

# Business Expectations Survey September 2013 – Summary Review

## 1. Introduction

The BES reports on current confidence levels among local businesses as well as their expectations of movements in key economic indicators. As such, it is an important additional source of information for policy analysis.

The Bank undertakes the Business Expectation Survey (BES) twice a year in order to collect information on perceptions among the local business community about the prevailing state of the economy, as well as future prospects. Businesses are asked to respond to a range of questions relating to, among others, the business climate and prospects for economic growth, inflation and business performance over the survey horizon, which is the next twelve months. The survey responses are mainly in the form of the anticipated direction of change: i.e., whether conditions will improve, worsen or stay the same. The results are then consolidated in the form of an overall ‘net balance’ between positive and negative responses. The major exception to this is the measure of overall business confidence, which is presented on a gross basis, and also the proportions quoted in the section on ‘challenges’. Thus, by design, the survey responses are predominantly qualitative, yet they provide valuable additional indicators to inform analysis.<sup>1</sup>

This report presents results of the survey carried out between September and November 2013<sup>2</sup> for three distinct periods: the second half of 2013 (H2-2013; i.e., the current period); the first half of 2014 (H1-2014), and the twelve-month period to December 2014 (H1:2014-H2:2014). The survey sample covers 98<sup>3</sup> businesses in agriculture, mining, manufacturing, water and electricity, construction, trade, transport, and financial and business services. For this survey, 51 percent of surveyed businesses responded, compared to 60 percent in the March 2013 survey.

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<sup>1</sup> The Appendix at the end of this report gives more details on the methodology.

<sup>2</sup> A summary of most of the results is shown in Table 1. All results are percentages: all are net balances with the exception of overall business conditions, which are gross balances.

<sup>3</sup> The survey sample normally includes 100 businesses. However, two businesses have since been acquired by others. They will be replaced as part of a more general review of the survey sample.

## **2. Survey Context: Recent Economic Developments**

Global economic expansion still sluggish and fragile; emerging markets growth still strong but declining.

The world economy remains weak and its growth rate for 2013 has been revised down from 3.2 percent in July to 2.9 percent in October<sup>4</sup>. Global growth is projected to rise to 3.6 percent in 2014. Among the advanced economies, the United States of America has shown the clearest signs of recovery, although this may be constrained by tighter fiscal policy. There is now greater stability in the euro area, although negative growth of 0.4 percent is projected for 2013. Growth in emerging markets and developing economies is projected at 4.5 percent in 2013 and 5.1 percent in 2014. However, there have been concerns about slowing growth in some of the key emerging market economies, notably China and India.

In the domestic economy, growth prospects are constrained by drought conditions, (which have led to the imposition of restrictions on water usage), power supply interruptions and the uncertain global economic outlook. Estimates of GDP released during the survey period indicate that the economy grew by 4.6 percent in the 12 months to June 2013, up from 3.6 percent in the previous quarter. This improvement mainly reflects a stabilisation in the mining sector which contracted by only 0.7 percent, compared to 6.1 percent in the previous quarter. Non-mining GDP expanded by 5.5 percent compared to 5.3 percent increase in the previous quarter. Subdued demand for commodities will continue to constrain prospects for mineral exports. However, the successful transfer of sales by the Diamond Trading Company (DTC) to Gaborone should have a positive impact on economic activity. The planned increase of development spending by Government of 18.7 percent should also support domestic demand, although this has yet to be seen in actual spending levels. The survey was undertaken in the period immediately following three successive interest rate cuts by the Monetary Policy Committee.

## **3. Business Confidence and Performance**

Overall confidence on current business conditions has declined compared with the March 2013 survey but improvement is expected in subsequent periods.

The overall business confidence in the prevailing business conditions (H2-2013) is at 45 percent, 2 percent lower than the level that prevailed during the March 2013 survey. This was much lower than the 74 percent expected for this period at the time of the March 2013 survey, a clear indication that expectations have been revised downwards. However, the level of optimism rose again for the first half of 2014 to 57 percent and to 64 percent over the next 12 months.

The confidence among domestic-oriented businesses has held on at 49 percent, the same as in the March 2013 survey, despite ongoing challenges. This is consistent with continued growth of the non-mining sectors indicated in the latest GDP estimates and the positive outlook presented in the Budget Speech in February 2013. In contrast, there has been a decline in the current confidence levels of export-oriented businesses from 44 percent to 38 percent, although, as with those focused on the domestic market, there is a significant rebound in confidence later in the survey period, when export volumes are expected to increase.

#### **4. National Output**

Expectations for domestic economic activity moderate

Businesses expect real GDP to increase by 4.3 percent in 2013, with the same growth rate expected in 2014. This is significantly lower than the 5.9 percent (revised downwards to 4.4 percent for 2013 in the recent Budget Strategy Paper for 2014) indicated in the 2013 Budget Speech, but reflects more recent estimates of actual growth from Statistics Botswana.

#### **5. Production, Sales, Investment and Input Costs**

Mixed signals on production and employment but strong expectations for rising cost of inputs.

The survey shows that firms are hesitant in their production objectives due to the prevailing uncertain economic environment. While an increasing proportion of respondents anticipate improvement in their utilisation of production capacity, expectations of capacity utilisation were adjusted downwards since the previous survey. It then suggest that intentions to significantly increase the number of people employed and other elements of investment compared to the previous period are at variance with projections for capacity utilisation, sales volumes and modest growth of the economy.

Negative sentiments regarding rising costs of all inputs, including utilities, transport and wages are very strong compared with the March 2013 survey. Such sentiments could be due to anticipated increase in utility costs, especially electricity, where the Government subsidy to consumers is sizable. Businesses may also consider the possibility of increase in salaries of civil servants given projected improvement in the Government financial position.

#### **6. Interest Rates and Debt**

An increased appetite for borrowing is supported by expectations of lower domestic borrowing costs.

In line with their capital investment plans, there is increased appetite for additional borrowing from local and regional markets, despite the anticipated higher interest rates in regional financial markets. There is, however, some anticipation, albeit limited, of lower interest rates in Botswana, in both the current and future periods. Expectations of lower borrowing cost in the domestic market could be due to the reduction of the Bank rate from 9.5 percent to 8 percent during the survey period.

#### **7. Inflation Outlook**

Inflation expectations continue to decline, but remain outside the top end of the 3 – 6 percent inflation objective.

There has been a decline in inflation expectations for 2013 from 7.7 percent to 7.1 percent in the September 2013 survey. Similarly, there was a decline in inflation expectations from 7.5 percent to 7.2 percent for 2014. The downward trend in expectations is broadly consistent with observed trends in actual inflation during the survey period when inflation fell within the Bank of Botswana's inflation objective range of 3 - 6 percent. The number of businesses which anticipate that inflation could be brought within the inflation range had also increased significantly for both periods. The persistence of expectations in excess of the objective range could also reflect continuing concerns over possible increases in the cost of inputs.

## **8. Challenges**

Weak domestic demand and availability of skilled labour feature among the challenges faces by local businesses.

As has been the case in past surveys, concerns over limited domestic demand were the most commonly-cited challenge by respondents.<sup>4</sup> This is consistent with fiscal consolidation measures put in place by the Government, including restrained growth in salaries. This is followed by concerns over availability of skilled labour, which has been raised since the implementation of the Points Based System (PBS) for assessing work permit applications in 2012. The PBS has subsequently been revised. It appears that the new criteria may not yet have resolved the concerns of local businesses.

## **9. Conclusion**

Business confidence deteriorated from 47 percent to 45 percent in September 2013, and remains on the low side when compared to the average of previous surveys, when confidence had typically exceeded 50 percent. Looking ahead, there is some increase in optimism. However, the protracted modest global growth and uncertain prospects, as well as expectations of sluggish domestic demand and uncertainty surrounding the availability and cost of key inputs (electricity and water) undermine business confidence. Inflation expectations, although remaining outside the Bank of Botswana's medium-term objective range, appear to have responded to the recent decrease in inflation into the objective range of 3 - 6 percent and, as such, there is broad support for the current monetary policy stance.

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<sup>4</sup> This is unsurprising given the dominance among respondents of those for which the main market is Botswana.

**TABLE 1: Results From the Business Expectations Surveys, September 2013 and March 2013**  
(All results are percentages and net balances except for overall business conditions, which are gross balances)

	SEPTEMBER 2013			MARCH 2013		
	H2 2013	H1 2014	H1 2014-H2 2014	H1 2013	H2 2013	H2 2013-H1 2014
<b>Output</b>						
• Production	35.1	45.6		9.8	30.0	
• Expected level of stocks	35.1	35.1		27.2	-0.2	
• Volume of sales	11.9	35.7		14.5	24.2	
• Expected volume of goods exported	6.6	36.4		25.9	16.5	
• Expected volume of goods imported	-1.38	3.95		-16.5	-16.5	
• Employment	...	18.8	22.7	...	-15.2	-2.5
• Profitability	12.4	39.5	...	16.6	17.8	...
<b>Input costs</b>						
• Materials	...	99.4	94.3	...	51.5	43.7
• Rent	...	57.7	69.7	...	13.3	31.8
• Utilities	...	93.8	93.5	...	59.0	47.5
• Wages	...	93.2	92.5	...	48.5	58.6
• Transport	...	98.7	97.5	...	60.8	56.1
• Other	...	94.9	95.1	...	56.8	48.9
<b>Investment</b>						
• Buildings	26.0	24.2	...	-6.7	-25.9	...
• Plant and machinery	30.5	32.9	...	24.7	8.3	...
• Vehicles and equipment	62.1	58.5	...	17.3	7.0	...
• Other	54.0	27.3	...	6.1	-1.7	...
<b>Expected volume of borrowing</b>						
• Domestic	...	27.7	39.5	...	0.1	1.1
• South Africa	...	28.5	28.5	...	-6.1	10.1
• Elsewhere	...	42.0	44.1	...	16.7	17.1
<b>Expected level of lending interest rates</b>						
• Domestic	...	-3.4	-8.9	...	14.9	17.7
• South Africa	...	25.3	26.9	...	7.1	8.0
• Elsewhere	...	10.7	21.4	...	4.0	1.4
<b>Business Conditions</b>						
Rating current business conditions satisfactory						
• Overall	45.0	...	...	47.0	...	...
• Exporters	38.0	...	...	44.0	...	...
• Domestic	49.0	...	...	49.0	...	...
Optimistic about business conditions in 6 months' time						
• Overall	...	57.0	...	...	64.0	...
• Exporters	...	39.0	...	...	67.0	...
• Domestic	...	65.0	...	...	63.0	...
Optimistic about business conditions in 12 months' time						
• Overall	...	...	64.0	...	...	74.0
• Exporters	...	...	63.0	...	...	84.0
• Domestic	...	...	64.0	...	...	57.0

## APPENDIX: METHODOLOGY

1. In processing the BES results the following methodologies were used. The methods as applied more generally and specifically in this Report are discussed below. They closely follow those used by the OECD and to some extent by the Bureau of Economic Research (BER) in South Africa.
2. The first step is to assign the plus (+), minus (-) and equal (=) signs to responses to each question in accordance with the following criteria. The (+) sign is used to denote the following responses: increase or higher or more or above normal; the (-) sign to denote decrease or lower or less or below normal; and the (=) sign to denote 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, BES 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 of the BES information 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. In addition, changes in the percentage of (=) replies can be interpreted as showing changes in the degree of uncertainty among respondents.
3. 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 the word balance is used, e.g., gross, an appropriate qualifying word is included.
4. What follows is 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.
5. The business confidence index (BCI) reflects business conditions at a particular point in time and thus there is no 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.