

Business Expectations Survey September 2014 – Summary Review

1. Introduction

The BES reports on current confidence levels among local business as well as their expectations of movements in key economic indicators. As such, it is an important additional source of information for policy analysis.

The Bank undertakes the Business Expectations Survey (BES) twice a year in order to collect information on 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 and prospects for economic 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 August and September 2014² for three distinct periods: the second half of 2014 (H2-2014; i.e., the current period); the first half of 2015 (H1-2015), and the twelve-month period to December 2015 (H1:2015-H2:2015). 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 responded, compared to 55 percent in the March 2014 survey.

2. Survey Context: Recent Economic Developments

Prospects for the global economic growth remain weak, but moderate for the domestic economy

The world economy is estimated to have grown by 3.3 percent in 2013³, which is expected to be repeated in 2014, rising to 3.8 percent in 2015. However, projections for growth in 2014 have been repeatedly revised downwards as the economic recovery in advanced economies has faltered and alongside a less optimistic outlook for several emerging markets, particularly China and India. The euro area is now forecast to grow at only 0.8 percent in 2014 and 1.3 percent in 2015, while for emerging markets and developing economies growth of 4.4 percent and 5 percent is projected for 2014 and 2015, respectively. More positively, recent sustained falls in global oil prices can be expected to provide some stimulus to the global economy.

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

³ The forecast for global growth are taken from the IMF’s World Economic Outlook, October 2014.

In the domestic economy, growth prospects are constrained by water usage restrictions, power supply interruptions and uncertainty regarding the strength of global recovery. Estimates of GDP released during the survey period indicate that the economy grew by 5.2 percent in the twelve months to June 2014, up from 5 percent in the previous year. This improvement mainly reflects a stabilisation in the mining sector which expanded by 8.3 percent, compared to a contraction of 0.5 percent in the previous year. Non-mining GDP slowed down from 5.9 percent in the twelve months to June 2013 to 4.7 percent in the year to June 2014. The Budget Strategy Paper for 2015/16, released during the survey period, forecasts growth of 5.2 percent and 5 percent for 2014 and 2015, respectively, underpinned by the expected recovery in diamond production.

3. Business Confidence and Performance

Overall confidence on current business has risen substantially and further improvement is expected in subsequent periods.

Overall confidence in the prevailing business conditions (H2-2014) is 52 percent, 14 percent higher than at the time of the March 2014 survey, but lower than the 64 percent expected for this period in the earlier survey. Nevertheless, the rebound reversed the downward trend in prevailing business confidence that has persisted for some time. Moreover, the anticipated level of optimism rises for rest of the survey period to 63 percent over the next 12 months.

Confidence among domestic-oriented businesses is 46 percent, higher than 39 percent in the previous survey. This is consistent with generally positive growth prospects together with, possibly, rising optimism that the improving government budgetary position could allow for increases in public spending to the benefit of local businesses. Moreover, there has been an increase in the current confidence levels of export-oriented businesses from 33 percent to 88 percent, a significant rebound indicating growing confidence in export markets.

4. National Output

Expectations on economic growth are relatively strong

On average, businesses expect real GDP to grow by 4.9 percent in 2014 and by 5.2 percent in 2015. This is broadly in line with the Budget Strategy Paper for 2015/16.

5. Capacity Utilisation, Investment, Input costs and Employment

Mixed signals on investment, cost of inputs, production and employment

As was the case in the March 2014 survey, most businesses continue to be optimistic about the continued demand for their products/services in the current period (H2 2014). Hence, businesses generally expect improvement in volume of sales, volume of goods imported and profitability between the two surveys. On the other hand, the level of optimism of businesses appears guarded with respect to production, employment and expected volume of goods exported, as indicated by the lack of a discernible pattern in the direction of expectations. However, the level of optimism increases significantly in the future periods compared to the current period with respect to most of the above indicators. In line with this, the survey also indicates that a large majority of

respondents expect to operate at above 50 percent of their productive capacity in the current period. Thus, the current levels of capacity utilisation by businesses are comparable with those in the earlier survey.

In terms of investment (building, plant and machinery, vehicles and equipment and other), there has been some downward revision in expectations since March 2014 compared to the current survey. Nevertheless, a majority of businesses still anticipate increasing investment.

Sentiment amongst firms regarding rising costs of inputs is still strong, although significantly lower than in the March 2014 survey. In particular, expectations of higher costs have eased for materials, utilities and wages, while remaining broadly unchanged for transport, rent and other costs. Unsurprisingly, expectations of higher costs rise for the later part of the survey period. The overall easing of expectations of rising costs of inputs is consistent with moderating expectations for overall inflation.

6. Debt, Interest Rates and Access to Finance

Access to finance commonly considered normal and domestic borrowing preferred to financing elsewhere

In line with their capital investment plans, businesses would prefer domestic borrowing as opposed to funding from South Africa and international markets during 2015 despite some limited expectation of higher interest rate over the same period. Rate increases over the outlook period are also expected for both South Africa and the international market. In terms of access to finance, a majority of the surveyed businesses (63.8 percent) believe access to credit is normal, compared to 12.1 percent and 24.1 percent that consider access easy and tight, respectively. In comparison with the March 2014 BES, perceptions of access to finance have improved slightly.

7. Inflation Outlook

Generally, inflation expectations remain within the Bank of Botswana inflation objective.

Businesses have revised their inflation expectations slightly upwards to an average of 5.8 percent from 5.7 percent in the March 2014 survey, and to 6.1 percent from 5.9 percent for 2015. Nevertheless, a significant proportion of respondents (71.7 percent) expect inflation to be within the inflation objective in 2014 and 58.3 percent in 2015. This is broadly similar to the March survey, with the high levels of confidence that the objective will be achieved possibly a result of the sustained period during which inflation has been in the objective range, adding to the Bank's policy credibility.

8. Challenges

Limited domestic demand, restricted regulatory and supervisory framework and skilled labour among the leading challenges faced by local businesses.

As has been the case in past surveys, limited domestic demand was the most commonly-cited challenge by businesses.⁴ This is followed by concerns over regulatory and supervisory framework and the availability of skilled labour. Similar concerns of bureaucracy and skill shortages have also been highlighted recently by other relevant surveys.⁵

9. Conclusion

There has been an increase in business confidence to 52 percent in September 2014 from 38 percent in March 2014. Looking ahead, there is some increase in optimism. The latest actual and GDP projections indicate that the economy will continue to grow at a moderate pace in 2014 and 2015. Furthermore, the demand for diamonds in major diamond consuming economies is expected to remain robust. However, as in the March 2014 survey, uncertainty regarding both the strength of global recovery and availability and cost of key inputs (electricity and water) could undermine business confidence. Although inflation expectations for 2014 and 2015 straddle the upper limit of the Bank of Botswana's medium-term objective range of 3 - 6 percent, there is broad support for the current monetary policy stance.

⁴ This is unsurprising given the dominance among respondents of those for which the main market is Botswana.

⁵ For example, Grant Thornton's 2014 International Business Report and 2014 Deloitte Botswana CFO Survey

**TABLE 1: Results From the Business Expectations Surveys, September 2014 and March 2014
(All results are percentages and net balances except for overall business conditions, which are gross balances)**

	SEPTEMBER 2014			MARCH 2014		
	H2 2014	H1 2015	H1 2015- H2 2015	H1 2014	H2 2014	H2 2014- H12015
Output						
• Production	17.3	52.3		21.6	7.5	
• Expected level of stocks	-10.5	6.7		-3.5	-8.8	
• Volume of sales	32.4	52.1		12.1	14.3	
• Expected volume of goods exported	13.7	69.4		15.3	42.3	
• Expected volume of goods imported	27.6	57.7		2.1	25.4	
• Employment	...	6.2	16.4	...	4.4	10.4
• Profitability	10.8	28.7	...	21.6	11.0	...
Input costs						
• Materials	...	68.5	73.5	...	94.1	98.9
• Rent	...	59.4	66.3	...	61.6	59.7
• Utilities	...	58.3	80.0	...	86.5	90.8
• Wages	...	56.7	66.1	...	81.2	80.1
• Transport	...	47.2	47.4	...	45.1	63.5
• Other	...	50.3	47.7	...	46.4	50.7
Investment						
• Buildings	16.0	20.9	...	30.0	41.3	...
• Plant and machinery	41.2	56.0	...	42.8	41.0	...
• Vehicles and equipment	38.1	42.1	...	23.2	41.3	...
• Other	45.4	44.6	...	22.1	29.1	...
Expected volume of borrowing						
• Domestic	...	7.0	26.5	...	-20.8	-36.2
• South Africa	...	-10.4	10.9	...	-6.6	-16.7
• Elsewhere	...	-1.9	-1.6	...	-4.6	-5.9
Expected level of lending interest rates						
• Domestic	...	24.9	28.8	...	-22.6	-19.0
• South Africa	...	23.7	27.4	...	28.8	41.6
• Elsewhere	...	22.6	24.9	...	13.6	13.7
Business Conditions						
Rating current business conditions satisfactory						
• Overall	52.0	...	...	38.0	...	...
• Exporters	88.0	...	...	33.0	...	...
• Domestic	46.0	...	...	39.0	...	...
Optimistic about business conditions in 6 months' time						
• Overall	...	62.0	...	...	64.0	...
• Exporters	...	100.0	...	...	83.0	...
• Domestic	...	56.0	...	...	62.0	...
Optimistic about business conditions in 12 months' time						
• Overall	...	...	63.0	...	...	68.0
• Exporters	...	...	100.0	...	...	83.0
• Domestic	...	...	58.0	...	...	66.0

APPENDIX: METHODOLOGY

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.

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.

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.

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.

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.