

# Business Expectations Survey September 2011 – Summary Review

## 1. Introduction

The BES reports on current confidence levels among local businesses as well as their expectations of movements in key economic indicators. As such, it is an important additional source of information or policy analysis. The sharp fall in the response rate for the most recent survey is a cause for concern.

The Bank undertakes the Business Expectation Survey (BES) twice yearly, in order to collect information regarding perceptions among the local 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, 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.<sup>1</sup>

This report presents results of the survey carried out between September and November 2011<sup>2</sup> for three distinct periods: the second half of 2011 (H2 2011; i.e., the current period); the first half of 2012 (H1 2012), and the twelve-month period to December 2012 (H1:2012-H2:2012). However, in line with data produced by Statistics Botswana (formerly the Central Statistics (CSO)), 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, only 46 percent of surveyed businesses completed questionnaires, compared to 65 percent in the previous survey. This is the lowest response rate since the Survey in September 2005, and is a matter for concern as it may undermine the usefulness of the survey results.

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<sup>1</sup> *The Appendix at the end of this report gives more details on the methodology.*

<sup>2</sup> *A summary of most of the results is shown in Table 1.*

## 2. Survey Context: Recent Economic Developments

The pace of growth in the global economy continues to slow, in large part due to the euro zone sovereign debt crisis. Performance in emerging markets remains robust, although this has started to moderate. Prospects for the domestic economy remain positive, as mining continues to recover, although downside risks have strengthened. The non-mineral economy has continued to perform strongly.

While growth in the global economy continues, the pace continues to slow and is heavily dependent on performance in emerging markets. The IMF has projected global GDP growth of 4 percent in both 2011 and 2012, but this was before recent further deterioration, and the OECD has recently warned of the likelihood of renewed recession in several major economies. This is due to failure by policy makers in both the United States and Europe to reach agreement on credible measures to address their respective situations, and there is increasing concern that the euro zone could collapse. In contrast, emerging markets continue to exhibit reasonably strong demand, although there are concerns that growth in China may lose momentum. For sub-Saharan Africa, the IMF is forecasting growth of 5.2 percent and 5.8 percent in 2011 and 2012 respectively.

Regarding the domestic economy, the continued recovery of the mining sector has underpinned growth in the first half of 2011, although the non-mining private sector has also performed strongly. However, the continued resilience of mining, at least in the short term, is under pressure due to the deterioration in international markets, and Debswana has recently revised its forecast for production in 2012 downwards. The most recent forecast for overall GDP growth in 2011 by the Ministry of Finance and Development Planning is 5.7 percent, compared to 7.2 percent in 2010, although this is expected to rebound to 7.3 percent in 2012. On the positive side, the major infrastructural investments, by both the Government and private sector, that continued into the final quarter of 2011, are expected to boost overall growth for the year.

## 3. Business Confidence and Performance

Overall business confidence has risen, especially among exporters. However, this is expected to fall in 2012, while the mood among non-exporters will remain subdued.

Businesses are more upbeat about current economic conditions as 54 percent expressed optimism, compared to the 47 percent which were satisfied with prevailing business conditions during the previous survey. However, at the time of the last survey, more firms had anticipated satisfactory business conditions by the second half of 2011 (64 percent), an indication that underlying confidence may be ebbing. The trend continues into 2012 where confidence of 50 percent compares unfavourably with 67 percent in the previous survey. Export-oriented businesses<sup>3</sup> are more positive about current conditions, at 86 percent, compared to 49 percent for

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<sup>3</sup> Firms whose main market is export constitute a small number (7 out of 46 firms reported that their market was predominantly international, while an additional 10 export a small fraction of

domestic-oriented firms. This declines in the first half of 2012, albeit to a still-high 71 percent, before falling sharply for the year as a whole to only 43 percent. In contrast, confidence among non-exporters rises slightly from 46 per cent to 51 percent. The declining confidence among exporters appears to be a reflection of prospective deterioration in export markets, while the subdued mood among domestic businesses may indicate concerns about the effect of fiscal policy stance of curtailing expenditure, the commitment by the Government to give priority to local companies in procurement notwithstanding.

#### **4. National Output**

Businesses have a more positive outlook for economic growth compared to the previous survey, although this is variable across sectors.

Business perceptions on the performance of the domestic economy for 2011 and 2012 have strengthened somewhat, although from low levels. Respondents have revised upwards the expected economic growth for 2011 from 2.1 percent in the previous survey to 3.7 percent. A further improvement in growth to 3.9 percent is envisaged for 2012, which is up from 3.2 percent in the March survey. However these rates of growth are very conservative compared with other indicators, including recent estimates of actual growth and the Government's published growth forecasts (both of which are significantly higher) that might be expected to underpin such expectations. It is notable that the expectations for growth vary significantly across sectors, with the estimates from mining and utilities companies being more in line with government forecasts than those for construction and agriculture. The conservative responses from the construction sector are notable, given that estimates from Statistics Botswana suggest that this was the most rapidly growing sector in the first half of 2011, and perhaps indicates uncertainty about future prospects.

#### **5. Capacity Utilisation, Investment and Employment**

Capital expenditure is expected rise in line with planned increases in output. Businesses also intend to draw down their stocks as higher sales are anticipated.

Consistent with the planned increases in production, businesses in general expect to increase expenditure on all categories of investment goods in both the current period and first half of 2012. However, there is some expectation of reduced sales in the short term with an accompanying build-up in stocks before some recovery in demand in 2012 to be accompanied by both a drawdown of stocks and increased production.

Sentiments amongst firms regarding rising costs of inputs are still generally strong in both periods under consideration. For the first half of 2012, the net proportion of firms expecting input costs to rise range from 41.3 percent for materials to 71.0 percent for the category 'other'

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*their products) of the respondents. Most of these are from the manufacturing sector, with others from mining and trade.*

of inputs. Across the whole year of 2012, concerns about rising input costs are even stronger, raising the net balance range to between 62.9 percent (wages) and 89.4 percent (materials).

## **6. Interest Rates and Debt**

Respondents anticipate increased borrowing, both domestically and in South Africa, despite expectations of higher interest rates. Retained earnings remain the preferred source of financing for most businesses.

Respondents anticipate increased borrowing, mainly from local sources and South Africa, while at the same time they expect interest rate hikes in both markets. The propensity to borrow from elsewhere is quite weak, although interest rates on such sources are expected to decline during the outlook period. Overall, a small majority of respondents (net balance of 51 percent) prefer to use retained profits to meet their financing needs, while loans are the second option with a net balance of 28.9 percent. Thus, the tendency to avert debt and bringing in of new partners into the businesses has persisted over time, as equity and a combination of equity and retained earnings are preferred with modest net balances of 13.3 percent and 6.7 percent, respectively. This scenario may seem to contradict the general view that the domestic private sector is failing to thrive, among other things, due to lack of access to credit, although this might apply mainly to small scale businesses which are not covered in the survey.

## **7. Inflation Outlook**

Inflation expectations continue to moderate, despite current trends. The Bank policy objective of controlling inflation is increasingly seen as achievable.

Reported inflation expectations are not fully consistent with actual trends. Expectations of inflation for 2011 are somewhat weaker at 7.3 percent compared to 7.5 percent in the previous survey and despite the upward trend that has seen CPI inflation average 8.3 percent in the first ten months of the year. For 2012, firms' expectations about inflation remained at 7.3 percent, unchanged from the previous survey.

It is encouraging that, in the aggregate, slightly over 50 percent of respondents expect inflation to fall within the objective range either in 2011 or in 2012, which is an improvement over the previous survey, where less than half of respondents thought the inflation target of 3 – 6 percent was attainable. The proportion of businesses, which considers the Bank's inflation target to be reasonable and achievable has also edged up marginally from 54.7 percent to 55.9 percent, currently. However, caution regarding the achievability of the inflation objective also rose from 5.7 percent to 14.7 percent in the survey of September 2011, while those who believe the target is not realistic fell from 39.6 percent to 29.4 percent.

## **8. Challenges**

Lack of skilled labour is the most significant factor negatively affecting local businesses, followed by the limited size of the domestic market.

Since the ranking of thirteen possibilities was introduced, the major challenges that influence business decisions (either negatively or positively) continue to include domestic demand, the small size of the of the local market, the exchange rate, raw materials and skilled labour. In relation to factors ranked as negative, the shortage of suitable labour continues to be a major problem, with 20 percent of respondents reporting shortages, followed by the small domestic market (17.4 percent) and the exchange rate (9.5 percent). With regard to factors that currently affect businesses positively, domestic demand is currently seen as the most favourable factor (30.5 percent), possibly reflecting the continuing impact of government spending which remains at high levels, followed by availability of raw materials (10.5 percent), while skilled labour and the political atmosphere both have 9.5 percent.

## **9. Conclusion**

Although business confidence is currently very high among exporters, this deteriorates sharply, especially later in 2012, probably due to concerns about the deteriorating health of the global economy, which may have implications for export markets. Similarly, confidence among non-exporters is restrained due to various factors including, mainly related to the supply side although, despite the small size of the domestic market, current domestic demand continues to be regarded favourably. Regarding inflation expectations, the continued downward revisions may provide some encouragement that businesses are increasingly taking the Bank's inflation objective into account, when they formulate their own views, as this is evident in improving perceptions regarding the achievability of the 3 – 6 percent inflation objective in the medium term.

**TABLE 1: Results From the Business Expectations Surveys, March and September 2011**  
(All results are percentages and net balances except for overall business conditions, which are gross balances)

	MARCH 2011			SEPTEMBER 2011		
	H1 2011	H2 2011	H2 2011- H1 2012	H2 2011	H1 2012	H1 -H2 2012
<b>Output</b>						
• Production	27.2	47.8		37.7	23.8	...
• Expected level of stocks	-2.4	-1.9		3.7	-6.2	...
• Volume of sales	43.8	48.2		-0.5	2.3	...
• Expected volume of goods exported	8.9	25.1		29.8	28.9	...
• Expected volume of goods imported	13.6	45.1		65.6	-4.7	
• Employment	...	2.3	25.5	...	-0.8	3.7
• Profitability	16.2	51.1		19.2	57.8	...
<b>Input costs</b>						
• Materials	...	75.05	73.05	...	41.26	89.39
• Rent	...	49.51	43.10	...	46.06	63.17
• Utilities	...	47.05	79.13	...	63.17	62.75
• Wages	...	55.44	87.02	...	61.36	62.85
• Transport	...	78.46	81.59	...	55.37	74.40
• Other	...	66.76	76.58	...	70.66	72.81
<b>Investment</b>						
• Buildings	19.2	30.1	...	40.4	35.7	...
• Plant and machinery	54.3	78.4	...	64.50	40.5	...
• Vehicles and equipment	50.8	52.4	...	44.4	49.3	...
• Other	38.1	58.9	...	14.5	40.6	...
<b>Expected volume of borrowing</b>						
• Domestic	...	30.4	30.1	...	21.03	12.03
• South Africa	...	30.6	38.5	...	22.62	22.59
• Elsewhere	...	14.7	14.7	...	-8.45	-8.45
<b>Expected level of lending interest rates</b>						
• Domestic	...	0.0	26.7	...	21.7	18.3
• South Africa	...	23.6	46.0	...	25.2	22.6
• Elsewhere	...	30.6	58.7	...	-8.2	-6.7
<b>Business Conditions</b>						
Rating current business conditions satisfactory						
• Overall	47	...	...	54	...	...
• Exporters	43	...	...	86	...	...
• Domestic	47	...	...	49	...	...
Optimistic about business conditions in 6 months' time						
• Overall	...	64	...	...	50	...
• Exporters	...	71	...	...	71	...
• Domestic	...	63	...	...	51	...
Optimistic about business conditions in 12 months' time						
• Overall	...	...	67	...	...	50
• Exporters	...	...	86	...	...	43
• Domestic	...	...	65	...	...	46

## 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.