

Business Expectations Survey March 2007: Summary Review

1. INTRODUCTION

This report summarises the business outlook derived from the eighth Business Expectations Survey (BES) carried out between March and April 2007 for three distinct periods – the first half of 2007 (H1 2007), the second half of 2007 (H2 2007) and the twelve-month period to June 2008 (H2 2007-H1 2008). The response rate in the current survey has improved markedly from 63 out of 100 firms in the previous survey to 73 percent, making it the highest rate of response since the BES was started. Table 1, at the end of the report, summarises the main results of the survey.¹

2. CONFIDENCE AND PROFITABILITY

As in the previous survey, respondents continued to be increasingly optimistic about economic activity, expecting (on average) real GDP to grow by 7.5 percent in 2006/07 before slowing down to 7 percent in 2007/08. It is interesting that firms have remained so positive about growth prospects, with expectations exceeding government's own published forecasts for the second half of NDP 9 (the Mid-Term Review shows an average of 4.4 percent for this period). Moreover, the most recent GDP estimates, which indicated negative growth in 2005/06, were publicly available at the time the survey was conducted.

The optimism among businesses is further reflected in the continued high levels of business confidence which remain at similar levels to the previous survey: 66 percent for H1 2007, rising to 75 percent in the second half of the year and 78 percent looking into 2008. In contrast to previous surveys, where optimism was boosted by exporters, confidence among export-oriented businesses appears to have fallen back from over 80 percent in the previous survey to around 54 percent in H1 2007 before increasing to about 70 percent over the rest of the survey period. However, optimism among locally-oriented firms continued to increase and is now higher than that of exporters in all the survey periods. Confidence among non-exporters for the first half of 2007 rose from 63 percent in the previous survey to 68 percent; this rises further to 78 percent in H2 2007 and to 87 percent over the next 12 months.

The expansionary budget for 2007/2008, the more explicit commitments made by Government in the 2007 Budget Speech to ensure successful project implementation,

¹ Unless otherwise stated, percentage changes refer to a net balance of opinion or expectations about the direction of change in a particular variable, i.e., the difference in percentage terms between positive responses (e.g., increase, higher) and negative responses (e.g., decrease, lower). Gross percentage changes refer to the proportion (in percent) of respondents that answered in a specified manner (see technical note on sampling and methodology).

² A summary of most of the results is shown in Table 1, Appendix A.

³ The business confidence measure is calculated as the proportion (in percent) of respondents that said business conditions were 'satisfactory'. The business confidence measure takes values from 0 to 100, with 0 indicating extreme lack of confidence, 100 extreme confidence, and 50 neutrality (see methodology section in Appendix A).

together with the positive progress made with major infrastructure projects (e.g. the Mmamabula power station), might be the reasons behind the improved optimism among the non-exporting firms, especially manufacturers and construction companies. Thus, such businesses may now believe that under-expenditure will no longer be significant, at least by the end of the current financial year.

Other indicators of the level of activities of firms also reflect increased optimism about business conditions during 2007. These include the level of production, the volumes of sales, exports and imports, all of which recorded high positive net balances, implying that more surveyed firms expected business conditions to improve than those who think they will deteriorate. Furthermore, in contrast to the previous survey, there is now a highly positive net balance indicating improved profitability: 56 percent in H1 2007 (compared to -20 percent in the previous survey) and 46 percent in H2 2007.

3. EMPLOYMENT, WAGES AND INVESTMENT

Firms expect the level of employment to increase, with net balances of 28 percent in H2 2007 and 36 percent over the next twelve months.

An overwhelming majority of businesses expect the cost of their inputs to rise, a trend that continues from the past two surveys. The only item with a slightly lower (but still high) net balance is rentals, perhaps indicating some continued slack in the business property market. With net balances of over 90 percent, fears of a rise in the cost of raw materials and transport continue to be very high, possibly reflecting impact of the continued depreciation of the Pula, possible increases in fuel prices and, increasingly, concerns about regional shortages of materials caused by the infrastructure boom in the build-up to the 2010 World Cup.

Expectations of higher wage rates have also increased substantially compared to the previous survey. This is consistent with the optimism about higher levels of economic growth, both in Botswana and in the region, and, in particular, the resulting possibility of skills shortages emerging in some sectors.

There are increasingly positive net balances in all categories of physical investment throughout 2007. This is consistent with the expected improvement in volumes of sales, profitability and other aspects of business performance covered in the survey.

4. DEBT AND FINANCING

Expectations regarding interest rates appear finely balanced. A slightly negative net balance of -10 percent in the previous survey has now been replaced by a similarly small positive net balance, suggesting that there is now some expectation of a further increase in rates. Given the envisaged increase in investment expenditure, borrowing, both within Botswana and abroad, may increase. However, low positive net balances suggest that high interest rates continue to make the use of own funds a preferred source of financing for investment.

5. INFLATION

Inflation expectations continue to drift downwards. This attests to the success of the Bank of Botswana's in engendering expectations of relatively lower levels of inflation. In the previous survey inflation was expected to average 9.1 percent in 2007 while in the current survey businesses expect inflation to average 8 percent in 2007 and 8.2 percent in 2008. However, while inflation expectations may have eased further against the background of a sustained decline in the rate of price increases, since the previous survey, sentiments suggest that inflation is expected to remain above the upper limit of the Bank's medium-term objective range of 3 - 6 percent. This is in line with the widely anticipated rise in costs of production inputs.

6. CONCLUSION

Based on the results of the survey, overall economic prospects for 2007 are promising as indicated by the high overall business confidence level. The high perception of favourable business conditions among the majority of locally-oriented firms compared to previous surveys is unprecedented over the short time that this survey has been conducted. However, it appears that the positive outlook is significantly dependent on improvements in implementation of the approved Government budget. Domestic demand should increase appreciably over the survey period if the initiatives by Government to improve budget implementation capacity succeed.

While investment intentions are positive, there appears to be apprehension about an impending rise in input costs, and, even though they have continued to fall, expectations of inflation remain outside the Bank's objectives. The expectations of continued high interest rates continue to indicate a strong appreciation of the Bank's commitment to maintain a tight monetary policy stance in pursuit of its objectives.

Technical Note – Survey Sample and Methodology

- a) *This survey is carried out biannually covering 100 businesses in agriculture, mining, manufacturing, water and electricity, construction, trade, transport and banks, insurance and business services. For purposes of consistency and continuity, in most instances the same businesses are covered in each round of the survey. Of these businesses, 72 percent were large-scale and 28 percent medium-scale, with size classification being based on number of employees (i.e., large = 100+). By way of comparison, the quarterly balance of payments survey only covers about 40 businesses.*
- b) *This report covers the survey carried out between March and April 2007, for the periods H1 2007, H2 2007 and H2 2007 – H1 2008. There is, however, a departure from these periods for questions concerning output and inflation, where, respectively, the national accounting (July – June) and calendar years are used.*
- c) *The survey questions cover firm's expectations regarding general business conditions, national output, company production and capacity, stocks/inventories, volume of sales, imports of goods and services, employment, input costs, investment, profitability, company borrowing, and inflation. Questions typically require 'relative responses' (higher or lower, more or less, satisfactory to unsatisfactory, etc.). However, questions on national output and inflation require more specific numerical answers.*
- d) *The methodology used closely follows those used by the Organisation for Economic Cooperation and Development (OECD) and, to some extent, by the Bureau of Economic Research (BER) in South Africa.*

**TABLE 1: OVERALL EXPECTATIONS FOR SELECTED VARIABLES (%)
DERIVED FROM THE EIGHTH SURVEY**

	September 2006			March 2007		
	H2 2006	H1 2007	H1 2007-H2 2007	H1 2007	H2 2007	H2 2007-H1 2008
Output						
• Production	49.5	60.7	...	53.7	65.0	...
• Expected level of stocks	-24.6	-10.6	...	33.9	-6.7	...
• Volume of sales	36.9	59.7	...	37.7	56.9	...
• Expected volume of goods exported	59.4	60.3	...	27.1	26.5	...
• Expected volume of goods imported	52.7	68.2		52.4	33.8	
• Employment	...	14.4	12.9	...	28.5	36.5
• Profitability	-19.7	-2.7	...	56.7	45.9	...
Input costs						
• Materials	...	88.1	83.6	...	89.8	93.7
• Rent	...	43.5	69.0	...	64.8	69.9
• Utilities	...	81.7	80.4	...	93.0	76.4
• Wages	...	55.3	77.9	...	86.5	91.5
• Transport	...	93.8	90.9	...	90.0	92.0
• Other	...	91.4	94.2	...	81.1	83.5
Investment						
• Buildings	39.0	21.6	...	50.3	36.7	...
• Plant and machinery	45.0	50.2	...	72.4	64.1	...
• Vehicles and equipment	63.0	76.4	...	70.0	74.2	...
• Other	50.5	47.9	...	59.3	57.5	...
Expected volume of borrowing						
• Domestic	...	23.4	-6.4	...	12.7	12.6
• South Africa	...	-8.0	-8.7	...	11.0	6.6
• Elsewhere	...	8.1	-1.6	...	0.8	-0.4
Expected level of lending interest rates						
• Domestic	...	25.2	-9.6	...	10.6	5.3
• South Africa	...	49.8	15.3	...	25.6	5.0
• Elsewhere	...	-7.4	-20.7	...	-13.0	-19.3
Business Conditions						
Rating current business conditions satisfactory	52	...	...	66	...	...
Optimistic about business conditions in 6 months' time	...	65	...	...	75	...
Optimistic about business conditions in 12 months' time	...	...	78	...	...	78

Notes: 1 All percentages refer to net balances, except for business conditions which are in gross percentage terms. (See the Appendix for more details on net balances)
2 ... means that data were not captured in the survey.