Business Expectations Survey March 2012 – Summary Review

1. Introduction

The BES provides business perceptions on the direction of change for key economic indicators used to fill data gaps during policy analysis and decision making. The response rate improved significantly compared to the previous survey.

The Bank conducts 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, gross domestic product (GDP) 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 2012[2] for three distinct periods: the first half of 2012 (H1-2012; i.e., the current period); the second half of 2012 (H2-2012), and the twelve-month period to June 2013 (H2:2012-H1:2013). However, in line with data produced by Statistics Botswana, inflation and national output are measured in calendar years, to allow for comparison. The survey sample covers 100 businesses in agriculture, mining, manufacturing, water and electricity, construction, trade, transport, and financial and business services. For this survey, 63 percent of surveyed businesses completed questionnaires, a marked improvement compared to 46 percent in the previous round.

2. Survey Context: Recent Economic Developments

Prospects for the global economy remain uncertain with sluggish growth expected overall. Growth in the domestic economy is also expected to be subdued, as the government continues to consolidate its fiscal position. The survey was conducted at a time when rising international oil prices were adding to inflationary pressures.

Global growth prospects remain uncertain, albeit with the USA, Japan and emerging markets experiencing some growth. Signs of renewed growth in the USA were generally positive at the time the survey was conducted, although, more recently, the fragility of this recovery has been apparent. At the same time, the Euro zone is in recession. In emerging economies growth is generally stronger although there are heightened concerns of a slowdown in China.

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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.*

Domestically, output expansion is expected to be weaker than the 5.1 percent in 2011. With global demands for diamonds subdued, growth in mining output will be modest and heavily dependent on potentially volatile market. At the same time, on-going fiscal consolidation will limit growth in government spending which is expected to fall in real terms mainly due to reduced development spending. While estimates for GDP in the first quarter of 2012 are not yet available, there are clear indications of a slowdown in the construction sector, as government infrastructure projects near completion, which, in turn, will impact on local manufacturing. In this regard, however, more buoyant revenues have enabled the Government to comfortably meet its fiscal targets whilst maintaining spending at higher levels than initially envisaged. Inflation trended steadily downward in the first four months of the year. However, the survey was conducted at a time when it was feared that rising international oil prices (which have subsequently abated) could reignite inflationary pressures.

3. Business Confidence and Performance

Business has deteriorated, albeit marginally, since the previous survey but some recovery is anticipated over the coming year. Confidence is significantly higher among export orientated businesses.

The overall business confidence in the current period (H1-2012) is 51 percent. While this is three percentage points lower compared to the previous period (i.e., H2-2011), the September 2011 survey had projected a fall of broadly this magnitude, and appears consistent with the prevailing economic environment, including expectations of lower levels of profitability. There is some expectation of a modest recovery in confidence over the rest of the survey period as the confidence level rises to 55 percent.

Firms oriented to the domestic market are less optimistic about the current conditions with only 47 percent indicating satisfaction, although this rises to 51 percent in 12 months time. In contrast, export-oriented firms continue to be more satisfied with prevailing business conditions with 79 percent indicating satisfaction. Despite prevailing global uncertainty, confidence reaches even higher levels for the remainder of the survey period.

4. Capacity Utilisation, Investment and Employment

Despite the recent fall in confidence, output and sales are both expected to increase, while many a number of respondents intend to undertake capital expenditure.

Although businesses are less optimistic in the current business environment compared to the previous survey, the improved sentiment going forward is reflected by plans (including by domestic oriented businesses) to increase production and undertake additional investment during the course of 2012. Capacity utilisation is also expected to increase. However, only a small proportion of businesses covered by the survey expect to increase employment.

Expectations amongst businesses regarding rising costs of inputs remain elevated and at generally high levels than in the previous survey. This is a cause for concern given the potential impact on inflation expectations.

5. Interest Rates and Debt

Retained earnings are still the preferred source of financing although domestic borrowing is seen as an increasingly viable option.

In order to undertake their planned investment and operating activities, 51.7 percent of firms prefer to use retained earnings followed by debt at 24.1 percent, equity at 13.8 percent and a combination of the above at 10.3 percent. In terms of debt financing, firms prefer to borrow domestically followed by South Africa and then the rest of the world. Increased borrowing anticipated in the coming months is consistent with the Bank of Botswana's policy objective of encouraging more lending to support viable investments.

There is some expectation, albeit small, that lending rates in Botswana will increase in the next twelve months, possibly due to expectations of higher inflation (see Section 6 below). On the other hand, there is some expectation that interest rates in South Africa will fall in the near term before rising in 2013. Somewhat surprisingly, given clear indications to the contrary by policy makers in the major economies, there is some expectation of rising interest rates in the rest of the world.

6. Inflation Outlook

Inflation expectations have deteriorated slightly, despite recent falls in headline inflation, and may reflect rising input costs.

Although inflation has recently been on a downward trend, expectations among businesses regarding inflation in 2012 have deteriorated somewhat since the previous survey, rising from 7.2 percent to 8 percent, with a marginal fall to 7.9 percent in 2013. In this regard, expectations could have been influenced by the recent or planned increases in administered prices as well as heightened expectations of further fuel price increases and rising input costs.

7. Challenges

Weak domestic demand, the cost of labour, the impact of the exchange rate on input costs and regulatory and supervisory issues were considered as the most serious constraints facing local businesses.

The most significant impediment to doing business was weak domestic demand. This sentiment is consistent with the reduced government spending and diminishing purchasing power as a result of the continued freeze on public officers' salaries. Other notable challenges to doing business are the cost of labour, exchange rate and regulatory and supervisory framework. The exchange rate is prominent since many firms consider it the source of high input costs, while the regulatory and supervisory frameworks are regarded as cumbersome as it takes a long time to set up a business and to get a waiver to recruit skilled foreign labour.

8. Conclusion

Business confidence has eroded further since the previous survey, although there appears to be greater optimism going forward. However, the survey was largely complete prior to the latest rounds of negative news concerning the health of the global economy. As before, domestic-oriented businesses are less optimistic than those that focus on exports.

Weak domestic demand, the cost of labour, exchange rate and regulatory and supervisory framework issues were considered as the limiting factors by a majority of surveyed firms. However, there are indications that credit conditions are easing, which is consistent with commercial banks adjusting their lending practices following adjustments to monetary policy implementation that were introduced after the previous survey.

Inflation expectations have deteriorated somewhat compared to the previous survey as has confidence that the Bank's inflation objective is achievable, in part reflecting anticipated higher input costs.

Results From the Business Expectations Surveys, March 2012 and September 2011
(All results are percentages and net balances. This is with the exception of overall business conditions, which are gross balances)

	MARCH 2012			SEPTEMBER 2011		
	H1 2012	H2 2012	H2 2012-H1 2013	H2 2011	H1 2012	H1 -H2 2012
Output						
• Production	39.8	30.0		37.7	23.8	…
• Expected level of stocks	31.8	18.5		3.7	-6.15	…
• Volume of sales	15.8	40.4		-0.5	2.3	…
• Expected volume of goods exported	12.6	48.0		29.8	29.0	…
• Expected volume of goods imported	1.9	30.0		65.6	-4.7	
• Employment	…	5.0	2.4	…	-0.8	3.7
• Profitability	-42.2	16.4		19.2	57.8	…
Input costs						
• Materials	…	57.2	86.5	…	41.3	89.4
• Rent	…	49.4	60.0	…	46.1	63.2
• Utilities	…	64.1	85.4	…	63.2	62.8
• Wages	…	53.1	78.9	…	61.4	62.9
• Transport	…	77.7	92.8	…	55.4	74.4
• Other	…	90.9	73.7	…	70.7	72.8
Investment						
• Buildings	33.0	20.6	…	40.4	35.7	…
• Plant and machinery	31.9	45.6	…	64.5	40.5	…
• Vehicles and equipment	26.2	53.6	…	44.4	49.3	…
• Other	24.0	35.4	…	14.5	40.6	…
Expected volume of borrowing						
• Domestic	…	29.4	0.5	…	21.03	12.0
• South Africa	…	1.9	0.2	…	22.62	22.6
• Elsewhere	…	-37.5	0.3	…	-8.45	-8.5
Expected level of lending interest rates						
• Domestic	…	0.5	13.3	…	21.7	18.3
• South Africa	…	-1.3	17.9	…	25.2	22.6
• Elsewhere	…	3.8	20.3	…	-8.2	-6.7
Business Conditions						
Rating current business conditions satisfactory						
• Overall	51	…	…	54	…	…
• Exporters	75	…	…	86	…	…
• Domestic	47	…	…	49	…	…
Optimistic about business conditions in 6 months' time						
• Overall	…	55	…	…	50	…
• Exporters	…	89	…	…	71	…
• Domestic	…	49	…	…	46	....
Optimistic about business conditions in 12 months' time						
• Overall	…	…	55	…	…	50
• Exporters	…	…	78	…	…	43
• Domestic	…	…	51	…	…	51

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.