

Quarterly Survey of Business Opinions and Expectations

Fourth Quarter 2020



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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

In line with the expectations of the business community, economic performance improved in the fourth quarter of 2020 compared with the third quarter. This was mainly attributed to the relaxation of COVID-19 containment measures, which partially revived activity in the tourism sector. This was boosted by the festive season. The business community expects economic activity to remain subdued in the first quarter of 2021. The persistent Kwacha depreciation, electricity load shedding and associated rise in input costs, tight credit conditions as well as elevated public debt service are expected to further depress economic activity. In the next 12 months, the business community expects economic performance to improve as the COVID-19 vaccine is rolled out and high crop production is sustained in view of adequate rainfall. This may, however, be mitigated by the sustained depreciation of the Kwacha, high Government debt service, increased energy prices, tight credit conditions and elevated lending rates.

1.0 Introduction

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

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

This Report presents findings of the Survey conducted in December 2020 on business opinions and expectations for the fourth quarter of 2020 and the first quarter of 2021, respectively.

Only 66 firms responded out of the 290 questionnaires administered, representing a response rate of 22.8% (Chart 1).

Chart 1: Response Rate (%): 2018-2020



The distribution of the responses by province and sector is summarised in Tables 1 and 2, respectively.

Table 1: Distribution of Responses by Province

Province	Frequency	Percent
Lusaka	19	28.8
Copperbelt	12	18.2
Northern	7	10.6
Southern	6	9.1
Luapula	6	9.1
Central	5	7.6
Muchinga	4	6.1
Eastern	4	6.1
North-Western	3	4.5
Total	66	100

Table 2: Distribution of Responses by Sector

Sector	Frequency	Percent
Tourism	20	30.3
Manufacturing	17	25.8
Merchant	13	19.7
Agriculture	8	12.1
Service	7	10.6
Construction	1	1.5
Total	66	100

The response rates for the last three Surveys have been poor, attributed largely to the disruption to the working arrangements caused by the COVID-19 pandemic. In addition, some firms failed to respond due to challenges of meeting year-end targets. This was compounded by insufficient internet connectivity for those working from home and poor electricity supply.

Given these low response rates, the Survey results may not adequately represent sector-wide views and should therefore be used with caution.

This Report is divided into four sections. Section 2 presents responses on firms' opinions about economic performance during the fourth quarter of 2020 and

expectations for the first quarter of 2021 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 first quarter of 2021 while section 5 concludes. The Appendix gives a description of the Survey methodology.

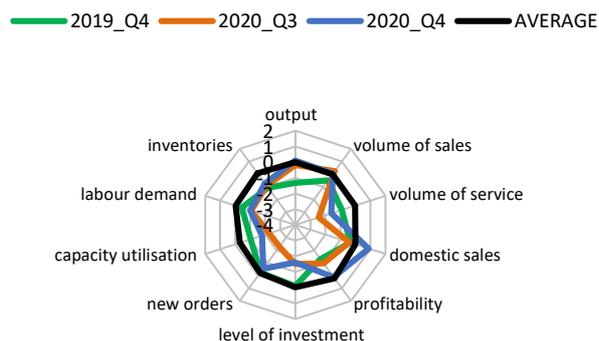
2.0 Economic Performance in the Fourth Quarter of 2020 and Expectations of Economic Activity in the First Quarter of 2021 and 12 Months Ahead

Economic performance improved further in the fourth quarter of 2020 but remained below the long-term average; expected to remain subdued over the next 12 months

In the third quarter of 2020, the business firms expected economic activity to improve further in the fourth quarter. Consistent with this, economic performance improved in the fourth quarter. This was mainly attributed to the relaxation of COVID-19 containment measures, which partially revived activity in the tourism sector. This was boosted by the festive season. New orders, capacity utilisation, output, domestic sales, profitability, labour demand and volume of service improved during the quarter.

The above notwithstanding, economic performance remained below the long-term average during the fourth quarter mainly due to the persistence of the COVID-19 pandemic. With the exception of domestic sales and profitability which benefited from the depreciation of the Kwacha, the rest of the indicators of economic activity remained subdued (Chart 2).

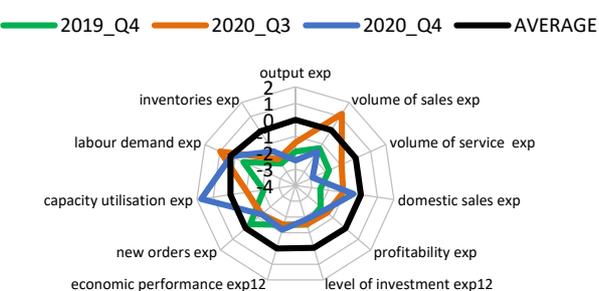
Chart 2: Business Opinions Response Patterns*



*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.

Economic activity is expected to remain subdued in the first quarter of 2021 largely due to seasonal factors. With the exception of capacity utilisation and labour demand, which are expected to rise during the agricultural planting season, the rest of the indicators are expected to remain below the long-term average (Chart 3). In addition, the persistent depreciation of the Kwacha, electricity load shedding and the associated rise in input costs, tight credit conditions, as well as elevated public debt service are expected to further depress economic activity. The slowdown in economic activity may, however, be moderated by the expected roll-out of the COVID-19 vaccines.

Chart 3: Business Expectations Response Patterns



Note: exp refers to expectations

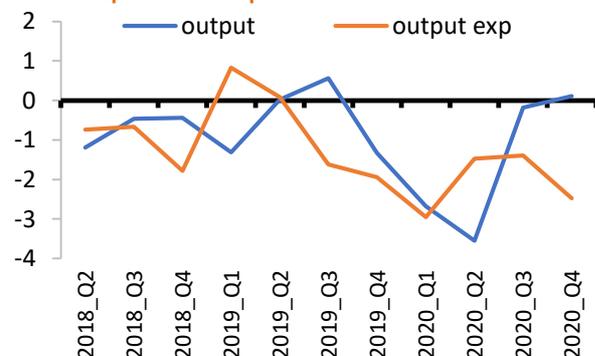
Over the next 12 months, firms are optimistic about economic growth on account of the expected roll-out of the COVID-19 vaccine and sustained positive crop production in light of adequate rainfall. The sustained Kwacha depreciation, high Government debt service, increased energy prices, tight credit conditions and elevated lending rates will, however, moderate growth.

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

(Net balance, -0.05; Q3 2020, -0.10)

Output increased during the fourth quarter in comparison to the previous quarter and was slightly above the long-term average (Chart 4). This was largely attributed to the resumption of normal business operations following the relaxation of the COVID-19 pandemic restrictions.

Chart 4: Opinion on Output



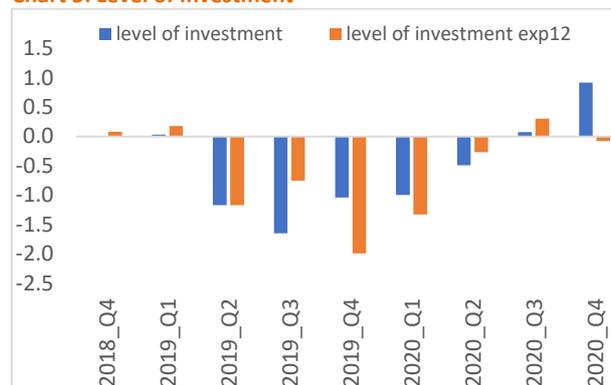
Output is, however, expected to be constrained in the first quarter of 2021 by increased input costs induced by the depreciating Kwacha, rising inflation, and high interest rates. Firms also expect the supply of some inputs to reduce owing to foreign exchange supply constraint.

2.2 How was your firm's level of investment?

(Net balance, -0.18; Q3 2020, -0.22)

Total investment by the business community improved in the fourth quarter mainly due to the festive season in the tourism industry and planting activities in the agriculture sector (Chart 5).

Chart 5: Level of Investment



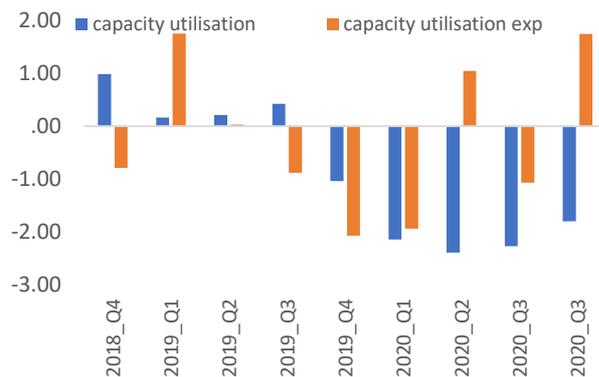
However, investments are expected to decline in the next one year in view of reduced profit, which is the main source of re-investment funds. Further, sustained high Government borrowing is expected to reduce the availability of credit to the private sector.

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

(Net balance, -0.13; Q3 2020, 0.00)

Capacity utilisation continued to improve in the fourth quarter (Chart 6). The festive season and planting activities mainly explained the improvement. Capacity utilisation, however, remained below the long-term average due to reduced sales on account of sustained rise in inflation.

Chart 6: Capacity Utilisation



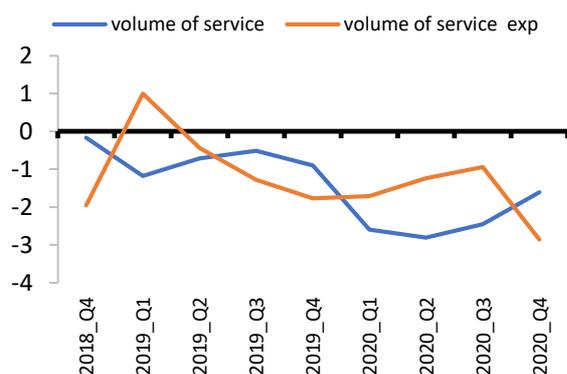
In the next quarter, firms expect capacity utilisation to rebound as demand for pharmaceutical products rise in the wake of the new wave of the COVID-19 pandemic.

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

(Net balance, -0.48; Q3 2020, -0.68)

The volume of services increased in the fourth quarter in response to the relaxation of COVID-19 measures, especially in the tourism and services sectors where demand from households soared during the festive period (Chart 7). In spite of this, the volume of service remained below the long-term average as corporate clients substituted physical conferencing with virtual platforms. Further, the depreciation of the Kwacha and rising inflation were the other limiting factors.

Chart 7: Volume of Service



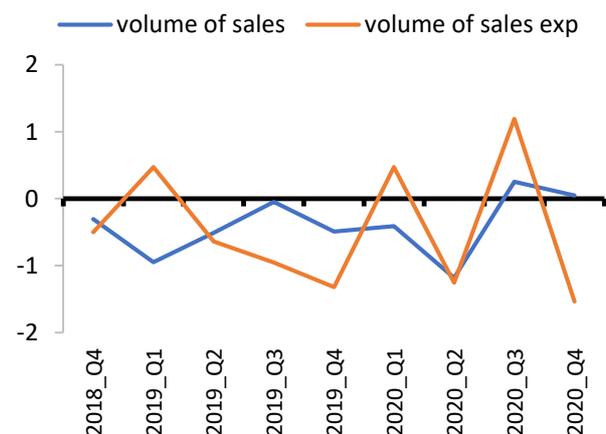
In the first quarter of 2021, the volume of service is expected to fall mainly due to the second wave of the COVID-19 pandemic, depreciating Kwacha and rising inflation.

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

(Net balance, -0.28; Q3 2020, -0.20)

The volume of sales declined in the fourth quarter largely due to the rise in prices as a result of the depreciation of the Kwacha. Despite this, the volume of sales remained above the long-term average largely due to spending associated with the festive season (Chart 8).

Chart 8: Volume of Sales



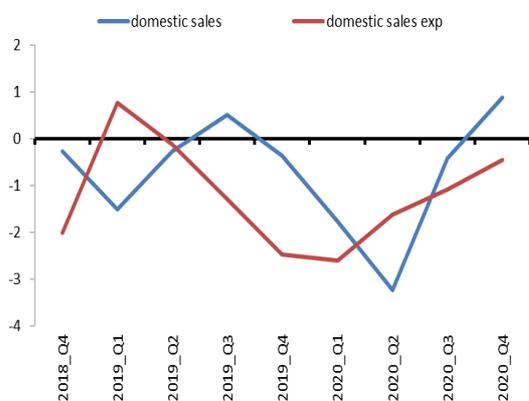
A sharp decline in the volume of sales is expected in the first quarter of 2021. This is premised on reduced economic activity in the agriculture and tourism sectors. Further, economic activity is expected to decline as a result of disturbances to normal working routines explained by a renewed outbreak of the COVID-19 pandemic.

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

(Net balance, 0.08; Q3 2020, -0.15)

Domestic sales improved further and exceeded the long-term average. This was largely due to increased spending on COVID-19 related pharmaceutical products (Chart 9).

Chart 9: Domestic Sales



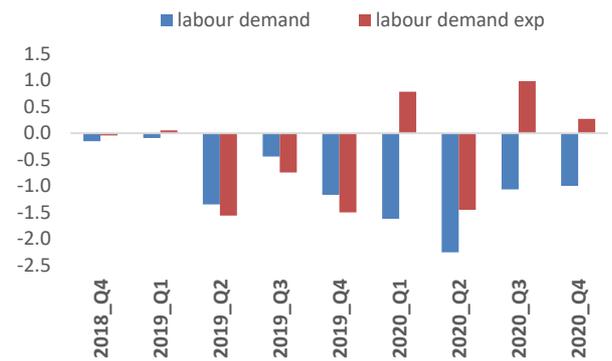
In the first quarter, domestic sales are expected to improve but remain subdued largely due to the adverse effects of the second wave of the COVID-19 pandemic. In addition, an increase in input costs due to a weaker Kwacha is expected to result in the rise in the average selling prices.

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

(Net balance, -0.21; Q3 2020, -0.27)

Labour demand marginally improved, but remained below the long-term average. This was on account of the planting season and the festive season in tourism (Chart 10). The partial relaxation of the COVID-19 pandemic restrictions resulted in some firms in the tourism sector increasing their labour requirements.

Chart 10: Labour Demand



Labour demand is expected to rebound in the first quarter of 2021 as the anticipated commencement of the new hydro power station is expected to boost production.

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

Investment finance and working capital continued to be largely financed by retained earnings (Charts 11A and 11B). This was followed by partners' equity and bank borrowing as sources of investment finance and working capital, respectively.

Chart 11A: Sources of Investment Finance

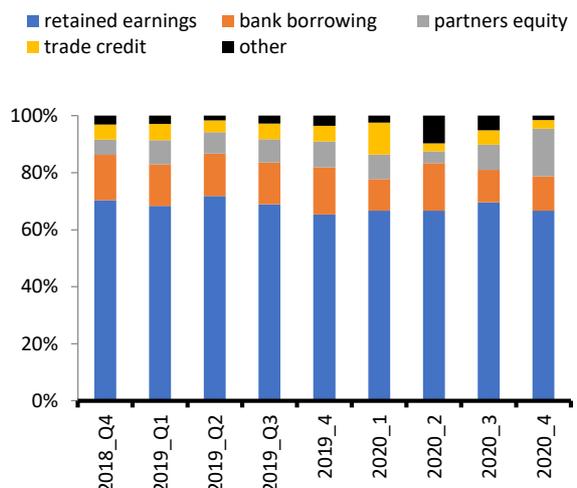
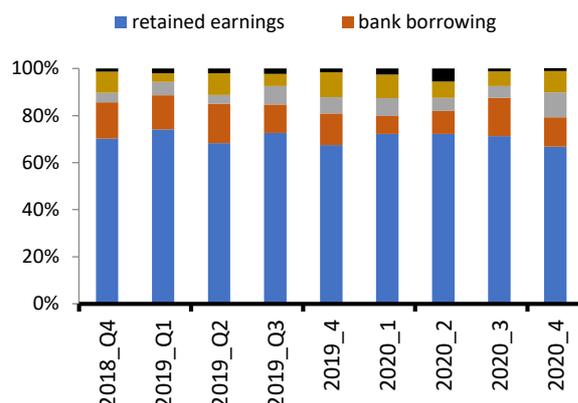


Chart 11B: Sources of Working Capital

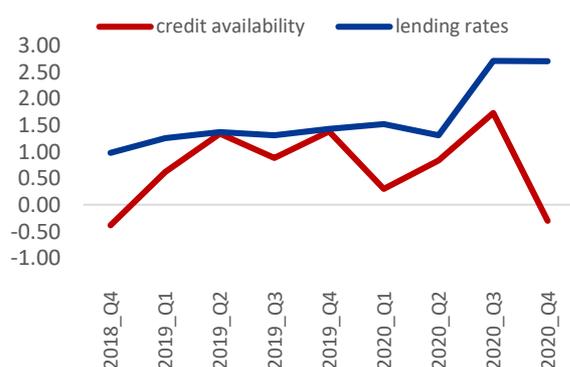


2.9 What is your perception of the current availability of credit?

(Net balance, 0.62; Q3 2020, 0.79)

Most respondents reported tighter credit conditions during the fourth quarter compared with the third quarter. The business community also revealed strict lending requirements by financial institutions and sustained high lending rates. This was despite the implementation of the Bank of Zambia Targeted Medium-Term Refinancing Facility (TMTRF) and the reduction in the Bank of Zambia Policy Rate to 8% in November from 9.25% in July 2020 (Chart 12). Tighter credit conditions were largely attributed to high credit risk arising from the poor performance of most businesses due to the adverse impact of COVID-19 pandemic and high Government borrowing from the domestic market.

Chart 12: Credit Availability and Lending Rates



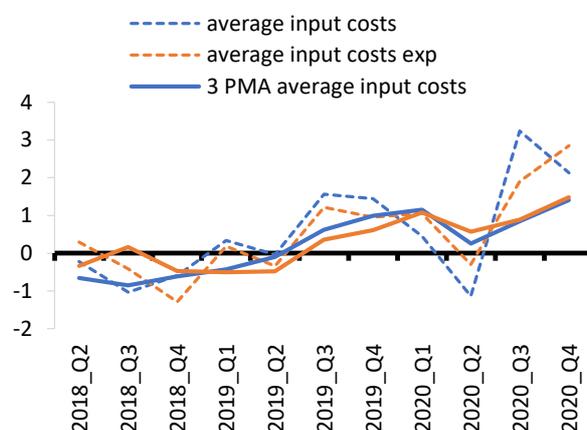
3.0 Evolution of Costs, Wages and Prices

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

(Net balance, 0.59; Q3 2020, 0.72)

Average input costs declined in the fourth quarter of 2020 but remained above the long-term average. This was largely on account of festive season promotions and sales clearance of selected inputs (Chart 13).

Chart 13: Average Input Costs



Average input costs are expected to rise in the first quarter of 2021 on account of sustained rise in inflation, annual salary increments and a weaker Kwacha.

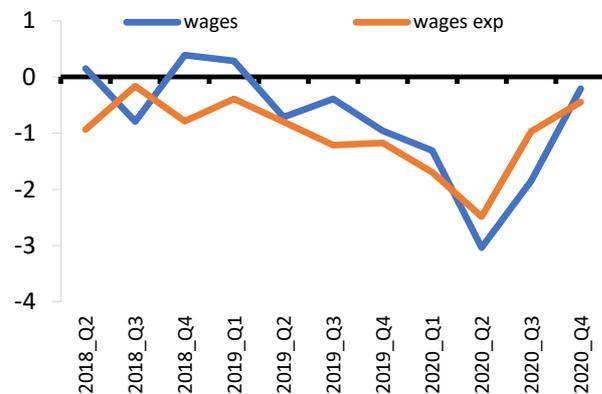
3.2 What has been your firm’s experience with respect to the wage bill?

(Net balance 0.12; Q3 2020, -0.02)

Consistent with expectations, the wage bill increased in the fourth quarter but remained below the long-term average. This was largely due to seasonal labour demand in the agriculture as well as wholesale and retail sectors. In addition, the partial relaxation of the COVID-19 pandemic restrictions resulted in some

employees working longer hours while others worked full-time (Chart 14).

Chart 14: Evolution of Wages



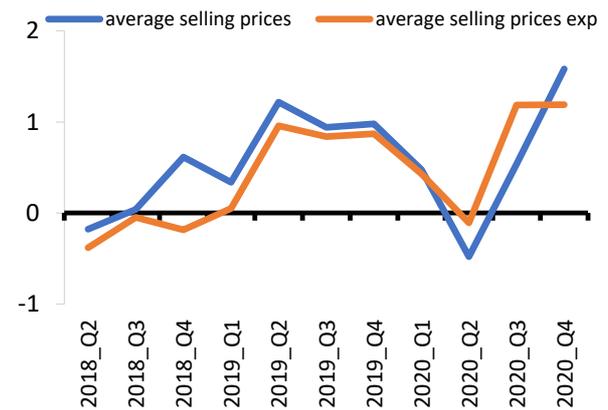
The wage bill is expected to continue rising in the first quarter of 2021 as labour demand in the agriculture sector is sustained and annual salary adjustments that may include revised emoluments for truck drivers are effected in view of Statutory Instrument Number 106 of 2020.

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

(Net balance, 0.30; Q3 2020, 0.12)

Average selling prices continued to increase in the fourth quarter and are expected to remain elevated in the first quarter of 2021 largely on account of rising inflation, depreciation of the Kwacha and high cost of production exacerbated by persistent electricity load-shedding (Chart 15).

Chart 15: Evolution of Average Selling Prices

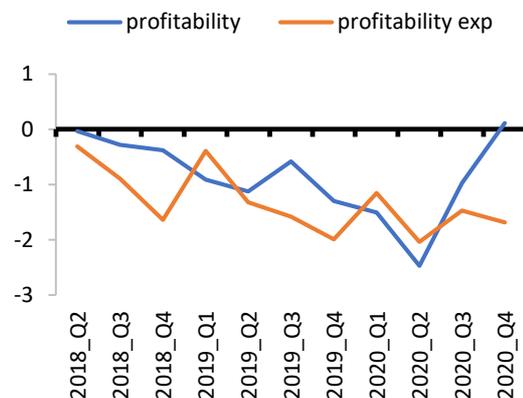


3.4 What has been your firm's experience with respect to profitability?

(Net balance, -0.50; Q3 2020, -0.57)

Profitability increased in the fourth quarter largely driven by festive season induced domestic sales and rising demand for pharmaceutical products linked to COVID-19 (Chart 16).

Chart 16: Profitability

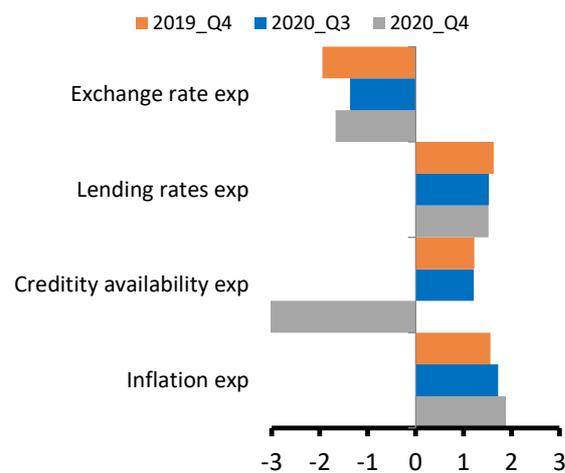


However, profitability is expected to decline during the first quarter of 2021 due to a weaker Kwacha, persistent rise in inflation and the likely subdued consumer demand in the wake of the second wave of the COVID-19 pandemic.

4.0 Expectations of Monetary Policy for First Quarter 2021

Firms expect the Kwacha to continue depreciating in the first quarter of 2021. In addition, inflationary pressures and lending rates are expected to remain elevated while credit conditions will continue to be tight (Chart 17).

Chart 17: Inflation, Exchange Rates and Lending Rates Expectations



Notes:

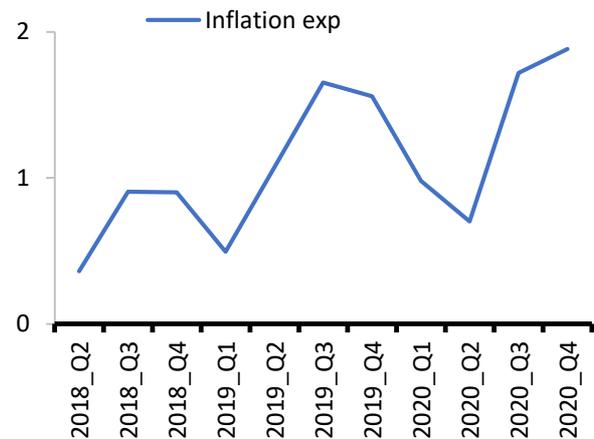
Exchange rate = appreciation, strong (+)/depreciate, weak (-)
 Lending rates = increase, high (+)/decrease, low (-)
 Credit availability = tight (-)/ loose (+)
 Inflation expectations = increase, high (+)/decrease, low (-)

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

(Net balance, 0.83; Q3 2020, 0.80)

High inflationary pressures are expected to persist in the first quarter of 2021 (Chart 18).

Chart 18: Inflationary Expectations Next Quarter



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

The main factors explaining high inflationary expectations include the anticipated depreciation of the Kwacha, inflation inertia and rising production costs occasioned by increased energy prices and electricity load-shedding (Charts 19A and 19B).

Chart 19A: Key Drivers of Inflationary Expectations next Quarter

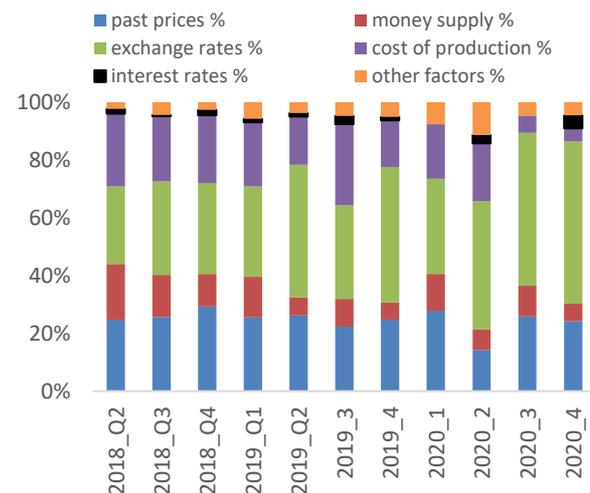
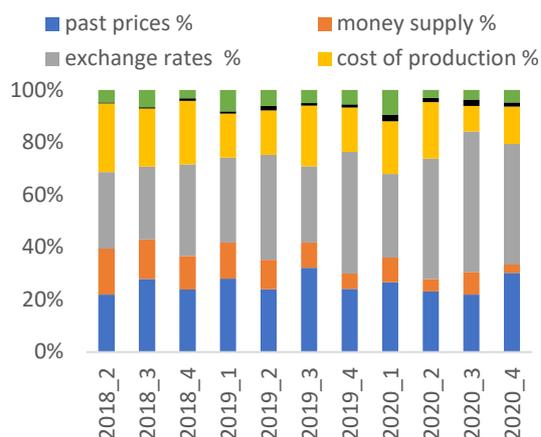


Chart 19B: Key Drivers of Inflationary Expectations next 12 Months

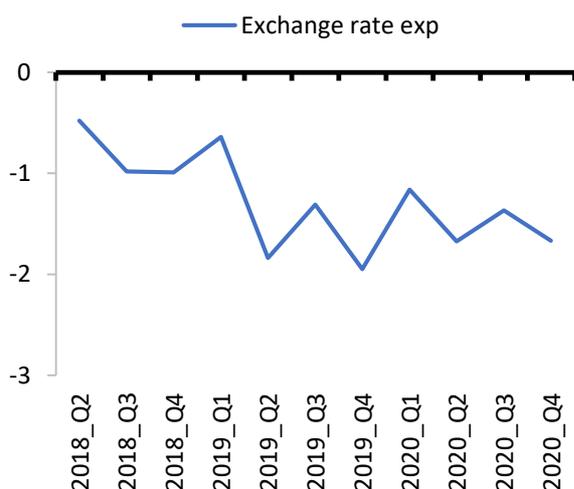


4.3 How do you expect the performance of the Kwacha against the US dollar to be at the end of the next quarter?

(Net balance, -0.71; Q3 2020, -0.63)

The Kwacha is expected to continue to depreciate and hover around K23/US\$. This is largely due to high Government debt service, inadequate export earnings, and sustained inflationary pressures (Chart 20).

Chart 20: Exchange Rate Expectations Next Quarter

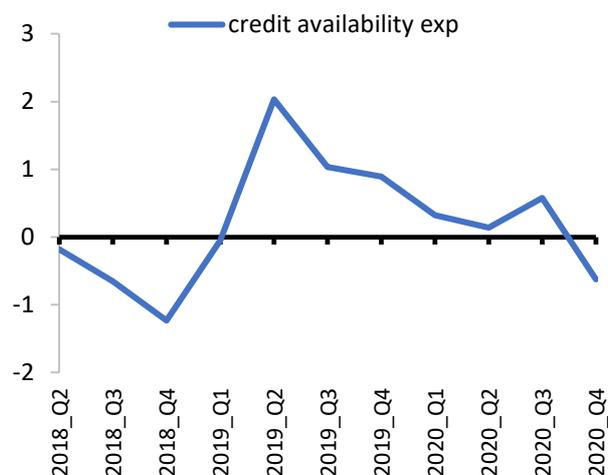


4.4 Over the next quarter, how do you expect credit availability to be?

(Net balance, 0.59; Q3 2020, 0.69)

Credit conditions are expected to be tight during the first quarter of 2021. This is mainly premised on high credit risk and the associated stringent lending requirements (Chart 21).

Chart 21: Credit availability expectations next quarter



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

(Net balance, 0.80; Q3 2020, 0.81)

Commercial banks' lending rates are expected to remain high and above the long-term average (Chart 22). High credit risk, rising inflation and escalating domestic Government borrowings are expected to account for the elevated lending rates.

Chart 22: Interest Rate Expectations Next Quarter

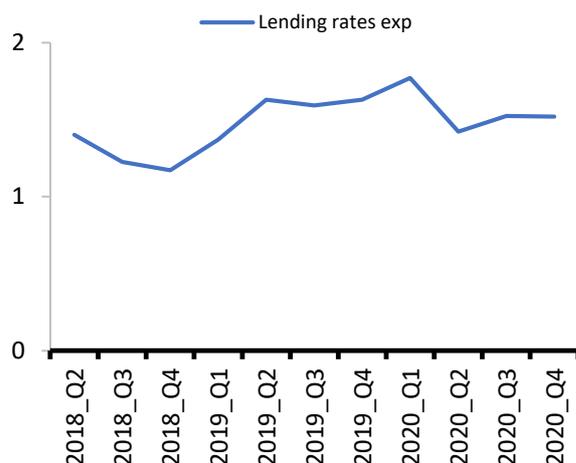
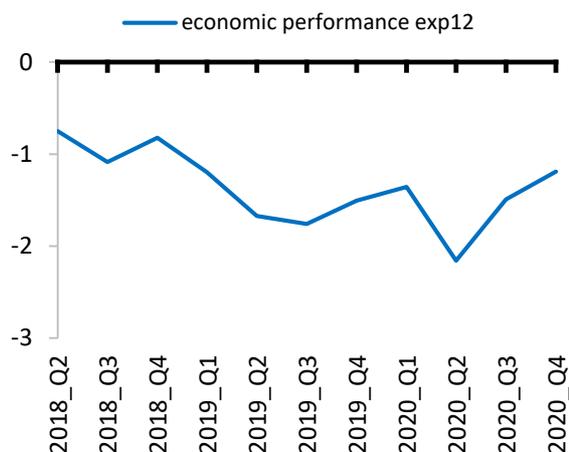


Chart 23: Economic Performance in the Next 12 Months



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

(Net balance, 0.11; Q3 2020, -0.07)

Economic performance is expected to improve in the next 12 months, although it will remain subdued (Chart 23). This optimism is largely based on the expected roll-out of the COVID-19 vaccine and sustained high crop production in light of adequate rainfall.

Some respondents, however, were of the view that the second wave of the COVID-19 pandemic could disrupt production. Further, the sustained depreciation of the Kwacha, high Government debt service, expensive energy, tight credit conditions and elevated lending rates will continue to weigh on growth.

5.0 Conclusion

In line with expectations in the third quarter, economic performance improved in the fourth quarter of 2020 although most of the indicators remained below the long-term average. This outturn was largely due to the partial relaxation of the COVID-19 pandemic restrictions, which resulted into longer working hours, a pick-up in consumer demand, increased activity in the agricultural sector and the manufacture of pharmaceutical products for COVID-19 prevention.

The Survey further revealed that economic activity will remain subdued in the first quarter of 2021 mainly due to seasonal factors. With the exception of capacity utilisation and labour demand, which are expected to rise during the agricultural planting season, the rest of the indicators are expected to remain below the long-term average. A weaker Kwacha, electricity load shedding and the associated rise in input costs as well as tight credit conditions are expected to further depress economic activity.

Over the next 12 months, economic performance is expected to improve, but will remain below the long-term average.

This optimism is largely based on the expected roll-out of the COVID-19 vaccine and continued high crop production in view of adequate rainfall. However, the sustained Kwacha depreciation, high Government debt service, increased energy prices, tight credit conditions and elevated lending rates will continue to weigh on 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, 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:

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

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