Quarterly Survey of Business Opinion and Expectations

May 2023

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

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Summary

The *2023 May Survey of Business Opinion and Expectations* revealed a further deterioration in private sector business activity across most economic sectors. Most firms linked the slowdown in activity to weak demand conditions, exchange rate depreciation and high input costs. In some industries, particularly the milling industry, raw material shortages constrained activity. Consequently, output, new orders, domestic sales, capacity utilisation, volume of sales, profitability, and demand for labour moderated. Over the next 12 months, economic prospects remain pessimistic largely due to the unresolved external debt situation, weak investment intentions and high inflation. Nonetheless, rise in foreign direct investment, improved public finance management, favourable political environment and sound macroeconomic policies may bolster growth.

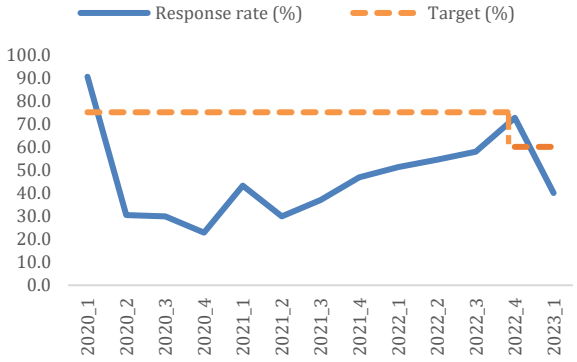
1.0 Introduction

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

This Report presents views of firms regarding macroeconomic developments in the first quarter of 2023 and expectations for the second quarter and 12 months ahead.

A total of 140 responses were received out of 350 questionnaires administered. This represents a response rate of 40.0 percent from 72.0 percent achieved in the fourth quarter of 2022 (Chart 1).

Chart 1: Response Rate (%): 2020Q1-2023Q1[1]



Source: Bank of Zambia

The fall in the response rate was largely attributed to the change in the data collection method. An improvement is expected as respondents adjust to the new arrangement.

Lusaka Province recorded the highest number of responses while Western Province had the least (Table 1).

Table 1: Distribution of Responses by Province

Province	Frequency	Percent
Lusaka	42	30.0
Central (kabwe,mkushi)	28	20.0
Southern	15	10.7
Copperbelt	13	9.3
Eastern	11	7.9
Muchinga	9	6.4
Northwestern	8	5.7
Northern	7	5.0
Luapula	4	2.9
Western	3	2.1
Total	140	100

Source: Bank of Zambia

The tourism sector had the highest response rate (23.6 percent) followed by the merchant and service sectors (22.9 percent). The construction sector remained the lowest, at 2.9 percent (Table 2).

Table 2: Distribution of Responses by Sector

Sector	Frequency	Percent
Tourism	33	23.6
Merchant	32	22.9
Service	32	22.9
Agriculture	21	15.0
Manufacturing	18	12.9
Construction	4	2.9
Total	140	100

Source: Bank of Zambia

The rest of the Report is organised as follows: Section 2 presents opinions of firms about economic performance during the first quarter of 2023 as well as expectations for the second quarter and one year ahead. Section 3 provides opinions on input costs, wages and prices. Section 4 presents macroeconomic prospects one year ahead. Section 5 concludes. A description of the survey methodology is provided in the appendix.

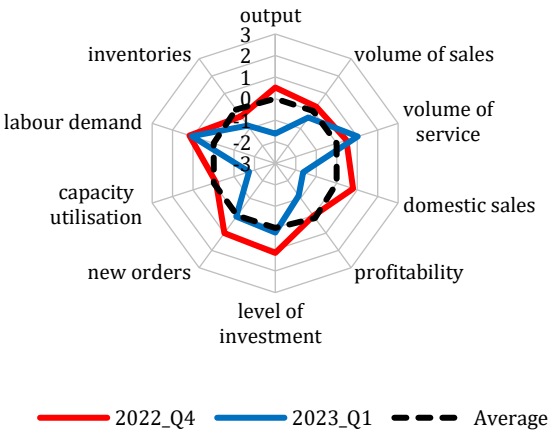
[1] The target response rate was adjusted to 60 percent from 75 percent on account of the change in the data collection mode from physical to electronic. The new target was arrived at after reviewing literature on average response rates for electronically administered business surveys by selected central banks.

2.0 Current Economic Performance and Expectations

……. *economic performance moderated further in the first quarter*

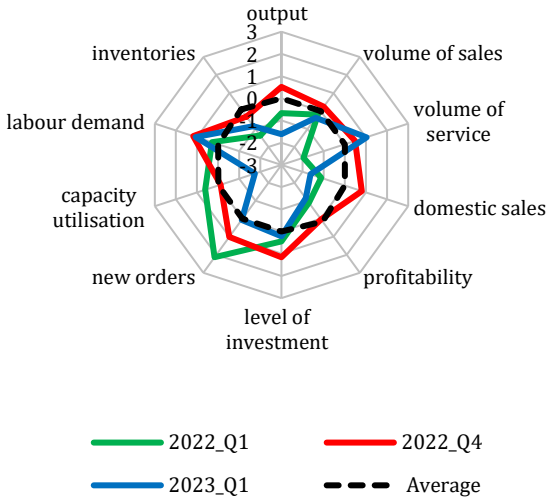
Economic activity deteriorated in the first quarter of 2023 as weak demand conditions, exchange rate depreciation and higher fuel pump prices continued to undermine business activity in most sectors. As a result, output, new orders, domestic sales, capacity utilisation, volume of sales, profitability, level of investment and demand for labour moderated (Chart 2A and 2B). In the manufacturing sector, particularly the milling industry, raw material supply shortages added to reduced activity. On the contrary, the volume of service increased, largely influenced by the rise in demand for loans.

Chart 2A: Business Opinion Response Patterns*



Source: Bank of Zambia

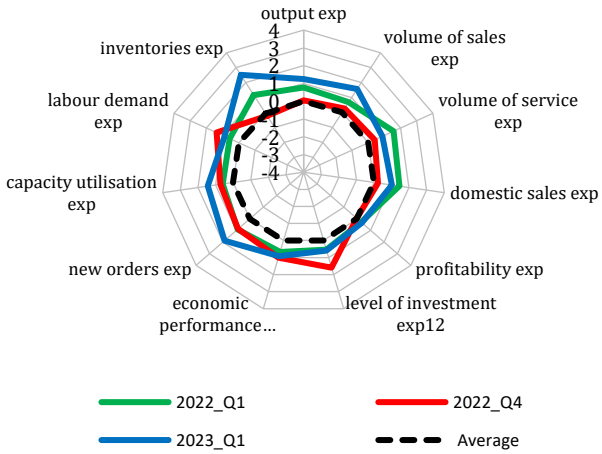
Chart 2B: Business Opinion Response Patterns*



Source: Bank of Zambia

A strong pick-up is, however, expected in the second quarter on account of improvement in demand, a stronger Kwacha and fall in fuel costs (Chart 3).

Chart 3: Business Expectations Response Patterns



Source: Bank of Zambia

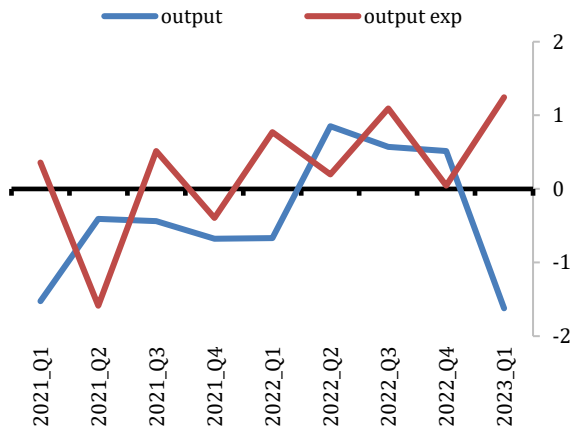
Nonetheless, prospects for economic activity one year ahead remain subdued mainly due to the unresolved external debt situation, weak investment intentions and high inflation.

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

(Net balance, -0.35; Q4 2022 0.01)

As shown in Chart 4, output declined for the third consecutive quarter in both the manufacturing and agriculture sectors, weighed down by low demand, short supply of some raw materials, high production cost and off harvest season (agriculture sector).

Chart 4: Opinion on Output



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

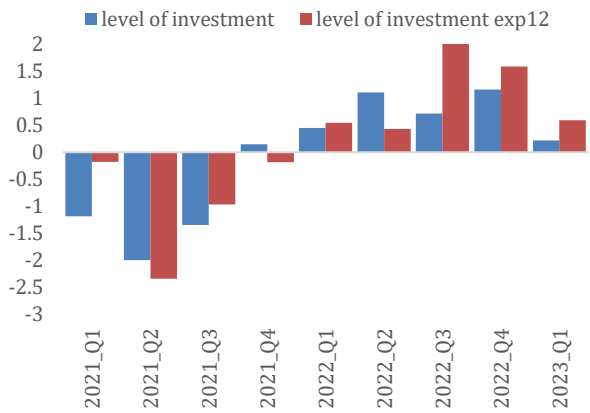
A turnaround in output is expected in the subsequent quarter as demand improves owing to exchange rate appreciation and harvesting activity in the agriculture sector.

2.2 How was your firm's level of investment?

(Net balance, 0.01; Q4 2022 0.15)

For many businesses, investment levels declined during the first quarter largely on account of a weak business environment characterised by low demand, reduced profitability and high production costs (Chart 5). With the exception of the agriculture and tourism sectors, investment expenditure declined in all the sectors. Higher investment in the agriculture sector was largely driven by the installation of irrigation facilities to boost output. In the tourism sector, refurbishment of business premises in readiness for the peak season explained the rise in investment.

Chart 5: Level of Investment



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

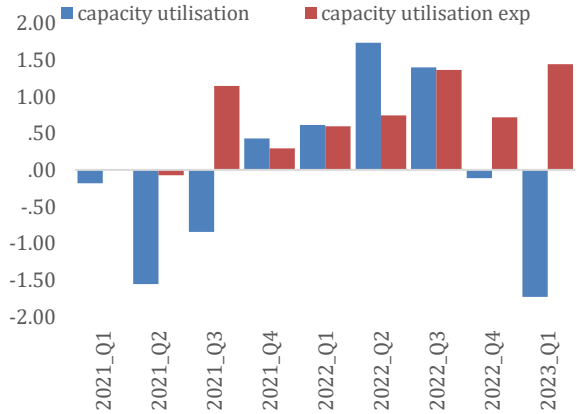
Investment appetite one year ahead remains pessimistic owing to delays in debt restructuring negotiations, the looming global economic slowdown, high cost of doing business and inadequate investment funds in view of subdued profitability.

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

(Net balance, -0.50; Q4 2022 -0.20)

Consistent with the fall in manufacturing output, capacity utilisation declined (Chart 6). Nonetheless, manufacturers expect higher utilisation of capacity in the second quarter as demand increases and production costs reduce, underpinned by a stronger Kwacha and decline in fuel prices.

Chart 6: Capacity Utilisation



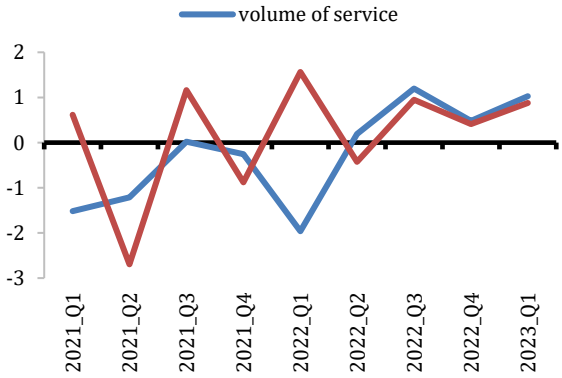
Note: The line at zero (0.0) represents the long-term average
Source: Bank of Zambia

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

(Net balance, 0.11; Q4 2022, -0.02)

The volume of service increased as most financial service providers reported a rise in demand for loans (Chart 7). In the subsequent quarter, a further increase in the volume of services is expected as seasonal tourism activity picks-up.

Chart 7: Volume of Service



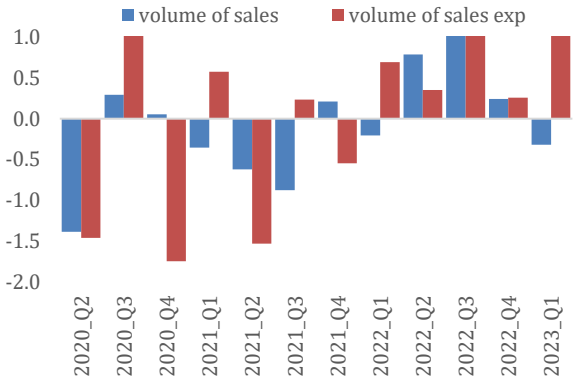
Note: The line at zero (0.0) represents the long-term average
Source: Bank of Zambia

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

(Net balance, -0.42; Q4 2022, -0.22)

On account of sluggish demand, the wholesale and retail trade sector reported a decline in sales volumes during the first quarter (Chart 8). However, firms anticipate a rise in sales in the second quarter due to higher demand owing to a stronger Kwacha and increased disposable income arising from NAPSA partial withdrawals.

Chart 8: Volume of Sales



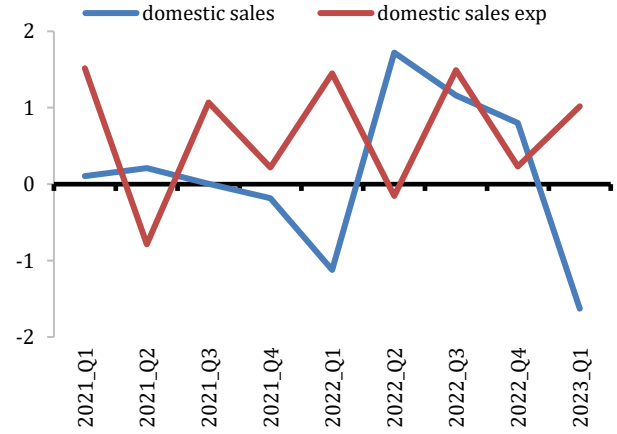
Note: The line at zero (0.0) represents the long-term average
Source: Bank of Zambia

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

(Net balance, -0.37; Q4 2022, 0.07)

Domestic sales remained subdued in the first quarter of 2023 largely due to low output in both the manufacturing and agriculture sectors, as well as general weak demand conditions (Chart 9). In the subsequent quarter, a pick-up is, however, envisaged as output and demand improve.

Chart 9: Domestic Sales



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

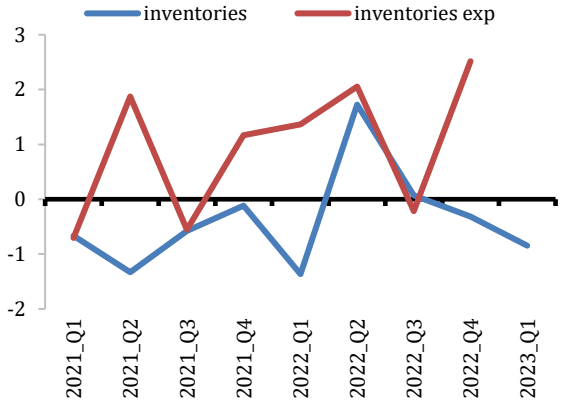
2.7 What has been your firm's experience with respect to inventories?

(Net balance, -0.17; Q4 2022, -0.10)

Inventories declined in the first quarter on account of low demand and a weak domestic

currency. Consequently, most retail and wholesale traders as well as manufacturers were hesitant to stock up merchandise and raw materials, respectively (Chart 10).

Chart 10: Level of inventories



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

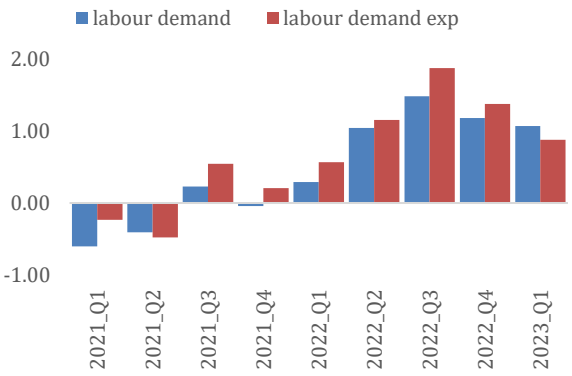
In the second quarter, inventories are expected to increase as demand rises and the exchange rate appreciates.

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

(Net balance, 0.09; Q4 2022, 0.11)

Consistent with a weak business environment, labour demand decreased, although marginally (Chart 11). Businesses across most sectors reduced staffing levels, citing subdued business activity as the major driver.

Chart 11: Labour Demand



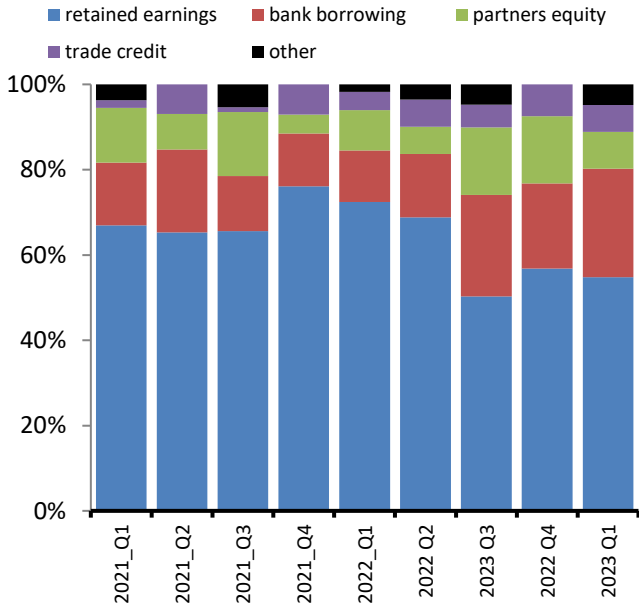
Note: The line at zero (0.0) represents the long-term average
Source: Bank of Zambia

Despite signs of recovery in activity over the second quarter, several businesses expect labour demand to remain low in an effort to manage operating costs. In addition, most farmers are expected to lay off casual workers as the harvesting period comes to a close.

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

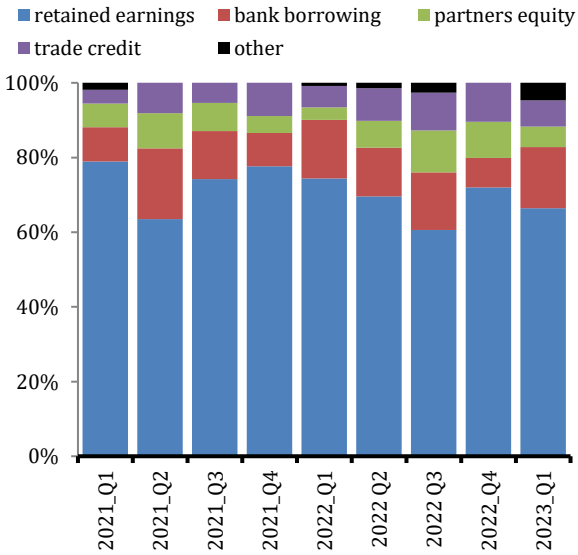
Retained earnings remained the primary source of investment finance and working capital followed by bank borrowing (Charts 12A and 12B).

Chart 12A: Sources of Investment Finance



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

Chart 12B: Sources of Working Capital



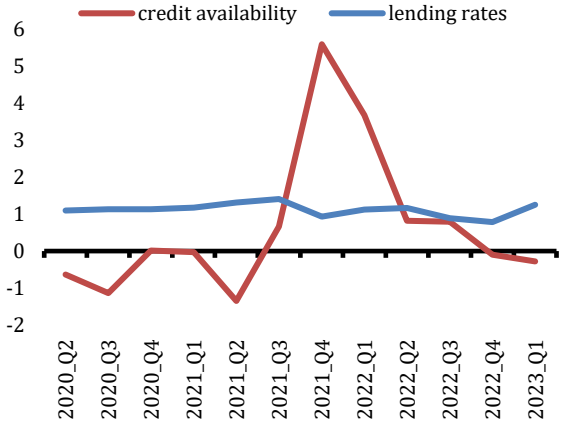
Note: The line at zero (0.0) represents the long-term average
Source: Bank of Zambia

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

(Credit Availability, -0.66; Q4 2022, -0.63)
(Lending Rates, 0.91; Q4 2022, 0.75)

Conditions in the credit market remained tight amid increases in lending rates and fall in liquidity levels. The rise in lending rates was mainly attributed to the hike in the Monetary Policy Rate in February to 9.5 percent from 9.25 percent and statutory reserve requirement ratio to 11.5 percent from 9.0 percent, as well as sustained Government borrowing from the domestic debt market (Chart 13).

Chart 13: Credit Availability and Lending Rates



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

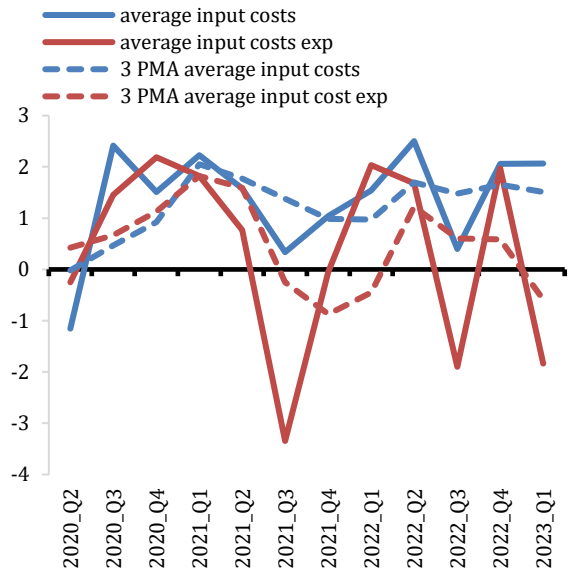
3.0 Evolution of Costs, Wages and Prices

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

(Net balance, 0.67; Q4 2022, 0.67)

Input costs rose during the first quarter owing to higher fuel prices, exchange rate depreciation, higher cost of finance and raw material shortages, particularly in the manufacturing sector (Chart 14). The rise in input costs was widespread across sectors resulting in reduced business activity.

Chart 14: Average Input Costs



Note: The line at zero (0.0) represents the long-term average. Period Moving Average (PMA) is a 3-month moving average
Source: Bank of Zambia

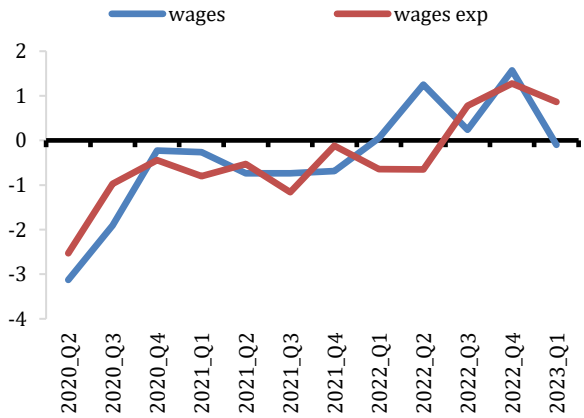
Expectations show a considerable moderation in input costs as businesses anticipate a stronger Kwacha and reduction in fuel pump prices on account of the fall in global crude oil prices.

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

(Net balance 0.13; Q4 2022, 0.27)

The wage bill declined during the first quarter mainly due to the reduction in staffing levels owing to low business activity (Chart 15).

Chart 15: Evolution of Wages



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

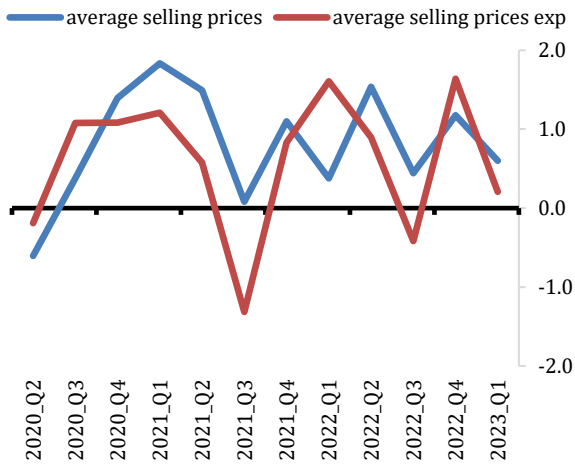
Consistent with the expected fall in labour demand, the wage bill is projected to decline in the second quarter.

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

(Net balance, 0.16; Q4 2022, 0.26)

Average selling prices declined largely on account of subdued demand conditions (Chart 16). Nonetheless, most firms in the manufacturing, wholesale and retail trade, as well as services sectors increased prices of goods and services in response to rising production costs.

Chart 16: Evolution of Average Selling Prices



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

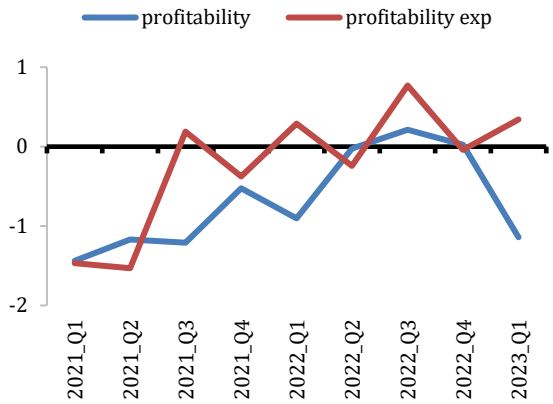
Over the second quarter, despite indications of a pick-up in demand, a decrease in selling prices is expected as input costs moderate largely supported by a stronger Kwacha and lower fuel costs. Businesses in the tourism sector, however, expect prices to rise as demand peaks.

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

(Net balance, -0.50; Q4 2022, -0.22)

In the first quarter, profitability was affected by low business activity amid rising input costs (Chart 17). Over the second quarter, profitability is expected to rise as business activity picks-up and input costs moderate owing to a stronger Kwacha and lower fuel costs.

Chart 17: Profitability



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

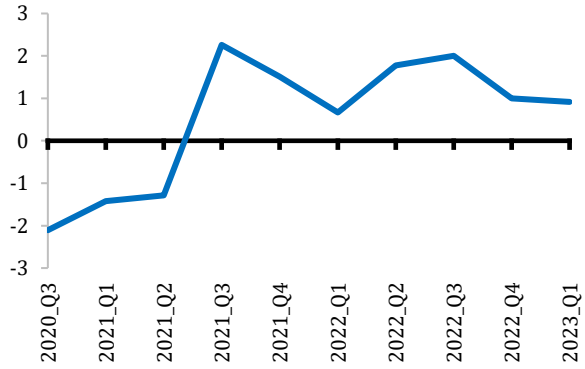
4.0 Macroeconomic Prospects One Year Ahead

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

(Net balance, 0.47; Q4 2022, 0.50)

Economic outlook 12 months ahead remains gloomy largely due to uncertainty surrounding external debt restructuring, weak investment intentions and high inflation (Chart 18). Notwithstanding weak growth prospects, the projected rise in foreign direct investment, improved public finance management, favourable political environment and sound economic policies may support growth.

Chart 18: Economic Performance in the Next 12 Months



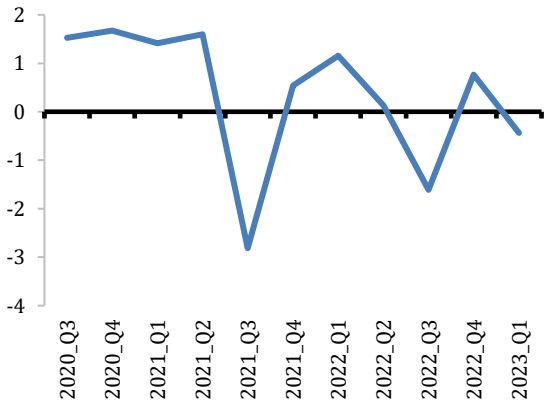
Note: The line at zero (0.0) represents the long-term average
Source: Bank of Zambia

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

(Net balance, 0.29; Q4 2022, 0.60)

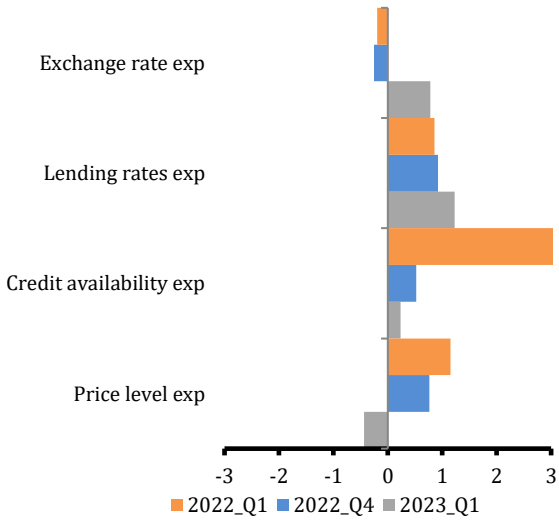
Inflationary pressures are expected to ease in the second quarter of 2023 on the back of a stronger Kwacha and consequent decline in fuel costs (Charts 19 and 20). As a result, inflation is expected to range between 6 and 10 percent (Table 3).

Chart 19: Inflationary Expectations Next Quarter



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

Chart 20: Inflation, Exchange Rates and Lending Rates 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

Table 3: Expected Inflation Rate at the end of the Next Quarter

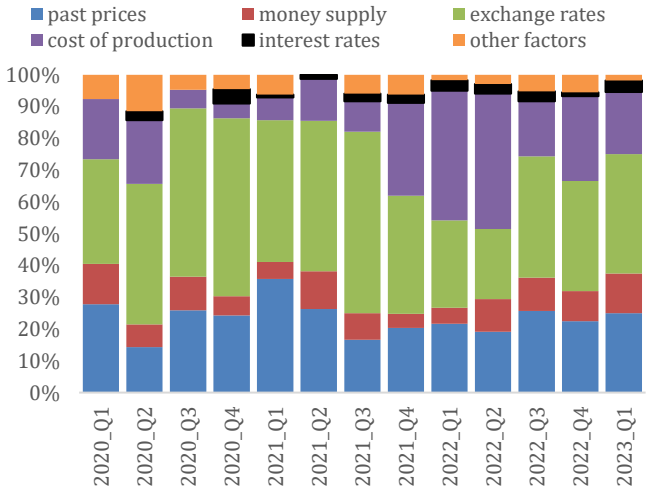
Range	Frequency	Percent
1-5	3	3
6-10	68	62
11-15	33	30
16-20	5	4
21-25	1	1
Total	110	100

Source: Bank of Zambia

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

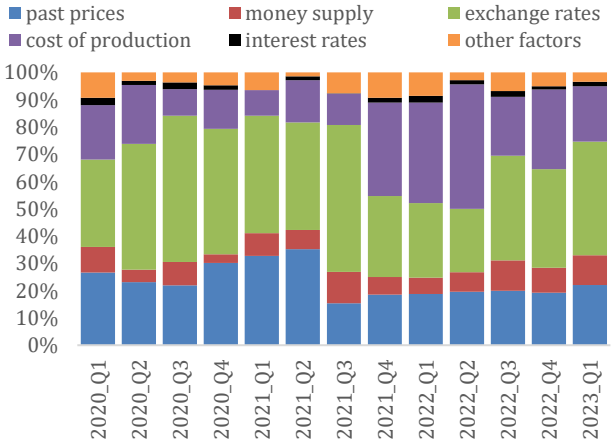
A stronger Kwacha and past inflation trends largely underpin lower inflation expectations (Charts 21A, 21B and 22).

Chart 21A: Key Drivers of Inflationary Expectations Next Quarter



Source: Bank of Zambia

Chart 21B: Key Drivers of Inflationary Expectations next 12 Months



Source: Bank of Zambia

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

(Net balance, 0.06 Q4 2022, -0.29)

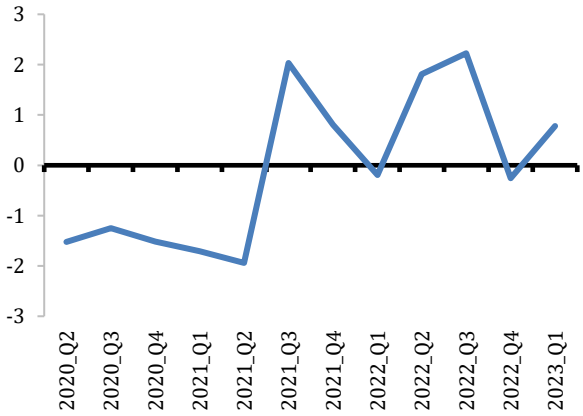
A stronger Kwacha against the US dollar is expected over the second quarter following the recent appreciation of the exchange rate, projected rise in foreign direct investment and pick-up in agricultural exports following the harvest period (Charts 20 and 22; Table 4). Most of the firms expect the Kwacha to average K18.00 per US dollar.

Table 4: Expected Exchange Rate at the end of the Next Quarter

Range	Frequency	Percent
1-5	2	2
6-10	1	1
11-15	15	14
16-20	75	71
21-25	13	12
Total	106	100

Source: Bank of Zambia

Chart 22: Exchange rate expectations next quarter



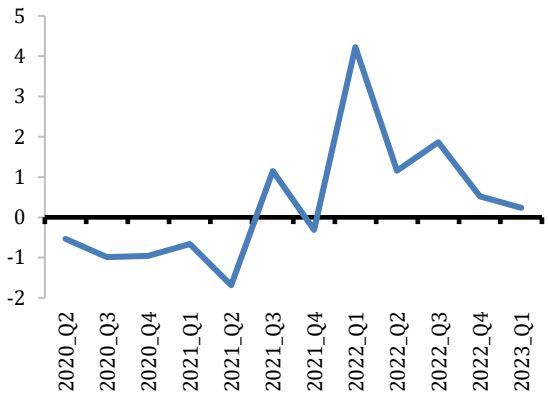
Note: The line at zero (0.0) represents the long-term average
Source: Bank of Zambia

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

(Net balance, -0.55; Q4 2022, -0.52)

High lending rates and elevated credit risk are expected to limit access to credit over the second quarter of 2023 (Charts 20 and 23)

Chart 23: Credit availability expectations next quarter [2]



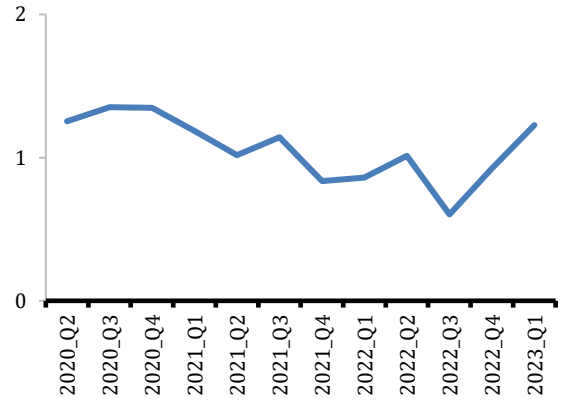
Note: The line at zero (0.0) represents the long-term average
Source: Bank of Zambia

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

(Net balance, 0.76; Q4 2022, 0.65)

Lending rates are projected to rise mainly due to sustained Government borrowing from the domestic debt market and tight credit conditions (Charts 20 and 24).

Chart 24: Interest rate expectations next quarter



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

[2] Credit availability = tight (-)/ loose (+)

5.0 Conclusion

The first quarter of 2023 was mainly characterised by weak economic performance occasioned by sluggish demand, a weaker Kwacha and high production costs. As a result, output, new orders, domestic sales, capacity utilisation, volume of sales, profitability and demand for labour declined.

Over the next 12 months, firms do not expect improvement in economic conditions owing to delays in concluding debt negotiations and high inflation. However, firms remain confident that prudent fiscal consolidation, sound economic management and the rise in foreign direct investment may foster 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 administered to a sample of respondents in manufacturing, wholesale and retail, 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, Chibombo, Kabwe, Mumbwa 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), Lusaka (Lusaka, Chongwe and Kafue) and Western (Mongu, Kaoma and Kalabo) Provinces.

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).