Business Expectations Survey March 2009: Summary Review

1. Introduction

The report presents results of the thirteenth Business Expectations Survey (BES) carried out between March and May 2009[1] for three distinct periods – the first half of 2009 (H1 2009), the second half of 2009 (H2 2009), and the twelve-month period to June 2010 (H1 2009-H1 2010). However, inflation and output measures are based on the national accounts year (June-July), and the calendar year, respectively.[2]

The survey sampled 100 businesses in agriculture, mining, manufacturing, water and electricity, construction, trade, transport, and financial and business services. Since the surveys commenced in 2003, the response rate has generally been on an upward trend (Chart 1); however, it is noted with concern that the response rate in the current survey fell sharply, from 65 percent in September 2008 to 54 percent.[3]

2. Survey Context: Recent Economic Developments

The survey was carried out at the time when the effects of the global economic and financial crises had started to severely affect the domestic economy. While the immediate impact was concentrated in the mining sector (and diamond mining in particular), other sectors have been affected to varying degrees and it might be anticipated that, especially in the context of pervasive uncertainty as to the duration of the slowdown, this will have a broader, negative impact on business sentiment.

Furthermore, the sharp contraction in mining has serious implications for the Government budget. Although existing spending programmes were largely maintained in 2009/10, current projections indicate a period of extensive budget deficits and the Government postponed the commencement of NDP 10 while future spending plans were reviewed. The results of this review were not known at the time the survey was undertaken, creating additional uncertainty for the many businesses that rely heavily on Government business activity.

3. Business Confidence and Profitability

Overall business confidence currently[4] stands at only 40 percent, compared with 82 percent in the previous survey (average 67 percent for the past three years[7]) that was conducted prior to the impact of the global recession on Botswana being so clearer. While this represents a major loss of confidence that can readily be associated with the impact of the recession, sentiment has so far remained more positive than in the wake of the 2005 devaluation, when it fell to 28 percent. This may reflect the extent to which government spending has continued to support domestic demand. However, for the second half of 2009, only 26 percent of the respondents expect business conditions to be satisfactory, before increasing to 36 percent for the 12 months ahead. This modest improvement in confidence is consistent with increased optimism that global economic

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1 *A summary of the main results is shown in Table 1, Appendix A.*

2 *The Central Statistics Office has commenced publishing national accounts on a calendar year basis and this will be adopted for subsequent BES reports.*

3 *Even achieving this level of response resulted in delays in processing the survey results as late submissions were incorporated.*

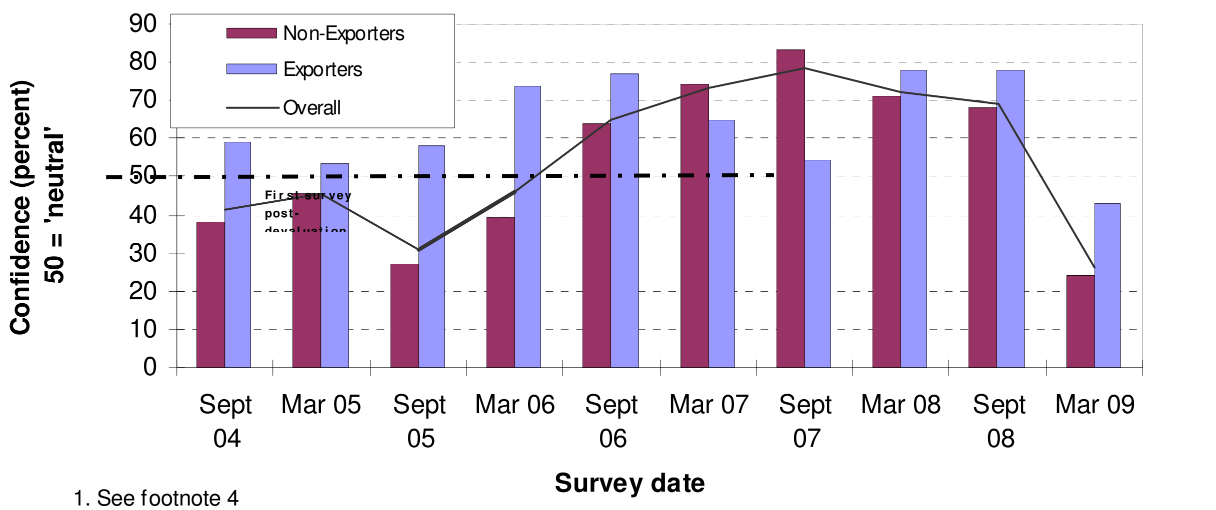
4 *'Current' in the context of this survey refers to the half-year period within which the survey was conducted.*

7 *This is the average of the current level of business confidence over the past three years or six surveys.*

growth may resume by 2010. Consistent with the decline in confidence among businesses, expectations regarding profitability are similarly pessimistic with negative net balances of -52.7 and -77.7 percent for H1-2009 and H2-2009, respectively.

With confidence levels of only 29 percent, exporters are currently the most pessimistic about prevailing business conditions. This pessimism is likely to reflect concerns about currently depressed levels of demand in global demand; however, there is some modest recovery in confidence among exporters in the second half of the year. In contrast, confidence among domestic producers falls from 41 percent to 24 percent amid widespread expectation of falling production. This divergence in trend between exporters and those producing for the domestic market may reflect the considerable uncertainty regarding the extent of possible cuts in government spending.

Chart 6: Current[1] Level of Business Confidence, September 2004 - March 2009



1. See footnote 4

Despite the negative sentiments expressed regarding business conditions and profitability, there is an expectation that GDP growth will be positive, albeit only modestly, at 2.8 percent in 2008/09 and 2.6 percent in 2009/10. While this is substantially lower than in the previous survey, when growth of 6 percent was expected for 2008/09, it remains optimistic, given that the suspension of diamond production for four months will have a substantial negative impact on overall GDP, particularly in 2008/09. In this respect, it is perhaps notable that these expectations are consistent with the growth estimate of 2.9 percent for 2008 that was published by the Central Statistics Office (CSO) while the survey was being conducted, possibly indicating the extent to which businesses use recent growth trends to guide their expectations. Businesses may also have derived general confidence from the 2009 Budget Speech that Government spending would be maintained at levels sufficient to support continued growth outside the mining sector.

4. *Employment and Investment*

Regarding employment, the survey points to a negative short-term outlook with a net balance of -52.3 percent in H2-2009. However, in line with the modest subsequent improvement in business confidence, there is some relative improvement looking ahead as the net balance rises to -12.1 percent for the twelve months to H1-2010.

While, overall, there is some continuing expectation that prices will increase, upward pressures on input costs have abated sharply. Whereas in the previous survey most net balances were in excess of 80 percent, there has been substantial reduction across all categories. In particular, material costs appear to have largely stabilised, and expectations of wage increases are much more muted. Expectations of an increase in utility costs have also fallen, although not to the same extent, possibly indicating concern that the Botswana Power Corporation will come under further pressure to increase electricity tariffs in order to recover the higher costs of importing power from South Africa, where Eskom had applied for a 34 percent interim tariff increase.[8]

In line with the anticipated reduction in production and employment, expectation of additional investment has also declined. This is particularly the case for investment in buildings where the net balances are significantly negative. There is some indication that investment in plant and machinery will be maintained, albeit at reduced levels, possibly reflecting the on-going need to adopt new production technologies.

5. *Debt and Financing*

Consistent with other indicators, expectations of additional borrowing, both domestically and externally, are also much reduced, with significant negative net balances in most cases. If this is an accurate assessment, then it may be anticipated that growth in credit to businesses would ease. This is despite the current strong expectations of further reductions in interest rates, suggesting that further easing of monetary policy alone may not be sufficient to help revive business confidence.

6. *Inflation Outlook*

Businesses have revised their expectations regarding inflation downwards, now expecting average inflation to be 10.7 percent and 10.5 percent in 2009 and 2010, respectively. This is compared to an average of 12.2 percent for 2009 in the previous survey. However, while such a downward revision follows the current trend in domestic inflation, it is very close to the rate of CPI inflation prevailing at the time of the survey. As with GDP growth, this may indicate that expectations regarding price increases are heavily based on current inflation, suggesting the need for more effective communication of monetary policy decisions with a view to anchoring such expectations. Almost all respondents expect inflation to remain outside the Bank of Botswana's objective range in both 2009 and 2010.

7. *Conclusion*

Overall, business confidence in the prevailing conditions (H1-2009) is very low at 40 percent, as both domestic- and export-oriented firms expressed pessimism. Confidence among producers for the domestic market is set to fall further, but there may be some improvement in sentiment in 2010. This is in line with increasing expectations that the global recovery may have commenced, although until this is clearly manifested, confidence across businesses is likely to remain at low

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[8] *An increase of 31 percent was subsequently granted.*

levels. The finalisation of the Government's revised plans for public spending over the NDP 10 planning period is also important in order to help reduce uncertainty.

Expectations regarding inflation have fallen, but only gradually. However, expectations of increases in business costs, including raw materials and wages, are much reduced, underlining the extent to which there is scope for easing monetary policy.

TABLE 1: SELECTED RESULTS FROM THE BUSINESS EXPECTATIONS SURVEYS, SEPTEMBER 2008 AND MARCH 2009

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

	SEPTEMBER 2008			MARCH 2009		
	H2 2008	H1 2009	H1-H2, 2009	H1 2009	H2 2009	H2 2009-H1 2010
Output						
• Production	69.2	56.6		-49.0	-36.8	…
• Expected level of stocks	21.3	21.3		14.1	28.9	…
• Volume of sales	80.0	70.0		-21.5	-0.77	…
• Expected volume of goods exported	28.7	31.4		-36.8	-42.6	…
• Expected volume of goods imported	50.2	54.6		-3.39	-39.4	
• Employment	…	7.1	18.1	…	-52.3	-13.1
• Profitability	-12.4	-11.8		-48.3	-58.0	…
Input costs						
• Materials	…	92.1	88.1	…	-1.0	0.8
• Rent	…	87.7	78.7	…	45.4	46.4
• Utilities	…	92.5	90.7	…	55.7	64.0
• Wages	…	90.1	76.9	…	32.9	23.8
• Transport	…	84.7	90.5	…	-7.4	67.5
• Other	…	89.6	93.4	…	43.6	10.7
Investment						
• Buildings	6.1	27.2	…	-20.6	-36.8	…
• Plant and machinery	75.2	80.0	…	17.7	24.4	…
• Vehicles and equipment	54.9	67.9	…	-0.6	1.4	…
• Other	30.1	65.7	…	1.5	-22.4	…
Expected volume of borrowing						
• Domestic	…	17.9	21.2	…	8.4	-25.7
• South Africa	…	-2.7	-2.8	…	-32.3	-30.5
• Elsewhere	…	-1.7	-1.8	…	-27.4	-27.4
Expected level of lending interest rates						
• Domestic	…	50.4	39.9	…	-39.4	-24.6
• South Africa	…	51.3	7.3	…	28.8	-48.2
• Elsewhere	…	37.6	32.2	…	-23.4	-23.4
Business Conditions						
Rating current business conditions satisfactory						
• Overall	82	…	…	40	…	…
• Exporters	78	…	…	29	…	…
• Domestic	82	…	…	41	…	…
Optimistic about business conditions in 6 months' time						
• Overall	…	69	…	…	26	…
• Exporters	…	78	…	…	43	…
• Domestic	…	68	…	…	24	….
Optimistic about business conditions in 12 months' time						
• Overall	…	…	71	…	…	36
• Exporters	…	…	78	…	…	29
• Domestic	…	…	70	…	…	37

Appendix A

METHODOLOGY

1 Processing the Results

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.

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.

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.

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.

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.*