

## **Business Expectations Survey September 2007: Summary Review**

### **1. INTRODUCTION**

*This report presents a summary of results of the ninth Business Expectations Survey. The survey was conducted between September and November 2007<sup>1</sup> for three distinct periods: – the second half of 2007 (H2 2007), the first half of 2008 (H1 2008) and the twelve-month period to December 2008 (H1-H2 2008). The response rate declined to 57 percent from a high of 73 percent recorded in the previous survey. This lower response rate is not out of line with the 63 percent response rate in the equivalent survey in 2006, and may reflect seasonal factors.*

*Table 1, at the end of the report, summarises the main results of the survey.<sup>2</sup>*

### **2. CONFIDENCE AND PROFITABILITY**

*Compared to the previous survey, respondents tended to be less optimistic about overall economic activity, expecting (on average) real GDP to grow by 4 percent in 2006/07 (previously 7.5 percent) and increasing to 4.5 percent (previously 7 percent) in 2007/08. This apparent negative shift in sentiment should be treated with caution, especially since it appears out of line other results of the survey reported below. But such expectations are more in tune with published projections (the Mid-Term Review of NDP 9 estimated growth to average 4.4 percent per annum in the second half of the Plan period) and it may be that the positive assessment of prospects was previously exaggerated. In particular, businesses may have a greater awareness of constraints that could hold back ambitious proposed developments.*

*Despite the lowered expectations regarding growth, overall business confidence for the second half of 2007 (H2 2007) remained high, easing only slightly from 75 percent in the previous survey to 71 percent. Moreover, the confidence level improves markedly for the first half of 2008 (80 percent) and further for the entire year (85 percent). As with the previous survey, high levels of confidence now seem well-entrenched among locally-oriented firms, at 77 percent (up from 73 percent) for H2 2007 and rising to 85 percent and 87 percent for H1 2008 and 2008 as a whole. It is probable that confidence among these firms has been heightened by the evidence that measures put in place by government to improve implementation of spending programmes are starting to take effect. In contrast, confidence among exporters has fluctuated over the survey periods.*

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<sup>1</sup> *The usual duration of the Survey is from September to October. However, on this occasion, responses were collected into November, due to some unforeseen delays in the distribution of the survey questionnaire.*

<sup>2</sup> *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).*

*Confidence among this group for H2 2007 fell from 75 percent to only 38 percent, but improves to 50 percent in H1 2008 and further to 75 percent for the whole year. Factors that may have contributed to increased caution on the part of exporters include recent policy tightening in South Africa, the continued turmoil in international financial markets, and uncertainty over future international trade arrangements.<sup>3</sup>*

*The high levels of business confidence are reflected in the general satisfaction regarding business conditions, with a 71 percent satisfaction rate in H2 2007, which rises to 80 percent and 85 percent in H1 2008 and H1-H2 2008, respectively. In some sectors, such as trade and finance, satisfaction levels were even higher. Consistent with the positive outlook in business conditions, positive net balances indicate anticipated improvements in key indicators, including production levels, volume of sales and profitability.*

### **3. EMPLOYMENT, WAGES AND INVESTMENT**

*The level of employment is expected to increase, with net balances of 48.7 percent in H1 2008 and 34.5 percent over the next twelve months.*

*As has been the case in the previous three surveys, a large majority of businesses expect a rise in inputs costs, led by the cost of materials with a net balance of almost 93 percent for 2008. The increased demand for materials, especially in South Africa, fuelled by the needs of the massive projects being undertaken in preparation for the 2010 World Cup, are likely to be a major factor underlying these sentiments. Expectations of rising transport costs are also very high, as indicated in net balances that average 80 percent for H1 2008 and H1-H2 2008, and are likely to reflect concerns about rising fuel costs. The high net balance for utilities reflects concerns about electricity shortages and statements from the Botswana Power Corporation that substantial tariff increases by ESKOM expected in 2008 will need to be absorbed. The increase in expectations of higher rentals suggests some tightening in the local commercial property market.*

*Surprisingly, expectations of higher wage rates have declined since the last survey. This is despite the anticipated boom in economic activity and the possibility that the outcome of the just-completed Salaries Review might result in upward pressure on private sector wages. However, there is a clear distinction between the first half of 2008, when there is only limited expectation of higher wages, and the year as a whole, for which the net balance is 80 percent and in line with other input categories. This difference may indicate that, possibly because of the time needed for recommendations of the Commission to be considered, any additional pressure on wages is likely to be concentrated in the second half of the year.*

*The net balances in the main categories of physical investment are generally high for the second half of 2007, with the buoyancy increasing into the first half of 2008. This is consistent with the expected improvement in volumes of sales, profitability and other aspects of business performance covered in the survey.*

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<sup>3</sup> *The exporters category covers mining and manufacturing businesses and includes only 14 percent of respondents.*

#### **4. DEBT AND FINANCING**

*There is little expectation of domestic lending rates rising in the first half of 2008, although this increases significantly for the year as a whole. Regarding interest rates in South Africa, the expectations of increased borrowing costs are much higher throughout 2008, possibly reflecting the recent sequence of tightening measures by the South African Reserve Bank. Although up from the previous survey, net balances on the expected volume of borrowing remain quite low (averaging about 20 percent for domestic borrowing), suggesting that firms will continue to rely heavily on their own funds to finance the expected higher levels of investment.*

#### **5. INFLATION**

*Expectations about average inflation have remained almost unchanged at 8.2 percent in 2007 (compared to 8 percent in the March survey) and 8.6 percent (8.2 percent) for 2008. Reflecting concerns about rising input costs, notably oil prices, inflation expectations currently appear to be entrenched above the upper end of both the Bank's short- and medium-term objective ranges.*

#### **6. CONCLUSION**

*Although the assessment of short-term growth prospects appears more subdued, the results of the survey suggest that high levels of overall confidence in the economy for 2008 have been maintained, or even increased slightly. The optimism among locally-oriented firms, which increasingly view domestic demand conditions as favourable, is likely to derive from the apparent success of government in making good its commitments to improve project implementation. Going into 2008, prospects for investment spending appear to be good, and are in line with the projected increase in production, sales and profits.*

*Inflation expectations persist at above 8 percent. This is despite an average CPI inflation of 6.9 percent in the first ten months of 2007 and suggests continued apprehension about the impact of expected increases in input costs. In turn, this feeds into heightened expectation that monetary policy will remain tight during 2008.*

*Some of the results of this survey have been difficult to interpret and, in these cases, the interpretations are tentative. This may indicate problems arising from the low response rate among what is already a small survey sample. Efforts to improve the response rate will continue.*

### ***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: OVERALL EXPECTATIONS FOR SELECTED VARIABLES (%)  
DERIVED FROM THE SURVEY**

	September 2007			March 2007		
	H2 2007	H1 2008	H1-H2, 2008	H1 2007	H2 2007	H2 2007- H1 2008
<b>Output</b>						
• Production	31.8	48.6		53.7	65.0	...
• Expected level of stocks	3.6	3.4		33.9	-6.7	...
• Volume of sales	40.7	68.5		37.7	56.9	...
• Expected volume of goods exported	41.3	36.4		27.1	26.5	...
• Expected volume of goods imported	42.6	40.1		52.4	33.8	...
• Employment	...	48.7	34.5	...	28.5	36.5
• Profitability	17.9	56.4		56.7	45.9	...
<b>Input costs</b>						
• Materials	...	93.1	93.1	...	89.8	93.7
• Rent	...	72.4	80.4	...	64.8	69.9
• Utilities	...	74.5	88.5	...	93.0	76.4
• Wages	...	18.2	79.9	...	86.5	91.5
• Transport	...	84.6	77.4	...	90.0	92.0
• Other	...	74.0	74.5	...	81.1	83.5
<b>Investment</b>						
• Buildings	65.9	78.8	...	50.3	36.7	...
• Plant and machinery	65.9	78.6	...	72.4	64.1	...
• Vehicles and equipment	53.3	52.3	...	70.0	74.2	...
• Other	32.3	61.6	...	59.3	57.5	...
<b>Expected volume of borrowing</b>						
• Domestic	...	22.1	21.2	...	12.7	12.6
• South Africa	...	15.8	28.1	...	11.0	6.6
• Elsewhere	...	5.6	27.3	...	0.8	-0.4
<b>Expected level of lending interest rates</b>						
• Domestic	...	13.5	42.7	...	10.6	5.3
• South Africa	...	53.6	55.2	...	25.6	5.0
• Elsewhere	...	15.1	16.6	...	-13.0	-19.3
<b>Business Conditions</b>						
Rating current business conditions satisfactory	71	...	...	66	...	...
Optimistic about business conditions in 6 months' time	...	80	...	...	75	...
Optimistic about business conditions in 12 months' time	...	...	85	...	...	78

Note: 1 Net balance.  
2 Percentage (in gross terms) rating business conditions as satisfactory.  
3 ... means that data were not asked for.