



*Bank of Zambia*

# Quarterly Survey of Business Opinions and Expectations

March 2020  
Volume 29 (1)

**Disclaimer:**

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

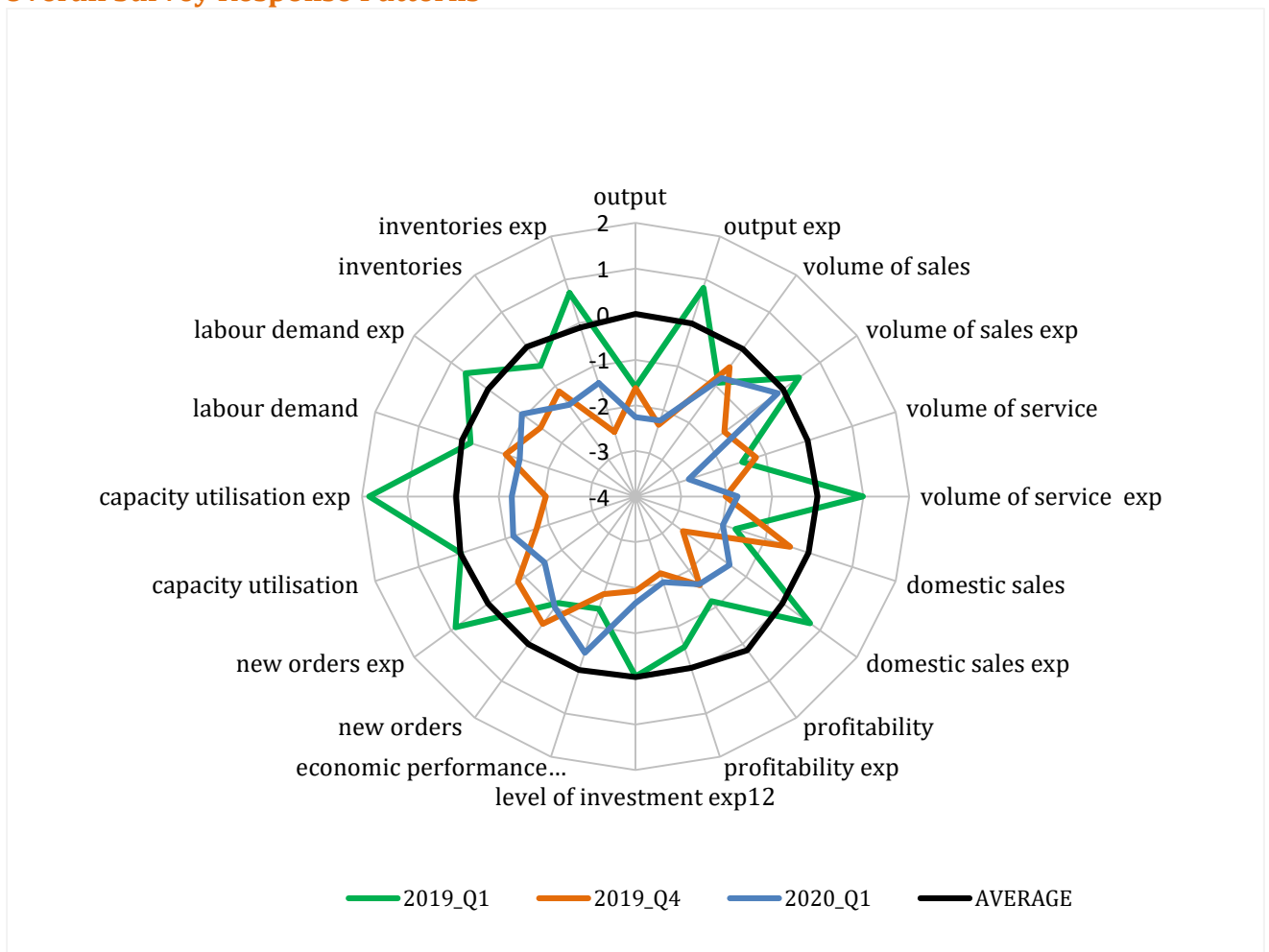
## Table of Contents

Summary .....	ii
1.0 Introduction .....	1
2.0 Economic Performance and Expectations .....	1
3.0 Evolution of Costs, Wages and Prices .....	5
4.0 Expectations of Monetary Policy for Second Quarter 2020.....	7
5.0 Conclusion.....	9
Appendix - Survey Methodology.....	10

## Summary

The Business Opinions and Expectations Survey results for the first quarter of 2020 reveal a deterioration in economic activity. All the monitored indicators were broadly below the fourth quarter 2019 outturn and their long-term average, as depicted in the chart below, mainly due to high production costs. Electricity load-shedding, high energy prices, sharp depreciation of the Kwacha and tight liquidity raised production costs. In the second quarter, firms expect economic performance to deteriorate further as high production costs persist, exacerbated by the negative impact of COVID-19 pandemic. Over the next 12 months, firms expect economic performance to continue to be constrained largely by sustained high production costs coupled with tight liquidity conditions, high borrowing costs, high Government debt service and the lagged effects of COVID-19 pandemic.

### 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

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. The Survey provides an indication of likely future developments given the dominant role that expectations play in shaping economic behaviour. Further, the Survey acts as a supplementary tool to providing information on the business community's opinions and expectations about the current and future direction of the economy.

This Report presents the Business Opinions and Expectations Survey findings for the first quarter of 2020 conducted between March and April 2020. A total of 265 firms responded out of 293, thus representing a response rate of 90.4%. Respondents were from Central (49), Lusaka (41), Southern (39), Northwestern (27), Copperbelt (26), Eastern (24), Northern (23), Muchinga (19) and Luapula (17) Provinces. The sectors represented are tourism (38.5%), merchants (22.6%), manufacturing (16.6%), agriculture (11.3%), services (9.4%) and construction (1.5%).

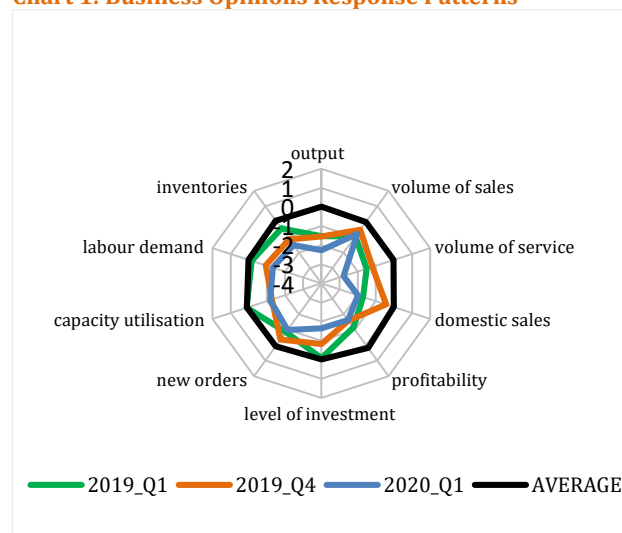
The Report is divided into four sections. Section 2 presents the response patterns for economic performance during the first quarter of 2020 and expectations for the second quarter 2020 as well as 12 months ahead. Section 3 presents opinions and expectations on input costs, wages and selling prices, among other variables, over the same period as in section 1. Section 4 provides perceptions on variables likely to influence monetary policy in the second quarter of 2020. Section 5 concludes.

## 2.0 Economic Performance and Expectations

*Economic activity declined in Q1 2020 and expected to remain subdued over the next 12 months*

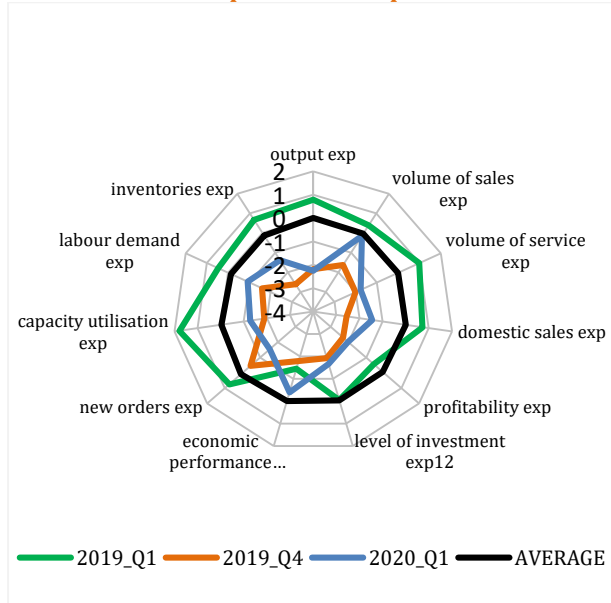
In line with the expectations made in the fourth quarter of 2019, economic activity declined in the first quarter of 2020 (Chart 1). All the monitored indicators were below the fourth quarter outturn and their long-term average mainly attributed to high production costs resulting from high cost of energy (fuel and electricity), electricity load-shedding, sharp depreciation of the Kwacha and tight liquidity conditions.

**Chart 1: Business Opinions Response Patterns**



In the second quarter, economic activity is expected to remain below the long-term average largely on account of the continued rise in production costs exacerbated by the impact of COVID-19 across all the sectors (Chart 2).

**Chart 2: Business Expectations Response Patterns**



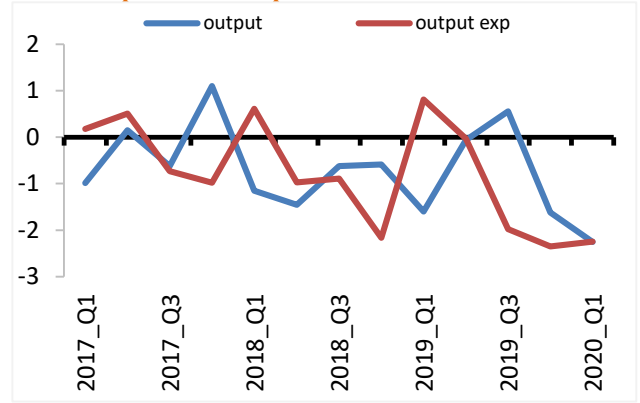
Over the next 12 months, economic performance is expected to remain subdued largely due to inadequate electricity supply, depreciation of the Kwacha against the US dollar, tight liquidity conditions, high cost of credit, lagged effect of the COVID-19.

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

*(Net balance, -0.39; Q4 2019, -0.30)*

Output declined further in the first quarter of 2020 (Chart 3). This was largely attributed to the high cost of production (notably electricity and fuel costs), reduced supply of raw materials such as maize for the millers, and the decline in demand largely experienced in the manufacturing sector evidenced by decrease in capacity utilisation and new orders. Further, output fell in the agriculture sector due to seasonality as the first quarter is largely a planting and not harvest season.

**Chart 3: Opinion on Output**



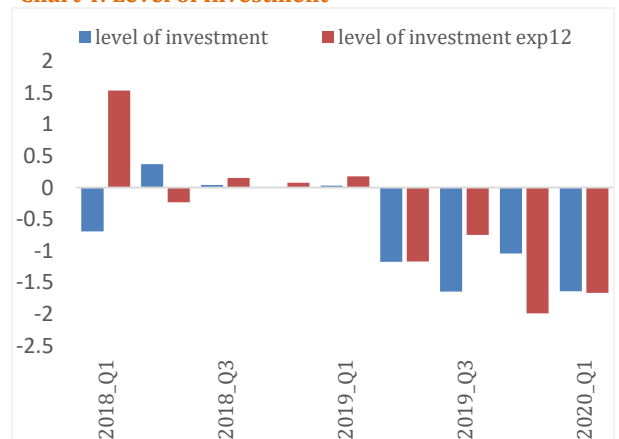
In the second quarter of 2020, output is expected to remain low mainly due to the continued high cost of production as well as the disruptin to production due to COVID-19.

**2.2 How was your firm’s level of investment?**

*(Net balance, -0.10; Q4 2019, -0.03)*

Business investment declined in the first quarter of 2020 largely due to the high cost of doing business associated with the increase in energy prices, sustained electricity load-shedding, rising inflation, Kwacha depreciation, high and many tax obligations, stiff competition in the tourism sector, and reduced profits for re-investment (Chart 4).

**Chart 4: Level of Investment**



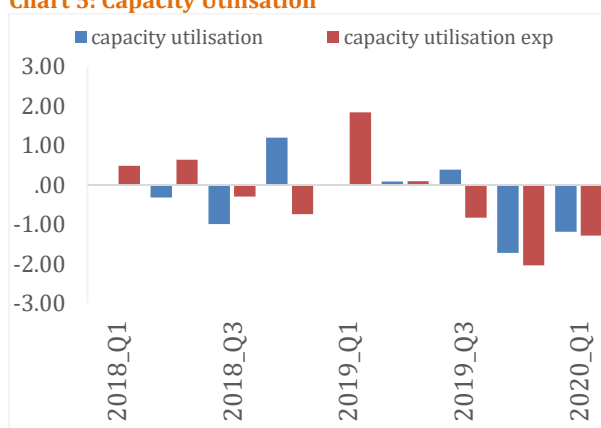
Investment is expected to remain subdued in the next 12 months mainly on account of eroded business environment, anticipated decline in demand, and the high cost of doing business.

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

*(Net balance, -0.29 ; Q4 2019, -0.35)*

Consistent with the fall in output, capacity utilisation declined in the first quarter (Chart 5). This was largely attributed to high electricity load-shedding and tariffs as well as shortages of raw materials. Further, reduction in new orders due to reduced demand and stiff competition contributed to a decline in capacity utilisation.

**Chart 5: Capacity Utilisation**



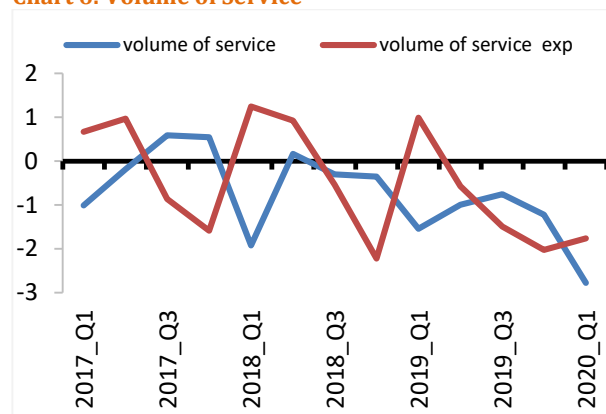
In the second quarter of 2020, capacity utilisation is expected to remain below the long-term average largely on account of expected shut down of production activities in anticipation of low demand due to the economic meltdown associated with the COVID-19 pandemic.

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

*(Net balance, -0.62; Q4 2019, -0.32)*

The volume of service in the first quarter of 2020 fell largely due to the reduction in demand as a result of the depreciation of the Kwacha, high inflation, tight liquidity in the economy and stiff competition (Chart 6). The uptake of tourism services in the first quarter was also negatively affected by seasonal fluctuations, compounded by shutdowns induced by the COVID-19 pandemic.

**Chart 6: Volume of Service**



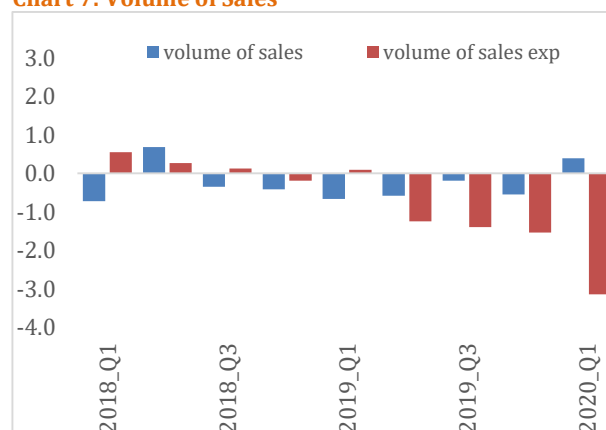
The volume of service is expected to remain below the long-term average in the second quarter. This is mainly premised on travel restrictions associated with the COVID-19 contagion global lockdown.

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

*(Net balance, -0.61; Q4 2019, -0.48)*

The volume of sales was reported to have declined by most respondents during the first quarter of 2020 (Chart 7). This was mainly attributed to lower demand recorded by the merchant and manufacturing sectors owing to tight liquidity in the economy and rising inflation.

**Chart 7: Volume of Sales**



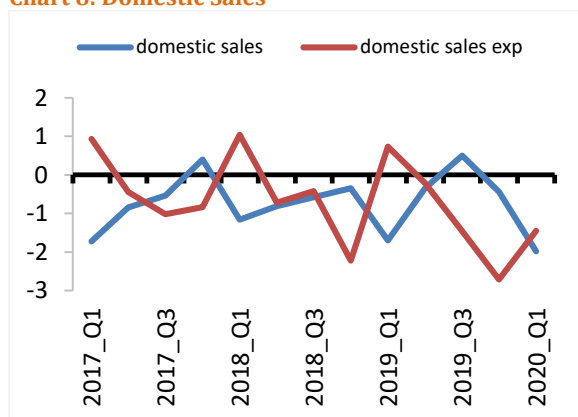
In the second quarter, the volume of sales is expected to decline further largely on account of anticipated rise in inflation, Kwacha depreciation and tight liquidity conditions. This will be exacerbated by subdued demand arising from the COVID-19 pandemic induced lockdown.

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

*(Net balance, -0.40; Q4 2019, -0.14)*

Domestic sales declined in the first quarter of 2020 (Chart 8). This was largely attributed to the fall in output due to seasonal shortages of raw materials for millers (maize grain). In addition, the reduction in operating hours by businesses due to heightened criminal activities (gassing) led to a decline in domestic sales. Further, reduced consumer demand also negatively affected domestic sales.

**Chart 8: Domestic Sales**



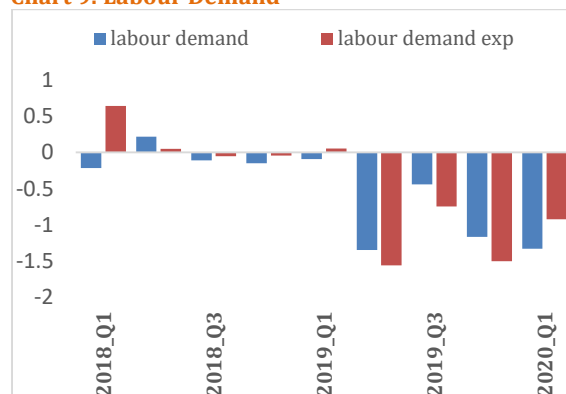
In the second quarter, domestic sales are expected to continue to decline. This is mainly premised on persistently low demand induced by COVID-19 related liquidity constraints as well as reduced output especially by the beverages manufacturers.

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

*(Net balance, -0.23; Q4 2019, -0.19)*

As a result of reduced economic activity, mainly in the tourism sector due to seasonality, high cost of doing business as well as the COVID-19 pandemic, labour demand was reported to have declined in the first quarter of 2020 (Chart 9).

**Chart 9: Labour Demand**

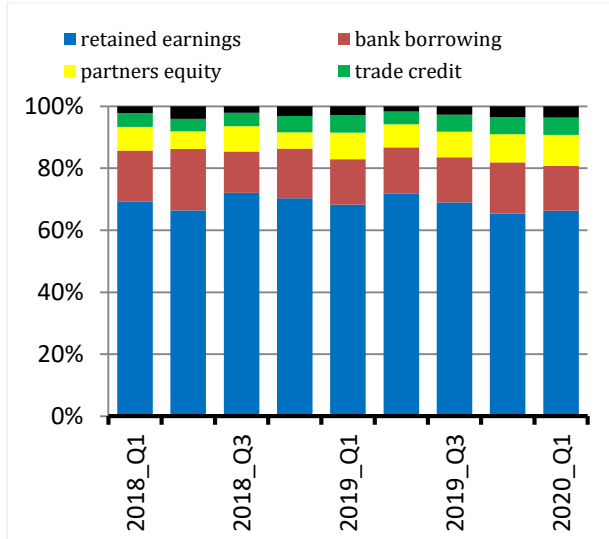


Labour demand is expected to continue declining during the second quarter as Employment Code Act of 2019 become effective on May 8. The new labour law is expected to result in high mechanisation of production processes in the manufacturing and agriculture sectors in order to reduce the wage bill. Further, the anticipated decline in profitability and business closures related to COVID-19 epidemic as well as unfavourable business environment were cited as some of the reasons for the anticipated reduction in labour demand.

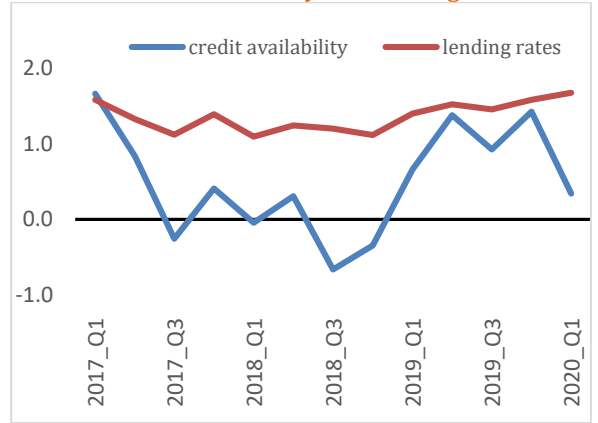
## 2.8 What is your current main source of investment finance and working capital?

Retained earnings remained the main source of investment finance and working capital during the first quarter of 2020, with 66.3% and 73.0% response rates from 65.4% and 67.5% in the fourth quarter 2019, respectively (Charts 10A and 10B). This was followed by bank borrowing at 14.4% and 11.5% response rates from 16.5% and 13.4%, respectively.

**Chart 10A: Sources of Investment Finance**



**Chart 11: Credit Availability and Lending Rates**



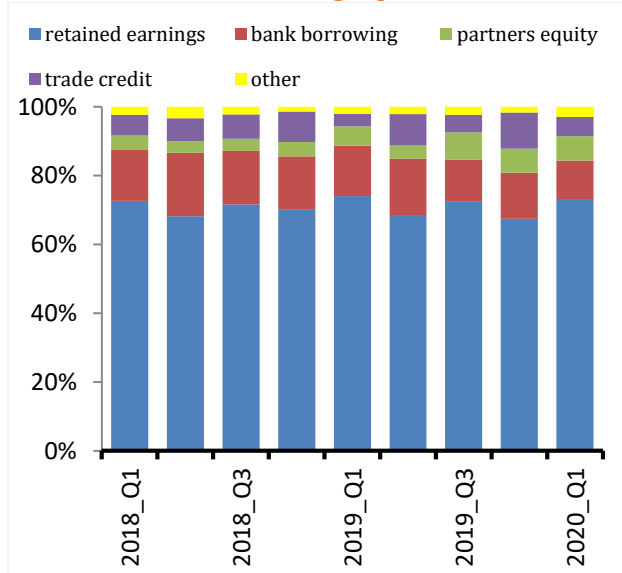
**3.0 Evolution of Costs, Wages and Prices**

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

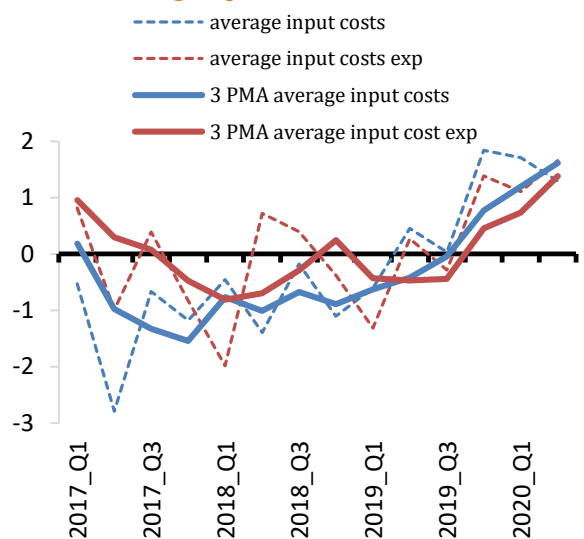
*(Net balance, 0.46; Q4 2019, 0.50)*

Average input costs remained high during the first quarter of 2020 owing to the rise in the cost of imported raw materials following the sharp depreciation of the Kwacha against the US dollar as well as high electricity tariffs and fuel prices (Chart 12). Further, the increase in maize and soya beans prices arising from low supply contributed to the rise in average input costs for millers.

**Chart 10B: Sources of Working Capital**



**Chart 12: Average Input Costs**



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

*(Net balance, 0.69; Q4 2019, 0.69)*

Credit conditions remained tight during the quarter under review (Chart 11). This was reflected in high interest rates (attributed to the tight monetary policy stance by the Bank of Zambia) and high yield rates on risk-free Government securities.



In the second quarter, average input costs are expected to remain high largely due to the anticipated Kwacha depreciation, high cost of raw materials and the continuing rise in energy prices.

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

*(Net balance, 0.07; Q4 2019, 0.05)*

The wage bill declined in the first quarter mainly driven by low profit margins resulting from high input costs as well as low demand for goods and services (Chart 13).

**Chart 13: Evolution of Wages**



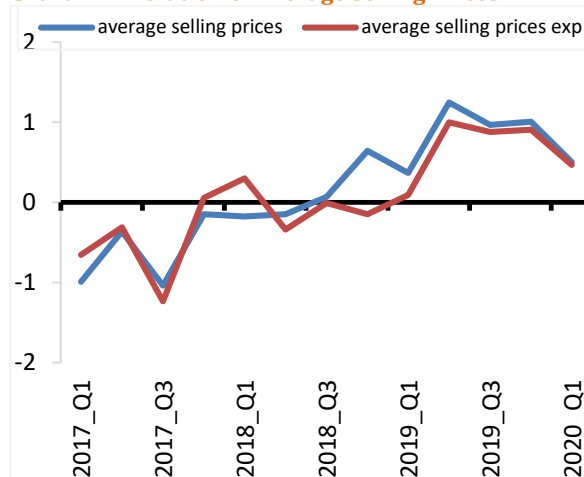
In the second quarter, the wage bill is expected to continue to decline in line with the expected decrease in labour demand attributed to subdued economic activity as a result of COVID-19.

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

*(Net balance, 0.16; Q4 2019, 0.20)*

Average selling prices remained elevated in the first quarter of 2020 largely due to subdued output, increase in energy prices, high input costs, Kwacha depreciation and electricity load-shedding (Chart 14).

**Chart 14: Evolution of Average Selling Prices**



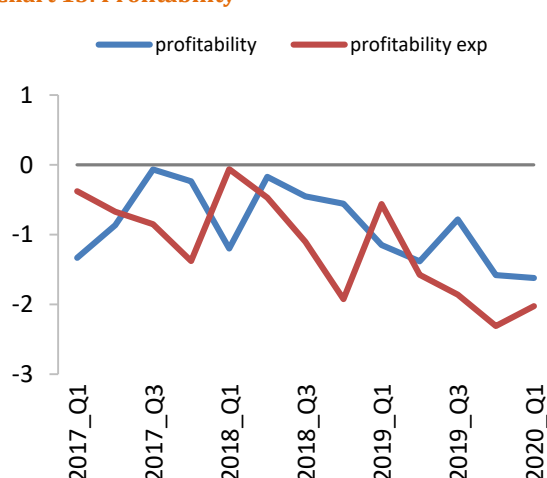
In the second quarter, average selling prices are expected to remain high mainly due to the anticipated depreciation of the Kwacha, constrained supply of goods and services arising from an expected reduction in manufacturing output and tourism activities due to the COVID-19 pandemic.

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

*(Net balance, -0.53; Q4 2019, -0.52)*

Profitability continued to decline in the first quarter of 2020 (Chart 15). This was mainly due to the continued high cost of production, Kwacha depreciation and low demand arising from tight liquidity conditions in the market.

**Chart 15: Profitability**

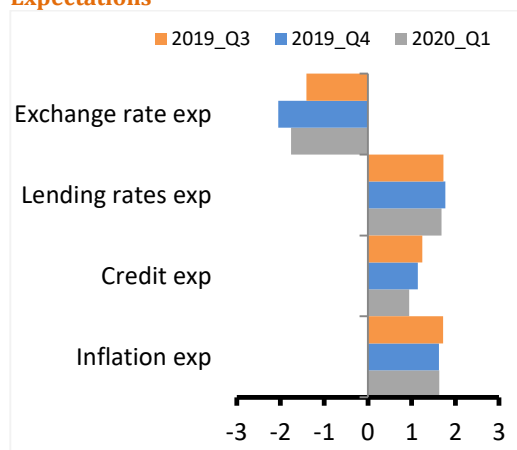


In line with anticipated reduction in the volume of sales and services resulting from sustained depreciation of the Kwacha against the US dollar, high operational costs and tight liquidity conditions largely induced by COVID-19 epidemic, profitability is expected to continue falling in the second quarter of 2020.

#### 4.0 Expectations of Monetary Policy for Second Quarter 2020

Elevated inflationary pressures, tight credit conditions, high lending rates and depreciation of the Kwacha are expected to persist in the second quarter of 2020 (Chart 16).

**Chart 16: Inflation, Exchange Rates and Lending Rates Expectations**



**Notes:**

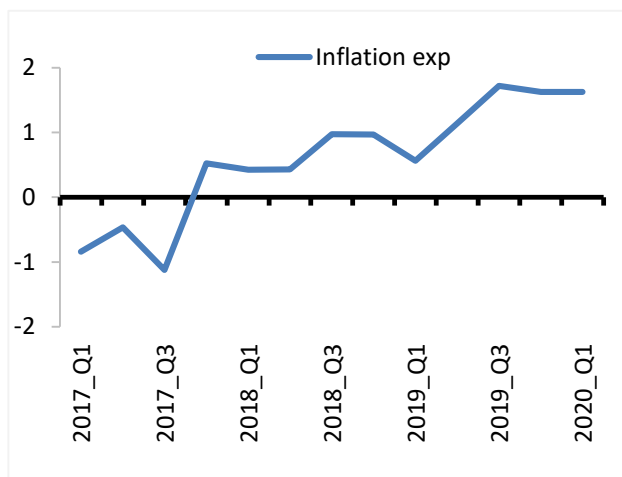
- Exchange rate = appreciation, strong (+)/depreciate, weak (-)
- Lending rates = increase, high (+)/decrease, low (-)
- Credit conditions = tight (+)/loose (-)
- Inflation expectations = increase, high (+)/decrease, low (-)

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

*(Net balance, 0.76; Q4 2019, 0.76)*

Higher inflationary pressures are expected to persist during the second quarter of 2020, (Chart 17). This is largely due to the continued depreciation of the Kwacha, lagged effects of past inflation and higher cost of production.

**Chart 17: Inflationary Expectations Next Quarter**

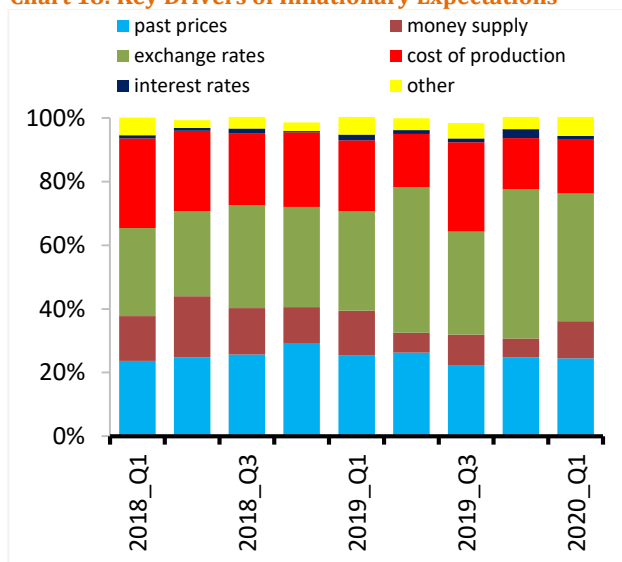


Over the next 12 months, inflationary pressures are expected to be sustained mainly on account of persistent Kwacha depreciation, high energy costs and high Government debt service.

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

By and large, inflationary pressures are expected to be driven by the depreciation of the Kwacha against the US dollar followed by the lagged effects of past prices (Chart 18).

**Chart 18: Key Drivers of Inflationary Expectations**

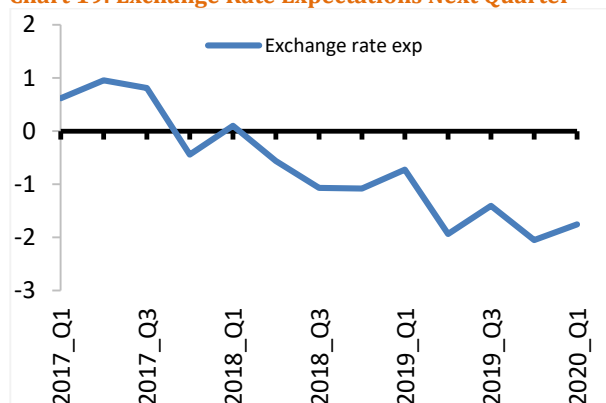


**4.3 How do you expect the performance of the Kwacha against the US dollar to be at the end of the next quarter?**

*(Net balance, -0.71 ; Q4 2019, -0.80)*

The Kwacha is expected to remain weak against the US dollar in the second quarter of 2020 (Chart 19). This is mainly on account of anticipated COVID-19 induced low copper export volumes and prices, high external debt service, and negative investor perceptions.

**Chart 19: Exchange Rate Expectations Next Quarter**

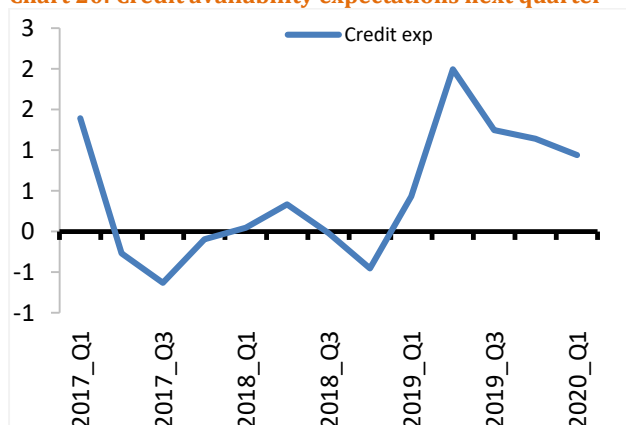


**4.4 Over the next quarter, what do you expect credit availability to be?**

*(Net balance, .67; Q4 2019, 0.69)*

Credit conditions are expected to remain tight during the second quarter of 2020 largely on account of high Government borrowing requirements and interest rates, tight liquidity as well as subdued economic activity (Chart 20).

**Chart 20: Credit availability expectations next quarter**

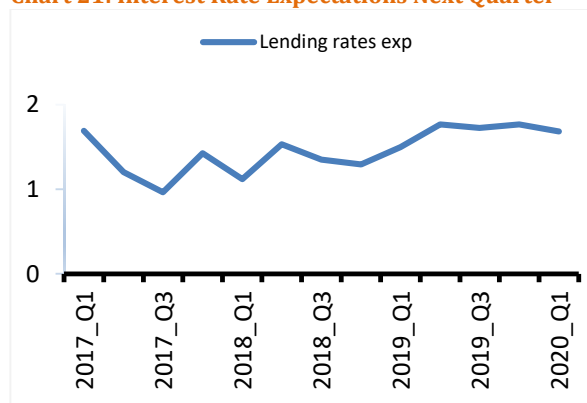


**4.5 Over the next quarter, what do you expect to happen to commercial banks' lending rates?**

*(Net balance, 0.81; Q4 2019, 0.84)*

Commercial banks lending rates are expected to remain high in the second quarter of 2020 (Chart 21). This is mainly due to tight liquidity conditions, continued Government borrowing and depreciation of the Kwacha.

**Chart 21: Interest Rate Expectations Next Quarter**

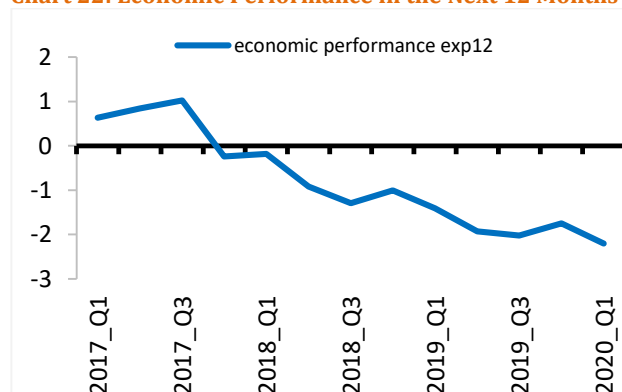


**4.6 What is your expectation of the performance of the economy in the next 12 months?**

*(Net balance,-0.40; Q4 2019, -0.28)*

Largely due to perceived Government policy inconsistencies, dwindling foreign exchange reserves, poor fiscal management and the possible long-term negative impact of the COVID-19 epidemic on economic activity, most firms remained pessimistic about the performance of the economy over the next 12 months (Chart 22).

**Chart 22: Economic Performance in the Next 12 Months**



## 5.0 Conclusion

According to the Business Opinions and Expectations Survey conducted from March to April 2020, economic performance remained subdued in the first quarter of 2020. This was revealed in lower overall output and capacity utilisation, which were a result of high cost of production arising from exchange rate depreciation and high energy prices. In addition, mainly due to off-peak tourism season coupled with the effect of COVID-19 outbreak on tourism and transportation services, the volume of service was below the long term average. Furthermore, domestic sales remained low due to tight liquidity conditions in the economy. Consequently, profitability declined as well. Firms also pointed out the adverse effect of high Government debt service on industry.

Sentiments on economic performance for the next 12 months were pessimistic mainly on account of high cost of doing business associated with high energy prices, electricity load shedding as well as local currency depreciation. Further, low demand due to tight liquidity and credit conditions, low copper prices, high debt service as well as the lagged effects of COVID-19 outbreak were cited as other key factors to affect economic performance in the next 12 months.

The outlook for inflation over the next 12 months indicated an up-ward trajectory mainly on account of persistent Kwacha depreciation, high energy costs and high Government debt service. Consequently, firms expect the central bank to implement a tight monetary policy stance in a bid to moderate inflationary pressures.

## 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.