

Business Expectations Survey March 2014 – 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 Expectations 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.¹

This report presents results of the survey carried out between March and April² for three distinct periods: the first half of 2014 (H1-2014; i.e., the current period); the second half of 2014 (H2-2014), and the twelve-month period to June 2015 (H2:2014-H1:2015). The survey sample covers 97³ businesses in agriculture, mining, manufacturing, water and electricity, construction, trade, transport, and financial and business services. For this survey, 55 percent of surveyed businesses responded, compared to 51 percent in the September 2013 survey.

2. Survey Context: Recent Economic Developments

Prospects for the global economy are positive, although mixed for the domestic economy

The world economy strengthened during the second half of 2013⁴, and is expected to improve further in 2014 and 2015, mainly due to recovery in the advanced economies. Global growth is projected to be slightly higher in 2014, at around 3.7 percent, and 3.9 percent in 2015. Among

¹ The Appendix at the end of this report gives more details on the methodology.

² 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.

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

⁴ This global outlook was derived from IMF’s World Economic Outlook April 2014. Subsequent to the conduct of the survey, downside risks of lower growth have increased, reflecting heightened geopolitical tensions together with lower-than-expected first quarter growth in the USA.

the advanced economies, the United States of America (USA) has shown the clearest signs of recovery; projected at 2.8 percent in 2014, up from 1.9 percent in 2013. There is now greater stability in the euro area, and it is projected to grow at a moderate pace of 1 percent in 2014 as compared to the negative growth of 0.4 percent in 2013. Growth in emerging markets and developing economies is projected at 5.1 percent in 2014 and 5.4 percent in 2015. However, there have been concerns about slower growth in emerging markets, particularly 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 uncertainty regarding the strength of global recovery. Estimates of GDP released during the survey period indicate that the economy grew by 5.9 percent in 2013, up from 4.3 percent in the previous year. This improvement mainly reflects a stabilisation in the mining sector which expanded by 10.6 percent, compared to -0.7 percent in the previous quarter. Non-mining GDP growth slowed down from 6.3 percent in 2012 to 5.2 percent in 2013. The Budget Speech (presented in February just prior to the commencement of the survey), forecast growth for 2014 of 5.1 percent driven by expansion in the non-mining sectors. Strengthening global growth should also provide a broad base for recovery in demand for Botswana's mineral exports, while the budgeted increase in government spending (including the 4 percent increase to civil service salaries) will be supportive of domestic demand. However, disruptions in water and electricity supply may dampen growth prospects, particularly if they are prolonged.

3. Business Confidence and Performance

Overall confidence on current business conditions has declined considerably, but improvement is expected in subsequent periods

The overall business confidence in the prevailing business conditions (H1-2014) is at 38 percent, 7 percent lower than the level that prevailed during the September 2013 survey. This was much lower than the 57 percent expected for this period at the time of the September 2013 survey, a clear indication that expectations have been revised downwards. However, similar to the trend in recent surveys, the level of optimism rises again for the second half of 2014 to 64 percent and to 68 percent over the next 12 months.

The confidence among domestic-oriented businesses is 39 percent, lower than 49 percent in the previous survey. This is consistent with slower growth in the non-mining sectors, as indicated in the latest GDP estimates. Furthermore, there has been a decline in the current confidence levels of export-oriented businesses from 38 percent to 33 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

Moderate expectations on economic growth

Businesses expect real GDP to grow by 3.9 percent in 2014 and by 4.3 percent in 2015. This is significantly lower than the 5.1 percent indicated in the 2014 Budget Speech, but is consistent

with the declining growth of non-mining private sectors reported in more recent estimates from Statistics Botswana.

5. Capacity Utilisation, Investment, Input costs and Employment

Subdued expectations on production, volume of sales and investment on fixed assets but strong sentiments on rising cost of inputs

The survey indicates that businesses generally expect only marginal increases in output, volume of sales, exported goods and investment in fixed assets during 2014. Moreover, these expectations have been revised downwards compared to the previous survey. Such revisions are in line with challenging conditions reported by businesses.

Sentiments amongst firms regarding rising costs of inputs are still strong although somewhat lower than in the September 2013 survey. In the second half of the year, expectations range from a minimum of 45.1 percent (transport) to a maximum of 94.1 percent (materials). In the twelve month period to June 2015, expectations range from a minimum of 50.7 percent (other) to a maximum of 98.9 percent (materials). Increases in input costs such as the annual minimum wage adjustments, electricity and water tariffs and petroleum products' prices are a major concern as they reduce the profitability of businesses.

6. Debt, Interest Rates and Access to Finance

Access to finance and cost of borrowing supportive of business

Businesses would prefer international borrowing to finance their investment or operating activities as opposed to funding from Botswana or South Africa during the second half and the twelve-month period to June 2015. There is, however, some anticipation of lower interest rates in Botswana in the second half and twelve-months period to June 2015. Expectations of lower borrowing costs in the domestic market could be due to the reduction of the Bank rate from 8 percent to 7.5 percent in the months prior to the survey period together with continued low prevailing rates of inflation. Firms anticipate that lending rates will increase in South Africa, while in the international market there is much weaker expectation that rates will increase over the outlook period. In terms of access to finance, an overwhelming percent of the surveyed businesses (67.9 percent) consider access to credit as normal, while 7.5 percent considers it as easy and 24.5 percent think that it is tight. In comparison with the September 2013 BES, perceptions of access to finance have improved slightly.

7. Inflation Outlook

Inflation expectations remain within the Bank of Botswana inflation objective

There has been a decline in inflation expectations for 2014 to 5.7 percent from 7.1 percent in the September 2013 survey, and to 5.9 percent from 7.2 percent for 2015. The downward trend in expectations is broadly consistent with observed trends in actual inflation during the survey

period when inflation was within the Bank of Botswana's inflation objective range of 3 – 6 percent. It is significant, however, that overall expectations have now also fallen within the objective range: of the survey respondents, 73.1 percent expect inflation to be within the inflation objective in 2014 and 61.5 percent in 2015. This may be as a result of the sustained period during which inflation has been in the objective range, adding to the Bank's policy credibility.

8. Challenges

Weak domestic demand and restrictive regulatory environment present major challenges

As has been the case in past surveys, concerns over limited domestic demand were the most commonly-cited challenges by businesses.⁵ This is consistent with fiscal consolidation measures put in place by the Government, including restrained growth in salaries. The second concern is to do with the regulatory framework for business and the third concern is availability of skilled labour. The last two challenges are closely related and are normally associated with the difficulty in acquisition of work and residence permits for expatriate skilled manpower, where it appears that the new criteria under the Points Based System (PBS) introduced in 2012 have not yet resolved the concerns of local businesses. It is hoped that the recently enacted Immigration Amendment Act of 2014 will now help resolve this issue.⁶

Businesses also expressed some concern about power outages that occurred earlier this year but they are hopeful that it is just a temporary problem and, hence, do not intend to either retrench workers or reduce operating hours.

9. Conclusion

Business confidence deteriorated from 45 percent in September 2013 to 38 percent in March 2014, 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, uncertainty regarding the strength of global recovery, slower growth of non-mining GDP and uncertainty surrounding the availability and cost of key inputs (electricity and water) undermine business confidence. Inflation expectations, remaining inside the Bank of Botswana's medium-term objective range, 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.

⁵ This is unsurprising given the dominance among respondents of those for which the main market is Botswana.

⁶ The act was amended among others, to enhance efficiency in the work and residence permit (such as reduction in turn-around time for processing applications) and increase the validity period which such permits were issued.

TABLE 1: Results From the Business Expectations Surveys, March 2014 and September 2013
(All results are percentages and net balances except for overall business conditions, which are gross balances)

	MARCH 2014			SEPTEMBER 2013		
	H1 2014	H2 2014	H2 2014- H1 2015	H2 2013	H1 2014	H1 2014-H2 2014
Output						
• Production	21.6	7.5		35.1	45.6	
• Expected level of stocks	-3.5	-8.8		35.1	35.1	
• Volume of sales	12.1	14.3		11.9	35.7	
• Expected volume of goods exported	15.3	42.3		6.6	36.4	
• Expected volume of goods imported	2.1	25.4		-1.38	3.95	
• Employment	...	4.4	10.4	...	18.8	22.7
• Profitability	21.6	11.0	...	12.4	39.5	...
Input costs						
• Materials	...	94.1	98.9	...	99.4	94.3
• Rent	...	61.6	59.7	...	57.7	69.7
• Utilities	...	86.5	90.8	...	93.8	93.5
• Wages	...	81.2	80.1	...	93.2	92.5
• Transport	...	45.1	63.5	...	98.7	97.5
• Other	...	46.4	50.7	...	94.9	95.1
Investment						
• Buildings	30.0	41.3	...	26.0	24.2	...
• Plant and machinery	42.8	41.0	...	30.5	32.9	...
• Vehicles and equipment	23.2	41.3	...	62.1	58.5	...
• Other	22.1	29.1	...	54.0	27.3	...
Expected volume of borrowing						
• Domestic	...	-20.8	-36.2	...	27.7	39.5
• South Africa	...	-6.6	-16.7	...	28.5	28.5
• Elsewhere	...	-4.6	-5.9	...	42.0	44.1
Expected level of lending interest rates						
• Domestic	...	-22.6	-19.0	...	-3.4	-8.9
• South Africa	...	28.8	41.6	...	25.3	26.9
• Elsewhere	...	13.6	13.7	...	10.7	21.4
Business Conditions						
Rating current business conditions satisfactory						
• Overall	38.0	...	...	45.0	...	...
• Exporters	33.0	...	...	38.0	...	...
• Domestic	39.0	...	...	49.0	...	...
Optimistic about business conditions in 6 months' time						
• Overall	...	64.0	...	...	57.0	...
• Exporters	...	83.0	...	...	39.0	...
• Domestic	...	62.0	...	...	65.0	...
Optimistic about business conditions in 12 months' time						
• Overall	...	...	68.0	...	...	64.0
• Exporters	...	...	83.0	...	...	63.0
• Domestic	...	...	66.0	...	...	64.0

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, the 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 this 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, i.e., for 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.*