Manufacturing

The manufacturing responses generally represented large operations targeted at the export sector, and operating in Grand Bahama. For this reason it is not possible to generalize these responses to smaller operations which concentrate more on the domestic sector. For the export manufacturers, market conditions were generally regarded as almost balanced with a favourable effect on current sales. The outlook for sales conditions and profits in 2005 was positive. In parallel, the employment outlook was generally positive, despite the view that average skills levels needed to be increased.

Other

The remaining businesses represented fisheries, agriculture and some transportation firms. In view of the nature of such businesses, the SEA targeted a number of large wholesale trade businesses which consolidate the output from many small businesses, particularly in fishing and agriculture, in the economy. Overall, the market conditions and production levels were considerably favourable and adequate. The outlook for sales and employment conditions looked positive for 2005.

FAMILY ISLAND ADMINISTRATORS (SELECTED ISLAND REVIEW)

Assessment of the conditions in the Family Islands was weighted considerably by feedback from Local Government Administrators.

The Administrators' views of conditions and the outlook for most of the South Eastern islands (Acklins, Crooked Island, and Cat Island) and for Andros and the Berry Islands were similar. The top industries (agriculture & fisheries, small scale hospitality, and construction sectors) were seen as having subdued market conditions and production levels, attributed in part by transportation problems and lack of private investment or infrastructure improvements. Employment conditions expected would improve in these areas during 2005.

The local assessments were favourable for Eleuthera, Abaco and Exuma. In Eleuthera's employment levels and conditions although considered weak during the fourth quarter of 2004, were seen favourably in the outlook with anticipated stimulus from some large scale tourism developments. Exuma was assessed as already having improved employment conditions compared to 2003, with positive expectations for 2005. As far as employment was concerned, it was expected that Abaco's economy would continue on a positive trajectory in 2005.

APPENDIX:
Survey of Economic Activity: Summary of Selected results

A1. Location	All* %	Const %	Hotels & Rest. %	Mfg %	Whol/Ret Trade %	Services %
New Providence only	28.3	66.7	20.0	0.0	30.0	27.3
Grand Bahama only	19.6	0.0	10.0	66.7	10.0	36.4
Family Island	15.2	0.0	70.0	0.0	0.0	0.0
More than one island	37.0	33.3	0.0	33.3	60.0	36.4

A2. Shareholders' Equity	All* %	Const %	Hotels & Rest. %	Mfg %	Whol/Ret Trade %	Services %
< \$1 mil.	29.5	33.3	50.0	0.0	20.0	45.5
\$1-5 mil	22.7	50.0	25.0	33.3	30.0	0.0
\$5-10 mil.	11.4	0.0	0.0	0.0	10.0	18.2
Over \$10 mil.	36.4	16.7	25.0	66.7	40.0	36.4

A3. Annual Sales	All* %	Const %	Hotels & Rest. %	Mfg %	Whol/Ret Trade %	Services %
< \$1 mil.	4.8	0.0	25.0	0.0	0.0	0.0
\$1-5 mil	11.9	0.0	25.0	33.3	10.0	0.0
\$5-10 mil.	28.6	60.0	25.0	0.0	20.0	50.0
Over \$10 mil.	54.8	40.0	25.0	66.7	70.0	50.0

A4. Employment	All* %	Const %	Hotels & Rest. %	Mfg %	Whol/Ret Trade %	Services %
Full Time	85.6	67.9	96.3	100.0	77.0	87.2
Part Time	14.4	32.1	3.7	0.0	23.0	12.8
Bahamians	90.7	94.8	96.2	93.5	98.1	77.0
Non-Bahamians	9.3	5.2	3.8	6.5	1.9	23.0

B1. Current Sales	All* %	Const %	Hotels & Rest. %	Mfg %	Whol/Ret Trade %	Services %
Favorable	75.6	50.0	66.7	66.7	90.0	72.7
Not-so favorable	17.8	50.0	33.3	0.0	10.0	9.1
Unfavorable	6.7	0.0	0.0	33.3	0.0	18.2

B2. Expected Sales	All* %	Const %	Hotels & Rest. %	Mfg %	Whol/Ret Trade %	Services %
Favorable	90.9	100.0	100.0	100.0	80.0	81.8
Not-so favorable	6.8	0.0	0.0	0.0	20.0	9.1
Unfavorable	2.3	0.0	0.0	0.0	0.0	9.1

Note: *Includes results from insurance companies and "other" not separately shown.

APPENDIX:
Survey of Economic Activity: Summary of Selected results

B3. Current Market Conditions	All* %	Construction %	Hotels & Rest. %	Manufacturing %	Whol/Ret Trade %	Services %
Some unmet demand	20.9	16.7	12.5	33.3	20.0	10.0
Almost balanced	67.4	66.7	87.5	66.7	70.0	60.0
Excess supply	11.6	16.7	0.0	0.0	10.0	30.0

B4. Current Production	All* %	Const %	Hotels & Rest. %	Mfg %	Whol/Ret Trade %	Services %
Excessive Capacity	13.6	0.0	11.1	66.7	30.0	0.0
Adequate Capacity	77.3	66.7	77.8	33.3	70.0	90.0
Insufficient Capacity	9.1	33.3	11.1	0.0	0.0	10.0

B5. Chg. In Avg. Output Prices	All* %	Const %	Hotels & Rest. %	Mfg %	Whol/Ret Trade %	Services %
Higher	37.8	50.0	33.3	66.7	40.0	27.3
Unchanged	48.9	33.3	66.7	0.0	40.0	63.6
Lower	13.3	16.7	0.0	33.3	20.0	9.1

B6. Chg. In Avg. Input Prices	All* %	Const %	Hotels & Rest. %	Mfg %	Whol/Ret Trade %	Services %
Higher	75.0	100.0	66.7	100.0	60.0	80.0
Unchanged	25.0	0.0	33.3	0.0	40.0	20.0
Lower	0.0	0.0	0.0	0.0	0.0	0.0

B7. YOY Profits	All* %	Const %	Hotels & Rest. %	Mfg %	Whol/Ret Trade %	Services %
Higher	35.6	33.3	22.2	0.0	30.0	63.6
Unchanged	15.6	33.3	11.1	33.3	20.0	0.0
Lower	48.9	33.3	66.7	66.7	50.0	36.4

B8. Expected Profits	All* %	Const %	Hotels & Rest. %	Mfg %	Whol/Ret Trade %	Services %
Higher	68.2	83.3	50.0	66.7	80.0	54.5
Unchanged	22.7	16.7	37.5	33.3	10.0	27.3
Lower	9.1	0.0	12.5	0.0	10.0	18.2

B9. Current Inventory	All* %	Const %	Hotels & Rest. %	Mfg %	Whol/Ret Trade %	Services %
Excessive	9.4	20.0	0.0	0.0	20.0	0.0
Adequate	81.3	80.0	100.0	100.0	60.0	100.0
Insufficient	9.4	0.0	0.0	0.0	20.0	0.0

Note: *Includes results from insurance companies and "other" not separately shown.

APPENDIX:
Survey of Economic Activity: Summary of Selected results

C1. Current Employment Level	All* %	Const %	Hotels & Rest. %	Mfg %	Whol/Ret Trade %	Services %
Excessive	4.4	0.0	0.0	0.0	10.0	9.1
Adequate	86.7	66.7	100.0	100.0	70.0	90.9
Insufficient	8.9	33.3	0.0	0.0	20.0	0.0

C2. Expected Employment Level	All* %	Const %	Hotels & Rest. %	Mfg %	Whol/Ret Trade %	Services %
Increase	42.2	50.0	44.4	33.3	40.0	36.4
Decrease	4.4	0.0	0.0	0.0	10.0	0.0
Unchanged	53.3	50.0	55.6	66.7	50.0	63.6

C3. Employees' Avg. Skill Level	All* %	Const %	Hotels & Rest. %	Mfg %	Whol/Ret Trade %	Services %
Adequate	77.8	66.7	77.8	66.7	60.0	90.9
Not adequate	22.2	33.3	22.2	33.3	40.0	9.1

C4. Planned Training Expenditure	All* %	Const %	Hotels & Rest. %	Mfg %	Whol/Ret Trade %	Services %
Higher	34.1	16.7	11.1	0.0	40.0	45.5
Same	65.9	83.3	88.9	100.0	60.0	54.5
Lower	0.0	0.0	0.0	0.0	0.0	0.0

D1. Financial Position	All* %	Const %	Hotels & Rest. %	Mfg %	Whol/Ret Trade %	Services %
Very comfortable	33.3	33.3	22.2	0.0	40.0	54.5
Comfortable	64.4	50.0	77.8	100.0	60.0	45.5
Uncomfortable	2.2	16.7	0.0	0.0	0.0	0.0

D2. Banks' Lending Attitude	All* %	Const %	Hotels & Rest. %	Mfg %	Whol/Ret Trade %	Services %
Very accommodating	41.5	33.3	33.3	33.3	22.2	72.7
Accommodating	56.1	50.0	66.7	66.7	77.8	27.3
Not accommodating	2.4	16.7	0.0	0.0	0.0	0.0

D3. Top 3 Financing Sources	All* %	Const %	Hotels & Rest. %	Mfg %	Whol/Ret Trade %	Services %
1	Cash & Deposits	Cash & Deposits	Cash & Deposits	Cash & Deposits	Cash & Deposits	Cash & Deposits
2	Loans	Loans	Loans	Loans	Loans	Loans
3	Other	Other Fin. Instr.	Other Fin. Instr.	None	Other Fin. Instr.	Other

Note: *Includes results from insurance companies and "other" not separately shown.