

Quarterly Survey of Business Opinions and Expectations

First Quarter 2021



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Disclaimer:

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



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Summary

Economic performance deteriorated in the first quarter of 2021. This was mainly attributed to the second wave of COVID-19 which coincided with the end of the festive activities and beginning of an off-peak season in the tourism sector. The business community expects economic activity to improve in the second quarter of 2021 as supply of agricultural output improves and the roll-out of the COVID-19 vaccination programme takes effect. Firms are also optimistic about economic performance over the next 12 months primarily due to positive sentiments associated with the COVID-19 vaccination programme.

1.0 Introduction

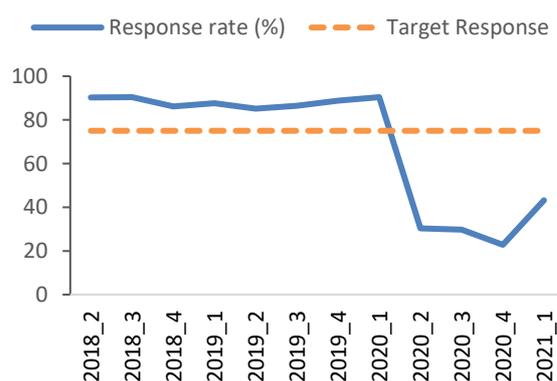
The Bank of Zambia Quarterly Survey of Business Opinions and Expectations (QSBOEs) is a collection of opinions about economic activity in the quarter under review and expectations for the next quarter and one year ahead.

The Survey is used to gauge the perspectives of the business community about prevailing macroeconomic conditions which are critical input into monetary policy decisions.

This Report presents findings of the Survey conducted in March 2021 on business opinions and expectations for the first and second quarters of 2021, respectively.

Out of the 281 questionnaires distributed, 117 firms responded. This represented a response rate of 43.2%, an improvement over the previous quarter's response rate of 22.8% (Chart 1). Physical collection of some responses in Lusaka and Copperbelt Provinces largely accounted for the improvement in the response rate. In addition, more respondents were willing to submit the responses as they understood the reasons for the lack of physical contact in the wake of the second wave of COVID-19.

Chart 1: Response Rate (%): 2018-2021Q1



Source: Bank of Zambia

Notwithstanding the above, the response rate remained below the target of at least 75%. In view of this, the Survey results should be cautiously interpreted as they may not adequately represent the whole economy.

The highest response rates were recorded in Copperbelt, Central, Lusaka and Eastern Provinces (Table 1).

Table 1: Distribution of Responses by Province

Province	Frequency	Percent
Copperbelt	23	20
Central (Kabwe,Mkushi)	20	17
Lusaka	19	16
Eastern	18	15
Muchinga	11	10
Southern	8	7
Luapula	7	6
Northwestern	6	5
Northern	5	4
Total	117	100

Source: Bank of Zambia

The highest sectoral distribution was from the tourism, manufacturing and service sectors (Table 2).

Table 2: Distribution of Responses by Sector

Sector	Frequency	Percent
Tourism	41	35
Manufacturing	23	20
Agriculture	17	15
Service	18	14
Merchant	16	14
Construction	2	2
Total	117	100

Source: Bank of Zambia

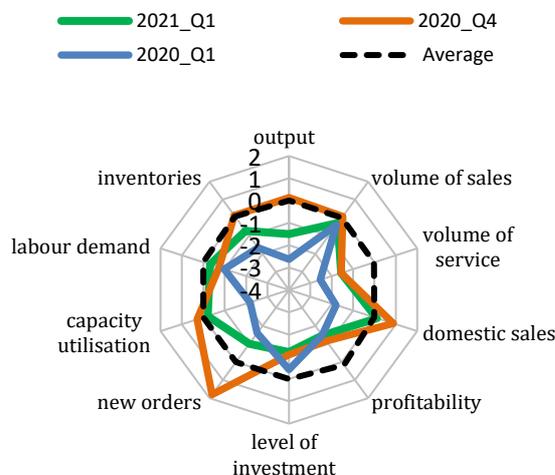
The rest of the Report is organised as follows: Section 2 presents responses on firms' opinions about economic performance during the first quarter of 2021 and expectations for the second quarter as well as 12 months ahead. Section 3 presents opinions on input costs, wages, prices and profitability for specified periods. Section 4 provides expectations on the monetary policy stance in the second quarter of 2021 and the economy 12 months ahead while section 5 concludes. The appendix provides a brief description of the Survey methodology.

2.0 Economic Performance in the First Quarter of 2021 and Expectations of Economic Activity in the Second Quarter of 2021 and 12 Months Ahead

Economic performance broadly declined in the first quarter of 2021; expected to improve over the next 12 months

Consistent with businesses' expectations in the fourth quarter of 2020, economic performance broadly declined in the first quarter of 2021. With the exception of labour demand, all monitored indicators declined. The decline was observed in output, volumes of sales, domestic sales, profitability, level of investment, new orders and capacity utilisation (Chart 2). This was mainly attributed to the second wave of COVID-19 which coincided with the end of the festive season and beginning of off-peak in tourism.

Chart 2: Business Opinions Response Patterns*



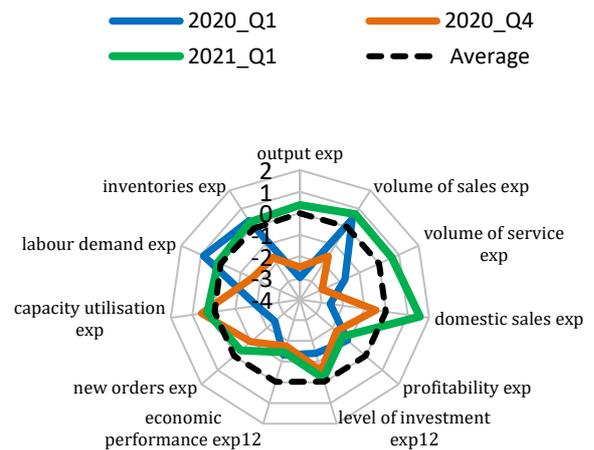
***Note:** The survey indicators are standardised net balances with mean=0 and standard deviation=1. A value within the black circle entails weaker economic conditions than historical average and a value outside the black line is better than historical average

Source: Bank of Zambia

Business entities expect economic performance to improve in the second quarter with most monitored indicators rising above the long-term average (Chart 3). The improvement is largely premised on the expected increase in agricultural output as

well as demand for travel and tourism activities, which are likely to be boosted by the prospects of COVID-19 vaccine roll-out. The need to transport agricultural produce across the country may also have a positive impact on economic activity.

Chart 3: Business Expectations 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 **exp** refers to expectation

Source: Bank of Zambia

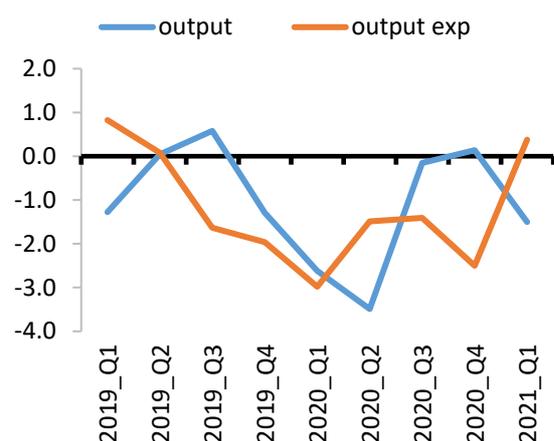
Firms are optimistic about economic performance over the next 12 months due to positive sentiments associated with the COVID-19 vaccination programme.

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

(Net balance, -0.33; Q4 2020 -0.05)

Output declined in the first quarter of 2021 compared to the previous quarter and was below the long-term average (Chart 4). This was largely attributed to the high input costs and the second wave of COVID-19 which negatively affected the tourism sector.

Chart 4: Opinion on Output



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

Source: Bank of Zambia

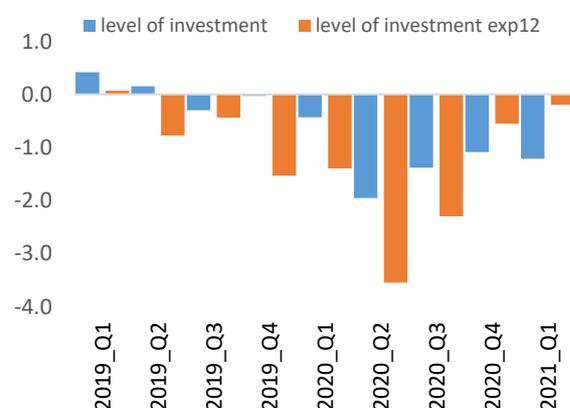
In contrast to the first quarter, business entities expect output to increase in the second quarter, particularly in the agricultural sector. This is expected to be supported by increased processing in the manufacturing sector. However, economic activity may be moderated by the depreciation of the Kwacha.

2.2 How was your firm's level of investment?

(Net balance, -0.20; Q4 2020 -0.18)

The level of investment fell mainly due to seasonal factors in the tourism and agricultural sectors (Chart 5). In addition, the depreciation of the Kwacha, high inflation and reduced profit margins continued to threaten investment appetite.

Chart 5: Level of Investment



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

Source: Bank of Zambia

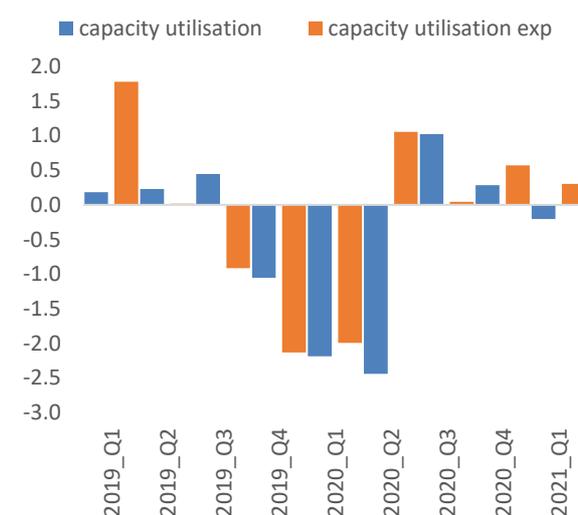
Investment levels are expected to improve in the next one year but will remain below the long-term average due to an anticipated reduction in COVID-19 cases following a successful vaccination programme. In addition, some firms plan to carry out repair and maintenance works of plant and machinery during the stated period.

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

(Net balance, -0.21; Q4 2020 -0.13)

Capacity utilisation deteriorated further in the first quarter of 2021 and was below the long term average (Chart 6). This was largely due to limited supply of raw materials.

Chart 6: Capacity Utilization



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

Source: Bank of Zambia

In the next quarter, capacity utilisation is expected to rise as output from the agricultural sector improves.

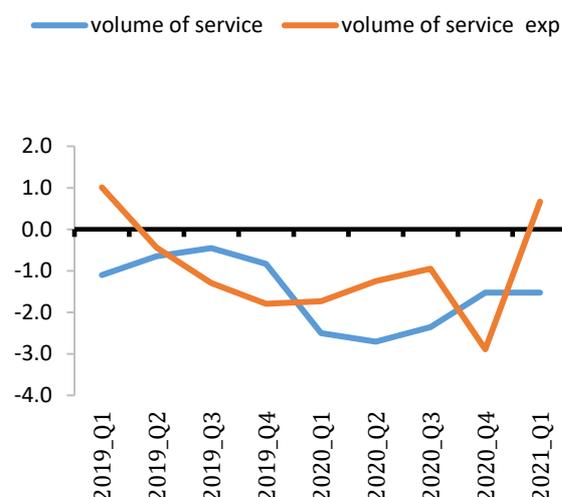
2.4 What has been your firm's experience with respect to the volume of service?

(Net balance, -0.48; Q4 2020, -0.48)

The volume of service did not change in the first quarter of 2021 (Chart 7). While the partial relaxation of COVID-19 restrictions during the earlier part of the first quarter of 2021 helped boost services, the second wave

of the pandemic had an adverse impact during the latter part of the quarter.

Chart 7: Volume of Service



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

Source: Bank of Zambia

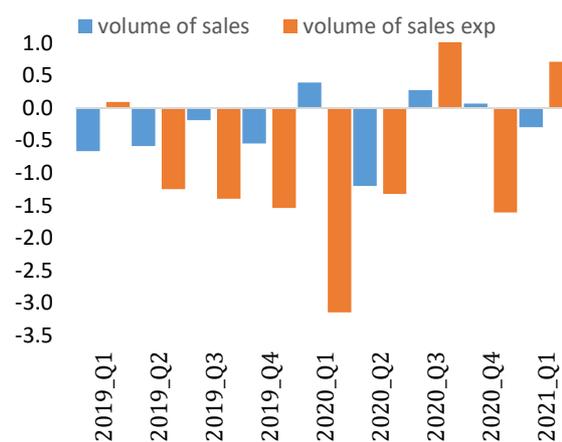
The volume of service is expected to rise sharply in the second quarter of 2021 as the tourism and agricultural sectors move into a peak season. The roll out of the COVID-19 vaccination programme is also expected to trigger an increase in support services such as transport, hospitality and storage services.

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

(Net balance, -0.41; Q4 2020, -0.28)

The volume of sales declined further in the quarter and remained below the long-term average. This was largely on account of subdued consumer demand occasioned by the depreciation of the Kwacha. It is, however, expected to rise during the second quarter and exceed the historical average largely on account of an anticipated increase in the sales of agricultural produce (Chart 8).

Chart 8: Volume of Sales



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

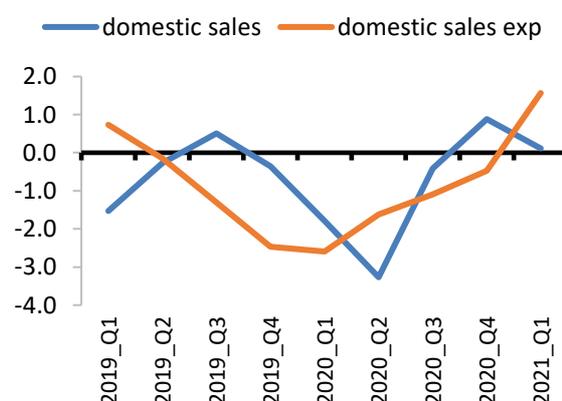
Source: Bank of Zambia

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

(Net balance, -0.06; Q4 2020, 0.08)

Domestic sales fell during the first quarter of 2021 compared to the previous quarter. This was largely attributed to seasonality in the agricultural sector and reduced availability of raw materials in the manufacturing sector (Chart 9). However, domestic sales are expected to rise in the second quarter with commencement of the agricultural marketing season.

Chart 9: Domestic Sales



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

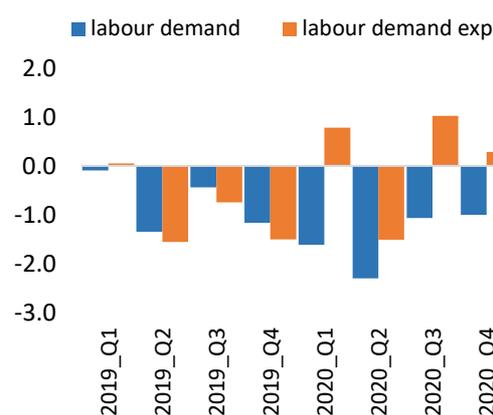
Source: Bank of Zambia

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

(Net balance, -0.01; Q4 2020, -0.21)

Labour demand improved during the quarter despite remaining below the long-term average. This was largely due to a continuation of farming activities such as planting, weeding and spraying (Chart 10).

Chart 10: Labour Demand



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

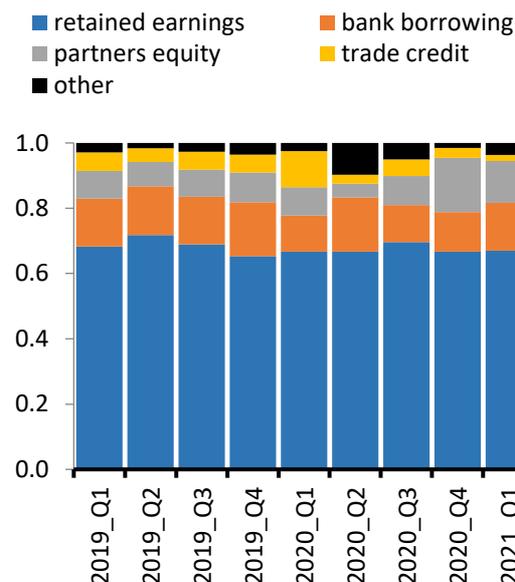
Source: Bank of Zambia

Labour demand is likely to rise further in the second quarter as agricultural activities pick up. Further, a pickup in tourism activities after the rainy season complemented by the COVID-19 vaccination programme are likely to boost labour demand.

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

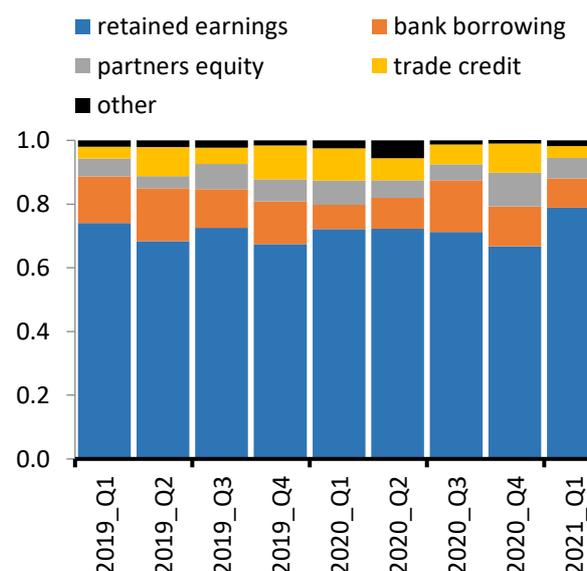
Retained earnings remained the main source of investment finance and working capital followed by bank borrowing and partners' equity (Charts 11A and 11B).

Chart 11A: Sources of Investment Finance



Source: Bank of Zambia

Chart 11B: Sources of Working Capital



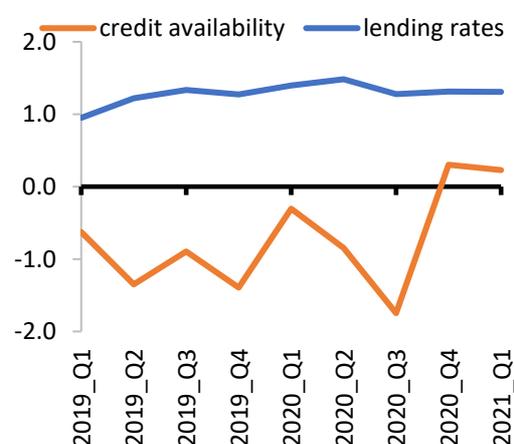
Source: Bank of Zambia

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

(Net balance, 0.62; Q4 2020, 0.62)

Despite the implementation of the Targeted Medium-Term Refinancing Facility (TMTRF) by the Bank of Zambia, businesses indicated that credit availability remained tight during the quarter under review (Chart 12). Financial Service Providers heightened credit risk assessments of their customers to avert a further rise in non-performing loans. In addition, lending rates remained high mainly due to rising inflation.

Chart 12: Credit Availability and Lending Rates



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

Source: Bank of Zambia

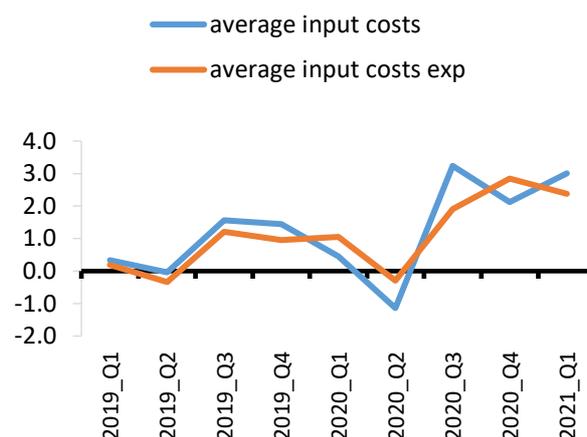
3.0 Evolution of Costs, Wages and Prices

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

(Net balance, 0.69; Q4 2020, 0.59)

In line with expectations, average input costs rose during the first quarter of 2021 largely due to sustained depreciation of the Kwacha and rising inflation. Input costs are, however, expected to decline in the second quarter on anticipated improvements in the supply agricultural raw materials (Chart 13).

Chart 13: 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 the wage bill?

(Net balance 0.12; Q4 2020, 0.12)

The wage bill was reported to have not changed in the first quarter of 2021. This was due to low profitability recorded by most respondents following the second wave of COVID-19. In the second quarter, the wage bill is, however, expected to decline mainly due to further redundancies by some firms that were badly affected by the first and second waves of COVID-19 (Chart 14).

Chart 14: Evolution of Wages



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 average selling prices?

(Net balance, 0.38; Q4 2020, 0.30)

Average selling prices rose further during the first quarter as a result of the pass-through from sustained depreciation of the Kwacha and reduced seasonal supply of raw materials and food items (Chart 15). Businesses expect selling prices to increase further in the next quarter largely on account of exchange rate depreciation and the increase in energy prices. This will, however, be moderated by the expected reduction in food prices.

Chart 15: Evolution of Average Selling Prices



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

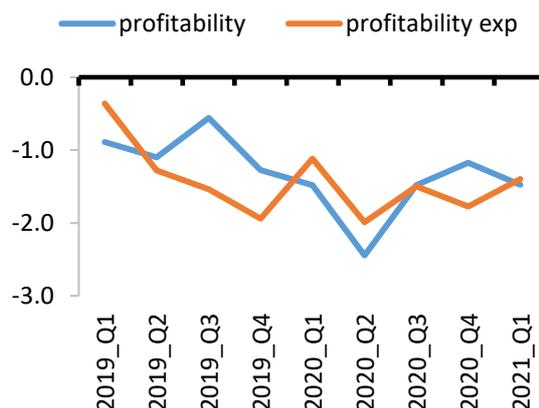
Source: Bank of Zambia

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

(Net balance, -0.57; Q4 2020, -0.50)

In line with expectations from the previous quarter, profitability declined during the first quarter of 2021. This was attributed to the fall in consumer demand on account of rising inflation. In addition, high input costs and the continued depreciation of the Kwacha negatively impacted profitability (Chart 16).

Chart 16: Profitability



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

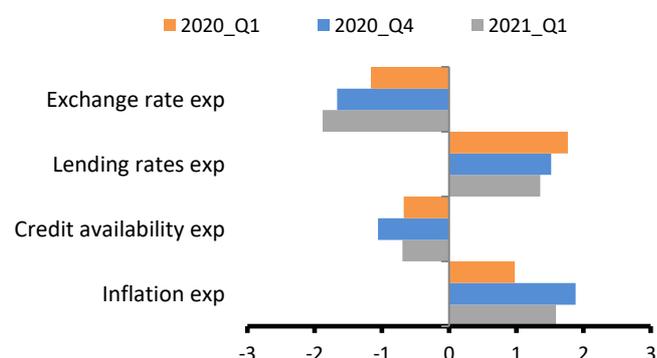
Source: Bank of Zambia

However, profitability is expected to pick up in the second quarter as domestic sales rise on anticipated bumper harvest and increase in tourism activities to be boosted by the COVID-19 vaccination programme.

4.0 Expectations of Monetary Policy for Second Quarter 2021

Businesses expect the Kwacha to depreciate further during the second quarter of 2021 (Chart 17). Lending rates are likely to remain elevated amid tight credit conditions. Inflationary pressures are also expected to remain high in the second quarter.

Chart 17: 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 (-)

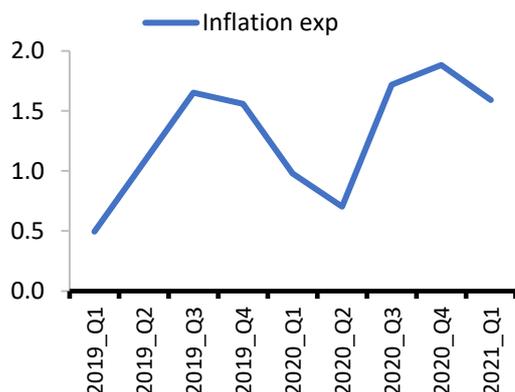
Source: Bank of Zambia

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

(Net balance, 0.77; Q4 2020, 0.83)

While inflationary pressures are expected to marginally subside in the second quarter of 2021, inflation is predicted to remain high around 22.0% (Chart 18).

Chart 18: Inflationary Expectations Next Quarter



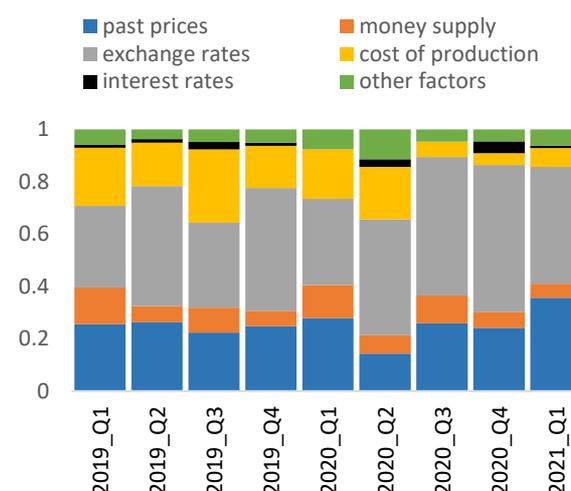
Note: The line at zero (0.0) represents the long-term average

Source: Bank of Zambia

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

Exchange rate depreciation, historical inflation and cost of production remain the key determinants of inflationary expectations in the second quarter of 2021 (Charts 19A and 19B).

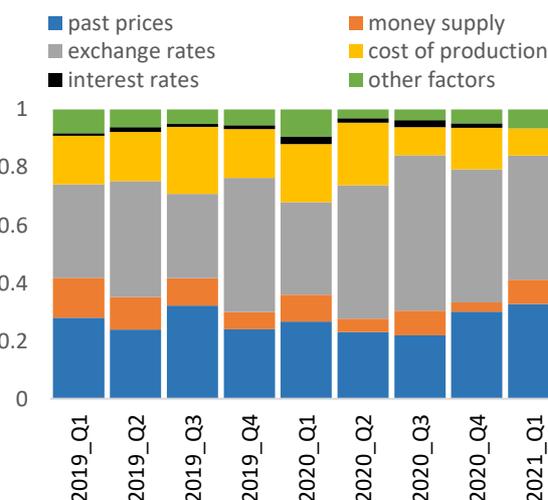
Chart 19A: Key Drivers of Inflationary Expectations next Quarter



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

Source: Bank of Zambia

Chart 19B: Key Drivers of Inflationary Expectations next 12 Months



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

Source: Bank of Zambia

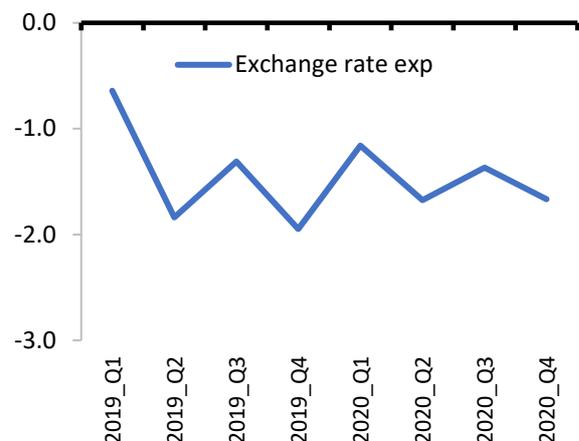
4.3 How do you expect the performance of the Kwacha against the US dollar to be at the end of the next quarter?

(Net balance, -0.78; Q4 2020, -0.71)

The depreciation of the Kwacha against the US dollar is expected to persist in the second quarter of 2021. Businesses see the exchange rate hovering around K23.50 per US dollar

largely on low foreign exchange supply (Chart 20).

Chart 20: Exchange Rate Expectations Next Quarter



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

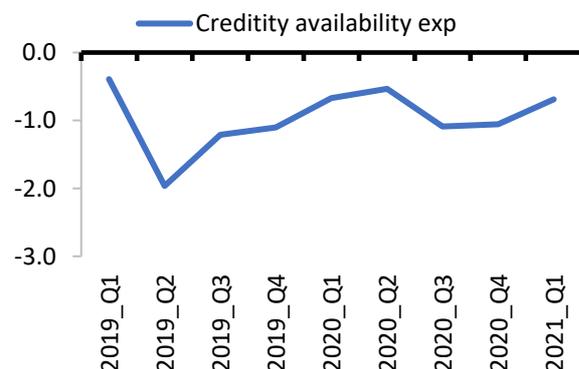
Source: Bank of Zambia

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

(Net balance, -0.65; Q4 2020, -0.69)

Most firms expect credit conditions to remain tight during the second quarter of 2021 (Chart 21).

Chart 21: Credit availability expectations next quarter ¹



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

Source: Bank of Zambia

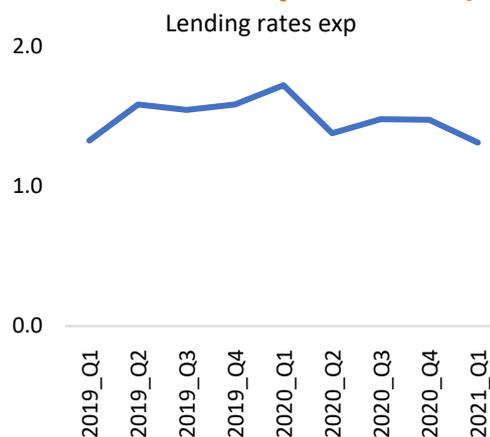
¹ Credit availability = tight (-)/ loose (+)

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

(Net balance, 0.74; Q4 2020, 0.80)

Commercial banks' lending rates are expected to marginally decline but remain high during the second quarter of 2021 (Chart 22).

Chart 22: Interest Rate Expectations Next Quarter



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

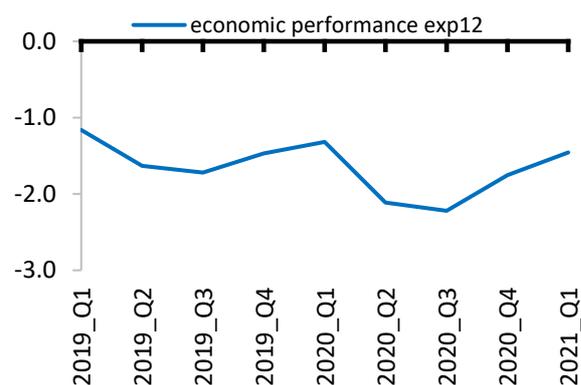
Source: Bank of Zambia

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

(Net balance, -0.28; Q4 2020, -0.36)

Firms expect economic performance to improve over the next 12 months. This was based on positive sentiments associated with the COVID-19 vaccination programme (Chart 23).

Chart 23: Economic Performance in the Next 12 Months



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

Source: Bank of Zambia

5.0 Conclusion

In line with expectations in the fourth quarter, economic performance deteriorated in the first quarter of 2021. Apart from capacity utilisation, new orders and labour demand, the rest of the monitored indicators were lower than their respective fourth quarter levels. In addition, all the monitored indicators remained below the long-term average except for domestic sales. This was largely due to the second wave of COVID-19 and seasonal influence in the agricultural and tourism sectors.

However, economic activity is expected to improve in the second quarter. This is premised on positive sentiments arising from the COVID-19 vaccination programme. In addition, activities in the agricultural and tourism sectors are expected to peak in the second quarter. These sectors have positive spill-overs on other sectors such as manufacturing and services. Accordingly, output, volume of sales, volume of service, domestic sales and profitability are expected to exceed their long-term average. Notwithstanding the above, economic performance may be moderated by a weaker Kwacha, rise in input costs as well as the threats of a possible third wave of COVID-19.

Over the next one year, economic performance is expected to improve owing to the COVID-19 vaccination programme that is

expected to have a positive long term impact on economic activity.

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 agricultural 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 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).