Business Expectations Survey March 2008: Summary Review

1. Introduction

1.1 This report presents a summary of results of the tenth Business Expectations Survey. The survey was conducted between March and April 2008, for three distinct periods: the first and second halves of 2008 (H1 & H2, 2008), and the twelve-month period to June 2009 (H2 2008 – H1 2009). The response rate was 66 percent, an improvement from 57 percent in the previous survey. Table 1, at the end of the report, summarises the main results of the survey.[1] In addition, now that the survey has been running for several years, some charts showing trends over time have been introduced.

2. Survey Context: Recent Economic Developments

2.1 The period during which the survey was conducted came shortly after the 2008 Budget Speech. This would have reinforced the context of robust growth, rapid acceleration in government spending and plans for major infrastructure development. In addition, many of those surveyed responded in the period immediately following the inauguration of the new president. However, the unscheduled power cuts that began in January may have affected confidence in growth prospects. The 2008 Monetary Policy Statement had also recently been launched. Inflation had been on a steadily upward trend since the previous survey, moving further outside the inflation objective, which would have focussed concerns on the direction of monetary policy. The 15 percent across-the-board salary increase for civil servants and the introduction of scarce skills allowances were also announced during the course of the survey, as were the upward revisions to BPC tariffs.

3. Business Confidence and Profitability

3.1 Respondents tended to be somewhat more optimistic about overall economic activity, expecting (on average) real GDP to grow by 5.9 percent in 2007/08; this is up from 4.5 percent in the previous survey, although still below 7.5 percent expected at the time of the March 2007 survey. For 2008/09, businesses expected real GDP to grow by 6.4 percent, indicating confidence that current growth rends will continue in to the medium term.

3.2 In line with the general optimism surrounding growth prospects, overall business satisfaction for the current period (H1 2008) was quite high at 71 percent, although down from 80 percent in the previous survey. This situation is stable across all the survey periods, with confidence levels averaging 72 percent. Confidence among both exporters and non-exporters was generally high. This is especially so for exporters, where it was 78 percent for each of the survey periods, indicating some recovery in exporter confidence since the previous

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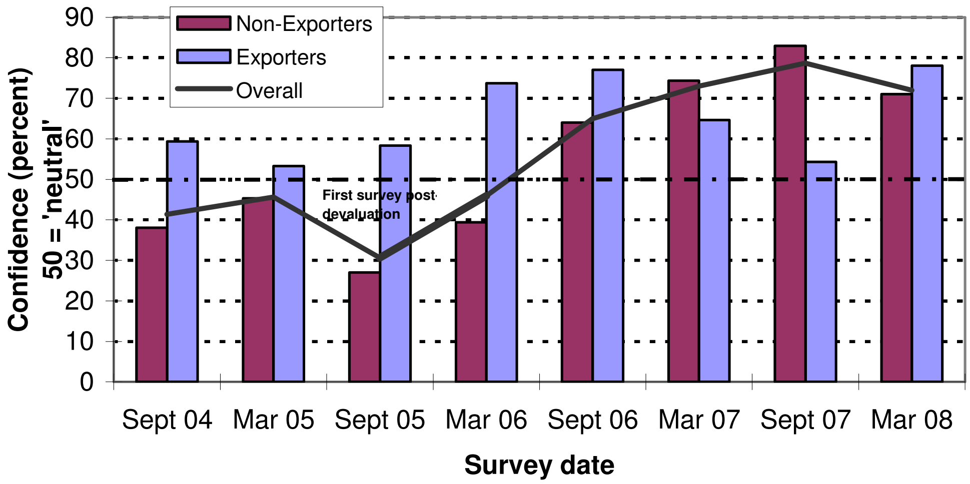
[1] Unless otherwise stated, percentage changes refer to a net balance of opinion or expectations about the direction of change in a particular variable, i.e., the difference in percentage terms between positive responses (e.g., increase, higher) and negative responses (e.g., decrease, lower). Gross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

survey. The confidence among non-exporters was also steady, averaging 71 percent, and may reflect a positive outlook on the expansionary budget outlined in the 2008 Budget Speech. Chart 1 shows the path of overall business confidence[2] since September 2004, with the steady recovery since the dip following the May 2005 devaluation clearly evident.

Chart 1: Average Levels of Business Confidence September 2004 - March 2008



3.3 *Consistent with the positive outlook in business conditions, positive net balances indicate anticipated improvements in key indicators, in particular production levels and volume of sales, as well as profitability. This may reflect anticipated growth in domestic demand due to accelerating government investment and increased consumer spending following the recent salary increases.*

4. *Employment, Wages and Investment*

4.1 *Although still just positive, in contrast to other output indicators, confidence regarding employment growth has fallen sharply. For H2 2008 and H2 2008 – H1 to 2009, the net balances are only 16 percent and 17 percent, respectively. At the same time expectations that wages will increase have risen, with net balances of 90 percent for both periods. This suggests that the civil service salary increase has quickly spread to wage pressures in the economy more widely, which may in turn be holding back employment growth.*

4.2 *As with previous surveys, a large majority of businesses expect increases in other input costs as well. The highest net balances were for transport costs, which averaged 91 percent, pointing to concern over increased fuel costs. Expectations of higher utility costs have also increased, while continued cost pressures for materials reflects the impact on demand generated by the regional expansion programme in the build up to the 2010 World Cup.*

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2 *The chart plots the simple average of the three periods covered in each survey.*

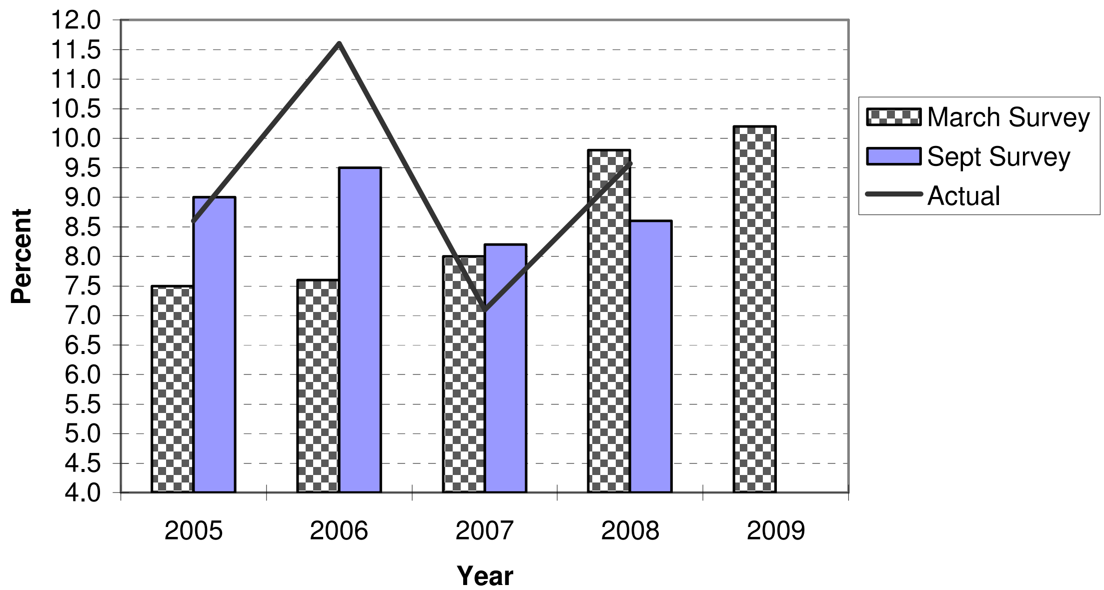
5. Debt and Financing

5.1 Compared to the previous survey, expectations of increases in domestic interest rates have increased significantly, to 70 percent for the period H2 2008 to H1 2009. Expectations of a further rise in interest rates in South Africa are even higher, reflecting the continued aggressive tightening of monetary policy by the South African Reserve Bank. This is also true for international interest rates despite the moves by some central banks to cut rates to stave off economic slowdown, suggesting heightened concerns about global inflation. In the circumstances, expectations of additional borrowing remain subdued, indicating that businesses will look to using their own resources to finance investment, most indicators of which remain positive.

6. Inflation

6.1 Expectations about average inflation have risen noticeably, to 9.8 percent for 2008 compared to 8.6 percent in the previous survey. For 2009, inflation is expected to average 10.2 percent. In is notable that the expectation for 2008 is very close to the average of 9.6 percent which is the average for the first four months of the year. This could suggest that inflation expectations are heavily influenced by current inflation trends. It may also be that expectations of businesses regarding inflation are currently below those of consumers, as households are likely to focus more closely on items of special importance, such as food, where prices have been increasing more rapidly. As indicated in Chart 2, which shows the evolution of business inflation expectations in relation to actual inflation since 2005, these expectations have been steadily rising, and are now at their highest levels since the survey began.

Chart 2: Inflation Expectations 2003-2009



7. Conclusion

7.1 The survey suggests that there remains considerable confidence that the increased momentum in the domestic economy can be maintained. The slight decline in confidence is consistent with an outlook of a faster rate of increase in prices and other supply-side constraints, including possible shortages of inputs. However, both locally-oriented and exporting businesses generally continue to see business conditions as favourable. This confidence is likely to become further entrenched if government continues to make progress in improving implementation capacity.

7.2 In line with recent price developments, inflation expectations have moved further away form the Bank of Botswana's medium term objective range of 3 – 6 percent. Among inputs there is particular concern about likely upward pressures on wages and transport costs. In turn, expectations of further monetary policy tightening over the next twelve months have also increased.

7.3 As indicated previously, caution must be exercised in interpreting the results of the survey. However, it is encouraging that the response rate has been increased again. Moreover, the survey results appear consistent with other sources of supplementary information, as well as prevailing economic and policy climate. Further improvements of the survey, including expanding the size and coverage of the sample continue to be investigated.

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 are 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: SELECTED RESULTS FROM THE BUSINESS EXPECTATIONS SURVEYS, SEPTEMBER 2007 AND MARCH 2008

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

	SEPTEMBER 2007			MARCH 2008		
	H2 2007	H1 2008	H1-H2, 2008	H1 2008	H2 2008	H2 2008-H1 2009
Output						
• Production	31.8	48.6		59.0	85.0	…
• Expected level of stocks	3.6	3.4		-37.1	34.0	…
• Volume of sales	40.7	68.5		70.2	81.6	…
• Expected volume of goods exported	41.3	36.4		56.4	55.6	…
• Expected volume of goods imported	42.6	40.1		53.5	42.2	
• Employment	…	48.7	34.5	…	16.00	16.7
• Profitability	17.9	56.4		34.4	57.6	…
Input costs						
• Materials	…	93.09	93.09	…	85.2	88.7
• Rent	…	72.44	80.37	…	58.8	74.0
• Utilities	…	74.51	88.51	…	89.3	87.8
• Wages	…	18.19	79.79	…	90.4	89.6
• Transport	…	84.62	77.43	…	92.3	91.1
• Other	…	73.97	74.53	…	91.1	85.8
Investment						
• Buildings	65.9	78.8	…	29.6	72.9	…
• Plant and machinery	65.9	78.6	…	68.8	80.3	…
• Vehicles and equipment	53.3	52.3	…	49.5	45.90	…
• Other	32.3	61.6	…	61.5	65.3	…
Expected volume of borrowing						
• Domestic	…	22.1	21.2	…	27.1	14.0
• South Africa	…	15.8	28.1	…	05.6	02.4
• Elsewhere	…	5.6	27.3	…	20.7	15.8
Expected level of lending interest rates						
• Domestic	…	13.5	42.7	…	54.0	69.7
• South Africa	…	53.6	55.2	…	84.74	78.4
• Elsewhere	…	15.1	16.6	…	74.74	79.3
Business Conditions						
Rating current business conditions satisfactory						
• Overall	71	…	…	71	…	…
• Exporters	38	…	…	78	…	…
• Domestic	777	…	…	70	…	…
Optimistic about business conditions in 6 months' time						
• Overall	…	80	…	…	72	…
• Exporters	…	50	…	…	78	…
• Domestic	…	85	…	…	71	…
Optimistic about business conditions in 12 months' time						
• Overall	…	…	85	…	…	73
• Exporters	…	…	75	…	…	78
• Domestic	…	…	87	…	…	72