Bank of Zambia

Quarterly Survey of Business Opinions and Expectations Report

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Volume 28

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Preface

The Quarterly Survey of Business Opinions and Expectations (QSBOEs) provides useful signals about current and future economic activity and assists in the formulation of decisions that may impact on future economic performance. Given the dominant role expectations play in shaping economic behaviour, the Survey provides an indication of likely future developments. Further, the Survey acts as a supplementary tool to provide information on the business community's opinions and expectations about the current and future direction of the economy.

This Report for the fourth quarter of 2019 is based on the results of the QSBOEs conducted in November and December 2019. A total of 269 firms from a sample of 303 responded, representing a response rate of 88.8%. About 36% of the firms were from the tourism sector, 22% were merchants, 18% were manufacturers, 12% were from the agriculture sector, 10% from the services sector, and 2% from the construction sector.

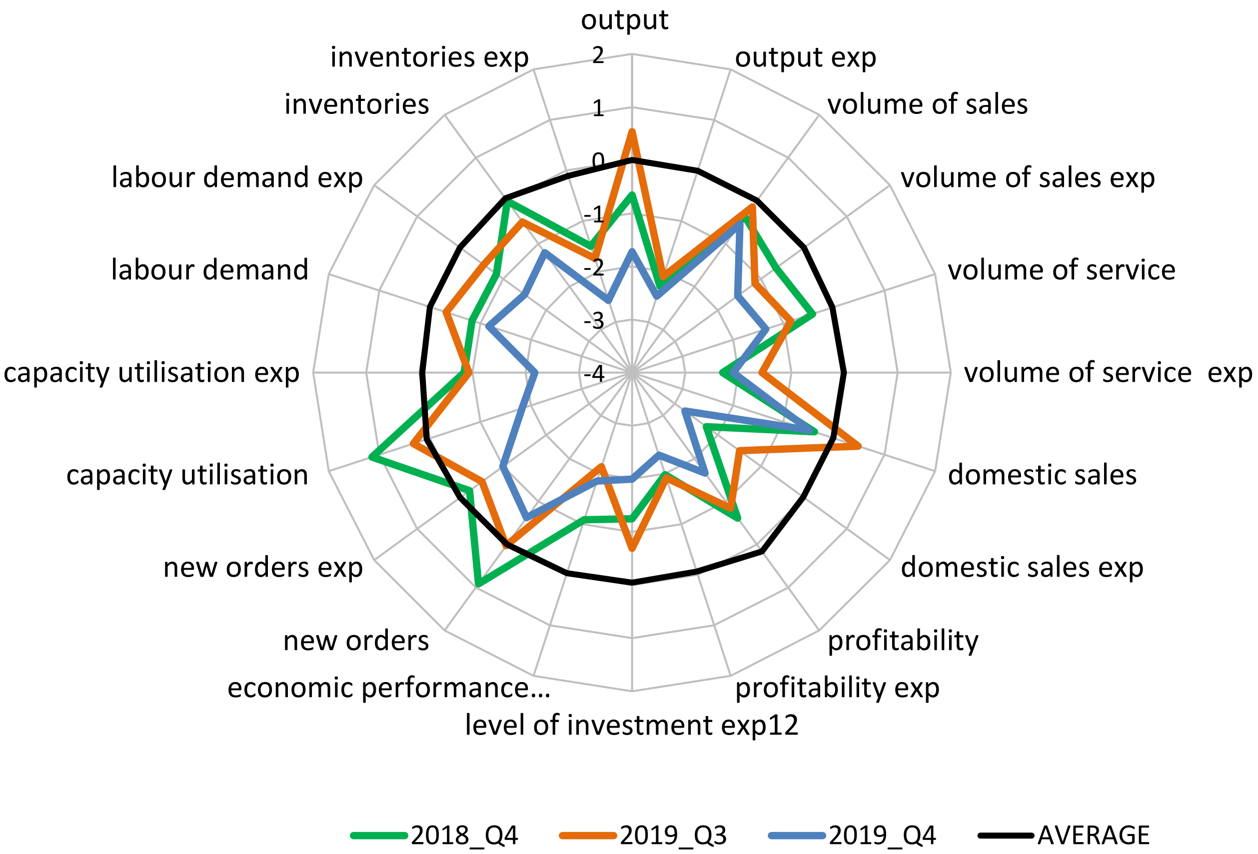
Executive Summary

Firms were less optimistic about growth prospects for the fourth quarter of 2019 than they were in the previous Survey and all the monitored indicators of economic activity remained below their long-term average (Chart 1).

Economic performance is expected to remain subdued in the first quarter of 2020. This is largely premised on anticipated decline in demand for goods and services. This will be compounded by tight liquidity conditions, persistent electricity load shedding, expected depreciation of the Kwacha against the US dollar, high borrowing costs, rising inflation, and high cost of energy. Further, high Government debt service and high tax obligations are anticipated to negatively affect overall economic activity.

Over the next 12 months, economic performance is expected to continue declining mainly due to prolonged electricity supply deficits, expected depreciation of the Kwacha against the US dollar, tight liquidity conditions and high interest rates. Firms expect the tax burden to rise on account of sustained debt obligations by Government which will in turn negatively impact on economic activity.

Chart 1: Overall Survey Response Patterns*



*Note: The survey indicators are standardised net balances with mean=0 and standard deviation=1. A value within the black circle entails weaker economic conditions than historical average and a value outside the black line is better than historical average.

1.0 Introduction

This Business Opinions and Expectations Survey Report is divided into five sections. Section 2 presents the response patterns for economic performance during the fourth quarter of 2019 and expectations for the first quarter 2020 as well as 12 months ahead. Section 3 presents opinions and expectations on input costs, wages and selling prices, among other variables, over the same period as in section 2. Section 4 provides perceptions on variables influencing monetary policy in the first quarter of 2020 while Section 5 concludes.

2.0 Opinions and Expectations of Economic Activity

Economic activity was weak in Q4 2019 and expected to deteriorate further in Q1 2020 and 12 months ahead

Economic activity remained subdued in the fourth quarter of 2019. All the monitored indicators remained below their long-term average (Chart 2). This was consistent with the expectations made in the third quarter.

Firms expect economic activity to deteriorate further in the first quarter of 2020. Increased electricity load shedding, high energy prices, Kwacha depreciation, high cost of credit and tight liquidity were cited as reasons for the pessimistic expectation (Chart 3).

Over the next 12 months, economic performance is expected to continue declining due to prolonged electricity supply deficits, depreciation of the Kwacha against the US dollar, tight liquidity, and high interest rates.

Chart 2: Business Opinions Response Patterns

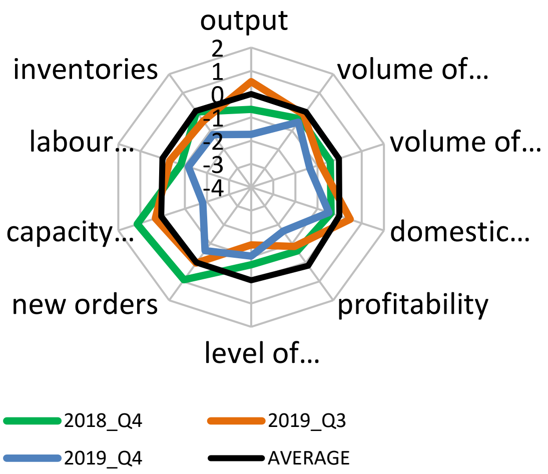
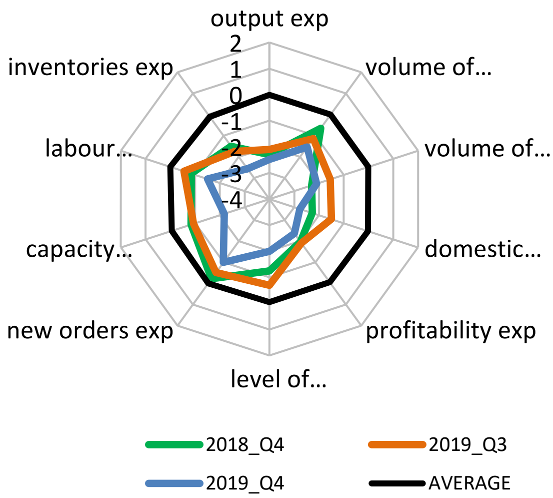


Chart 3: Business Expectations Response Patterns



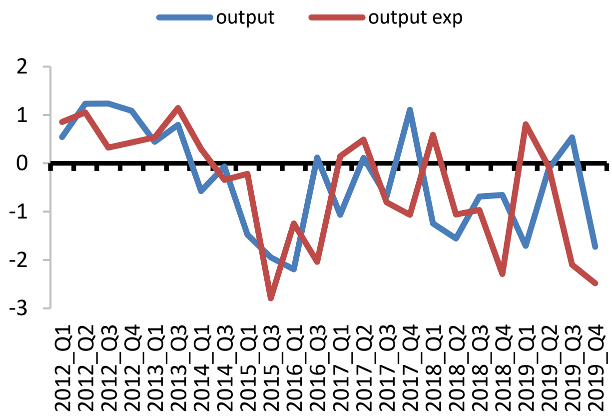
2.1 What has been your firm's experience with respect to output?

(Net balance -0.30; Q3 2019, 0.03)

Output declined in the fourth quarter compared to the third quarter (Chart 4). This was largely attributed to electricity load management which adversely affected output in the manufacturing sector.

In the first quarter of 2020, output is expected to decrease further mainly due to increased cost of production which has negatively affected the manufacturing sector.

Chart 4: Opinion on Output

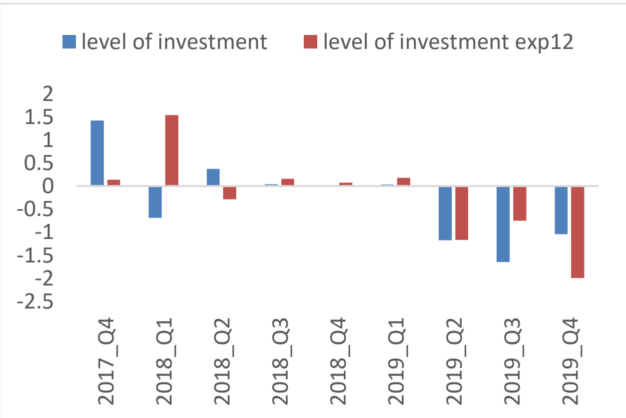


2.2 How was your firm's level of investment?

(Net balance -0.03; Q3 2019 -0.07)

Total investment declined in the fourth quarter although it was slightly better than in the third quarter (Chart 5). The decline was largely due to higher input costs and policy inconsistency associated with exports of maize and related products in the agriculture sector. In the manufacturing sector, the reduction in total investment was mainly attributed to tight liquidity conditions and high cost of energy. Merchants' investments, on the other hand, fell largely due to the depreciation of the Kwacha against the US dollar which eroded their working capital.

Chart 5: Level of Investment

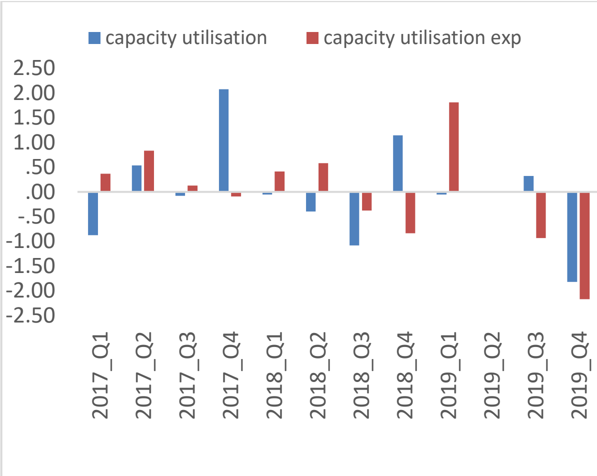


2.3 What has been your firm's experience with respect to capacity utilisation?

(Net balance -0.35; Q3 2019, -0.10)

Capacity utilisation deteriorated in the fourth quarter compared to the third quarter (Chart 6). This was largely attributed to the rationing of electricity and, in some cases, the use of aged equipment in the manufacturing sector. Capacity utilisation is expected to decline further in the first quarter of 2020 owing to continued electricity load shedding and use of old equipment .

Chart 6: Capacity Utilisation



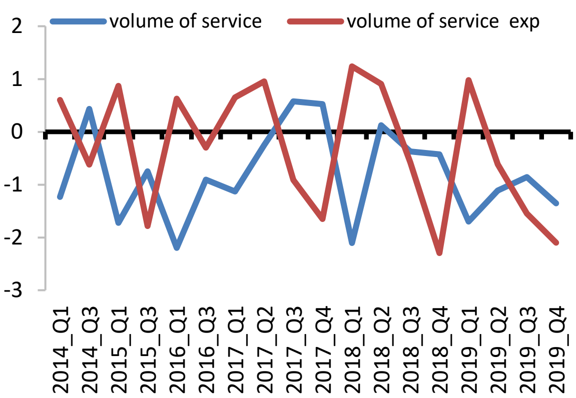
2.4 What has been your firm's experience with respect to the volume of service?

(Net balance -0.32; Q3 2019, -0.23)

The Survey revealed that the volume of service in the fourth quarter of 2019 declined compared to the previous quarter (Chart 7). This was largely attributed to subdued demand for tourism services as a result of low client turnout and austerity measures implemented by Government. In addition, stiff competition in the industry and seasonal factors in the fourth quarter explained the decline in the volume of service.

The volume of service is expected to further decline in the first quarter of 2020 owing to low liquidity in the economy and subdued demand associated with seasonal factors in the first quarter of the year in the tourism sector. The high cost of fuel is also expected to contribute to a further decline in the volume of transport and tourism services.

Chart 7: Volume of Service



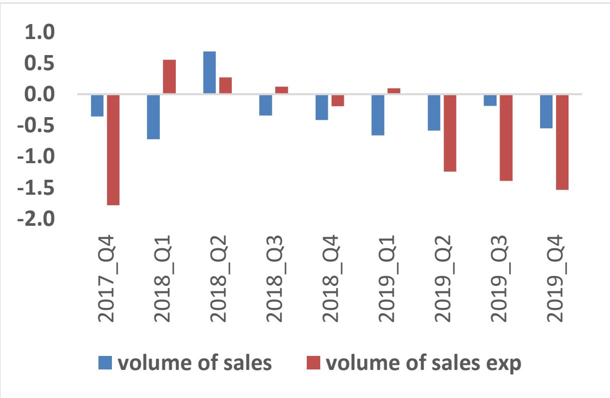
2.5 What has been your firm's experience with respect to the volume of sales?

(Net balance -0.48; Q3 2019, -0.31)

In the fourth quarter, most firms indicated that the volume of sales declined further (Chart 8). Explaining the decline were tight liquidity conditions, low demand, and high competition.

In the first quarter of 2020, most firms expect the volume of sales to decline further due to continued low demand arising from anticipated tight liquidity in the economy.

Chart 8: Volume of Sales



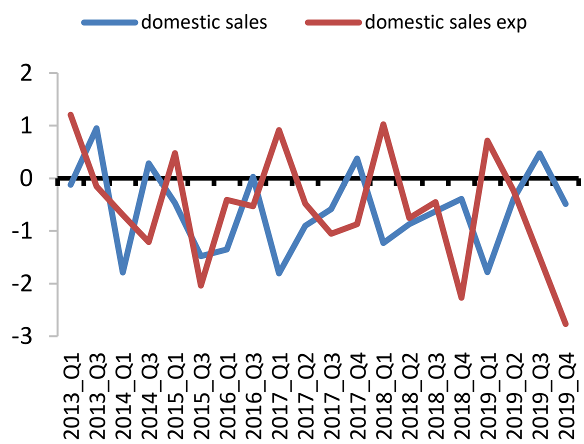
2.6 What has been your firm's experience with respect to domestic sales?

(Net balance -0.14; Q3 2019, 0.02)

The survey results indicate a decline in domestic sales during the fourth quarter of 2019 (Chart 9). Rising inflation and seasonality in the agriculture sector (non-harvest season) resulting in a fall in consumer demand and lower agricultural output, respectively, were the main factors explaining the decline.

Domestic sales are expected to decline further in the first quarter of 2020 owing to high cost of production (i.e. fuel and electricity costs) as well as lower demand triggered by tight liquidity conditions.

Chart 9: Domestic Sales



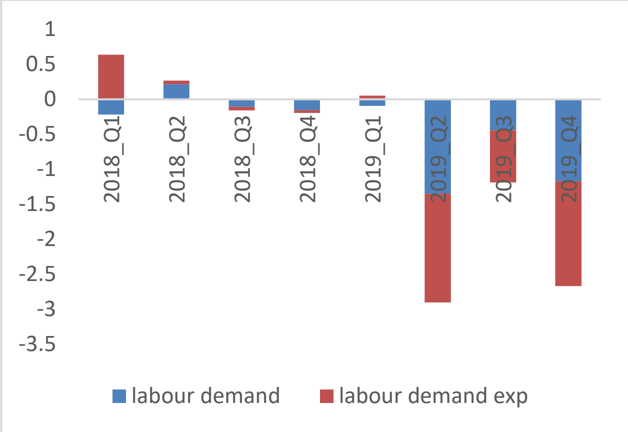
2.7 How do you rate your firm's labour demand?

(Net balance -0.19; Q3 2019, -0.09)

A decline in labour demand was reported in the fourth quarter of 2019 (Chart 10). This was on account of a reduction in economic activity mainly attributed to high cost of doing business induced by electrictity loadshedding as well as the high cost of fuel and electricity. Further, the implementation of the new labour laws pushed the wage bill up resulting in the laying off of some workers. In the tourism sector, labour demand declined on account of reduced tourism activities during the rainy season.

A further decline in labour demand is expected in the first quarter of 2020 owing to projected worsening in economic conditions associated with low demand due to tight liquidity conditions, high operating costs and continued electricity loadshedding.

Chart 10: Labour Demand



2.8 What is your current main source of investment finance and working capital?

Retained earnings continued to be the main source of finance

Retained earnings remained the main source of investment finance and working capital followed by bank borrowing (Charts 11A and 11B).

Chart 11A: Sources of Investment Finance

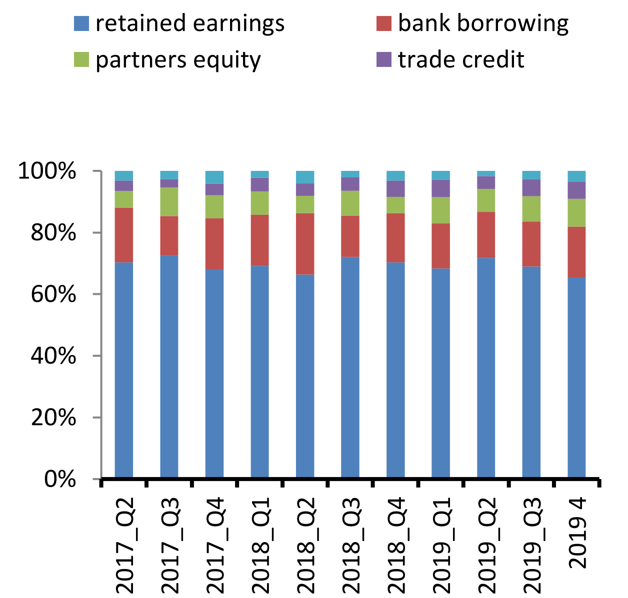
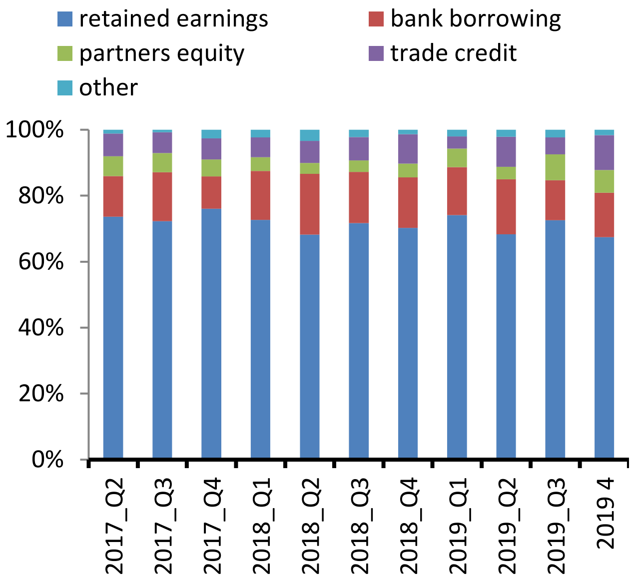


Chart 11B: Sources of Working Capital

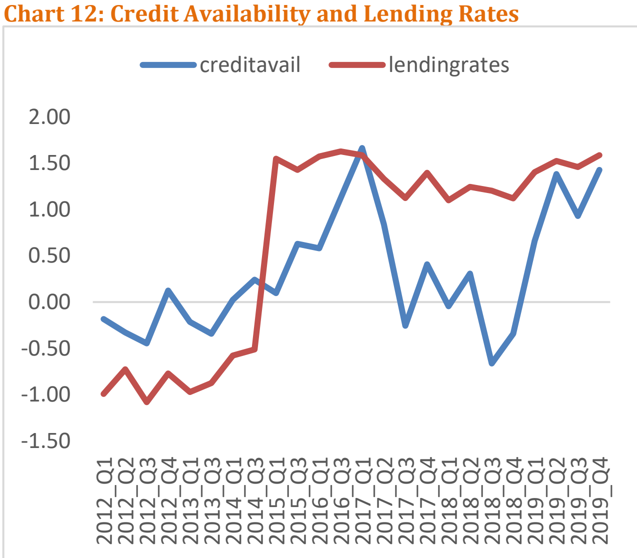


2.9 What is your perception of the current availability of credit?

(Net balance 0.69; Q3 2019, 0.72)

During the fourth quarter of 2019, credit conditions remained tight reflected in the rise in lending rates (Chart 12). High interest rates were attributed to the tight monetary policy stance undertaken by the central bank largely through the upward adjustment in the policy rate, tight liquidity conditions, high Government borrowings from the market, and high default risk.

Chart 12: Credit Availability and Lending Rates



3.0 Evolution of Costs, Wages and Prices

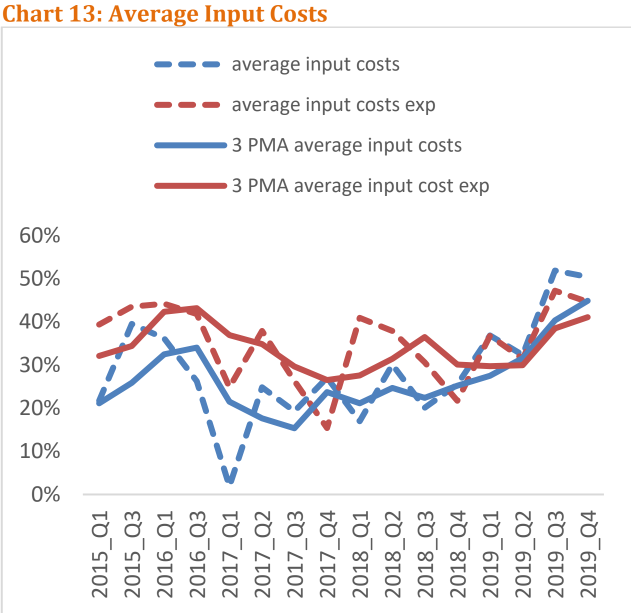
3.1 What has been your firm's experience during the quarter under review with respect to average input costs?

(Net balance 0.50; Q3 2019, 0.52)

Average input costs remained high during the fourth quarter of 2019 (Chart 13) owing to high energy prices, electricity loadshedding, and the Kwacha depreciation.

Average input costs are expected to remain high during the first quarter of 2020 on account of anticipated electricity loadsheding and Kwacha depreciation.

Chart 13: Average Input Costs



3.2 What has been your firm's experience with respect to the wage bill?

(Net balance 0.05; Q3 2019, 0.10)

The Survey results revealed a reduction in the wage bill during the fourth quarter of 2019 (Chart 14). This was mainly attributed to the decline in labour demand arising from low sales and service volumes accompanied by high input costs. Further, some firms could not fulfil some annual wage obligations such as Christmas bonus and annual salary increment owing to austerity measures intended to cope with poor business performance.

In the first quarter of 2020, the wage bill is expected to remain below the long-term average in line with the expected deterioration in economic activity.

Chart 14: Evolution of Wages

3.3 What has been your firm's experience during the quarter under review with respect to average selling prices?

(Net balance 0.20; Q3 2019, 0.19)

Average selling prices marginally rose during the fourth quarter of 2019 compared to the third quarter (Chart 15). This was triggered by a rise in energy prices, high input costs, Kwacha depreciation and electricity load shedding.

In the first quarter of 2020, average selling prices are expected to remain unchanged due to stiff competition. Firms expect to clear existing stocks to avoid inventory costs.

Chart 15: Evolution of Average Selling Prices

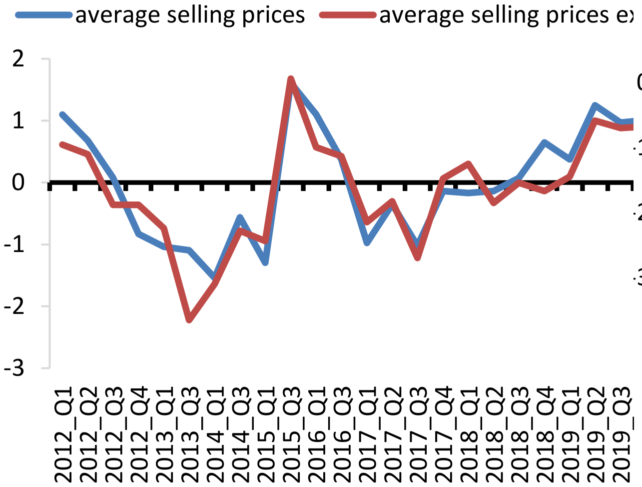
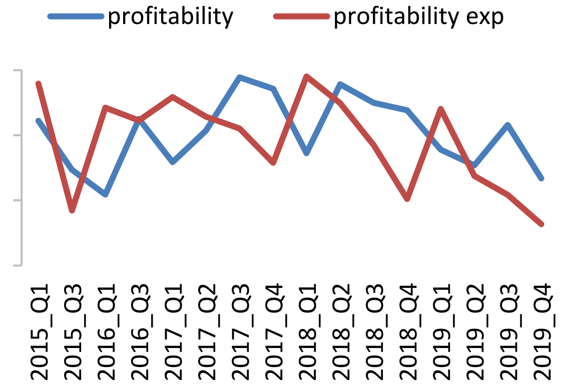


Chart 16: Profitability



3.4 What has been your firm's experience with respect to profitability?

(Net balance -0.52; Q3 2019, -0.35)

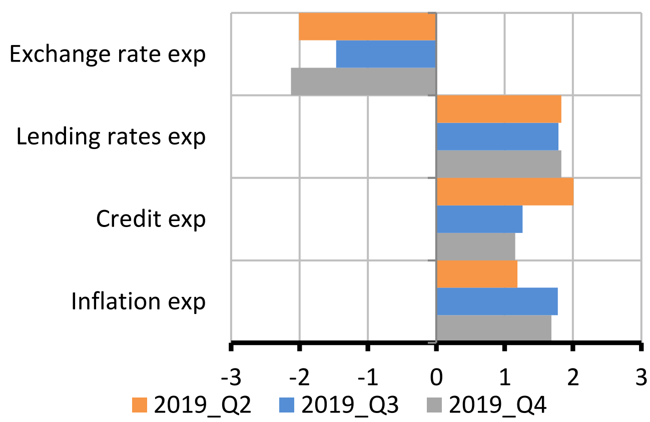
Profitability continued to decline in the fourth quarter of 2019 (Chart 16). This was mainly attributed to the increase in the cost of production due to the rise in fuel and electricity prices as well as the effect of electricity loadshedding. Further, subdued demand, tight liquidity conditions, and Kwacha depreciation contributed to the decline in profits.

Profitability is expected to decline further in the first quarter of 2020 owing to sustained high cost of doing business associated with high input costs coupled with expected low demand. The key drivers of low demand include persistently tight liquidity conditions, rising inflation, high fuel and electricity prices, continued electricity load shedding as well as the Kwacha depreciation. High agricultural input costs and consequent reductions in hectorage are expected to reduce profitability further, particularly in the agriculture sector.

4.0 Expectations of Monetary Policy for First Quarter 2020

Persistent inflationary pressures, tight credit conditions, higher lending rates and the continued depreciation of the Kwacha are anticipated in the first quarter of 2020 (Chart 17).

Chart 17: Expectations for Rising Inflation, Weak Kwacha and High Lending Rates



Notes:
- *Exchange rate = appreciation, strong (+)/depreciate, weak (-)*
- *Lending rates = increase, high (+)/decrease, low (-)*
- *Credit conditions = tight (+)/ loose (-)*
- *Inflation expectations = increase, high (+)/decrease, low (-)*

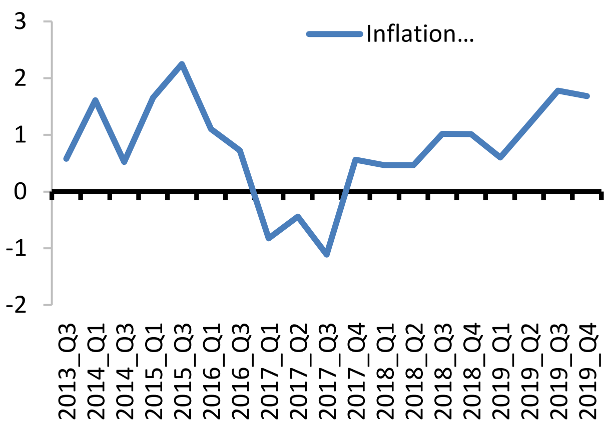
4.1 What do you expect the price level to be over the next quarter?

(Net balance 0.76; Q3 2019, 0.78)

Inflationary pressures are expected to persist during the first quarter of 2020 (Chart 18). This is mainly on account of past prices, higher energy prices following the upward adjustment in both fuel and electricity prices coupled with electricity loadshedding. It is also anticipated that inflation would be driven by the Kwacha depreciation and seasonal increase in food prices .

Inflationary pressures are expected to remain high over the next 12 months mainly on account of rising production costs resulting from high energy prices and persistent Kwacha depreciation.

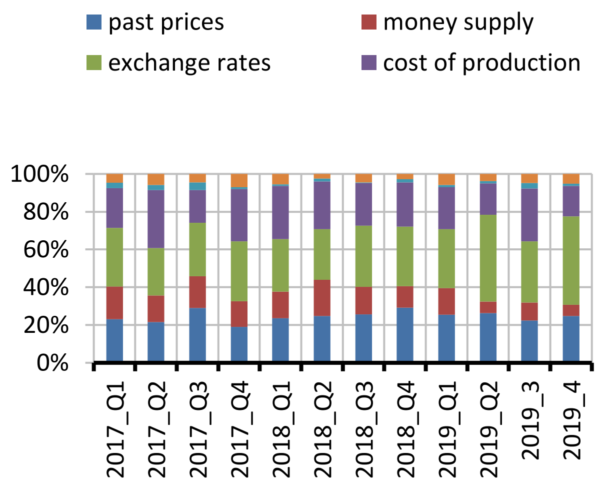
Chart 18: Inflation Rate Expectations Next Quarter



4.2 What is the main factor explaining your expectations of inflation?

Inflationary pressures are expected to be largely driven by the depreciation of the Kwacha against the US dollar followed by past past prices (Chart 19).

Chart 19: Key Drivers of Inflationary Expectations

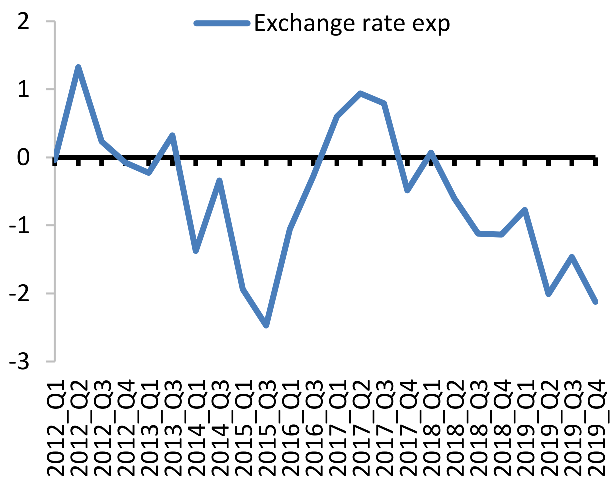


4.3 How do you expect the performance of the Zambian Kwacha against the US dollar to be at the end of the next quarter?

(Net balance, -0.80; Q3 2019, -0.61)

The Kwacha is expected to remain weak against the US dollar in the first quarter of 2020 (Chart 20). This is mainly on account of anticipated low supply of foreign exchange against high demand to support expected electricity and fuel imports, high external debt service, and dwindling gross international reserves.

Chart 20: Exchange Rate Expectations Next Quarter

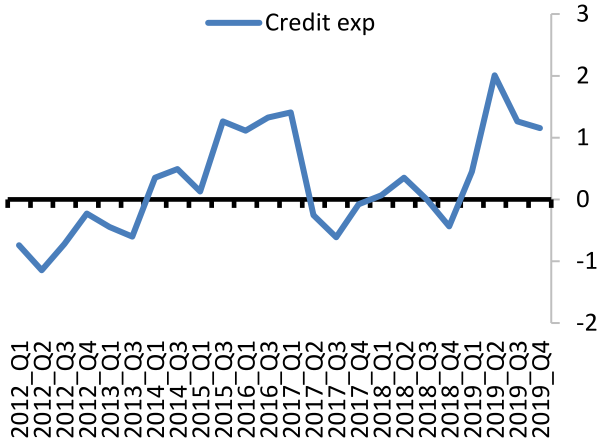


4.4 Over the next quarter, what do you expect credit availability to be?

(Net balance, 0.69; Q3 2019, 0.70)

During the first quarter of 2020, credit conditions are expected to remain tight (Chart 21). This is mainly on account of high Government borrowing that will crowd out private sector borrowing, high interest rates, tight liquidity and a rise in credit risk due to subdued economic activity.

Chart 21: Credit availability expectations next quarter

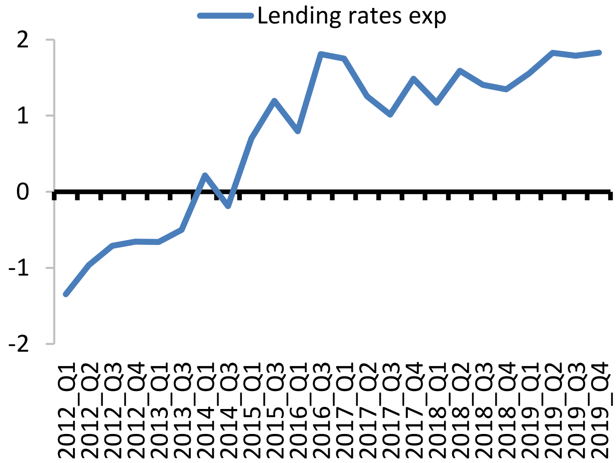


4.5 Over the next quarter, what do you expect to happen to commercial banks' lending rates?

(Net balance, 0.84; Q3 2019, 0.83)

Commercial banks lending rates are expected to remain high in the first quarter of 2020 (Chart 22) owing to expected tight monetary policy, persistent inflationary pressures, high default risk, and the desire by lending institutions to expand profit margins.

Chart 22: Interest Rate Expectations Next Quarter

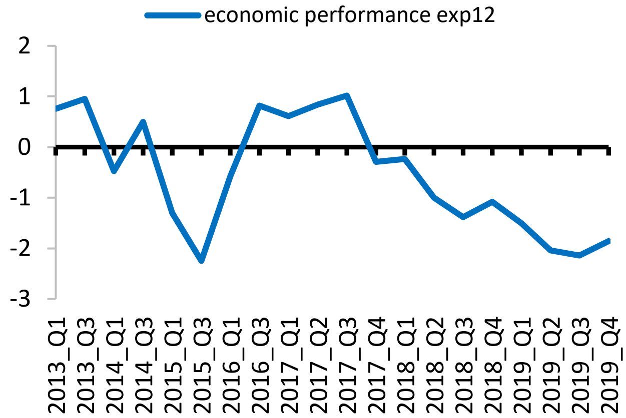


4.6 What is your expectation of the performance of the economy in the next 12 months?

(Net balance, -0.28; Q3 2019, -0.35)

Most firms remain pessimistic about the performance of the economy over the next 12 months (Chart 23). This is largely premised on the anticipated decline in demand due to tight liquidity conditions, continued electricity loadshedding, persistent Kwacha depreciation, high cost of credit, rising inflationary pressures, high energy prices as well as anticipated decline in agricultural and manufacturing output. In addition, high Government debt service, numerous tax obligations, and low investor confidence are expected to negatively affect overall economic activity.

Chart 23: Economic Performance in the Next 12 Months



5.0 Conclusion

The Quarterly Survey of Business Opinions and Expectations for the fourth quarter of 2019 was conducted in November and December. The Survey revealed that economic conditions deteriorated during the review period in comparison with the previous quarter. Firms highlighted increased electricity load shedding as one of the key factors accounting for deteriorating economic activity in general. The revision to labour laws led to increases in wage bills along with other input costs and subsequent lay-offs of some workers. In addition, commercial banks lending rates increased while the Kwacha depreciated against the US dollar.

In view of the above, firms anticipate continued inflationary pressures in the first quarter of 2020 premised on increased cost of energy, food and raw materials coupled with the depreciation of the Kwacha.

Over the next 12 months, economic performance is expected to remain below the long-term average due to the continued depreciation of the Kwacha, prolonged electricity supply deficit, tight liquidity as well as high lending rates. Firms further expect Government debt to increase the burden on firms through higher taxes.

Appendix - Survey Methodology

Data collection for the Quarterly Survey of Business Opinions and Expectations is done through a questionnaire designed to capture information on economic performance, sources of finance and operational constraints for the current quarter as well as expectations for the following quarter and 12 months ahead. The questionnaire is administered to a sample of respondents in manufacturing, trading, tourism and services, construction, and agriculture sectors selected on the basis of their contribution to GDP.

The Survey covers the Copperbelt (Luanshya, Ndola, Kitwe and Chingola), Southern (Mazabuka, Choma, Kalomo and Livingstone), Central (Chisamba, Kabwe and Mkushi Farming Block), Eastern (Petauke, Chipata and Mfuwe), North-Western (Kasempa and Solwezi), Northern (Kasama, Mbala and Mpulungu), Muchinga (Mpika, Chinsali, Isoka and Nakonde), Luapula (Samfya and Mansa) and Lusaka (Lusaka and Kafue) Provinces.

Data analysis is undertaken based on Net Balance Statistic (*N*) methodology where qualitative responses are converted into quantitative measures as follows:

$$N= \frac{U-D}{U+D+S}*100$$

where *U, D* and S represent the number of respondents indicating Up, Down and Same, respectively.

The Net Balance Statistic method is widely used in the analysis of survey data and has the advantage of detecting the directional changes in performance/expectations of respondents in surveys. It indicates the predominance of either an improvement or deterioration in a variable. A positive net percentage indicates that more respondents reported/expected an increase/improvement/ tightening. On the other hand, a negative net percentage means a decrease/deterioration/loosening, depending on the variable under consideration.