Business Expectations Survey March 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 or policy analysis.

The Bank undertakes the Business Expectation Survey (BES) twice yearly in order to collect information regarding 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 May 2013[2] for three distinct periods: the first half of 2013 (H1-2013; i.e., the current period); the second half of 2013 (H2-2013), and the twelve-month period to June 2014 (H2:2013-H1:2014). The survey sample covers 98[3] businesses in agriculture, mining, manufacturing, water and electricity, construction, trade, transport, and financial and business services. For this survey, 60 percent of surveyed businesses responded, compared to 68 percent in the September 2012 survey.

2. Survey Context: Recent Economic Developments

Economic expansion in the advanced economies remains sluggish and fragile; signs for slower growth in the emerging markets.

Global growth of 3.3 percent is projected for 2013, rising to 4 percent in 2014.[4] 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 the recession is expected to continue in the short term with growth of -0.3 percent forecast for 2013. Growth in emerging markets is projected at 5.3 percent in 2013 and

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, two businesses have since been acquired by others. They will be replaced as part of a more general review of the survey sample.

4 The global outlook was derived from IMF's World Economic Outlook April 2013.

5.7 percent in 2014, although there have been concerns about slowing growth, notably in China and India.

Growth prospects for the domestic economy 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 indicated that the economy grew in 2012 by 3.7 percent.[5] Growth in 2012 was driven by non-mining GDP which expanded by 5.8 percent, while mining contracted by 8.1 percent. Subdued demand for commodities will continue to constrain prospects for mineral exports; however, the impending transfer of sales by the Diamond Trading Company (DTC) to Gaborone could be a source of optimism, while the planned increase of development spending by Government of 18.7 percent is also expected to support domestic demand. The survey was largely complete before the Monetary Policy Committee cut interest rates at its meeting in late April, while the Pula was broadly stable during the survey period.

3. Business Confidence and Performance

Overall confidence on current business conditions remains subdued, but improvement is expected in subsequent periods.

Overall business confidence in the current period (H1-2013) is 47 percent, unchanged from the previous survey. Sixty-four percent of respondents are optimistic that business conditions will improve in the second half of the year, rising to 74 percent for the full survey period.

Despite ongoing challenges, confidence in current conditions among domestic-oriented businesses has improved somewhat, rising to 49 percent from 43 percent in the previous survey. This is consistent with continued growth of non-mining sectors indicated in the latest GDP estimates and the positive outlook presented in the Budget Speech in February. In contrast, there has been a sharp decline in the current confidence levels of export-oriented businesses, from 64 percent to 44 percent, although, as with those focused on the domestic market there is a significant rebound in confidence later in the survey period, reflecting expected increase in export volumes.

4. National Output

Expectations on economic growth relatively strong

Businesses expect real GDP to increase by 5.4 percent in 2013, slightly lower than the 5.9 percent indicated in the 2013 Budget Speech.[6] For 2014, a slightly slower growth of 4.9 percent is expected.

5 This is significantly below the forecast of 6.1 percent in the 2013 Budget Speech that was presented just prior to the commencement of the survey.

6 Other projections, for example, International Monetary Fund, indicate growth of around 4 percent in 2013.

5. Production, Sales, Investment and Input Costs

Capacity utilisation, sales and some capital spending are expected to increase, but employment prospects remain weak.

In order to satisfy an expected increase in sales, firms intend to progressively increase their capacity utilisation between the current period and second half of the year (H2 2013), with the proportion of firms using more than 80 percent of their capacity rising from25 percent to 44 percent. However, this is not matched by plans to increase employment. Similarly, expectations of increased investment are generally subdued (especially for expenditure on buildings) and have fallen since the previous survey.

Negative sentiments regarding rising costs of all inputs, including utilities, transport and wages, remain generally strong, although somewhat less so than in the previous survey, and with the notable exception of rent. The only category where expectations of an increase have risen since the previous survey is transport, indicating continuing concern over the price of fuel. Regarding rent, the sharp fall in those expecting increases could reflect increased competition in the property market, as substantial new developments come on steam.

6. Interest Rates and Debt

Borrowing from international markets would be preferred to domestic borrowing and South Africa, where higher interest rates are expected.

Given limited investment plans, there is little appetite for additional borrowing, especially in local and regional markets where interest rates remain relatively high. There is also some anticipation, albeit limited, of higher interest rates in both Botswana and South Africa.

7. Inflation Outlook

Inflation expectations have moderated, but remain above the 3 – 6 percent objective range.

There has been a decline in inflation expectations for 2013 to 7.7 percent from 8.2 percent in the previous survey. This falls further to 7.5 percent for 2014. The downward trend in expectations is broadly consistent with observed trends in actual inflation since the end of 2011. Respondents also continue to underscore the importance of low and stable inflation in supporting their business operations. Notwithstanding this, a significant number of respondents still feel that it is difficult to achieve the medium-term inflation objective of 3 - 6 percent for 2013 and 2014. As well as being aligned with actual inflation, the persistence of expectations in excess of the objective range could also reflect continuing concerns over possible increase in the cost of inputs.

8. Challenges

Weak domestic demand, availability of skilled labour/cost of finance and cost of labour were seen by respondents as having a significant negative impact on doing business.

As has been the case in past surveys, concerns over limited domestic demand were the most commonly-cited challenges by respondents.[7] This is consistent with fiscal consolidation measures being implemented by the Government, including restrained growth in salaries. This is followed by equally-ranked concerns over the cost of finance and availability of skilled labour. Regarding the latter, the issue of labour availability has been a renewed concern since the implementation of the Points Based System (PBS) for assessing work permit applications in 2012. The PBS has subsequently been revised but the new criteria may not yet have resolved the concerns of local businesses.

9. Conclusion

Business confidence is unchanged from September 2012, and remains on the low side when compared to the average of previous surveys, which had confidence typically exceeding 50 percent. While looking ahead there is some increased optimism, the protracted global economic slowdown continues to have a negative impact onprospects for the domestic economy and confidence remains fragile. Inflation expectations, although remaining outside the Bank of Botswana’s medium-term objective range, appear to have responded to the recent downward trend in inflation and, as such, are broadly supportive of the current monetary policy stance.

[7] This is expected given the dominance among respondents of those for which the main market is Botswana.

TABLE 1: Results From the Business Expectations Surveys, March 2013 and September 2012 (All results are percentages and net balances except for overall business conditions, which are gross balances)

	MARCH 2013			SEPTEMBER 2012		
	H1 2013	H2 2013	H2 2013-H1 2014	H2 2012	H1 2013	H1 2013–H2 2013
Output						
• Production	9.8	30.0		-9.0	34.2	
• Expected level of stocks	27.2	-0.2		14.3	14.3	
• Volume of sales	14.5	24.2		5.5	24.2	
• Expected volume of goods exported	25.9	16.5		24.1	24.1	
• Expected volume of goods imported	-16.5	-16.5		-9.2	3.5	
• Employment	…	-15.2	-2.5	…	-1.9	16.3
• Profitability	16.6	17.8	…	23.4	32.2	…
Input costs						
• Materials	…	51.5	43.7	…	58.2	64.2
• Rent	…	13.3	31.8	…	47.5	45.3
• Utilities	…	59.0	47.5	…	63.6	53.4
• Wages	…	48.5	58.6	…	69.4	60.5
• Transport	…	60.8	56.1	…	56.8	55.3
• Other	…	56.8	48.9	…	62.5	55.5
Investment						
• Buildings	-6.7	-25.9	…	-10.0	13.7	…
• Plant and machinery	24.7	8.3	…	40.5	23.6	…
• Vehicles and equipment	17.3	7.0	…	16.7	34.1	…
• Other	6.1	-1.7	…	18.7	22.1	…
Expected volume of borrowing						
• Domestic	…	0.1	1.1	…	20.7	28.6
• South Africa	…	-6.1	10.1	…	-4.8	13.5
• Elsewhere	…	16.7	17.1	…	8.9	-0.4
Expected level of lending interest rates						
• Domestic	…	14.9	17.7	…	7.6	3.7
• South Africa	…	7.1	8.0	…	4.6	8.2
• Elsewhere	…	4.0	1.4	…	2.5	-3.1
Business Conditions						
Rating current business conditions satisfactory						
• Overall	47.0	…	…	47.0	…	…
• Exporters	44.0	…	…	64.0	…	…
• Domestic	49.0	…	…	43.0	…	…
Optimistic about business conditions in 6 months' time						
• Overall	…	64.0	…	…	64.0	…
• Exporters	…	67.0	…	…	83.0	…
• Domestic	…	63.0	…	…	60.0	…
Optimistic about business conditions in 12 months' time						
• Overall	…	…	74.0	…	…	67.0
• Exporters	…	…	84.0	…	…	82.0
• Domestic	…	…	57.0	…	…	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, 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.