

Quarterly Survey of Business Opinions and Expectations



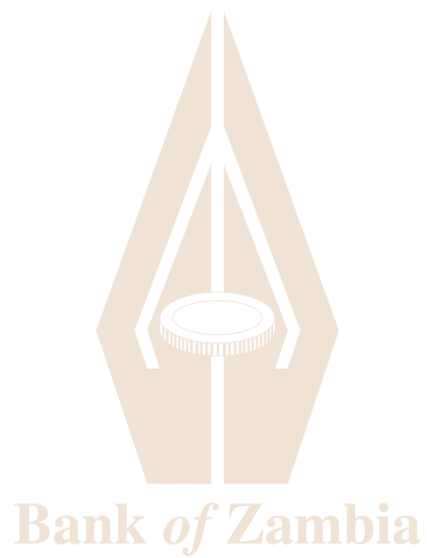
November 2024

Disclaimer:

The opinions and expectations presented herein are of the respondents and not the Bank of Zambia



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Summary

The *November 2024 Survey of Business Opinion and Expectations* points to weak economic activity in the third quarter of 2024. The continued weakness in economic activity is largely on account of increased electricity rationing, a further rise in inflationary pressures, weak consumer demand and a depreciated exchange rate. Economic prospects for the fourth quarter of 2024 remain negative largely due to continued electricity supply shortage, which is expected to keep firm costs high. Reduced exports amid rising demand for foreign exchange also underpin persistent expectations of a weaker Kwacha. Sentiments for the next 12 months are, however, positive, boosted by an expected recovery in the agriculture production in anticipation of improved weather conditions, easing of electricity rationing, and a rise in foreign exchange inflows as copper production in the mining sector picks up further.

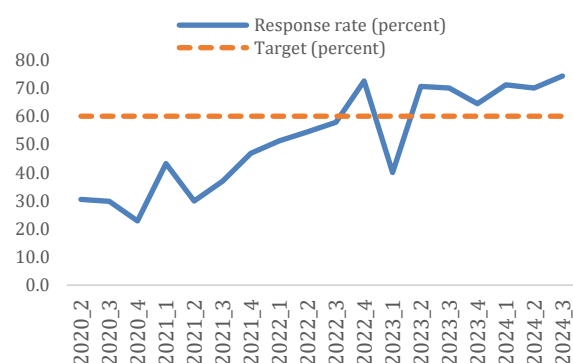
1.0 Introduction

The Bank of Zambia Quarterly Survey of Business Opinion and Expectations (QSBOEs) assesses perspectives of the business community on macroeconomic conditions in the review quarter and expectations for the next quarter and a year ahead. The assessment forms part of monetary policy decisions.

This Report presents views of firms regarding macroeconomic developments in the third quarter of 2024 and expectations for the next quarter and 12 months ahead.

The third quarter survey covered a total of 350 companies out of which 260 responses were received. This represents a response rate of 74.3 percent compared to 70.0 percent achieved in the second quarter of 2024 (Chart 1 and Table 1).

Chart 1: Response Rate



Source: Bank of Zambia

Table 1: Distribution of Responses by Province

Province	Frequency	Percent
Central	46	18
Copperbelt	33	13
Eastern	27	10
Lusaka	21	8
Luapula	39	15
Muchinga	17	7
Northern	12	5
Northwestern	27	10
Southern	24	9
Western	14	5
Total	260	100

Source: Bank of Zambia

The tourism sector had the highest number of responses (25 percent) followed by the services (22 percent) and wholesale and retail (20 percent) sectors (Table 2). At 7 percent, the construction sector remained the lowest.

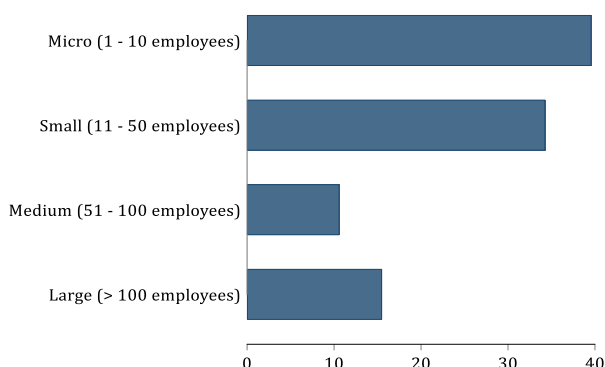
Table 2: Distribution of Responses by Sector

	Frequency	Percent
Manufacturing	35	13
Wholesale and Retail (Merchant)	51	20
Services	58	22
Tourism	66	25
Construction	18	7
Agriculture	32	12
Total	260	100

Source: Bank of Zambia

Based on the number of employees, most of the respondent firms were micro in size (40 percent) while large firms accounted for 16 percent of the sample (Chart 2).

Chart 2: Distribution of Responses by Firm Size (percent)



Source: Bank of Zambia

The rest of the Report is structured as follows. Section 2 presents opinions of firms about economic performance during the third quarter as well as expectations for the fourth quarter and 12 months ahead. Section 3 presents views on input costs, wages, and prices. Section 4 presents macroeconomic prospects 12 months ahead. Section 5 concludes. A description of the survey methodology is provided in the appendix.

2.0 Current Economic Performance and Expectations

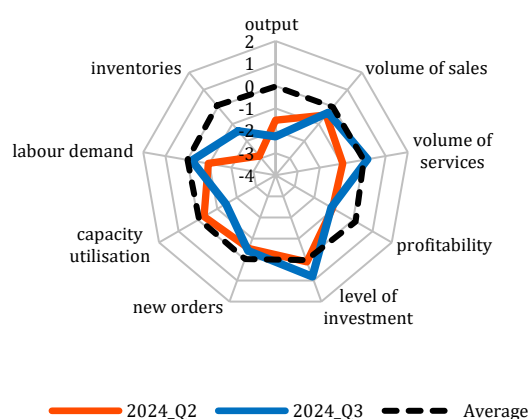
... electricity shortages and escalation of inflationary pressures continue to weigh on economic activity

Economic activity remained weak in the third quarter due to the escalation of electricity rationing and constrained consumer demand. As such, output, volume of sales, new orders, profitability, capacity utilisation, volume of service and labour demand reduced. The level of inventories fell on a year-on-year basis, largely reflecting lower firm production due to prolonged hours of electricity shortages,

which resulted in reduced working hours and increased operating costs. Inventories in the agriculture sector also fell due to reduced output as a result of the drought (Chart 3A and 3B).

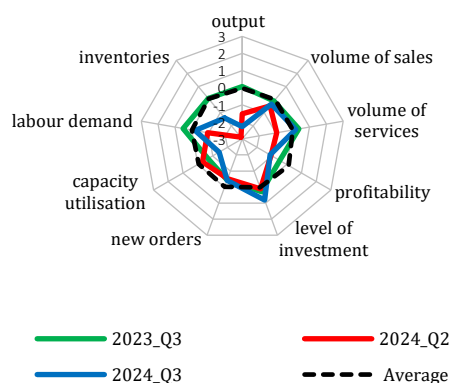
On a quarter-on-quarter basis, output, profitability, capacity utilisation, labour demand and new orders remained weak in the third quarter compared to the previous quarter (Chart 3A). However, the volume of sales, volume of service, and total investment improved, with some respondents citing payment of arrears by Konkola Copper Mine and Mopani Copper Mine, respectively, to contractors on the Copperbelt as spurring demand. In the agriculture sector, the harvest of winter maize improved sales with tourism demand growing on account of a seasonal uptick.

Chart 3A: Business Opinion Response Patterns (Q/Q)



Source: Bank of Zambia

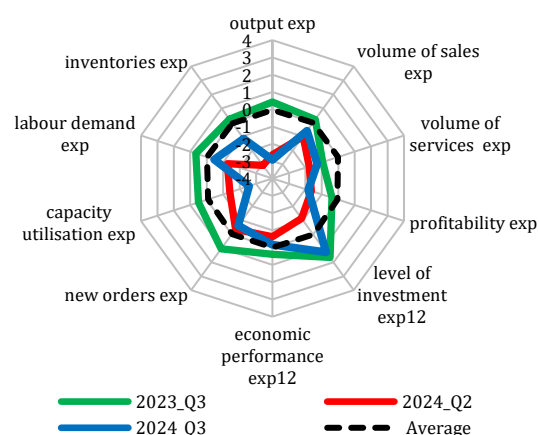
Chart 3B: Business Opinion Response Patterns (Y/Y)



Source: Bank of Zambia

Adverse economic conditions are generally expected to continue in the fourth quarter and six months ahead. This is premised on expectations of continued high firm operating costs as electricity shortages persist as well as fragility in consumer demand due to the high cost of living and a weak exchange rate. Tight liquidity conditions are expected to further weigh on demand. As a result, output, new orders, profitability, labour demand, capacity utilisation, volume of service and volume of sales are expected to decline (Chart 4). Firms that were optimistic expect economic activity to improve over the same period as mining production picks up and weather conditions become favourable for agricultural production. Continued public sector recruitments are also expected to moderate the decline in consumer demand while the use of alternative sources of power may increase production by some firms that had reduced or suspended production due to electricity load management.

Chart 4: Business Expectations Response Patterns



Source: Bank of Zambia

Firms are optimistic about economic prospects over the next 12 months. Positive sentiments were largely based on expectations of increased agricultural production on account of anticipated improved weather conditions leading to the fall in input prices and subsequent reduction in general inflationary pressures. Further, expansion in mining production, improved and more stable electricity supply, increase in capital projects, as well as the possibility of a

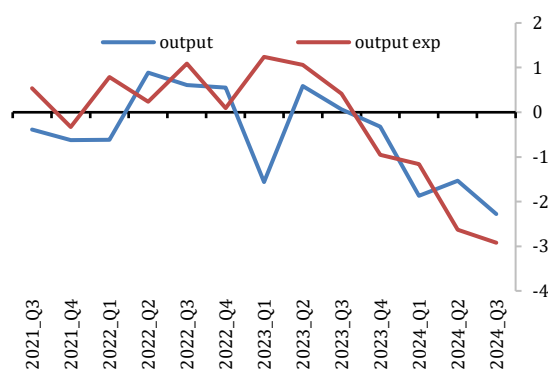
stronger exchange rate may also support economic activity.

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

(Net balance, -0.47; Q2 2024 -0.35)

Output contracted further in the third quarter, reflecting continued weak demand and higher production costs attributed to the current power supply deficit (Chart 5). In the next quarter, respondents expect output to remain weak, constrained by electricity loadshedding. Most firms across the sectors expect to continue producing at below optimal levels.

Chart 5: Opinion on Output



Note: The line at zero (0.0) represents the long-term average
Source: Bank of Zambia

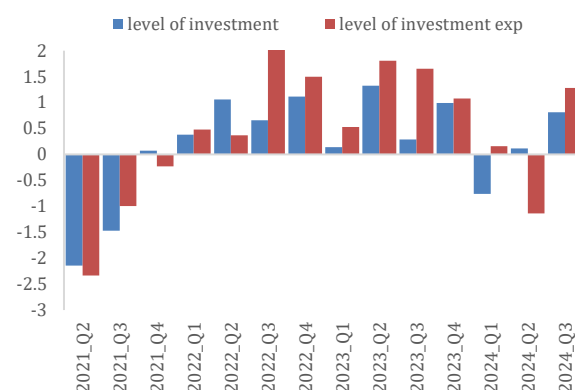
2.2 How was your firm's level of investment?

(Net balance, 0.11; Q2 2024, 0.01)

The level of investment rose during the third quarter as firms invested in alternative power sources such as diesel gensets, solar energy and invertors, to mitigate the energy crisis and maintain business continuity (Chart 6). Renovations to better provide services to clients further augmented total investment, particularly in the tourism sector. In the next quarter, total investment is expected to continue rising in anticipation of the expansion of facilities in the tourism sector, additional fleet acquisition by some firms in

the services sector and further financing of energy equipment to sustain production in the face of electricity rationing.

Chart 6: Level of Investment



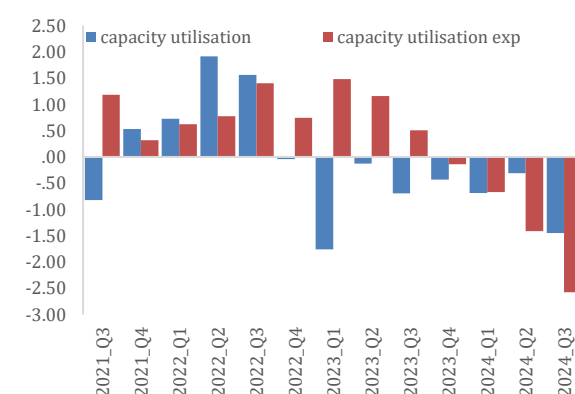
Note: The line at zero (0.0) represents the long-term average
Source: Bank of Zambia

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

(Net balance, -0.44; Q2 2024, -0.24)

Capacity utilisation declined further in the third quarter as production was constrained by reduced operating hours occasioned by the on-going electricity rationing (Chart 7). Capacity utilisation was also negatively impacted by higher production costs for firms using alternative sources of energy. Further, the depreciation of the Kwacha weighed on firms' capacity utilisation as prices of inputs sourced externally rose leading to reduced quantities, particularly for firms involved in steel manufacturing.

Chart 7: Capacity Utilisation



Note: The line at zero (0.0) represents the long-term average
Source: Bank of Zambia

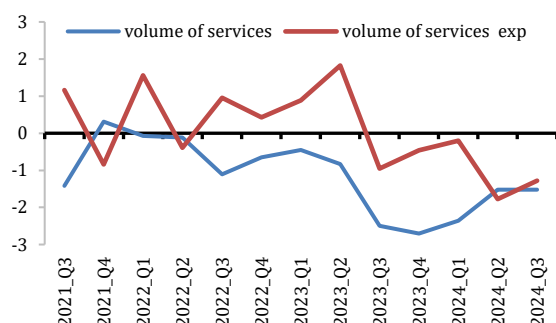
In the fourth quarter, continued weak demand and loadshedding are expected to further weigh on capacity utilisation.

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

(Net balance, -0.09; Q2 2024, -0.35)

Contrary to expectations, the volume of services improved in the third quarter, supported by seasonal improvement in demand in the tourism sector (Chart 8).

Chart 8: Volume of Service



Note: The line at zero (0.0) represents the long-term average
Source: Bank of Zambia

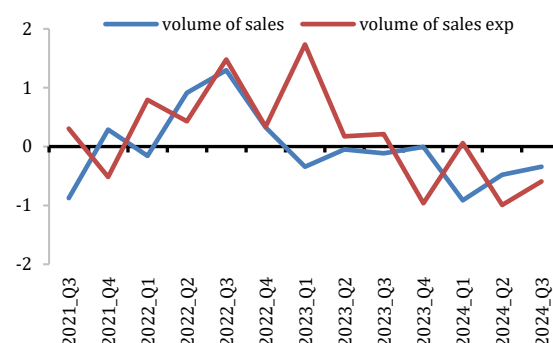
The volume of services is expected to improve further in the fourth quarter due to anticipated higher demand during the festive season.

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

(Net balance, -0.42; Q2 2024, -0.46)

The volume of sales declined in the third quarter, although at a slower pace, mainly attributed to reduced production across sectors due to electricity rationing coupled with weak consumer demand (Chart 9).

Chart 9: Volume of Sales



Note: The line at zero (0.0) represents the long-term average
Source: Bank of Zambia

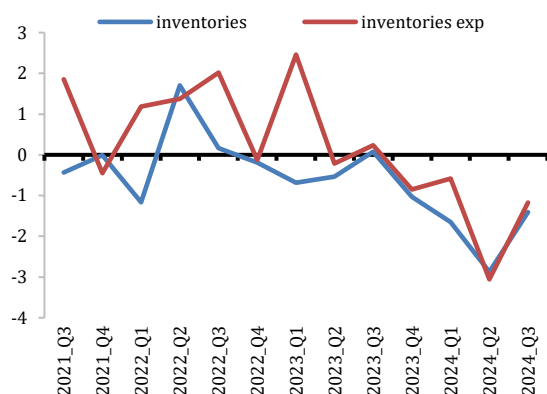
Sales volumes are expected to reduce substantially in the fourth quarter as production remains constrained due to sustained electricity shortages and weak consumer demand amid persistent inflationary pressures. However, firms expect the festive season to moderate the fall in consumer demand.

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

(Net balance, -0.27; Q2 2024, -0.47)

Inventories of final goods declined in the third quarter. This was on account of lower output (mainly in the manufacturing sector) following increased hours of electricity rationing, reduced working hours and escalation in operating costs (Chart 10). Subdued consumer demand and the reduction in sales also contributed to the decline in inventories. In addition, for the agriculture sector, low inventories were due to poor harvest in the last farming season. In the manufacturing sector, a decline in raw material inventories was attributed to a weaker exchange rate and higher input costs. However, inventories are expected to increase in the next quarter, particularly in the agriculture sector, as firms stock up inputs in anticipation of a good rainfall.

Chart 10: Level of inventories



Note: The line at zero (0.0) represents the long-term average

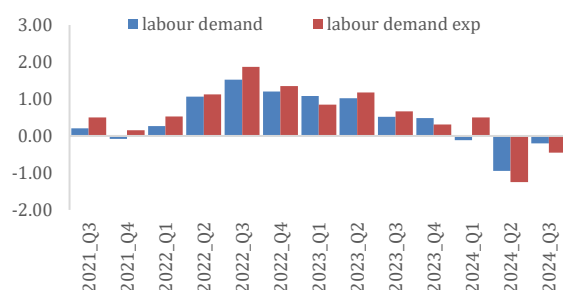
Source: Bank of Zambia

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

(Net balance, -0.10; Q2 2024, -0.22)

Demand for labour reduced further in the third quarter, albeit at a slower pace, as low consumer demand, sustained electricity load shedding and higher input costs impacted on profitability and constrained new hires (Chart 11).

Chart 11: Labour Demand



Note: The line at zero (0.0) represents the long-term average

Source: Bank of Zambia

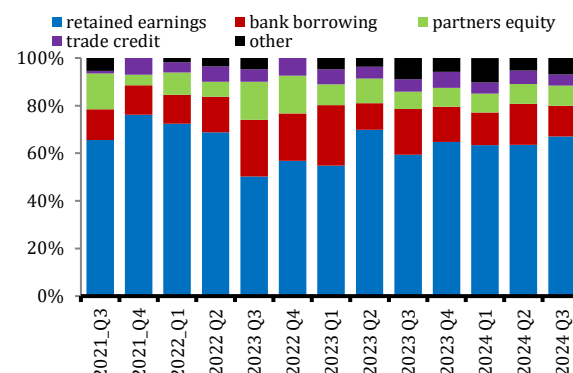
In the next quarter, demand for labour is expected to remain weak across all the sectors on account of sustained electricity shortages and higher input costs, which are expected to continue constraining production.

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

Retained earnings continued to be the main source of financing for working capital and investment followed by bank borrowing and

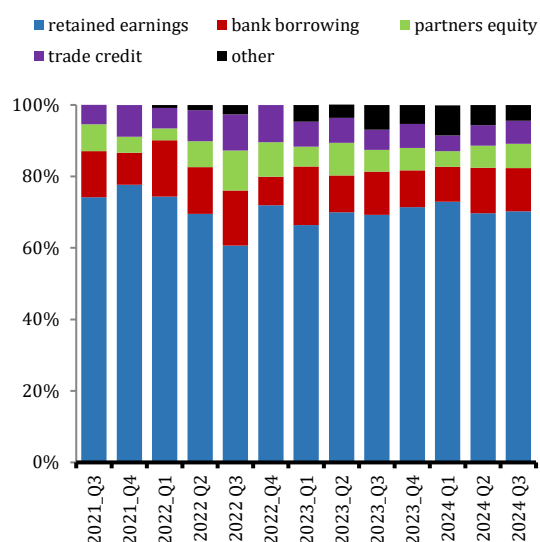
partner equity (Charts 12A and 12B). The share of bank borrowing, however, declined amid high interest rates as firms sourced financing from alternative sources, such as, parent companies, affiliated business ventures, and social networks.

Chart 12A: Sources of Investment Finance



Source: Bank of Zambia

Chart 12B: Sources of Working Capital



Source: Bank of Zambia

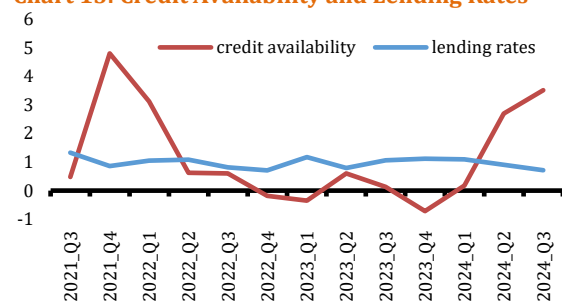
2.10 What is your perception of the current availability of credit?

(Credit Availability, -0.01; Q2 2024 -0.15)
(Lending Rates, 0.75; Q2 2024, 0.82)

Although credit conditions remained tight in the third quarter, the volume of loans on offer by financial institutions improved (Chart 13). Disbursements through the Citizens Economic Empowerment Commission and Constituency Development Fund continued to augment credit availability. Lending rates marginally declined, but stringent collateral

requirements continued to limit credit accessibility.

Chart 13: Credit Availability and Lending Rates



Note: The line at zero (0.0) represents the long-term average

Source: Bank of Zambia

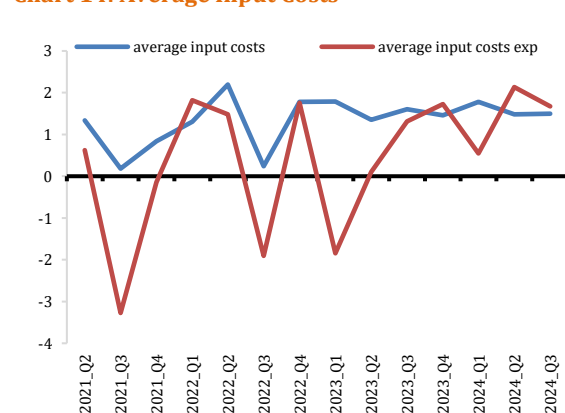
3.0 Evolution of Costs, Wages and Prices

3.1 What has been your firm's experience with respect to average input costs?

(Net balance, 0.62; Q2 2024, 0.62)

Average input costs continued to rise in the third quarter (Chart 14). Rising inflation, Kwacha depreciation, electricity loadshedding and increased transportation costs were the key factors that accounted for the rise in input costs. In the next quarter, input costs are expected to rise further, although at a moderate pace, on account of the expected persistence in Kwacha depreciation, electricity load shedding and rising inflation.

Chart 14: Average Input Costs



Note: The line at zero (0.0) represents the long-term average.

Source: Bank of Zambia

3.2 What has been your firm's experience with respect to average selling prices?

(Net balance, 0.38; Q2 2024, 0.40)

Average selling prices rose further in the third quarter, albeit at a slower rate, as input costs increased (Chart 15). Rising inflation, Kwacha depreciation, use of alternative energy sources and increased transportation costs contributed to the increase in product prices across all the sectors. These factors are expected to maintain upward pressure on product prices in the fourth quarter.

Chart 15: Evolution of Average Selling Prices



Note: The line at zero (0.0) represents the long-term average

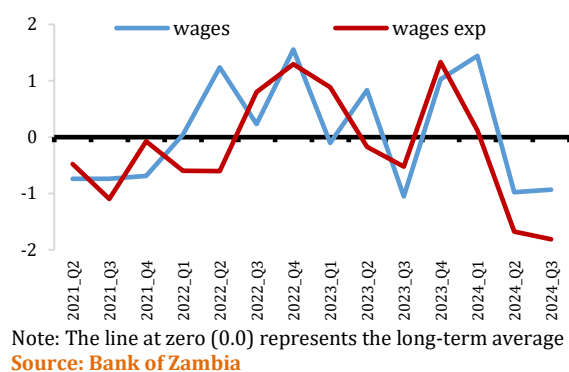
Source: Bank of Zambia

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

(Net balance 0.06; Q2 2024, 0.06)

Respondents indicated a marginal increase in the wage bill despite a notable reduction in labour demand in most sectors (Chart 16). This was largely on account of annual salary reviews and demand by workers in view of increased cost of living.

Chart 16: Evolution of Wages



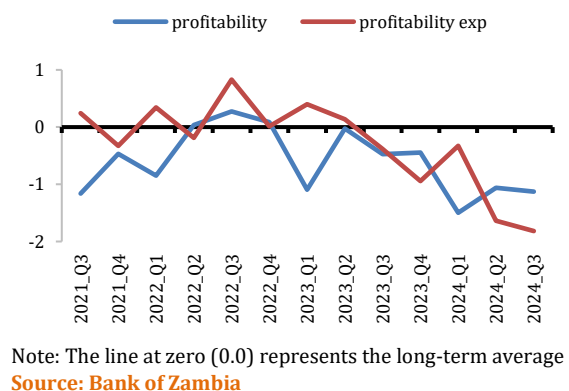
Wages are expected to increase in the fourth quarter largely on account of expected new hires, particularly in the retail, banking, construction and agriculture sectors.

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

(Net balance, -0.51; Q2 2024, -0.49)

Respondents reported a reduction in profit margins in the third quarter on account of higher production costs driven by electricity shortages, higher input costs and reduced consumer demand (Chart 17). Despite elevated production costs, some firms did not fully adjust their selling prices due to stiff competition, which further reduced their profit margins. Firms expect profitability to reduce further in the next quarter as the same factors persist.

Chart 17: Profitability



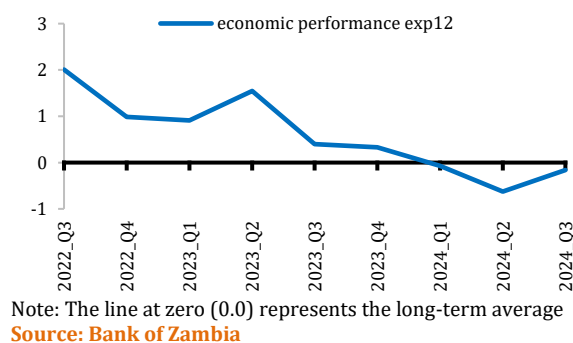
4.0 Macroeconomic Prospects One Year Ahead

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

(Net balance, 0.13; Q2 2024, -0.01)

Firms are optimistic about prospects for economic activity in the next 12 months (Chart 18). This is largely premised on anticipated improvement in electricity supply and increased mining production. Improved weather conditions and favourable Government policies in the agriculture sector are also expected to support increased crop production in the next farming season. These factors are expected to result in higher output and a stronger exchange rate.

Chart 18: Economic Performance in the Next 12 Months



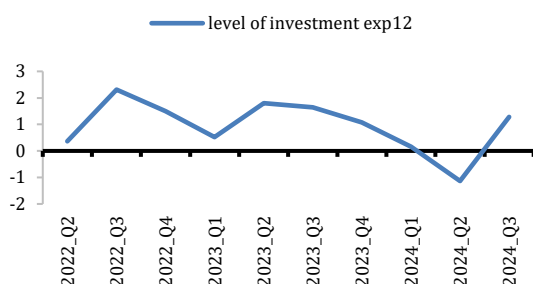
4.2 What is your expectation of the level of investment in the next 12 months?

(Net balance, 0.33; Q2 2024, 0.05)

Firms are optimistic about investment plans in the next 12 months due to the anticipated increase in economic activity supported by the recovery of the mining sector and pick-up in consumer demand. Respondents cited expansion and renovation plans to remain competitive as key factors underpinning their investment plans. In the manufacturing sector, some firms plan to expand production following favourable tax adjustments (zero duty) imposed on some products such as solar equipment and domestically assembled

motorbikes built using a proportion of local content (Chart 19).

Chart 19: Level of Investment in the Next 12 Months



Note: The line at zero (0.0) represents the long-term average

Source: Bank of Zambia

Some firms, however, are pessimistic that the exchange rate may further weaken and that the energy crisis could persist for a longer period, keeping operating costs high and thus constraining production and capacity expansion in the next twelve (12) months.

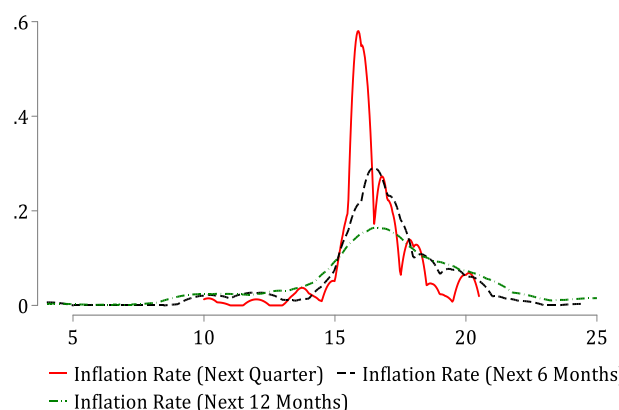
4.3 What do you expect the price level to be over the next quarter?

(Net balance, 0.86; Q2 2024, 0.92)

Inflationary pressures are expected to persist in the fourth quarter on account of escalation in operating costs due to increased hours of electricity rationing and a weaker Kwacha (Charts 20, 21 and 22). Past price increases, high interest rates and fluctuating fuel prices also underpin the anticipated rise in inflation, to an average of 16.5 percent.

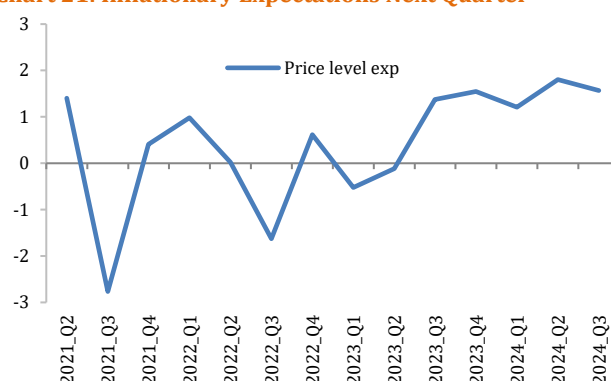
Prices are expected to keep rising in the next six months, with inflation expected to marginally rise to 16.6 percent, on average, as operating costs remain high and the exchange rate depreciates. Firms expect inflation to rise even further to 16.9 percent, on average, by the end of the third quarter of 2025 as the same factors persist.

Chart 20: Kernel Density Plot - Expected Inflation Rate at the end of the Next Quarter, 6 and 12 months



Source: Bank of Zambia

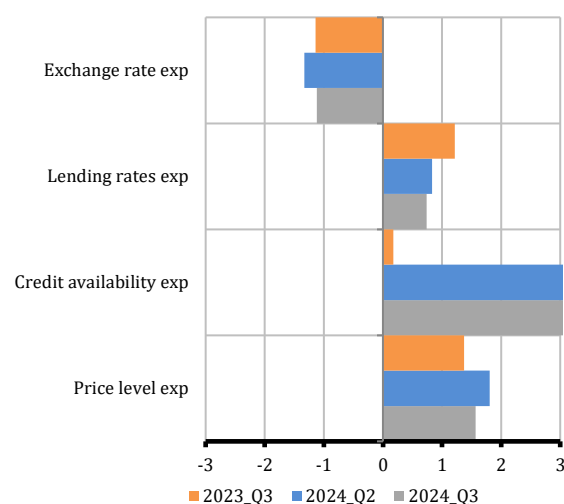
Chart 21: Inflationary Expectations Next Quarter



Note: The line at zero (0.0) represents the long-term average

Source: Bank of Zambia

Chart 22: Inflation, Exchange Rate and Lending Rate Expectations



Notes:

Exchange rate = appreciation, strong (+)/depreciate, weak (-)

Lending rates = increase, high (+)/decrease, low (-)

Credit availability = tight (-)/ loose (+)

Inflation expectations = increase, high (+)/decrease, low (-)

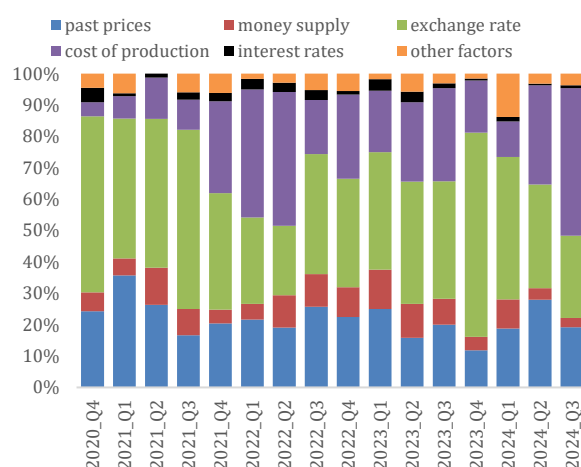
Note: The line at zero (0.0) represents the long-term average

Source: Bank of Zambia

4.4 What are the main factors explaining your expectations of inflation?

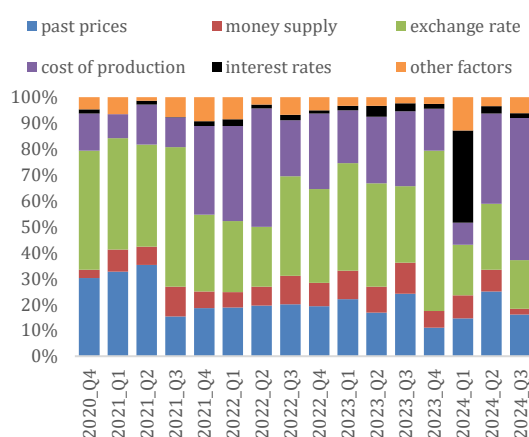
The high cost of production, weaker performance of the Kwacha against major currencies and past price increases continue to dominate as key drivers of inflation expectations in the fourth quarter and 12 months ahead (Charts 23A and 23B). Sustained electricity rationing is expected to keep production costs elevated.

Chart 23A: Key Drivers of Inflationary Expectations Next Quarter



Source: Bank of Zambia

Chart 23B: Key Drivers of Inflationary Expectations next 12 Months (percent)



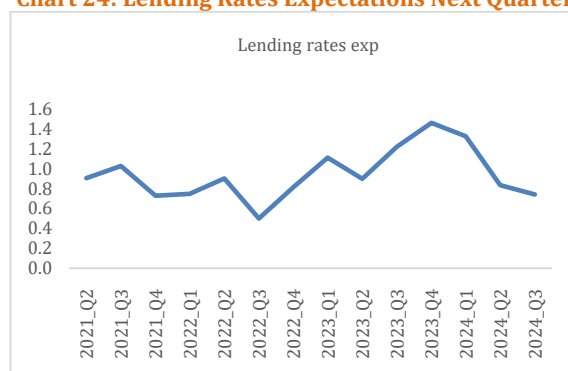
Source: Bank of Zambia

4.5 What do you expect to happen to commercial bank lending rates over the next quarter?

(Net balance, 0.62; Q2 2024, 0.66)

High lending rates are expected to persist in the fourth quarter due to the current tight monetary policy stance to contain rising inflation (Chart 24). Further, the high risk of loan default and perception by some respondents that commercial banks may be benchmarking interest rates against micro-finance institutions underpin elevated interest rate expectations in the next quarter.

Chart 24: Lending Rates Expectations Next Quarter



Note: The line at zero (0.0) represents the long-term average
Source: Bank of Zambia

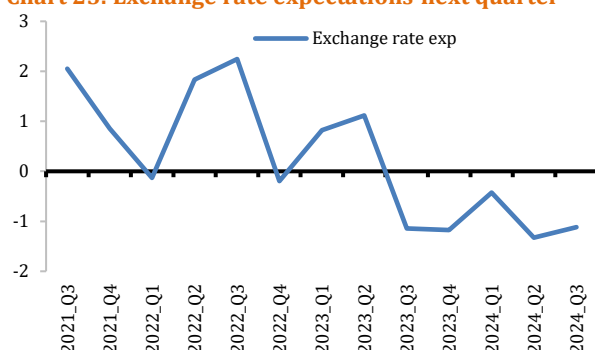
4.6 How do you expect the performance of the Kwacha against the US dollar to be at the end of the next quarter?

(Net balance, - 0.61; Q2 2024, -0.68)

The Kwacha is expected to depreciate further against the US dollar in the fourth quarter due to constrained foreign exchange supply amid demand and inflation (Chart 25). Increased demand for foreign exchange is reported to have been induced by the use of imported solar products as the energy crisis persists. Supply of foreign exchange remains low due to reduced production by firms, especially those in the agriculture and manufacturing sector, which has reduced exports as well as the yet to recover mining output. The firms that were optimistic expected improved foreign exchange inflows from improvements in foreign direct investment as well as measures implemented by the Bank to stabilize the exchange rate. As a result, firms

expect the Kwacha to be valued at K26.93 per US dollar, on average, at the end of the fourth quarter (Chart 26).

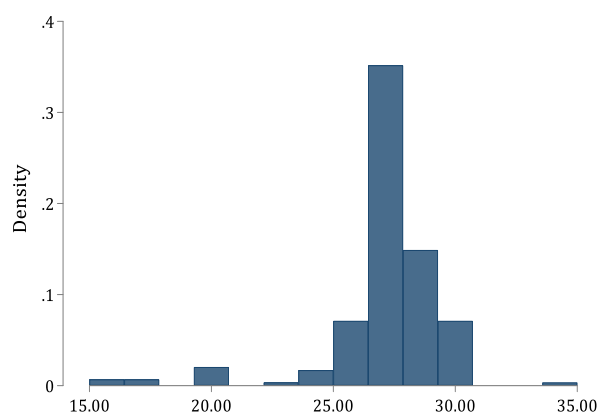
Chart 25: Exchange rate expectations next quarter



Note: The line at zero (0.0) represents the long-term average

Source: Bank of Zambia

Chart 26: Histogram - Expected Exchange Rate at the end of the Next Quarter (Q4 2024)



Source: Bank of Zambia

The exchange rate is expected to remain weak over the next 12 months. However, the exchange rate may appreciate to K25.92 per US dollar as mining production improves, the current energy crisis moderates, which is expected to support higher production and export of goods, and currency regulations proposed by the Bank are implemented.

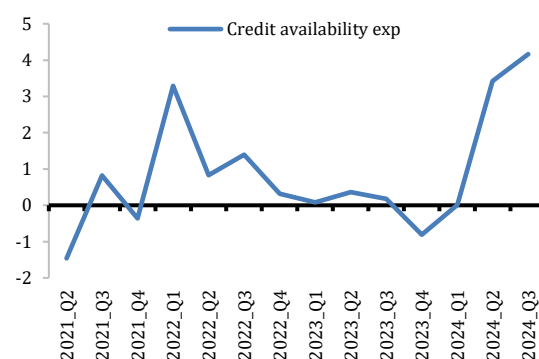
4.7 How do you expect credit availability to be over the next quarter?

(Net balance, 0.03; Q2 2024, -0.07)

Credit conditions are expected to improve in the next quarter due to an increase in the

availability of liquidity in the economy (Charts 22 and 27).

Chart 27: Credit availability expectations next quarter¹



Note: The line at zero (0.0) represents the long-term average

Source: Bank of Zambia

5.0 Conclusion

Reminiscent of expectations in the August Report, economic activity was weak in the third quarter, largely attributed to increased electricity shortages, continued rise in price pressures and a weaker Kwacha. These factors are expected to continue impeding economic activity in the next quarter. However, the level of investment improved as firms sought to invest in alternative sources of power to improve or maintain output. Sentiments regarding performance over the next 12 months are positive. These are premised on the expected recovery of the mining sector, improved agricultural production due to better weather conditions, and easing of electricity rationing. Investment inflows following the completion of external debt restructuring are also expected to boost growth.

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

¹ Credit availability = tight (-)/ loose (+)

administered to a sample of respondents in manufacturing, wholesale and retail, tourism and services, construction, and agriculture sectors selected based on their contribution to GDP.

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

Data analysis is based on net balance statistic (N) methodology where qualitative responses are converted into quantitative measures as follows:

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

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 (negative) net percentage indicates that more respondents reported/expected an increase(decrease)/improvement (deteriorating) /tightening (loosening).