Free Zones World Economic Barometer

F-WEB NOTE 2019-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) in 2018. The F-WEB is 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 2019Q2 round, conducted in the second half of May, suggest that economic conditions in free zones around the globe have deteriorated compared to the previous three months. The share of free zones reporting good economic conditions fell from 56 percent in 2019Q1 to 47 percent. Another 47 percent evaluate their current situation as normal, while the share of free zones experiencing poor conditions has increased slightly from 5 to 7 percent. This translates into an F-WEB Economic Conditions Index of 40, down from 51 in 2019Q1. Thus, after two consecutive quarters with increasing optimism, the F-WEB indicator has dropped to its second-lowest level since its launch. At the same time, the expectations for the next three months have also become less optimistic. Even though the deterioration is less pronounced than in the case of current economic conditions, the indicator for expectations regarding future economic conditions fell to its lowest level since the start of the F-WEB.

The F-WEB survey consists of a set of questions related to the economic performance in free zones that are asked every quarter in order to establish a history of results that can be used to extract information. In addition, a small number of special questions is included in every round 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.
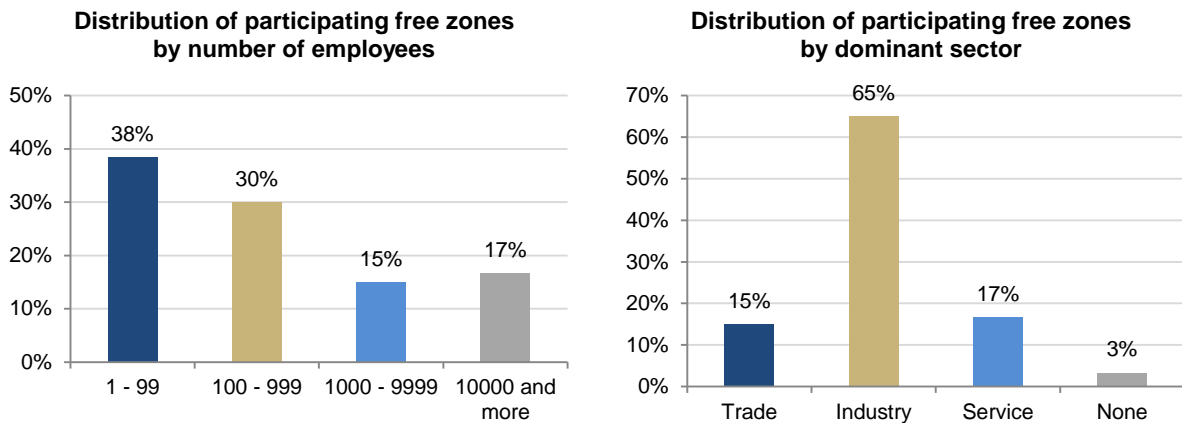
The aim of the F-WEB is to condense the available information into easily interpretable indicators. To this end, positive answers get the value of 100 and negative answers the value of -100. Neutral answers get the value of 0. Our indicator value is then calculated as the aggregate value of received 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 2019Q2, the sixth round of F-WEB. An extensive description of the questionnaire can be found in the first World Free Zones Economic Outlook 2018 produced by the World Free Zones Organization in cooperation with the Kiel Institute for the World Economy.

F-WEB 2019-Q2 RESULTS

GENERAL INFORMATION

The 2019Q2 survey is the sixth round of the newly established F-WEB. It was conducted between May 13 and May 28, 2019. Representatives of 74 free zones in 47 countries worldwide participated in the survey. In line with previous rounds of the F-WEB, the majority of responses (68 percent) came from free zones with less than 1,000 employees. 15 percent of participating free zones have between 1,000 and 9,999 employees and 17 percent report more than 10,000 people working within their zone.

Distribution of participating free zones by number of employees

Category	Percentage
1 - 99	38%
100 - 999	30%
1000 - 9999	15%
10000 and more	17%

Distribution of participating free zones by dominant sector

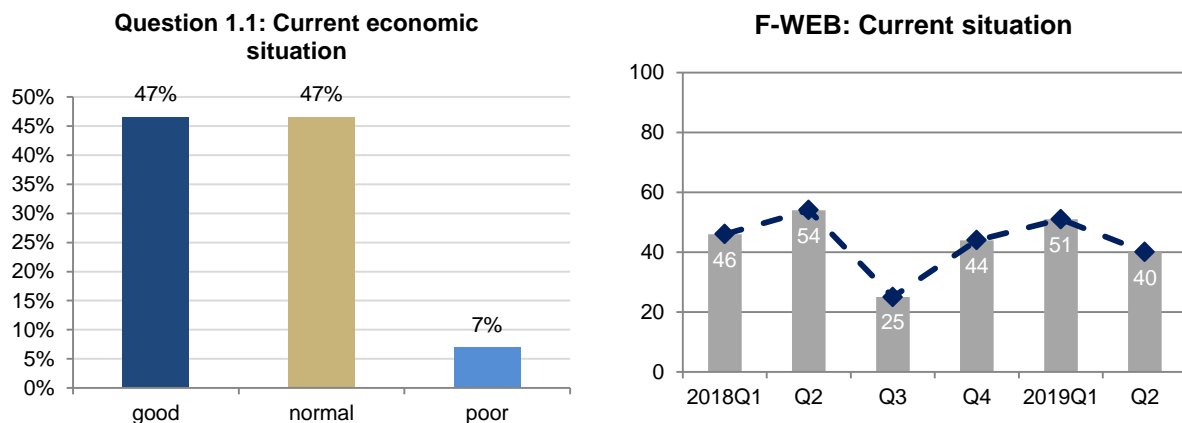| Category	Percentage
Trade	15%
Industry	65%
Service	17%
None	3%

Most free zones in our sample focus on industrial activities (65 percent). Roughly the same number of responding free zones report trade and services as their dominating sector (15 and 17 percent, respectively). Only a very small number of free zones have no clear focus on a specific sector. Overall, the sectoral distribution of participants remains similar to previous rounds of the F-WEB, enhancing comparability of the results over time.

CURRENT ECONOMIC SITUATION

General situation

**Question 1.1: "Overall, how do you assess the current economic situation in your Free Zone, taking into account the usual seasonal pattern?"**

Question 1.1: Current economic situation

Category	Percentage
good	47%
normal	47%
poor	7%

F-WEB: Current situation

Quarter	Value
2018Q1	46
Q2	54
Q3	25
Q4	44
2019Q1	51
Q2	40

The number of free zones regarding their situation as good and normal, respectively, is equal in the 2019Q2 round of the F-WEB. Each of these options received 47 percent of the answers. Only 7 percent of participating free zones experience poor conditions. The corresponding F-WEB indicator value for current economic situation is 40. After two consecutive quarters with increasing optimism, this reflects the first deterioration in sentiment since 2018Q3. It corresponds to a drop by 11 points compared 2019Q1 where 56 percent reported a good economic situation.

Structural Pattern

Question 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)?"
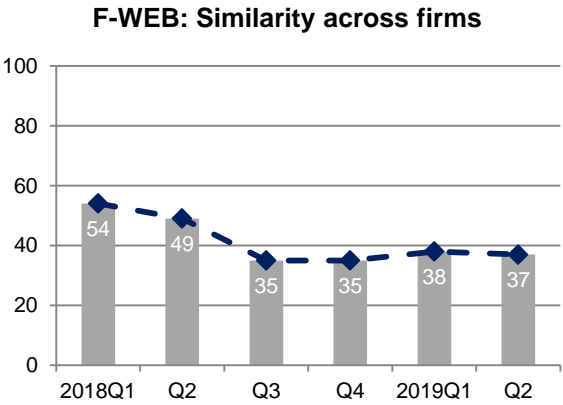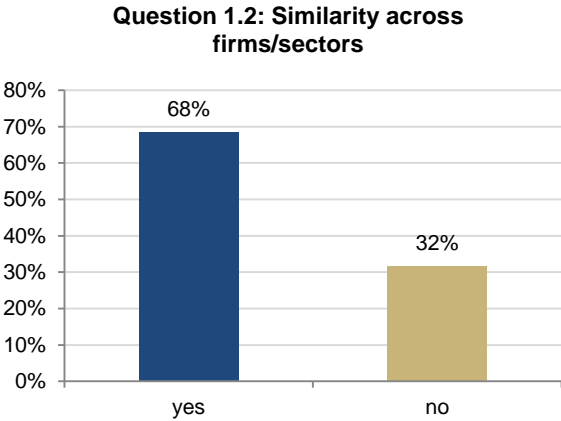
The structural pattern within participating free zones hardly changed over the past year. In line with previous results, a majority of free zones report that all firms or sectors, respectively, in their free zone experience similar economic situations (68 percent). One in three free zones describes the situation of sectors/firms in the free zone as substantially diverse. The F-WEB indicator for similarity of economic conditions across firms/sectors hardly changes from 38 in 2019Q1 to 37 in 2019Q2.

Detailed dimensions

Questions 1.3-1.6 relate to recent developments in more detailed economic dimensions: "Compared to the previous three months and taking into account the usual seasonal pattern…" how has turnover/employment/investment/profitability developed?

In general, a large majority of free zones continues to report positive or neutral economic developments regarding turnover, employment, investment and profitability over the past three months. However, in comparison to 2019Q1, the situation regarding turnover, employment and profitability has deteriorated notably since fewer respondents report increasing activity across these dimensions over the past three months. At the same time, the overall investment situation is almost unchanged compared to 2019Q1, reflecting a continuously positive development in the majority of free zones. The share of free zones reporting worse economic performance compared to the previous three months remains low at between 2 and 9 percent across all dimensions.

The responses translate into lower values of the corresponding F-WEB indicators in 2019Q2 compared to 2019Q1 for all dimensions but current investment. The F-WEB indicators for current turnover

(44, down from 58), current employment (42, down from 59) and current profitability (35, down from 46) fell back to levels below those reached in 2018Q4. The indicator value for current investment remains almost unchanged at 55 (2019Q1: 54).

Regarding **turnover**, 46 percent of respondents saw an increase with respect to the previous three months, down from 63 percent in 2019Q1. The majority of free zones experienced hardly any change (53 percent); in the first quarter only 33 percent had reported stable turnover. The number of free zones with decreasing business activity is negligible. This results in an F-WEB indicator value for current turnover of 44, substantially below the previous quarter's value of 58. Thus, after having increased for two consecutive quarters, the F-WEB indicator for current turnover dropped back to a level below its 2018Q4 value.

Question 1.3: Current turnover

F-WEB: Current turnover
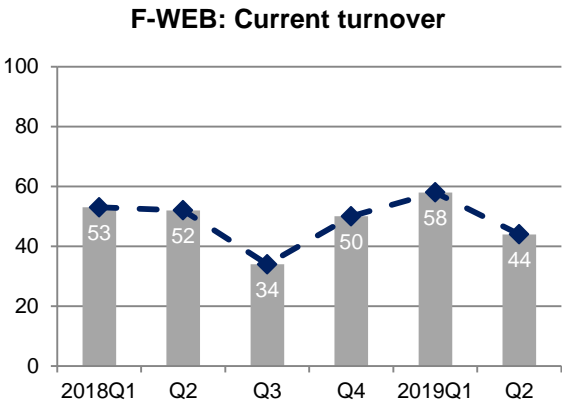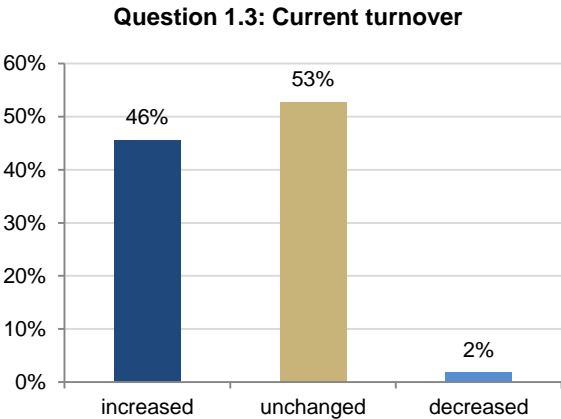
Employment has developed similarly to turnover, although the most recent deterioration of the F-WEB indicator is slightly more pronounced in the case of employment. With 47 percent each, the same share of free zones reports increased and stable employment in 2019Q2, respectively. Only 5 percent report a fall in employment compared to the previous three months. The corresponding F-WEB indicator value for current employment is at 42 and thus slightly below the F-WEB indicator value for current turnover. Compared to the previous quarter, the F-WEB indicator dropped by 17 points which – again in line with the development of turnover – represents the first deterioration since mid-2018.

Question 1.4: Current employment

F-WEB: Current employment

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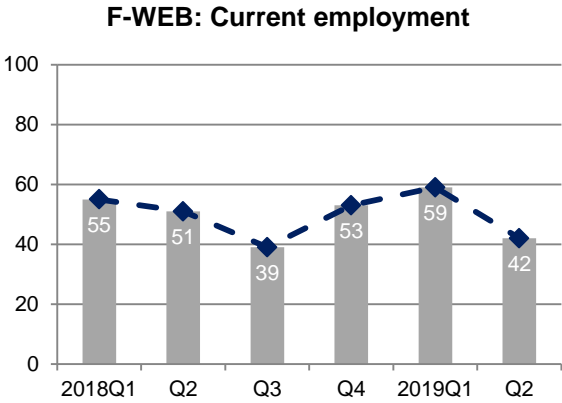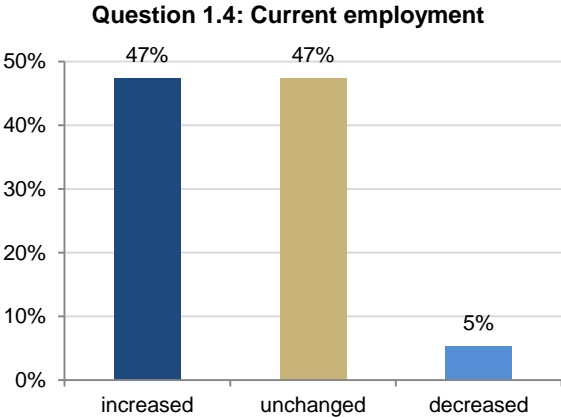
The assessment of the recent evolution of **investment** remains more stable compared to the other dimensions of economic performance, with 64 percent of free zones reporting increasing investment (up from 56 percent in 2019Q1). 9 percent of respondents experienced deteriorating investment, an increase of 6 percentage points compared to the previous quarter. Overall, the F-WEB indicator for current investment remains almost unchanged at 55 in 2019Q1.

Question 1.5: Current investment

F-WEB: Current investment
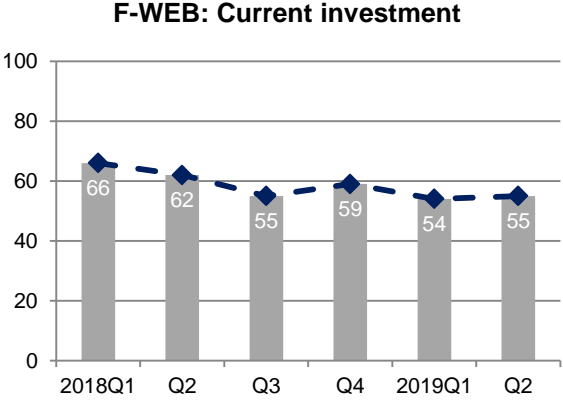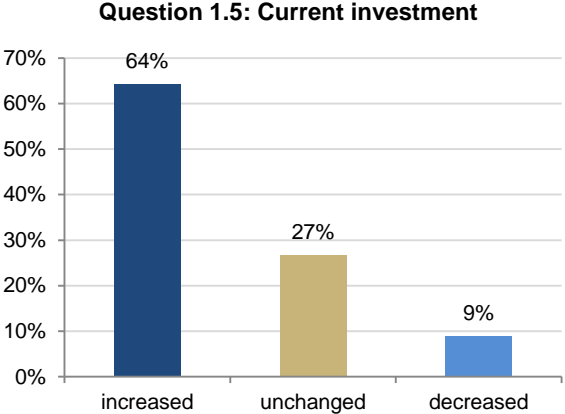
Profitability has increased over the past three months in 44 percent of the free zones participating in the F-WEB, down from 54 percent in 2019Q1. In contrast, the share of negative answers hardly changed compared to the previous round of the F-WEB and is at 9 percent. Given the shift from positive to neutral answers, the F-WEB indicator for current profitability has decreased to 35 in 2019Q2, down from 46. Thus, it fell to a level similar to the one reached in 2018Q3 (34), so far representing the lowest indicator value for current profitability.

Question 1.6: Current profitability

F-WEB: Current profitability
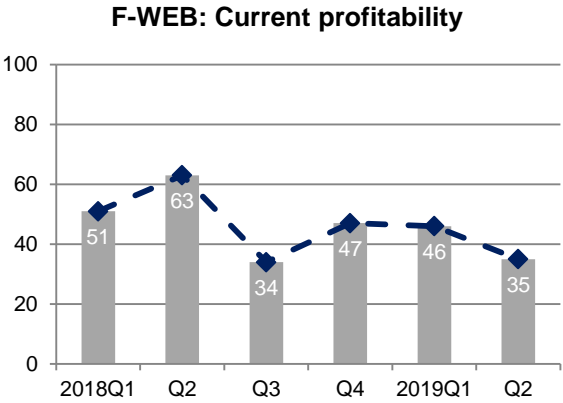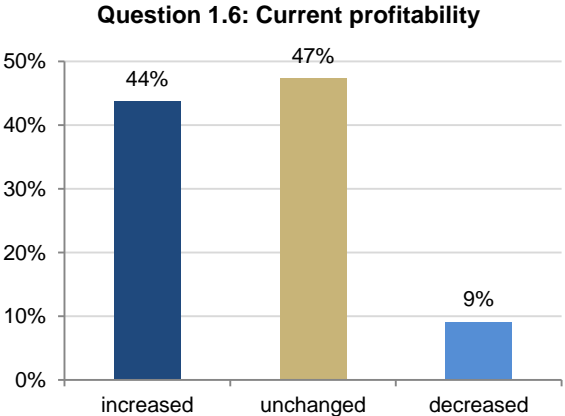
Relative assessment

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

Question 1.7: Relative economic situation


F-WEB: Overall situation
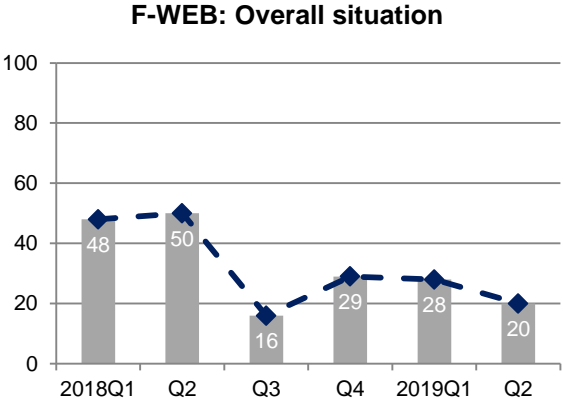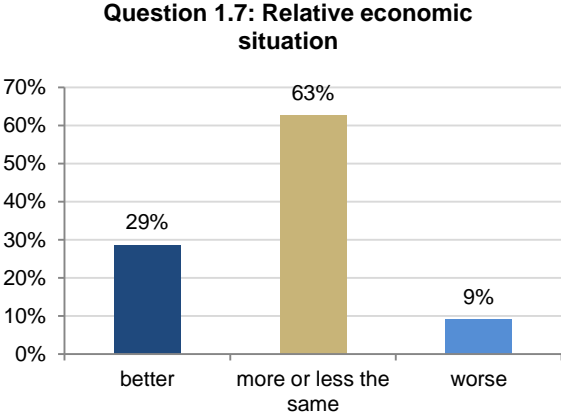
Most participating free zones (63 percent) have faced a similar economic situation in the past three months as their host countries in general. Compared to the previous round of the F-WEB, the share of free zones giving neutral answers to this question is unchanged. 29 percent of free zones participating in the F-WEB evaluate their situation as considerably better than in the rest of the country, down from 33 percent in 2019Q1. The share of free zones reporting underperformance compared to the host economy has increased from 5 to 9 percent. Consequently, the resulting F-WEB indicator for relative performance of free zones has decreased compared to the previous three months and is now at 20.

EXPECTATIONS

General situation

Question 2.1: "Overall, compared to the current situation, how do you expect economic conditions to develop in your Free Zone over the next 3 months?"

Question 2.1: Expected economic situation

F-WEB: Expected situation
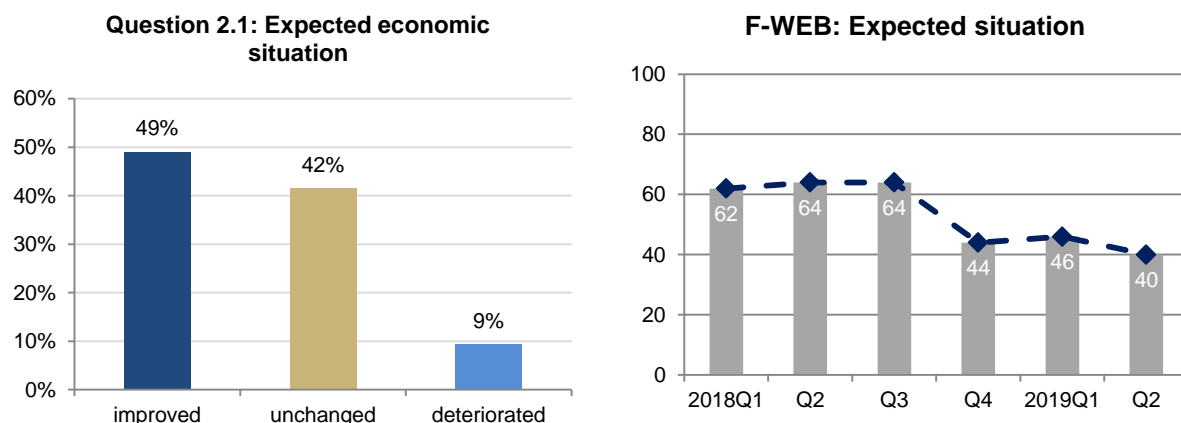
Expectations on future business conditions and performance have become less optimistic, on average. The share of free zones reporting a positive outlook has remained unchanged compared to the previous round of the F-WEB at 49 percent. At the same time, the share of free zones reporting a negative outlook has increased from 3 to 9 percent. Accordingly, the F-WEB indicator dropped from 46 to 40, the lowest value for the F-WEB indicator for expected economic situation since the launch of the F-WEB survey. However, in relative terms the deterioration in sentiment is less pronounced for expectations than for the current economic situation.

Detailed dimensions

Questions 2.2–2.5 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" … regarding turnover, employment, investment and profitability, respectively?

The outlook of respondents with respect to turnover, employment, investment and profitability over the next three months has become less optimistic, on average. The share of free zones with a positive outlook has decreased across all dimensions but investment for which expectations are almost unchanged. Regarding expected employment and investment, more than half of the free zones still have a positive outlook for the next three months. Slightly less than half of the respondents (49 percent) expect turnover to increase over the next quarter, and 45 percent have a positive outlook on profitability. The share of negative answers has remained broadly stable for all dimensions compared to the previous quarter.

The F-WEB indicator values reflect these developments. Thus, the indicator for expected investment is almost unchanged. In fact, it increased slightly from 54 in 2019Q1 to 55 in 2019Q2. At the same time, the indicator values for all other dimensions decreased compared to the previous round of the F-WEB. The fall was most pronounced for expected profitability which reached a value of 40, down from 46. The indicator values for expected turnover and expected employment dropped by 4 points

each. Thus, the F-WEB indicator for expected turnover is 45 in 2019Q2 and 52 for expected employment.
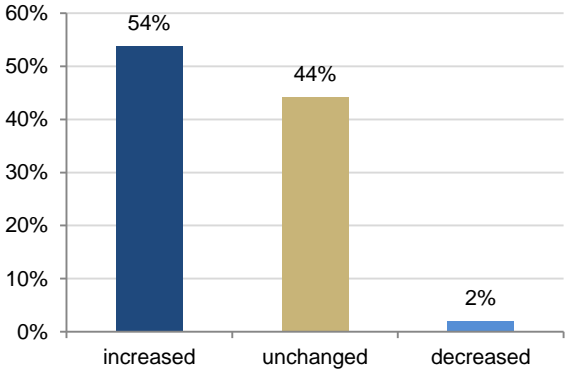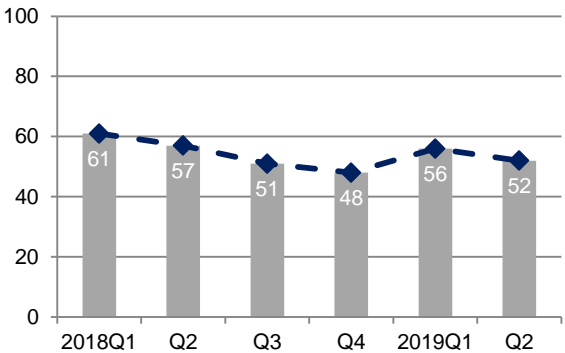
Question 2.2: Expected turnover
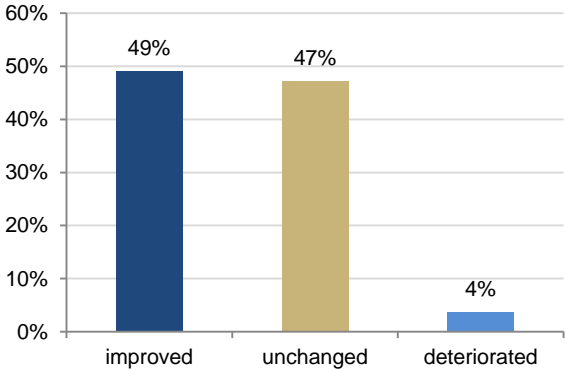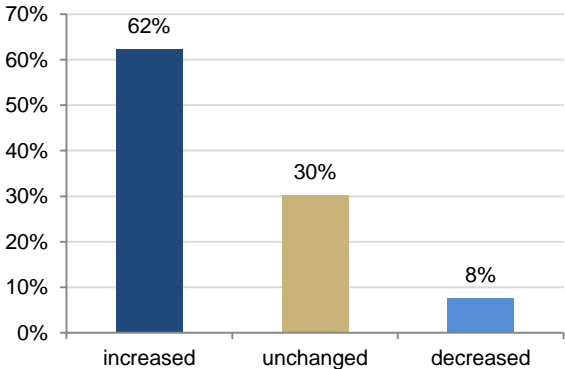

F-WEB: Expected turnover
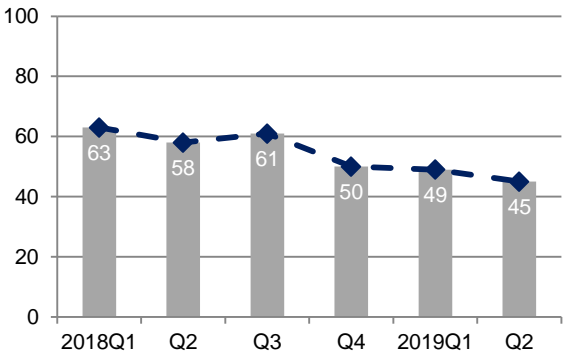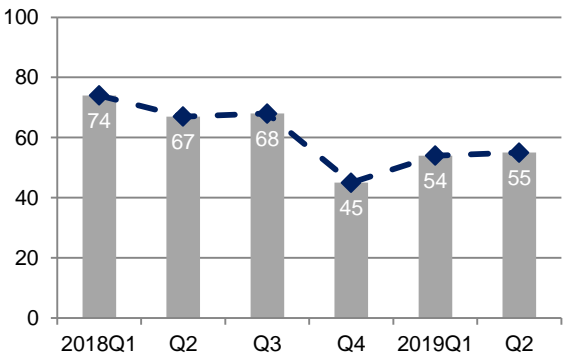

Question 2.3: Expected employment

F-WEB: Expected employment

Question 2.4: Expected investment

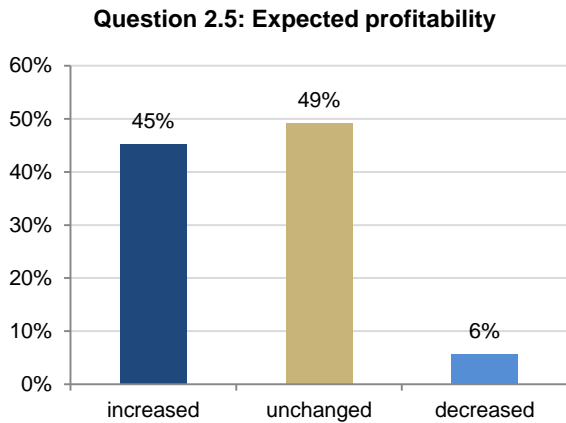**F-WEB: Expected investment**

Question 2.5: Expected profitability

**F-WEB: Expected profitability**
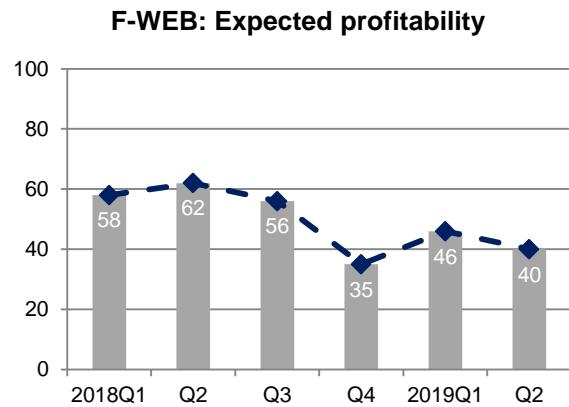
SPECIAL FOCUS QUESTIONS

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 2019Q2 F-WEB survey, two special questions were asked.

Special Question 1: To what extent is current production in your free zone limited by capacity constraints?

**Special Question 1: Capacity constraints of current production**
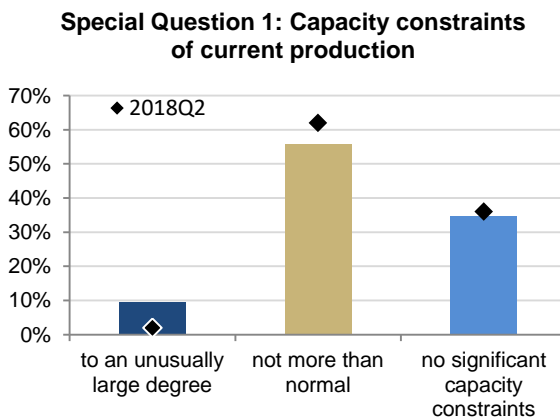
This special question was first asked in 2018Q2 against the backdrop that economic slack in the advanced economies had been more and more shrinking as a result of the historically long economic expansion that followed the global financial crisis. Even though the world economy has lost momentum in the second half of last year, unemployment continues to be at multi-year lows in many countries and survey results indicate that capacity utilization in many economies is still at high levels. This special question asks to what extent at the current juncture insufficient capacity may be a limiting factor for expanding production in free zones around the globe.

According to the answers, production capacity is currently no particular constraint and the results in 2019Q2 are similar to those reported one year ago. Currently, 35 percent of free zones see no significant capacity constraints (36 percent in 2018Q2). 56 percent regard capacity utilization as being not higher than normal, down from 62 percent one year ago. The share of free zones reporting an unusually large degree of capacity utilization has increased to 10 percent this quarter, up from 2 percent in 2018Q2.

Special Question 2: Over the past 6 months, has your Free Zone been affected by the elevated levels of economic policy uncertainty observed globally?

Economic policy uncertainty has been elevated over the past six months, in particular for China. This is largely related to the uncertainties regarding the trade conflict with the United States. In addition to a potential escalation of trade conflicts, a number of downside risks cloud the outlook on the global economy and contribute to uncertainty. These risks include the uncertainty around the future relationship between the UK and the EU as well as potential negative effects of policy uncertainty in Italy that could lead to a loss of confidence in financial markets and have damaging consequences for the whole euro area. Geopolitical tensions between the United States and Iran are a further source of concern. Moreover, the broad-based increase in debt over the past years both in advanced and emerging economies and potential corrections regarding the elevated prices of stocks, bonds and real estate, pose a risk to financial stability.

Against this backdrop, Special Question 2 asks whether free zones have been affected by the elevated levels of economic policy uncertainty observed globally. According to the answers, more than one in three participating free zones do experience consequences of global uncertainty. 8 percent of free zones even report strong negative effects. At the same time, 63 percent report no significant constraints arising from uncertainty.
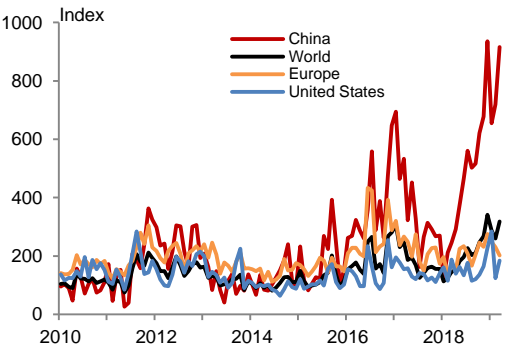

Monthly data. Measured by the Economic Policy Uncertainty Index constructed by Baker, Bloom and Davis based on news data. *Source:* www.policyuncertainty.com.

Special Question 2: Impact of global economic uncertainty
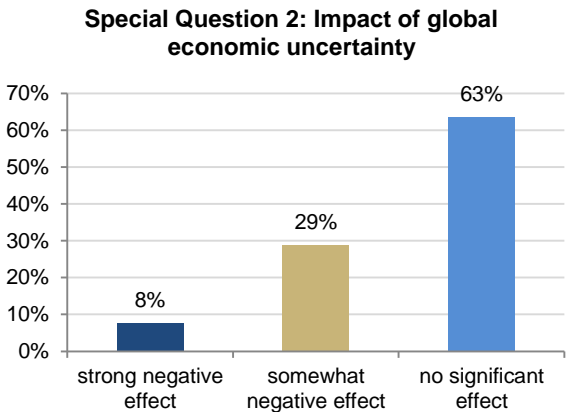
SUMMARY

In 2019Q2, the F-WEB survey suggests that the economic situation in free zones around the globe, on average, has deteriorated compared to the previous quarter. The share of free zones reporting good economic conditions fell from 56 percent in 2019Q1 to 47 percent, while the share of free zones experiencing normal conditions increased from 39 to 47 percent. The share of free zones facing poor conditions remains low at 7 percent. This translates into an F-WEB Current Economic Conditions Index of 40, down from 51 in the previous quarter. Thus, after two consecutive quarters with increasing optimism, the F-WEB indicator has dropped to its second-lowest level since its launch. However, it is still well above its lowest level of 25 reached in 2018Q3. The outlook for the next three months has also become more clouded. Even though the deterioration is less pronounced than in the case of current economic conditions, the F-WEB Expected Economic Conditions Index fell from 46 to 40 – its lowest level since the start of the survey.

F-WEB: Economic conditions index

F-WEB: Components 2019Q2
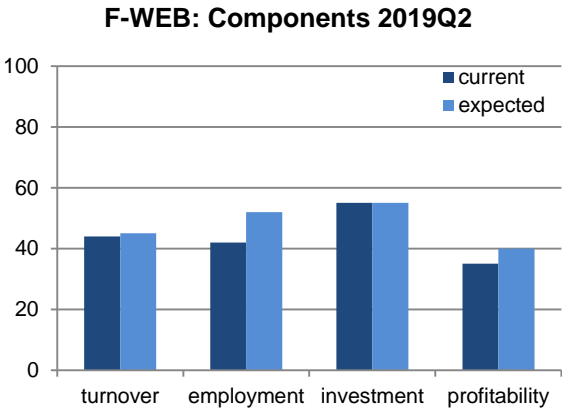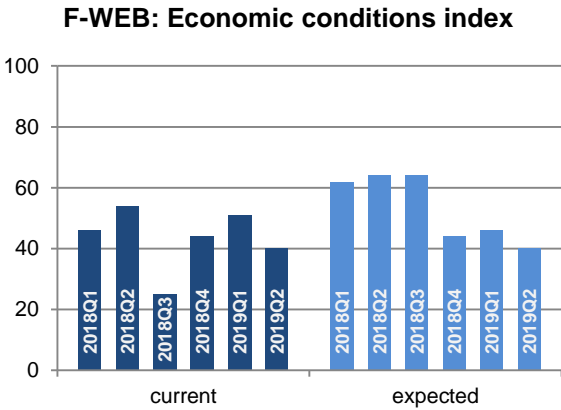
A closer look at the various elements of business activity – i.e. turnover, employment, investment, and profitability – reveals that economic performance has deteriorated across all dimensions but investment. While the indicator for investment is at a higher level than the indicators for turnover, employment and profitability, it is expected to remain stable over the coming three months. At the same time, free zones foresee increasing economic performance regarding the other dimensions of economic performance.