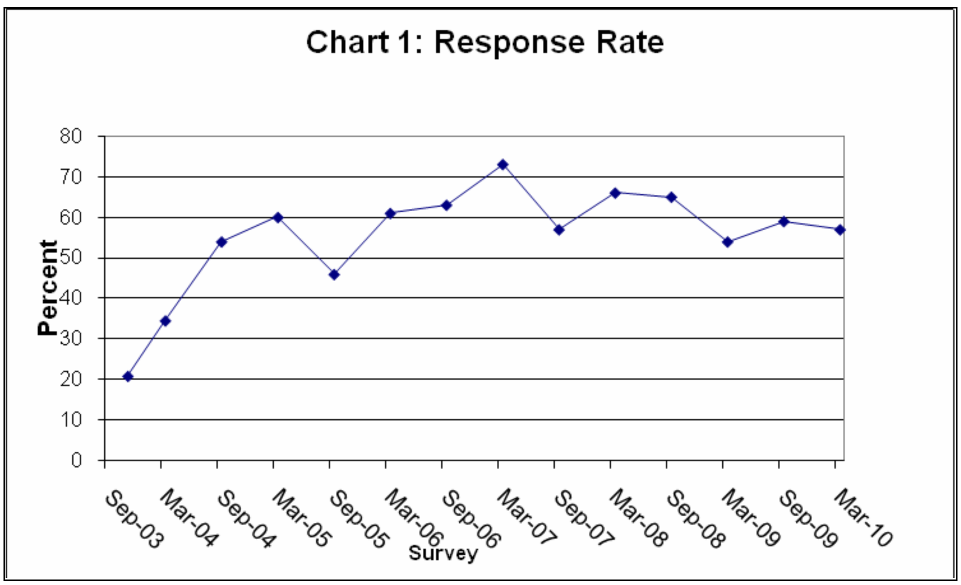
Business Expectations Survey: March 2010 – Summary Review

1. Introduction

The Business Expectations Survey (BES) is conducted twice-yearly by the Bank of Botswana, with the main objective of capturing perceptions concerning the economy among the local business community. Respondents of the survey complete a questionnaire to indicate their expectations regarding a range of economic variables, including GDP growth, inflation, prospects for their own businesses (e.g., production, employment and costs), as well as overall business confidence. The expectations cover three time periods ranging from the immediate future to up to a year ahead.

This report presents results of the survey carried out during March and April 2010 for three distinct periods: the first half of 2010 (H1 2010), the second half of 2010 (H2 2010), and the twelve-month period to June 2011 (H2 2010-H1 2011). However, GDP and inflation are estimated over calendar years in order to facilitate comparison with official estimates of these data. A summary of the main results is shown in Appendix A. Chart 1 shows the response rates for the 14 surveys conducted so far. It is apparent from this that, after a period of initial volatility, the response rate appears to have stabilised in the region of 60 percent. This is acceptable, although efforts to further improve the response rate should continue.



2. Survey Context: Recent Economic Developments

The global economy continued to rebound in early 2010, although the pace of recovery varied across countries and regions. Having contracted in 2009, the IMF has projected robust global GDP growth in 2010, supported by continued expansionary stance in monetary and fiscal policies. The latest IMF projections for 2010 and forecast for 2011 were, however, made prior to the scale of problems faced by several European economies *due to their debt burdens becoming apparent. Because of this, fiscal policy in several major economies is being tightened earlier than expected.*[1]

Developments in the domestic economy have been largely moving in tandem with worldwide trends, reflecting the faster recovery in the mining sector than was initially anticipated. While diamond mining is expected to continue to recover, this could be undermined if there is a further slippage in the global economy. High levels of government spending have continued to support the non-mining sectors. However, although the Government is willing to continue running budget deficits in the short term, the survey came in the wake of the 2010 Budget Speech that had outlined plans to move quickly to identify areas where spending can be cut or postponed.

3. Business Confidence and Performance

The overall confidence in prevailing business conditions for the current survey period was 55 percent, compared to 47 percent in the previous survey and 40 percent in the same period in 2009. While confidence remains broadly constant, at 54 percent, for the rest of 2010, it improves markedly to 71 percent going into 2011. This suggests a positive attitude among businesses at a time when most indicators were pointing to a relatively smooth recovery from the global recession.

For most of the period covered by the survey, confidence among export- and domestic-oriented businesses is broadly similar. However, the resurgence in confidence in 2011, while strong in both categories, is more pronounced among exporters, where confidence surges from 57 percent to 86 percent. This compares to domestic producers for which confidence rises from 53 percent to 69 percent.[2]

With respect to profitability, although businesses continued to expect profits to stagnate or contract, there was a significant improvement in sentiment from the previous survey with the net balance narrowing to -23.3 percent from -39.8 percent. This trend continues going forward, with the net balance improving to -11.1 percent in the second half of 2010. Regarding input costs, although there is little concern about rising property rentals, there are significant fears of increases in utility, transport and other costs during the second half of 2010. This reflects solid expectations of electricity price increases in response to rising generation costs, as well as continuing concerns about trends in international oil prices, and may help to explain the continuing concerns about profitability. Currently, there appears to be a general expectation of stable costs for both raw materials and the wage bill. However, going into 2011, there is a strong expectation of rising input costs across all categories, with net balance in excess of 60 percent in all cases.

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1 *The responses to the BES had mostly been collected prior to this possible loss of momentum in the global recovery becoming such a significant concern. So this potential cause of lower business confidence is unlikely to have affected the results of the survey.*

2 *Due to the small number of respondents in this category, this result should be treated with caution.*

Production is expected to stagnate in H1 2010, with a net balance of -6.4 percent. However, there is marked improvement later in the year when the net balance rises to 38.8 percent. Consistent with expectations regarding production, an increase of sales is widely anticipated in the second half of the year, while inventories may also increase.

4. National Output

Businesses expect national output to grow by 2.7 percent in real terms in 2010 and by 3.3 percent in 2011. Thus, the outlook on national performance for 2010 remains more or less unchanged, compared to the 2.6 percent projected in the previous survey. Expectations also remain in line with the average annual growth rate of 3.1 percent estimated for NDP 10, but somewhat below the 5 percent that was projected in the budget speech for financial year 2010/11, possibly indicating that businesses are more cautious than government about the pace of the recovery.

5. Capacity Utilisation, Investment and Employment

In line with expectations of output growth, respondents are anticipating greater levels of capacity utilisation during 2010. In the second half of the year, the proportion operating at or close to full capacity (>90 percent) rises from 22 percent to 27 percent, while those operating below 50 percent of capacity fall from 14.6 percent to 10 percent. Consistent with this, the level of investment spending in buildings, plant and machinery and vehicles and equipment and other investments is expected to rise throughout 2010. However, there is no matching expectation of significant employment growth, possibly indicating that employers feel that the existing workforce is sufficient to support higher production levels at a time when there is a strong expectation of renewed upward pressure on wages in 2011.

6. Interest Rates and Debt

The extent of business borrowing within the domestic economy is expected to increase in the second half of the year, although it may start to decline thereafter. This is in line with some renewed expectation of interest rate increases as the economy recovers and to counter emerging price pressures. Negative net balances suggest some apprehension towards borrowing from South Africa. This is despite a stronger expectation of increases in domestic interest rates and could be due to perceived currency risk following the recent depreciation of the Pula against the rand. Improved ease of access to domestic borrowing could also be a factor.

7. Inflation Outlook

There has been a further downward revision of expectations for inflation in 2010 to 8.8 percent compared to 10.2 percent in the previous survey. This is despite the increase in the standard rate of VAT from 10 percent to 12 percent that had been announced in February, shortly before the survey commenced. However, for 2011 the expectation is that inflation will rise by 0.7 percentage points to 9.5 percent. Expectations among businesses that inflation in 2010 and 2011 would exceed the Bank of Botswana's objective of 3-6 percent was nearly unanimous across all sectors at around 90 percent of firms that participated in the survey. While consistent with expectations regarding input costs, this may possibly suggest that businesses had yet to be convinced that the impact of high VAT on inflation would be transitory.

8. Conclusion

The result of the survey points to an improvement in perceptions about business conditions, especially regarding output and sales. This is despite the Budget Speech that had recently announced plans to restrain Government spending, including through an extension of the salary freeze for civil servants. However, despite willingness by businesses to invest in new capacity, there is clearly concern about possible price increases across a range of inputs, and this may be starting to elevate expectations of future inflation.

Going forward, since the survey was conducted, there is renewed uncertainty about the strength of the global economy. This may impact on prospects for the domestic economy, despite the relative strength of the economies that have been driving the international demand for commodities, including diamonds.

APPENDIX A

TABLE 1:
SELECTED RESULTS FROM THE BUSINESS EXPECTATIONS SURVEYS, SEPTEMBER 2009 AND MARCH 2010

(All results are percentages; all are net balances with the exception of overall business conditions, which are gross balances)

	MARCH 2010			SEPTEMBER 2009		
	H1 2010	H2 2010	H2 2010-H1, 2011	H2 2009	H1 2010	H1 -H2 2010
Output						
• *Production*	6.4	38.8		-58.0	49.7	…
• *Expected level of stocks*	2.9	12.5		17.0	27.5	…
• *Volume of sales*	11.0	38.8		-43.9	8.7	…
• *Expected volume of goods exported*	21.0	20.0		-33.7	10.5	…
• *Expected volume of goods imported*	14.0	39.5		-37.6	3.8	
• *Employment*	…	-0.3	-3.0	…	39.8	-2.08
• *Profitability*	-23.34	-11.1		1.3	-39.8	…
Input costs						
• *Materials*	…	-0.6	74.1	…	44.3	51.4
• *Rent*	…	3.6	76.2	…	59.8	59.5
• *Utilities*	…	66.2	84.6	…	41.8	57.1
• *Wages*	…	-0.3	63.8	…	29.4	38.1
• *Transport*	…	54.8	75.1	…	58.9	55.1
• *Other*	…	81.5	74.7	…	59.6	64.2
Investment						
• *Buildings*	21.77	29.2	…	-12.9	11.8	…
• *Plant and machinery*	38.22	32.9	…	25.1	27.2	…
• *Vehicles and equipment*	27.33	39.2	…	40.8	49.7	…
• *Other*	17.29	18.7	…	-33.4	-6.0	…
Expected volume of borrowing						
• *Domestic*	…	14.00	-1.0	…	-5.5	-21.3
• *South Africa*	…	-14.8	-15.2	…	-42.8	-42.5
• *Elsewhere*	…	6.3	6.7	…	-23.5	-23.5
Expected level of lending interest rates						
• *Domestic*	…	3.5	20.0	…	4.1	22.1
• *South Africa*	…	0.9	11.2	…	-22.2	-6.2
• *Elsewhere*	…	43.9	53.8	…	-26.6	-24.5
Business Conditions						
Rating current business conditions satisfactory						
• *Overall*	55	…	…	47	…	…
• *Exporters*	57	…	…	38	…	…
• *Domestic*	55	…	…	49	…	…
Optimistic about business conditions in 6 months' time						
• *Overall*	…	54	…	…	47	…
• *Exporters*	…	57	…	…	38	…
• *Domestic*	…	53	…	…	49	....

Optimistic about business conditions in 12 months' time						
• *Overall*	…	…	*71*	…	…	*59*
• *Exporters*	…	…	*86*	…	…	*63*
• *Domestic*	…	…	*69*	…	…	*59*

METHODOLOGY

In carrying out the survey the following methodologies were used. They closely follow those used by the OECD and, in part, the Bureau of Economic Research in South Africa.

The first step is to assign the plus (+), minus (-) and equal (=) signs to responses in accordance with the following criteria. The (+) sign is used to denote an increase or higher or more or above normal; the (-) sign a decrease or lower or less or below normal; and the (=) sign to denote the same or normal or uncertain. Even with this type of coding, responses to multiple choice questions are difficult to interpret when all are presented simultaneously. Because of this difficulty, BTS results are normally converted into a single number through the use of net balances (B). The net balance method transforms all responses to a particular question to percentages and discards the percentage of (=) responses and subtracts the percentage of (-) responses from the percentage of (+) responses, i.e., $B = 100\ (P - N)$, where B is the net balance and takes values from –100 to +100, P is the percentage of (+) responses in the total and N is the percentage of (-) responses in the total. Experience elsewhere, notably in the OECD, shows that this loss of information is unimportant for most uses and that for such purposes as cyclical analysis the use of net balances is considered both practical and adequate. If, however, this information is considered important, it can be shown along with the net balances information. Changes in the percentage of (=) replies can be interpreted as showing changes in the degree of uncertainty among respondents.

In the Report, the majority of the survey results are reported on a net balance basis, a few on a gross balance basis (e.g., current business conditions) and yet others for which quantitative data were directly collected, e.g., inflation and national output growth rates no netting or grossing is done, they are reported as annual averages. Net balances, as defined above, are used without the explicit reference to the term 'net'. Where a different concept of 'balance' is used (e.g., gross), an appropriate qualifying word is included.

To give an example of how the net balances are interpreted. If 80 percent of the respondents expect an increase in investment expenditure in Q2 of 2003 compared with the same quarter in 2002, 10 percent expect a decrease, while 10 percent expect no change and/or are uncertain, it can be concluded that the net majority (70 percent = 80 percent – 10 percent) of respondents expect to increase investment expenditure in the next quarter. The reverse – that investment expenditure is expected to fall – would be true if the net balance was a negative 70 percent. A net balance value between 0 and 100 indicates an improvement compared to the corresponding period in the past, between 0 and –100 a deterioration, and 0 no change.

The business confidence index (BCI) reflects business conditions at a particular time and thus there is no direct comparison with a past corresponding period. Unlike the reporting of most other results, the BCI is reported on a gross basis. That is, it is calculated as the percentage of respondents indicating 'satisfactory' conditions to the total number of respondents indicating 'unsatisfactory' and 'satisfactory' conditions. The BCI value varies from 0 to 100, with zero indicating extreme lack of confidence while 100 indicates *extreme confidence. As an example, a BCI value of 40 percent is interpreted to mean that 40 percent of all respondents (gross) rated prevailing conditions as satisfactory.*