Business Expectations Survey (BES) September 2012 – Summary Review

1. Introduction

The BES reports confidence levels among local businesses for the present and the future, as well as their expectations on movements in key economic indicators. Therefore, the Survey is an important source of additional information for use in policy analysis.

The Bank undertakes the Business Expectation Survey (BES) twice yearly, in order to collect information regarding perceptions among the domestic 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, growth in gross domestic product (GDP), 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 September and October 2012[2] for three distinct periods: the second half of 2012 (H2-2012; i.e., the current period); the first half of 2013 (H1-2013), and the twelve-month period to December 2013 (H1:2013-H2:2013). The survey sample covers 98[3] businesses in agriculture, mining, manufacturing, water and electricity, construction, trade, transport, and financial and business services. The response rate for the September 2012 survey is 68 percent, while that of the March Survey was 63 percent. Given that the response rate is typically lower in the end-of-year survey, this is a positive development.

2. Survey Context: Recent Economic Developments

There has been a further deterioration in the expected global economic growth, mainly due to the intensity of the euro crisis and uncertainty surrounding the USA fiscal situation

Recovery in the world economy continues, though global output growth has been revised downwards from 3.5percent to 3.3 percent in 2012 and from 4.1percent to 3.6 percent in 2013[4],

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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 Table1.All results are percentages; all are net balances with the exception of overall business conditions, which are gross balances.

3 The survey sample normally includes 100 businesses. However, in the current survey, two reported that they have since been acquired by others, also covered in this survey. They will be replaced in the next survey round.

4 This outlook is derived from the IMF's World Economic Outlook April and October 2012, and it appears to be more optimistic than the JP Morgan estimates, adopted in the Economic Policy Review (EPR) of 2.4 percent in 2012 and 2.5 percent in 2013.

owing to various risk factors. In the Eurozone, the intensity of the crisis, especially in the peripheral countries[5],has been a major impediment to economic growth. In the United States, the final stages in the run-up to the recent closely-contested presidential election coincided with the survey period, while uncertainty related to fiscal policy in the form of automatic tax increases and spending cuts (the 'fiscal cliff') in January 2013 continued to weigh heavily on the economic outlook.

The economic slowdown in developed countries has affected developing countries and emerging markets through a reduction in demand for their exports, thus leading to a decline in output growth, although better-aligned domestic policies have enhanced the resilience of these countries to external shocks. However, earlier policy tightening in response to country specific factors has contributed to the slower growth in some major emerging market economies, such as India, Brazil and China, thus contributing to the further deceleration of global output.

Domestic economic growth remains positive, though moderated by fiscal consolidation, restrained growth in personal income and a contraction in mining output due to lower global demand for rough diamonds. Using recently rebased data[6], growth for the 12-month period to June 2012 slowed to 8.7 percent from 9.3 percent during the same period the previous year. This mainly reflects contraction of mining output by 8 percent; in contrast, non-mining GDP grew by 12.1 percent, up from 9.4 percent. Rapidly growing sectors included construction (21.2 percent), financial and business services (13.8 percent) and personal and social services (13.5 percent).Despite the recent opening of new mines, in 2013 mining output will continue to be constrained by subdued global demand, meaning that non-mining output will continue to be the primary source of any domestic growth. Regarding other domestic developments, there have been several upward adjustments to fuel prices in recent months, which also led to an increase in transport fares, while a modest 3 percent adjustment to civil service salaries has also been agreed. On the other hand, the anticipated adjustment to electricity tariffs has yet to be implemented.

3. Business Confidence and Performance

In totality, confidence in current business conditions declined from 51 percent in the first half of 2012 to 47 percent in the present half. However, there is an expectation of improved conditions throughout 2013, with exporters more optimistic than domestic market oriented firms.

Overall business confidence in the current period (H2-2012) is 47 percent, a fall of four percentage points in confidence when compared to 51 percent in the March 2012 survey. However, businesses are optimistic that conditions will improve in the next 6 months and over the year ending December 2013.

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5 Greece, Ireland, Italy and Spain.

6 In October, Statistics Botswana published rebased and extensively revised National Accounts data, as a result of which, estimates of growth for recent periods have increased significantly (growth in 2011 was revised upwards from 5.7 percent to 8 percent, for example). Estimates for the most recent quarters remain provisional and are subject to further revision. Moreover, the transition to the new estimates may cause some confusion as indicated by the recent State of the Nation address where the previous estimates appear to have been used in preparing growth projections. Similarly, the latest forecasts for growth in Botswana by the IMF (for 3.8 percent in 2012) are also based on the old estimates.

Respondents for which the focus is the domestic market are less optimistic about current conditions, with only 43 percent indicating satisfaction. This appears to be at odds with the generally buoyant recent GDP estimates. However, 60 percent are hopeful of satisfactory conditions in the next six months, rising to 64 percent by the end of the outlook period. As a result of these negative perceptions regarding current conditions, firms are planning to scale down production in the current period, before raising it in the first half of the 2013 as confidence improves.

However, export-oriented firms are more positive both for current conditions (64 percent) and over the next year, when confidence levels rise above 80 percent. Thus, there is some optimism that there will be significant improvement in the currently sluggish global economy.

4. National Output

On average, firms expect the domestic economy to grow by 4.4 percent in 2012 and 4.9 percent in 2013, both of which are significantly lower than the 8 percent growth for 2011 in the rebased estimates released in October 2012.

Businesses expect real gross domestic product to increase by 4.4 percent in 2012 and 4.9 percent in 2013. While significantly lower than the recently rebased GDP estimates, it is notable that expectations for 2012 are more broadly aligned, than previously, with official forecasts, including that of 4.4 percent in the most recent Budget Speech. The November State of the Nation address that included updated forecasts came after the cut-off date for the survey.

5. Production, Sales, Investment and Input Costs

A momentary scaling down of production is intended in the current period, followed by a rise in the first half of 2013, while, sales, investment and input costs are generally expected to increase.

Although respondents are less optimistic with the current business environment, they appear to be encouraged by the expectation of improved capacity utilisation as shown by a significant number of firms intending to produce and sell more of their goods and services over the outlook period. Although somewhat weaker, sentiments for increased spending on capital investment in the second half of 2012and first half of 2013 are comparable with those expressed in the September 2011 and March 2012 surveys. This planned higher investment spending is a further sign of confidence in future prospects of the economy.

At the same time, respondents strongly anticipate a rise in costs of all major inputs, such as materials, utilities, wages, transport and rent, to occur in the first half of 2013 and during the entire year. Such expectations are a common feature of these surveys and it would be worth investigating whether the anticipated increases have taken place in practice. Nonetheless, as will become apparent in the later sections of this report, the expected escalation in input costs appear to have fed through into inflation expectations.

6. Debt and Interest Rates

Domestic borrowing is preferred to foreign borrowing, while at the same time businesses expect lending rates to increase in Botswana

Compared to current debt level, borrowing in the domestic market to finance business operations, including investment, is expected to increase in the first half of 2013 and over the rest of the year. However, borrowing from South Africa is expected to decline in the first half 2013, followed by an increase in the second half of the year. Respondents expect to increase borrowing from the rest of the world in the first half of 2013, before a slight reduction in the second half.

Although the Bank of Botswana has kept interest rates constant by maintaining the Bank Rate at 9.5 percent since December 2010, there are some expectations that domestic lending rates will increase during the course of 2013. There are similar expectations regarding interest rates in South Africa and the rest of the world.

7. Inflation Outlook

Inflation expectations have stabilised at about 8 percent for 2012 and 2013, yet they still remain above the Bank of Botswana's objective range.

Respondents have maintained their expectations for inflation in2012 at 8 percent, as in the March 2012 survey, and adjusted their expectations for 2013 upwards from 7.9 percent to 8.2 percent. As has been the case in recent surveys, firms' expectations on inflation remain above the Bank's stated inflation objective of 3 – 6 percent in the medium term. Of the 57 firms which gave their views on expected level of inflation, only one expected average inflation to fall within the objective range in 2012. For 2013, 46 firms expect inflation to be above the objective range, while only five think that it will be attained. Firms appreciate the desirability of low and stable inflation, but view imported materials (such as fuel and other inputs) and utility prices, as an obstacle to achieving the inflation objective.

8. Challenges

Weak domestic demand, unavailability of skilled labour and the high labour costs are the three major challenges in doing business, locally.

As with the March 2012 survey, respondents are concerned by weak domestic demand, which tends to limit their expansion plans. This sentiment is consistent with the reduced government spending due to fiscal consolidation and diminishing purchasing power associated with restrained growth in salaries. Scarcity of skilled personnel was listed as the second most important constraint during this period, having fallen out of the top three in the previous survey. The introduction, in April 2012, of the Points Based System (PBS)for the purpose of issuing work and residence permits[7], may have contributed to these sentiments, with widespread dissatisfaction about the stringent conditions that have to be satisfied. Possibly also reflecting such skills shortages, the high cost of cost of labour is the third most significant factor currently perceived to constrain businesses, and which might also give rise to high staff turnover.

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[7]. The Ministry of Labour and Home Affairs has released a public statement indicating that the system is currently being reviewed.

9. Conclusion

In general, business confidence has declined somewhat, when compared with the March 2012 survey. The lower business confidence is corroborated by the generally weaker sentiments expressed with respect to output indicators such as production levels and volumes of sales combined with strong expectations of increases in input costs. The declining business confidence can be attributed to the continuing weak global economic performance which has an impact on government revenue with the resulting lower growth in public spending. However, businesses expectations of economic growth appear to be more broadly aligned with forecasts made during the course of the year. It will be interesting to see if this trend continues in future surveys.

Respondents are aware of some of the obstacles that inhibit the attainment of the medium term inflation objective range of 3-6 percent and are broadly supportive of the monetary policy framework. Nonetheless, it remains important to reiterate that low and predictable level of inflation contributes to strong economic growth and development.

TABLE 1: Results From the Business Expectations Surveys, March 2012 and September 2012
(All results are percentages and net balances except for overall business conditions, which are gross balances)

	SEPTEMBER 2012			MARCH 2012		
	H2 2012	**H1 2013**	**H1 2013-H2 2013**	**H1 2012**	**H2 2012**	**H2 2012 – H1 2013**
Output						
• Production	-9.0	34.2		39.8	30.0	…
• Expected level of stocks	14.3	14.3		31.8	18.5	…
• Volume of sales	5.5	24.1		15.8	40.4	…
• Expected volume of goods exported	24.1	24.1		12.6	48.0	…
• Expected volume of goods imported	-9.2	3.5		1.7	30.0	
• Employment	…	-1.9	16.3	…	5.03	2.4
• Profitability	23.4	32.2	…	-42.2	16.4	
Input costs						
• Materials	…	58.2	64.2	…	57.2	86.5
• Rent	…	47.5	45.3	…	49.4	60.0
• Utilities	…	63.6	53.4	…	64.1	85.4
• Wages	…	69.4	60.5	…	53.1	78.8
• Transport	…	56.8	55.3	…	77.7	92.8
• Other	…	62.5	55.5	…	90.9	73.7
Investment						
• Buildings	-10.0	13.7	…	33.0	20.6	…
• Plant and machinery	40.5	23.6	…	31.9	45.6	…
• Vehicles and equipment	16.7	34.0	…	26.2	53.6	…
• Other	18.7	22.0	…	24.0	35.4	…
Expected volume of borrowing						
• Domestic	…	20.7	28.6	…	29.4	0.5
• South Africa	…	-4.8	13.5	…	1.9	0.2
• Elsewhere	…	8.9	-0.4	…	-37.5	0.3
Expected level of lending interest rates						
• Domestic	…	7.6	3.7	…	0.5	13.3
• South Africa	…	4.6	8.2	…	-1.3	17.9
• Elsewhere	…	2.5	-3.1	…	3.8	20.3
Business Conditions						
Rating current business conditions satisfactory						
• Overall	47	…	…	51	…	…
• Exporters	64	…	…	75	…	…
• Domestic	43	…	…	47	…	…
Optimistic about business conditions in 6 months' time						
• Overall	…	64	…	…	55	…
• Exporters	…	83	…	…	89	…
• Domestic	…	60	…	…	49	…
Optimistic about business conditions in 12 months' time						
• Overall	…	…	67	…	…	55
• Exporters	…	…	82	…	…	78
• Domestic	…	…	64	…	…	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, the 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 this 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, i.e., for 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.