



BANK *Of* ZAMBIA

**QUARTERLY SURVEY OF BUSINESS  
OPINIONS AND EXPECTATIONS  
REPORT**

**Third Quarter 2017, Vol 1.3**

**Disclaimer:**

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

**OCTOBER 2017**

## PREFACE

The Quarterly Survey of Business Opinions and Expectations (QSBOE) undertaken by the Bank of Zambia is designed as a supplementary tool to provide information on the business community's opinions and expectations about the current and future direction of the economy for macroeconomic analysis.

The business opinions and expectations survey provides useful indicators of current and future economic activity and assist in the formulation of decisions today that impact on future economic performance. The survey provides a guide to likely future developments because of the dominant role expectations play in shaping economic behaviour.

This Report is based on the results of the QSBOE conducted from August - September 2017. A total of 313 questionnaires were distributed, of which 283 firms responded. This represented a response rate of 90.4%. The sectoral response shares and distribution are indicated in Figures 1 and 2.

Figure 1: share of sectoral responses

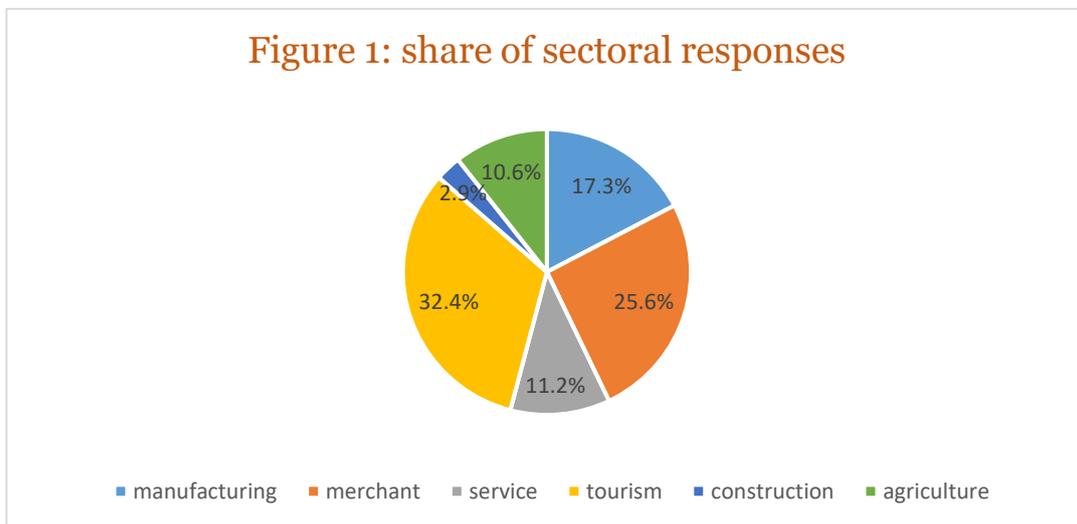
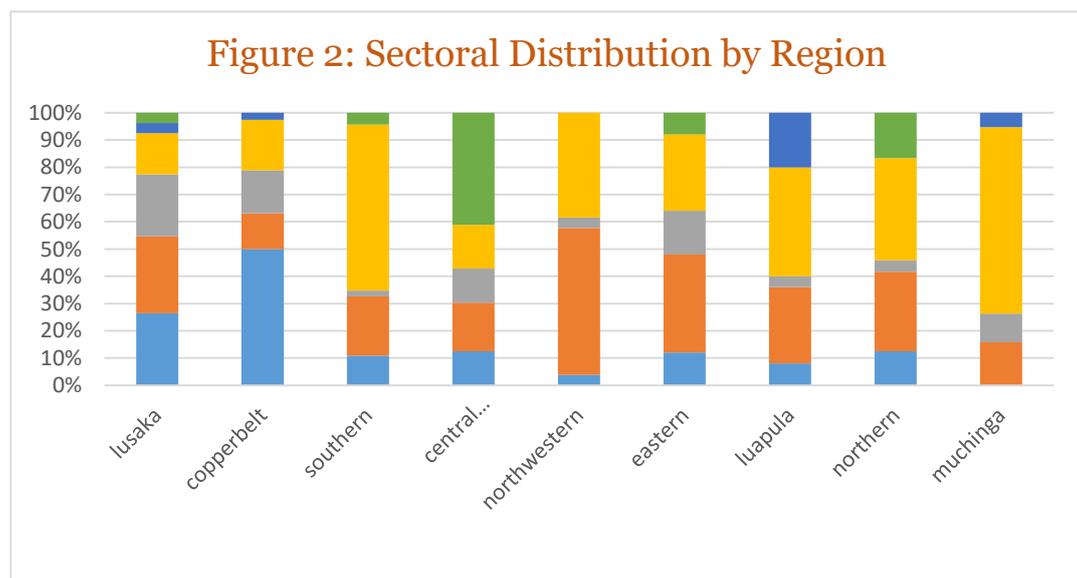


Figure 2: Sectoral Distribution by Region



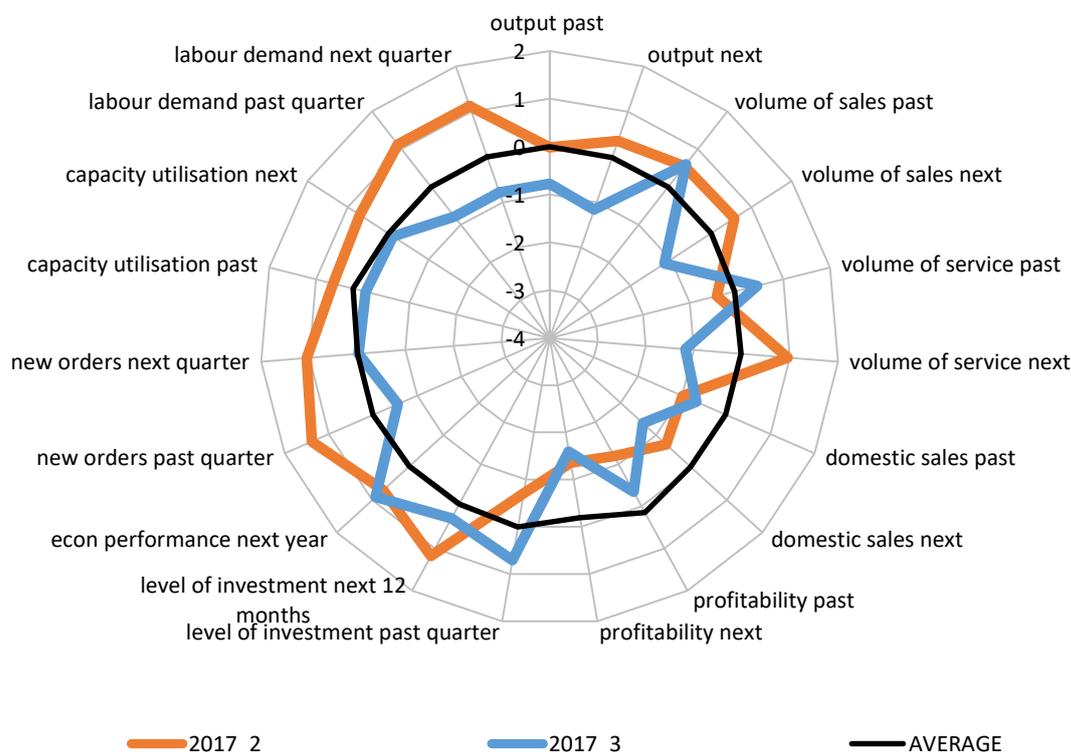
## Executive Summary<sup>1</sup>

The Quarterly Survey of Business Opinions and Expectations conducted during the third quarter of 2017 indicated that although economic activity remained generally below the historical average, the commencement of the agriculture marketing season and improved performance in the service (tourism, banking) and merchant sectors resulted in higher domestic sales and profitability compared to the second quarter outturn. This was despite lower productivity in the agriculture and manufacturing sectors due to the seasonal rain dependent nature of most farming activities and competition from cheaper imported commodities from China cited by some manufacturers.

Respondents anticipated weaker economic activity during the fourth quarter, due to seasonal factors (lean agriculture period, low demand for tourist services) coupled with higher production costs following the rise in electricity tariffs. Thus output, particularly in the agriculture sector, labour demand, domestic sales and profitability were expected to decline although the manufacturing sector expected a rise in new orders from the wholesale merchants due to the festive period when consumer demand for commodities increases. Inflationary pressures were expected to remain low, largely driven by past prices, the exchange rate and money supply (consumer demand).

A recovery in economic performance was anticipated over the next twelve months. This prospect was premised on the improved macroeconomic environment with lower inflation, declining interest rates, as well as stability in the exchange rate and higher copper prices and the associated output. In addition, better supply of electricity, increased investment in road infrastructure and refurbishment of tourist facilities would impact positively on the economy.

### Overall Survey Response Patterns\*



\*Note: The survey indicators are standardized 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.

<sup>1</sup> This Report presents findings of the Quarterly Survey of Business Opinions and Expectations conducted during the third quarter of 2017. The results are based on responses from 283 firms of the 313 questionnaires distributed, covering manufacturing, merchants, tourism and services, agriculture and construction sectors, thus representing a response rate of 90.4%.

## Introduction

This Business Opinions and Expectations Survey Report is divided into four sections. The first section presents the response patterns related to economic performance during the third quarter of 2017 and expectations for the fourth quarter, while section II presents opinions and expectations on input costs, wages and selling prices, among other variables. Section III provides perceptions on variables that influence monetary policy for the fourth quarter and section IV provides the general conclusion.

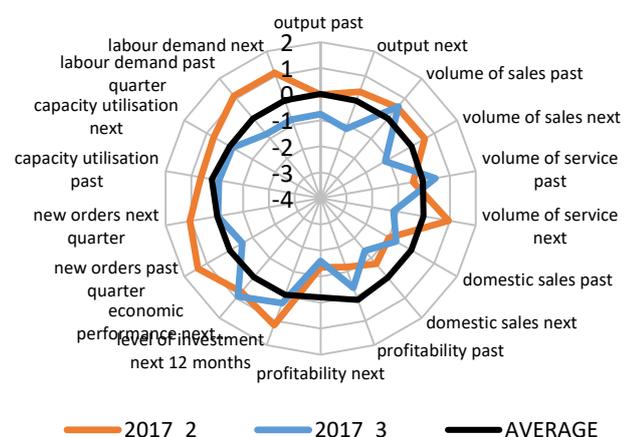
### I. Opinions and Expectations of Economic Activity

#### *Economic Activity improved*

The overall response pattern from the survey for the third quarter of 2017, showed that economic activity remained subdued despite an improvement in the service sector and agriculture marketing season which resulted in higher domestic sales and profitability when compared to the second quarter outturn. Capacity utilisation, output and labour demand declined in the agriculture and manufacturing sectors owing to seasonal nature of rain fed agriculture practised by most Zambians, and competition from cheaper imported goods, respectively. (see Chart 1).

Expectations indicated weaker economic activity during the fourth quarter 2017 mainly due to seasonal factors affecting the agriculture and tourism sectors. However, a rebound in economic performance was anticipated over the next 12 months. Most respondents based their optimism on the improved macroeconomic environment with declining interest rates and inflation, as well as exchange rate stability. Further, the higher copper prices and associated output, improved water supply for electricity generation and irrigation, as well as increased investment in road infrastructure and tourist facilities would impact positively on the economy.

**Chart 1: Business Opinions & Expectations Survey Response Patterns\***



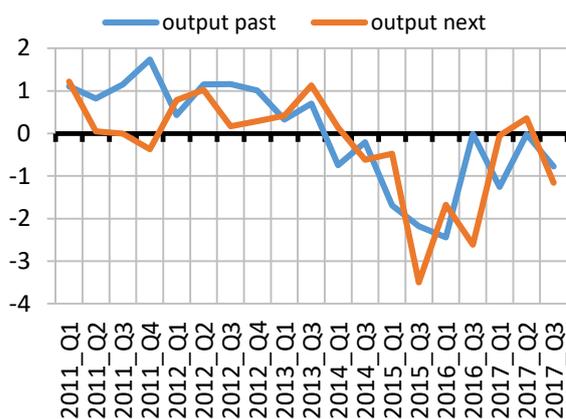
\*Note: The survey indicators are standardized net balances with mean=0 and standard deviation=1. A value within the black circle entails weaker economic conditions than historical average and a value outside the black line is better than historical average.

#### *Output deteriorated in Q3 2017*

(net balance -14.5%; Q2 2017, -2.9%)

Output declined and remained below the historical average during the third quarter 2017. This was mainly due to the off peak season for agriculture and increased competition arising from the importation of cheaper products from China sited by some companies in the manufacturing sector (see Chart 2). Lower productivity was expected from both sectors during the fourth quarter 2017, owing to seasonal factors compounded by higher operational costs following the rise in electricity tariffs.

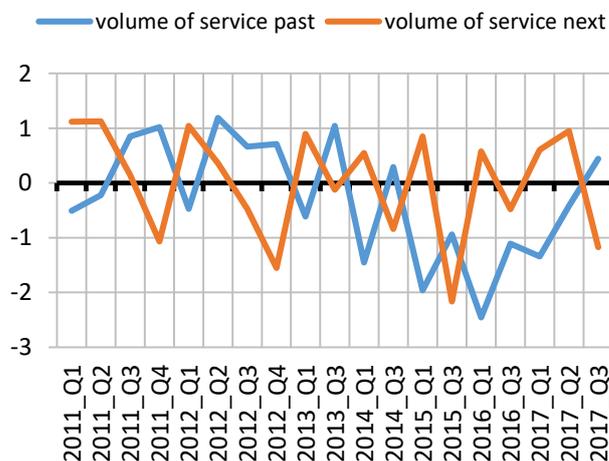
**Chart 2: Opinion on Output**



*Volume of Service improved*  
(net balance 2.6%; Q2 2017, -12.3%)

During the quarter under review, the volume of service rose and was above the historical average. This improvement was attributed to conferences and the increase in demand for tourist services, greater efficiency in service delivery following the introduction of digital solutions in the banking sector, as well as credit growth to the private sector due to declining interest rates (see Chart 3).

**Chart 3: Volume of Service**



However, most respondents anticipate a decline in the volume of service during the fourth quarter due to reduced demand for tourist activities during the rainy season and cancellation of some bookings for the quarter on account of increased competition from

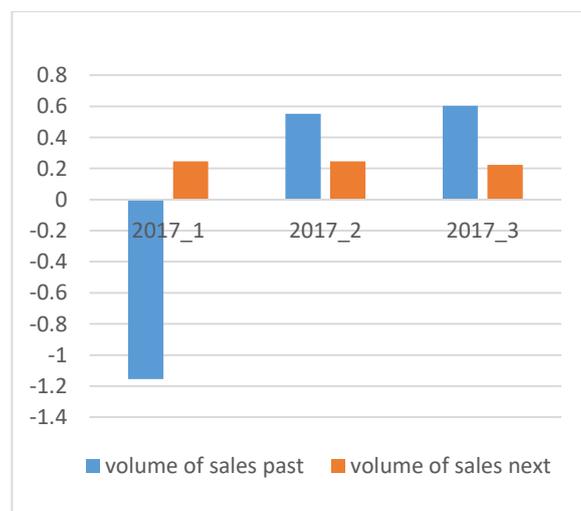
neighbouring <sup>2</sup>Zimbabwe. Further, underdeveloped infrastructure such as roads, and high electricity tariffs were expected to impact negatively on the volume of service.

*Volume of sales slightly improved*  
(net balance -30.9%%; Q2 2017, -31.9%)

The volume of sales in the merchant sector increased slightly but remained below the historic average during the third quarter 2017 (see Chart 4). This was mainly on account of stability in the exchange rate which resulted in more imports as well as higher demand for vehicle owing to sale discounts. Further, the reduction in both load shedding and the price of fuel triggered an increase in economic activity which resulted in higher demand for petroleum products.

Respondents, in the merchant sector, expect volume of sales to remain high during the fourth quarter, though lower than the previous quarter with a net balance of 22.4% compared to 24.6% (see Chart 4). This is largely attributed to the anticipated rise in demand for commodities during the festive season as well as demand for agro-chemical products in view of the commencement of the agriculture planting season.

**Chart 4: Volume of Sales**

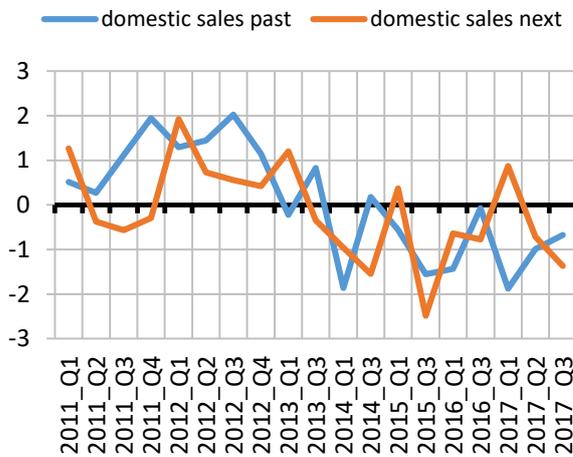


<sup>2</sup> High cost in Zambia attributed to many tourism levies and service charges

**Domestic Sales improved**  
(net balance -16.90%; Q2 2017, -20.9%)

Domestic sales rose during the third quarter 2017 but remained below the historical average. This was mainly on account of the commencement of the agriculture marketing period following a maize bumper harvest in the 2016/2017 season and increased activity in the service sectors. Expectations for the fourth quarter, showed a decline in domestic sales mainly due to off peak season in tourism and agriculture sectors (see Chart 5).

**Chart 5: Domestic Sales**



**Labour demand declined**  
(net balance -6.8%, Q2 2017 3.8%)

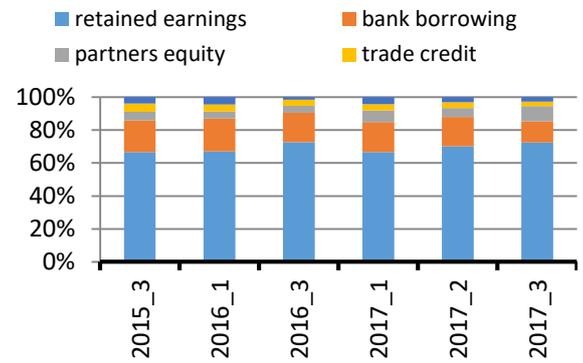
During the quarter under review, labour demand decreased. This was largely due to reduced activities in the agriculture sector and scaling down of operational costs in the manufacturing and merchant sectors. Demand for labour is expected to remain subdued during the fourth quarter due to the anticipated lower economic activity.

**Retained earnings remained main source of financing**

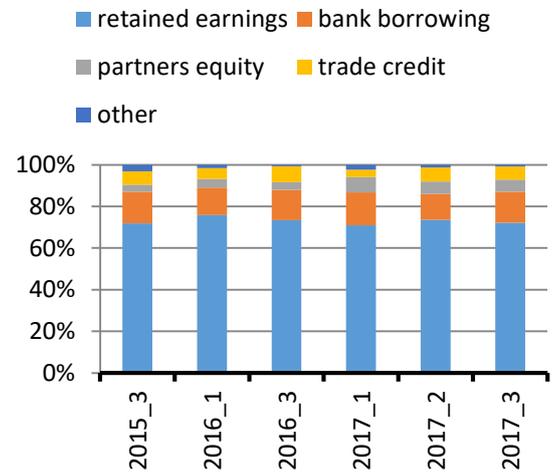
The main source of investment finance and working capital in the third quarter continued to be retained earnings at 72.3% (70.3%) and 72.4% (73.6%), respectively. This was followed by partner's equity at 14.8% (12.4%) and commercial bank borrowing at

13.1% (17.8%), respectively (see Charts 6A and 6B).

**Chart 6A: Sources of Investment Finance**



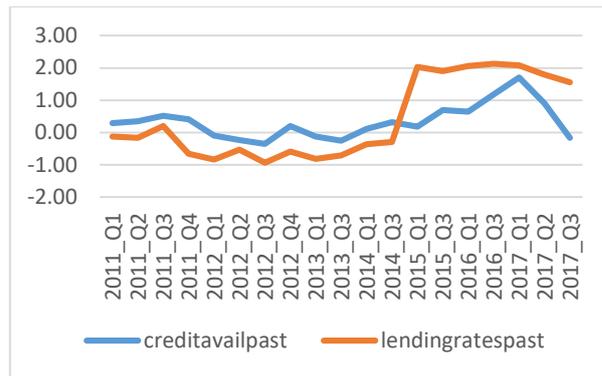
**Chart 6B: Sources of Working Capital**



**Credit conditions loosened**  
(net balance 61.7%; Q2 2017, 70.8%)

During the third quarter, most respondents observed looser credit conditions, although availability remained below the historical average. The lending rates also declined slightly but were still above the historical average (see Chart 7). The lower lending rates and improvement in credit availability was largely attributed to the easing in monetary policy (reduction in Bank of Zambia policy rate in August 2017).

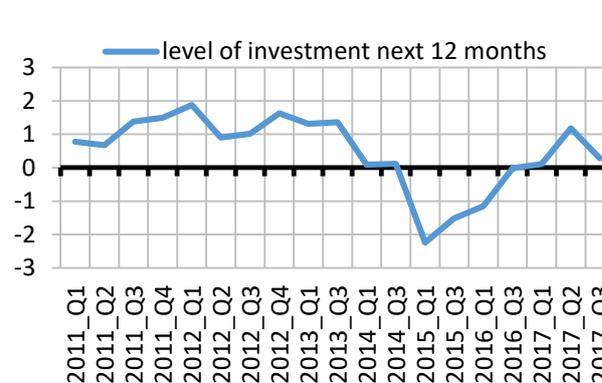
**Chart 7: Credit conditions and lending rates**



**Investment Spending increased**  
(net balance 12.8%; Q2 2017, 8.9%)

Over the next 12 months, investment spending is expected to decline but remain around the historical average (see Chart 8). This expectation is premised on plans to set up new plants and expand distribution channels by manufacturing and merchant sectors in response to an anticipated rise in demand. In the tourism sector, growth in investment spending is expected to emanate from refurbishment works on tourism facilities to counter stiff competition from neighbouring Zimbabwe. The anticipated rise in lending by the banking sector is expected to support investment spending.

**Chart 8: Investment plans in next 12 months**

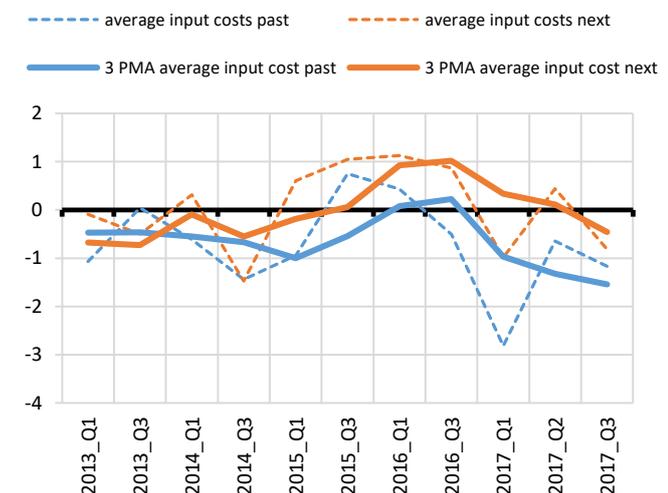


## II Evolution of Costs, Wages and Prices

**Average input costs lower**  
(net balance 19.3%; Q2 2017, 24.8%)

Most respondents reported a decline in average input costs during the third quarter, (see Chart 9). This was mainly explained by the stability in the exchange rate and the reduction in petroleum prices in August 2017 (e.g. diesel). During the fourth quarter, average input costs were expected to remain low largely on account of continued stability in the exchange rate.

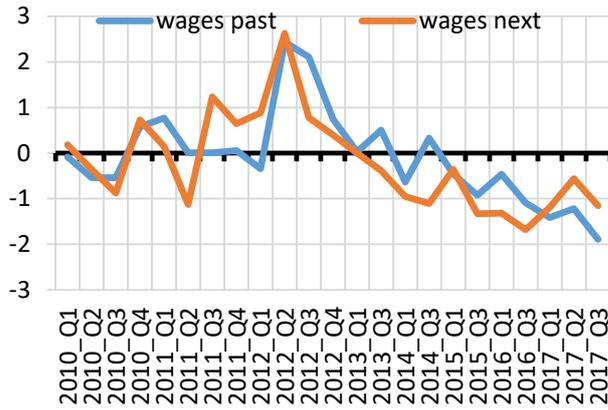
**Chart 9: Average input costs**



**Wages reduced**  
(net balance 1.1%; Q2 2017, 6.3%)

During the third quarter, the wage bill decreased, and remained below the historical average as shown by the balance of responses. The was mainly accounted for by the expiry of contracts in the agriculture sector and the reduction in labour demand to cut costs in the manufacturing and merchant sectors. Wages are expected to decline further in the fourth quarter as evidenced by a net balance of 14.1% compared with 19.5% in the third quarter of 2017 (see Chart 10) due to anticipated lower economic activity.

**Chart 10: Evolution of wages**



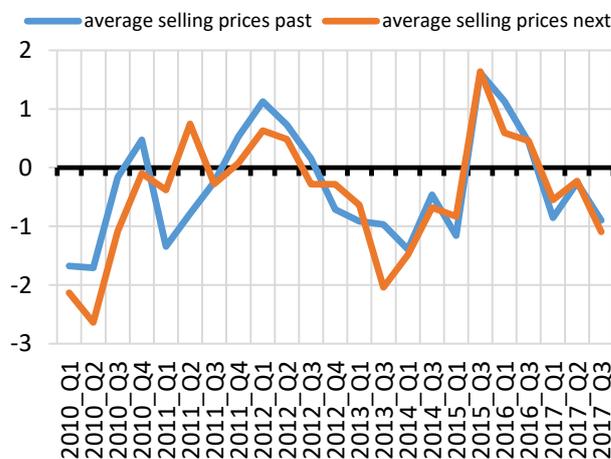
**Selling Prices reduced**

(net balance -15.9%; Q2 2017, -4.1%)

In the third quarter, average selling prices decreased, as indicated by the net balance of -15.9% compared to -4.1% in the second quarter (see Chart 11). This was mainly attributed to continued stability in the exchange rate, the reduction in fuel prices in August 2017, the lower maize floor price for the 2011/2017 agricultural marketing season, as well as discounts offered to clear goods.

Expectations for the fourth quarter showed that average selling prices would remain low largely due to anticipated stability in the exchange rate, sale discounts due to stiff competition and relatively low demand.

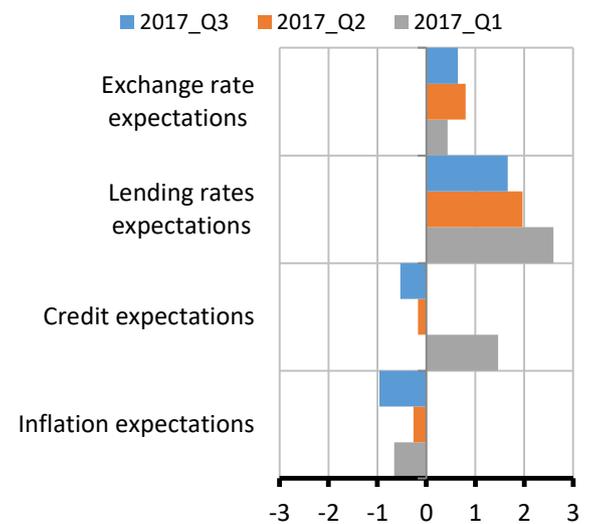
**Chart 11: Evolution of average selling prices**



**III Expectations on Monetary Policy for Fourth Quarter**

In terms of expectations for the fourth quarter, most respondents indicated lower inflation, strong exchange rate though weaker than the previous quarter, lower lending rates and looser credit conditions (see Chart 12).

**Chart 12: Expectations of lower inflation, stronger exchange rate, and loose credit with lower interest rates**



Notes:

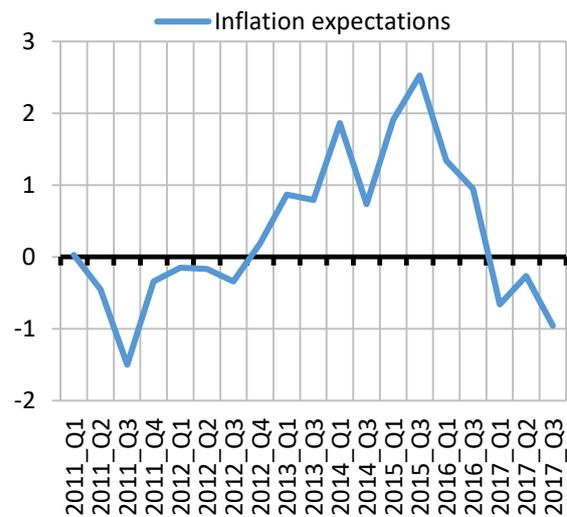
- Exchange rate = appreciation, strong (+) /depreciate, weak (-)
- Lending rates = increase, high (+)/decrease, low (-)
- Credit conditions = tight (+)/ loose (-)
- Inflation expectations = increase, high (+)/decrease, low (-)

**Inflationary pressures to reduce**

(net balance 11.4%; Q2 2017, 27.2 %)

Inflationary pressures for the fourth quarter were expected to reduce largely due to continued stability in the exchange rate and the reduction in fuel prices implemented in August 2017 (see Chart 13).

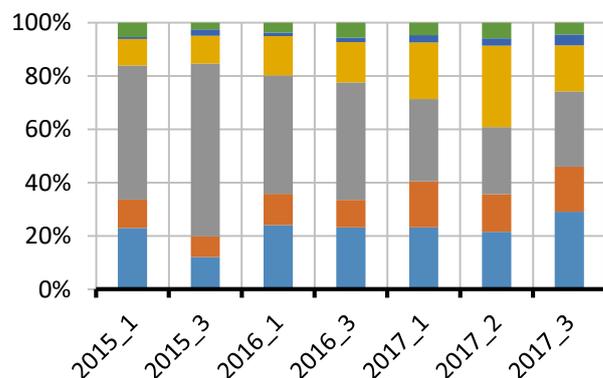
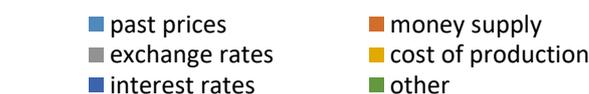
**Chart 13: Inflationary expectations next quarter**



***Inflationary expectations drivers***

Past prices were indicated as the main driver of inflationary expectations for the fourth quarter as indicated by 29.1% (21.6%, Q2) of respondents. This was followed by the exchange rate at 28.3% (25.1%) and money supply, 16.8% (14.1%) (see Chart 14).

**Chart 14: Inflation expectations mainly driven by past prices and exchange rates and less by cost of production**

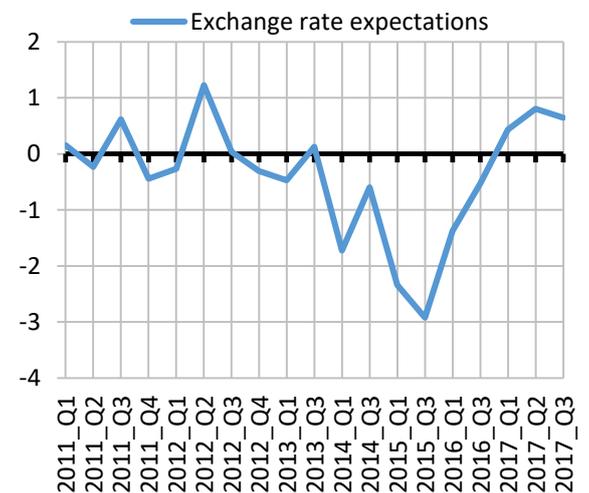


***Kwacha Exchange rate against US dollar to remain strong though weaker than previous quarter***

*(net balance 4.8%, Q2 2017 8.6%)*

During the fourth quarter, most respondents expect the exchange rate to weaken slightly but remain stronger than levels experienced in Q3 2016 (see Chart 15). This is largely on account of an anticipated increase in demand for imports associated with the festive period while low copper production during the rainy season (especially open pit mines) may negatively affect foreign exchange earnings.

**Chart 15: Exchange rate expectations next quarter**

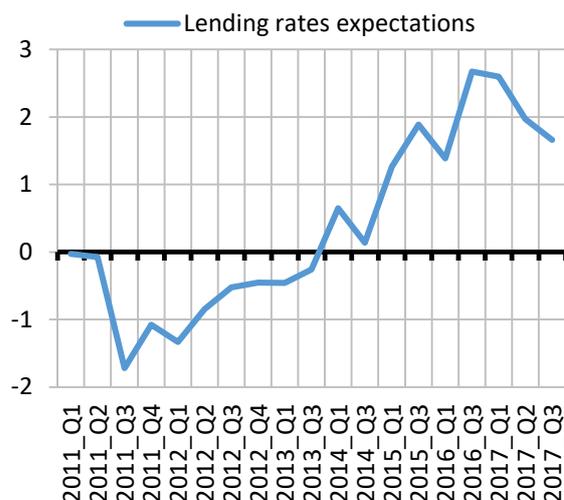


***Interest Rates to decline***

*(net balance 56.5%, Q2 2017 64.6%)*

Commercial banks' lending rates are expected to decline further during the fourth quarter, but remain above the historical average (see Chart 16). This is attributed to the easing in monetary policy (reduction of BoZ policy rate) in August 2017.

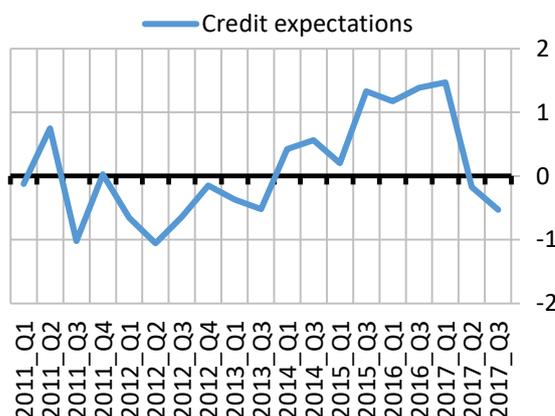
**Chart 16: Interest rate expectations next quarter**



*Credit conditions to loosen further*  
(net balance 51.6%; Q2 2017, 55.8%)

Most respondents expected credit conditions to loosen further during the fourth quarter (see Chart 17). This followed the easing in monetary policy in August 2017.

**Chart 17: Credit conditions expectations next quarter**



#### IV Conclusion

The results of the Business Opinions and Expectations Survey conducted during the third quarter 2017, revealed a slight improvement in economic activity compared to the previous quarter, although economic performance remained generally below the historical average.

The agriculture marketing period and rise in the volume of tourism, banking and merchant services resulted in an increase in domestic sales and profitability compared to the previous quarter.

However, domestic output, capacity utilization, and labour demand fell, largely due to seasonal factors in the agriculture sector and stiff competition from cheaper imported Chinese goods cited by some manufacturing companies.

Most respondents anticipated a decline in capacity utilisation, output, and labour demand during the fourth quarter 2017 mainly due to seasonal factors affecting the agriculture and tourism sectors and higher operating costs. Domestic sales and profitability were thus expected to deteriorate.

With regard to monetary developments, inflationary pressures were expected to be driven by past prices, the exchange rate, and money supply during the fourth quarter. Further, most respondents anticipated lower commercial bank lending rates and higher availability of credit to the private sector, following the easing in monetary policy. The Kwacha exchange rate against the US dollar was expected to remain strong, though weaker than the previous quarter.

A rebound in economic performance was anticipated over the next 12 months. Most respondents based their optimism on the improved macroeconomic environment with declining interest rates and inflation, as well as exchange rate stability. Further, the higher copper prices and associated output, improved water supply for electricity generation and irrigation, as well as increased investment in road infrastructure and tourist facilities would impact positively on the economy.

## Appendix I: Background on the QSBOE

This Report is based on the results of the QSBOE conducted from August - September 2017. Out of the 313 questionnaires distributed, 283 firms responded, representing a response rate of 90.4%.

Of the 283 respondents, 32.4% were from tourism, merchants (25.6%), manufacturing (17.3%), services (11.2%), agriculture (10.6%) and construction (2.9%).

### Survey Methodology

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

The Survey covers the Copperbelt towns of 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). Data analysis is done using the Net Balance Statistic ( $N$ ) where qualitative responses are converted into quantitative measures using the following equation:

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

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

The Net Balance Statistic method has the advantage of detecting the directional changes in performance/expectations of respondents in such surveys. The method 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 and a negative net percentage means a decrease /deterioration/loosening, depending on the variable under consideration. This method has been used widely in the analysis of survey data.