

Quarterly Survey of Business Opinions and Expectations

Third 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 remained subdued in the third quarter of 2021 in line with business expectations. Low consumer demand attributed to COVID - 19 restrictions, uncertainty regarding the aftermath of the August General Elections and rising inflation generally explained this outcome. Businesses expect economic activity to recover in the fourth quarter and 12-months ahead as the COVID-19 restrictions are eased and the new Government's policies aimed at reviving the economy start to create more opportunities.

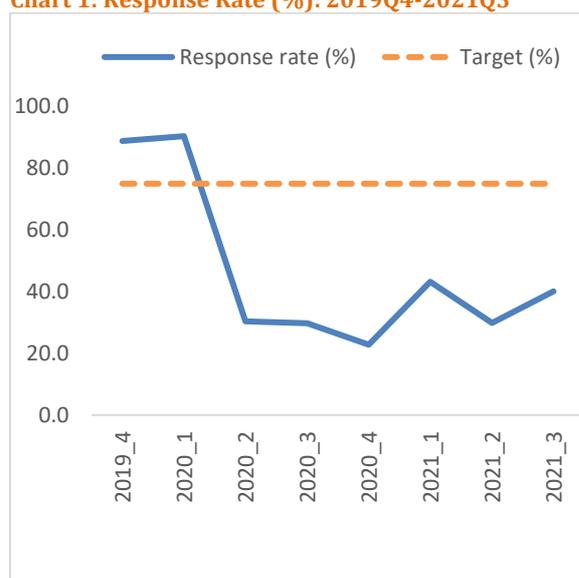
1.0 Introduction

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

Specifically, this Report presents findings of the Survey administered in September on business opinions for the third quarter of 2021 and expectations for the fourth quarter and one year ahead.

A total of 257 questionnaires were administered, out of which 95 responses were received. This represents a response rate of 37.0%, an improvement from 29.9% in the second quarter of 2021 (Chart 1).

Chart 1: Response Rate (%): 2019Q4-2021Q3



Source: Bank of Zambia

Following the gradual reduction in the COVID-19 infection and mortality rates during the period under review, most businesses resumed operations. This largely explained the improvement in the response rate. The absence of physical data collection, however, continued to weigh on the response rate. It is, therefore, advisable to interpret these Survey results with caution.

The highest number of responses were recorded in Lusaka and Copperbelt Provinces

while the lowest was in Southern Province (Table 1).

Table 1: Distribution of Responses by Province

Province	Frequency	Percent
Lusaka	18	18.9
Copperbelt	18	18.9
North-Western	12	12.6
Eastern	12	12.6
Central	10	10.5
Northern	9	9.5
Muchinga	7	7.4
Luapula	6	6.3
Southern	3	3.2
Total	95	100.0

Source: Bank of Zambia

The highest number of responses by sector was from tourism while the construction recorded the lowest (Table 2).

Table 2: Distribution of Responses by Sector

Sector	Frequency	Percent
Tourism	32	33.7
Manufacturing	17	17.9
Services	17	17.9
Merchant	13	13.7
Agriculture	11	11.6
Construction	5	5.3
Total	95	100.0

Source: Bank of Zambia

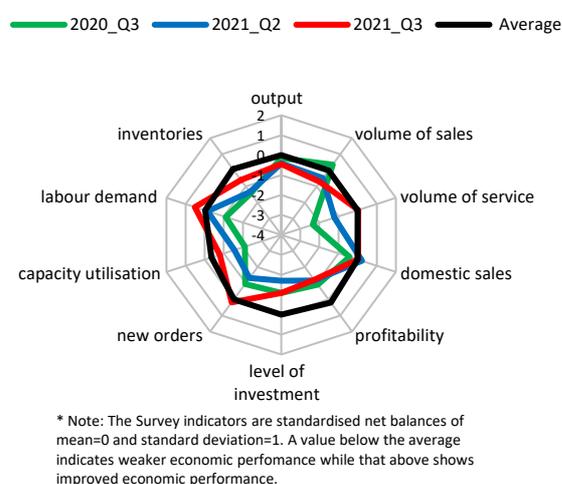
The rest of this Report is organised as follows: Section 2 presents opinions of firms about economic performance during the third quarter as well as expectations for the fourth quarter and 12 months ahead. Section 3 provides opinions on input costs, wages and prices. Section 4 presents macroeconomic prospects for the fourth quarter and one year ahead. Section 5 concludes. A brief description of the Survey methodology is provided in the appendix.

2.0 Current Economic Performance and Expectations

...economic performance remained subdued in the third quarter; expected to rebound in the fourth quarter

Economic performance remained weak in the third quarter of 2021 in line with business expectations from the previous quarter. Output, volume of sales, domestic sales and profitability coupled with a build-up in inventories continued to exhibit fragility (Chart 2).

Chart 2: Business Opinion Response Patterns*

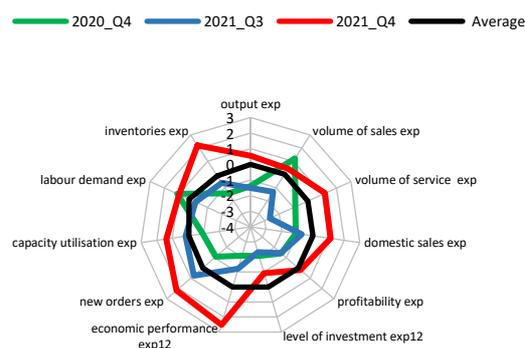


Source: Bank of Zambia

This outcome was generally explained by subdued consumer demand arising from the COVID - 19 restrictions, uncertainty regarding the aftermath of the General Elections in August and sustained rise in inflation. Some signs of recovery were, however, observed in levels of investment, capacity utilisation, labour demand, volume of service and new orders.

Businesses anticipate a recovery in economic activity in the fourth quarter, with all variables expected to exceed their long-term average, except for the level of investment (Chart 3).

Chart 3: Business Expectations Response Patterns



Note: The Survey indicators are standardised net balances of mean=0 and standard deviation=1. A value below the average indicates weaker economic performance while that above shows improved economic performance.

Source: Bank of Zambia

The recovery is premised on the expected increase in business activity as the COVID-19 restrictions are lifted coupled with expectations of a better economic environment following the election of a new Government.

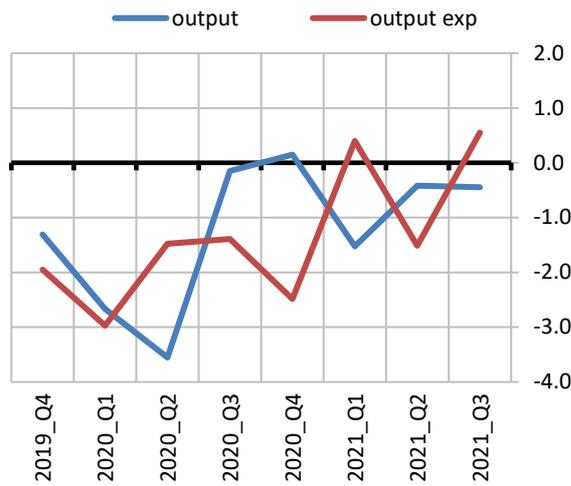
Growth prospects are positive over the next 12 months. Firms expect the new Government's policies to create more opportunities for expanding business activities and reviving the economy.

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

(Net balance, -0.15; Q2 2021 -0.14)

Output remained constrained in the third quarter of 2021 mainly due to the continued low demand, high cost of production and uncertainty associated with the General Elections (Chart 4).

Chart 4: Opinion on Output



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

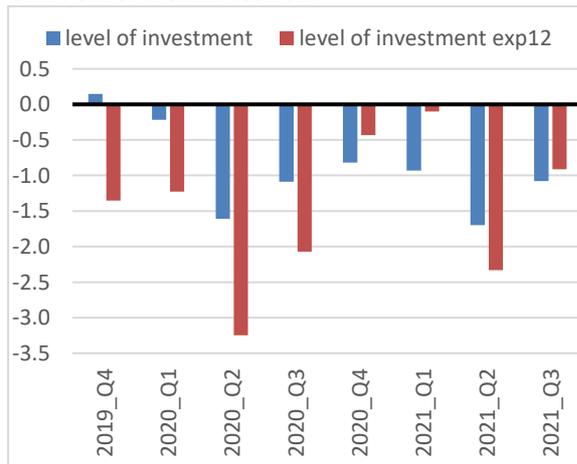
In contrast, firms expect output to rebound in the fourth quarter. This is largely attributed to the expected seasonal increase in new orders in the manufacturing and agriculture sectors.

2.2 How was your firm’s level of investment?

(Net balance, -0.22; Q2 2021 -0.32)

The level of investment improved during the third quarter relative to the second quarter, although it remained below the long-term average (Chart 5).

Chart 5: Level of Investment



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

The improvement was mainly driven by positive sentiments following a smooth transition of Government, increased demand as the third wave of the COVID-19 pandemic

was waning towards the end of the quarter and network infrastructure upgrades to support mobile service provision.

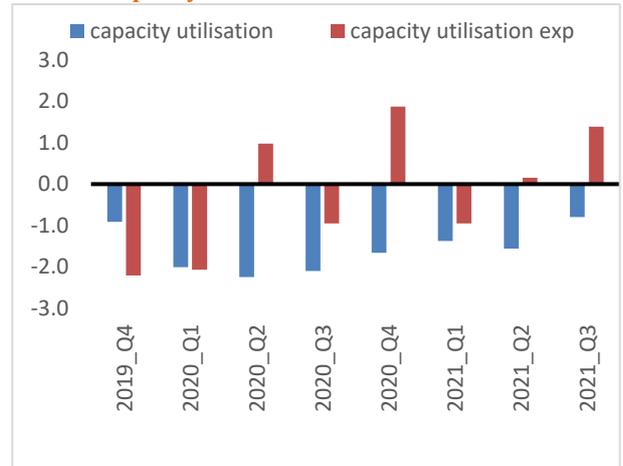
The improvement in the level of investment is expected to be sustained over the next 12 months. This is premised on the expected recovery in the general economic environment, mainly due to the stability in the exchange rate as well as infrastructure upgrades to support mobile service provision.

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

(Net balance, -0.33; Q2 2021 -0.47)

Capacity utilisation improved in the third quarter but remained below the long-term average (Chart 6). The improvement was triggered by the need to build inventory for the fourth quarter in light of the festive season.

Chart 6: Capacity Utilisation



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

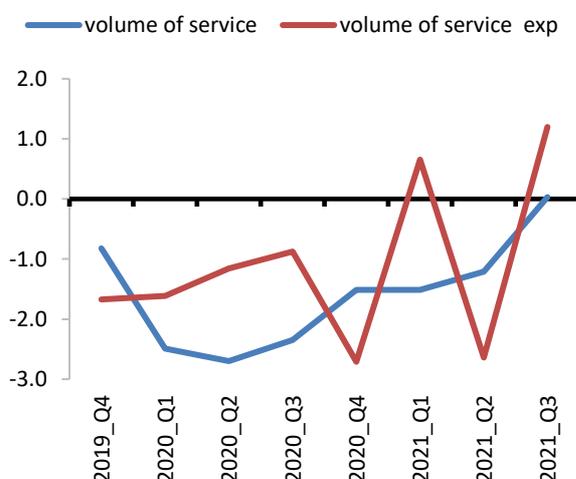
Capacity utilisation is expected to rise sharply in the fourth quarter to support the anticipated increase in demand during the festive season.

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

(Net balance, -0.13; Q2 2021, -0.41)

The volume of service continued on the growth path in the third quarter and marginally exceeded the long-term average (Chart 7). This was largely attributed to the increase in the number of tourists, mobile phone services as well as the transportation of agricultural produce.

Chart 7: Volume of Service



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

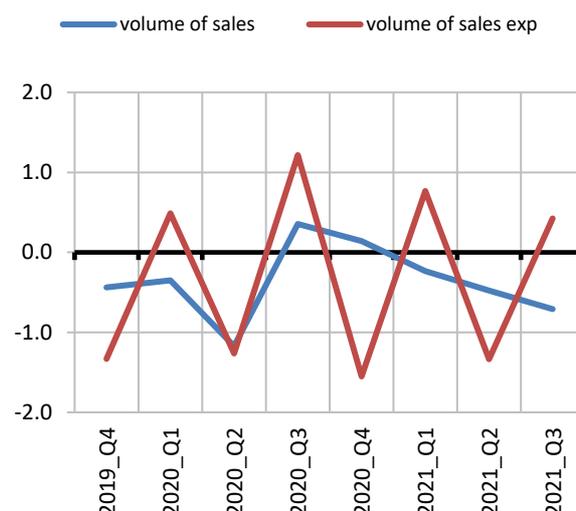
The volume of service is expected to rise further in the fourth quarter, as COVID-19 restrictions are eased.

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

(Net balance, -0.58; Q2 2021, -0.50)

The volume of sales maintained a downward trend in the third quarter and was below the long-term average (Chart 8). The subdued consumer demand largely attributed to the COVID-19 restrictions, uncertainty relating to the outcome of the General Elections as well as high inflation explained the outturn.

Chart 8: Volume of Sales



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

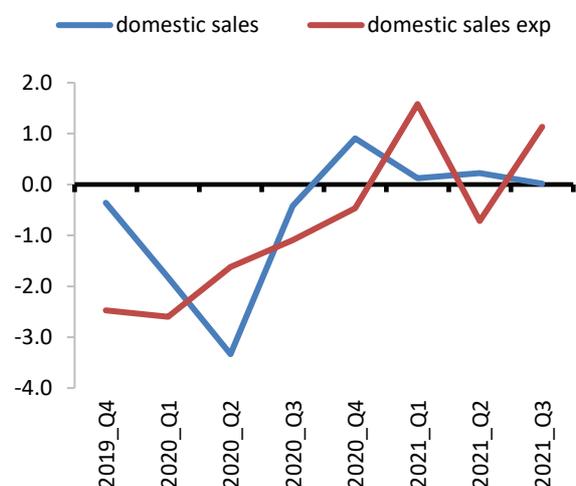
The volume of sales is, however, set to rebound in the fourth quarter mainly due to the increase in demand as the COVID - 19 restrictions are eased. The festive season is further expected to boost demand.

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

(Net balance, 0.19; Q2 2021, -0.04)

Domestic sales slowed down in the third quarter (Chart 9). The uncertainty surrounding the outcome of the General Elections as well as the effects of the third wave of the COVID-19 pandemic largely explained this outturn.

Chart 9: Domestic Sales



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

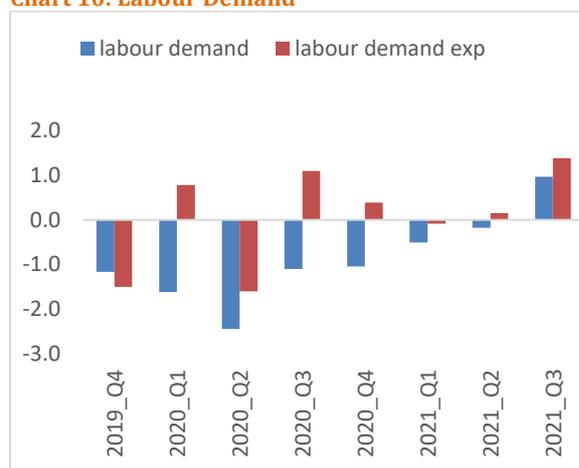
Domestic sales are, however, expected to recover in the fourth quarter as demand increases in response to the festive season and eased COVID-19 restrictions.

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

(Net balance, - 0.04; Q2 2021, -0.14)

Labour demand rebounded during the third quarter and was above the long-term average (Chart 10). Increased grain handling work during the maize and wheat harvest seasons as well as re-staffing occasioned by the anticipated recovery from the COVID-19 pandemic explained the pick-up in labour demand.

Chart 10: Labour Demand



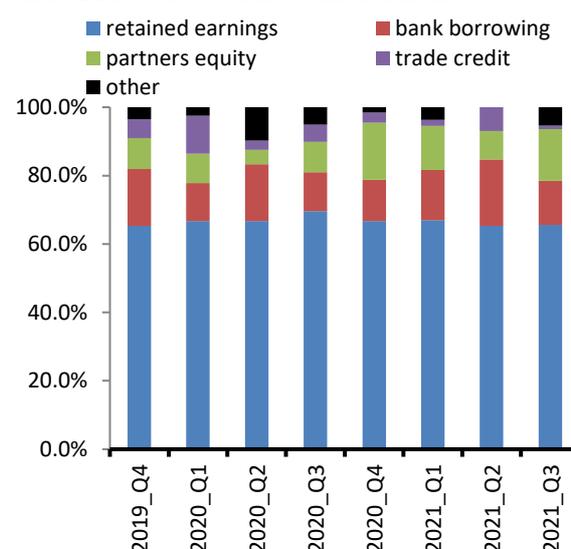
Note: The line at zero (0.0) represents the long-term average
Source: Bank of Zambia

Labour demand is expected to rise further in the fourth quarter premised on an increase in business activity as the COVID-19 restrictions are eased and the need to meet seasonal festive demand.

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

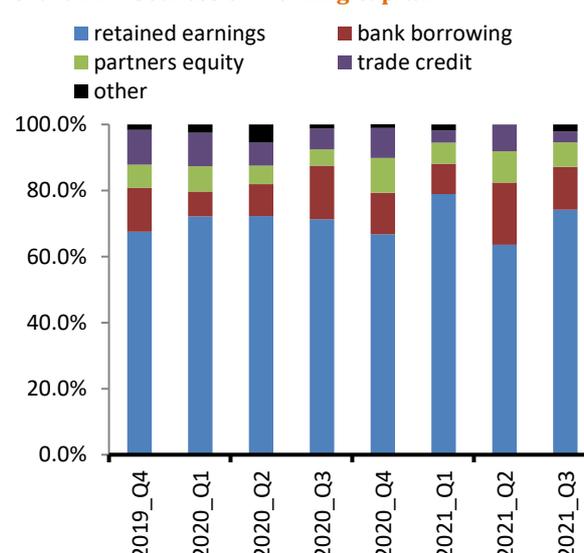
Retained earnings remained the main source of investment finance and working capital in the third quarter (Charts 11A and 11B). The other major sources of funding were partners' equity and bank borrowing.

Chart 11A: Sources of Investment Finance



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

Chart 11B: Sources of Working Capital



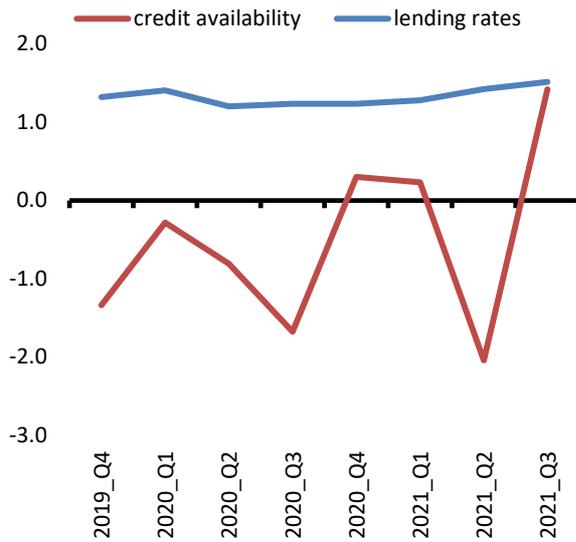
Note: The line at zero (0.0) represents the long-term average
Source: Bank of Zambia

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

(Net balance, -0.52; Q2 2021, -0.82)

Firms indicated that credit availability improved during the third quarter despite lending rates remaining high (Chart 12). The post-election optimism suggesting that government borrowing would be better managed largely contributed to improved sentiments.

Chart 12: Credit Availability and Lending Rates



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

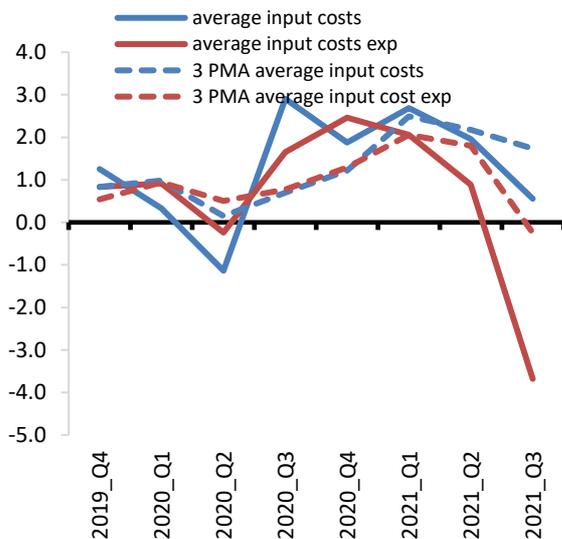
3.0 Evolution of Costs, Wages and Prices

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

(Net balance, 0.41; Q2 2021, 0.60)

Average input costs continued on a downward trend in the third quarter (Chart 13). This trend is expected to continue in the fourth quarter, mainly supported by the appreciation of the Kwacha.

Chart 13: Average Input Costs



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

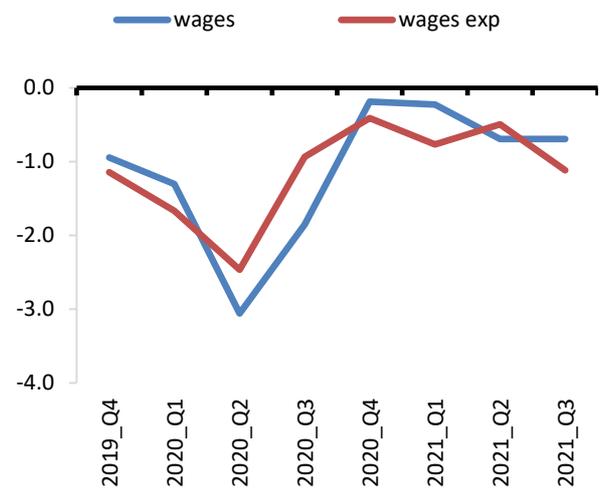
3.2 What has been your firm's experience with respect to the wage bill?

(Net balance 0.08; Q2 2021, 0.8)

The wage bill remained unchanged and was below the long-term average in the third quarter as most companies could not adjust their wages due to reduced profit margins arising from the impact of the COVID-19 pandemic (Chart 14).

The wage bill is expected to decline in the fourth quarter despite an increase in labour demand. This is largely attributed to the lagged effect of redundancies in the services and tourism sectors that resulted from low demand during the pandemic.

Chart 14: Evolution of Wages



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

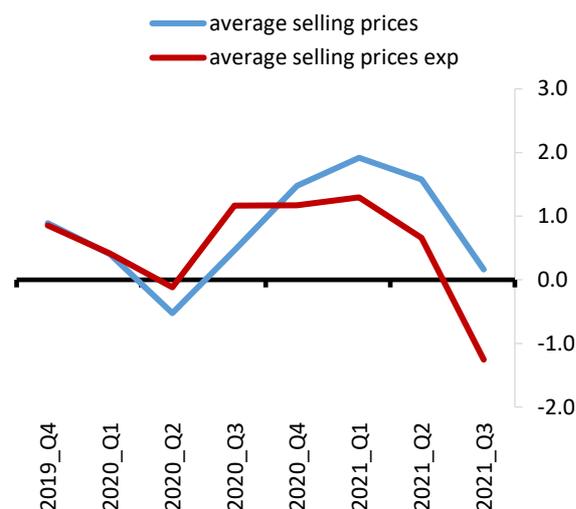
3.3 What has been your firm's experience with respect to average selling prices?

(Net balance, 0.07; Q2 2021, 0.32)

Average selling prices declined further in the third quarter mostly due to the appreciation of the Kwacha (Chart 15).

Average selling prices are likely to maintain the downward trend in the fourth quarter on account of the continued appreciation of the Kwacha.

Chart 15: Evolution of Average Selling Prices



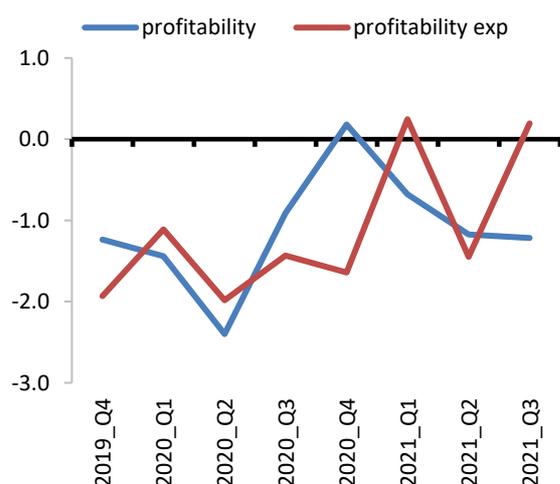
Note: The line at zero (0.0) represents the long-term average
 Source: Bank of Zambia

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

(Net balance, -0.52; Q2 2021, -0.51)

Profitability continued to decline in the third quarter mainly due to reduced consumer demand (Chart 16). This was attributed to COVID-19 restrictions and uncertainties surrounding the outcome of the General Elections.

Chart 16: Profitability



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

In the fourth quarter, however, profitability is expected to rebound mainly due to higher sales associated with the festive season.

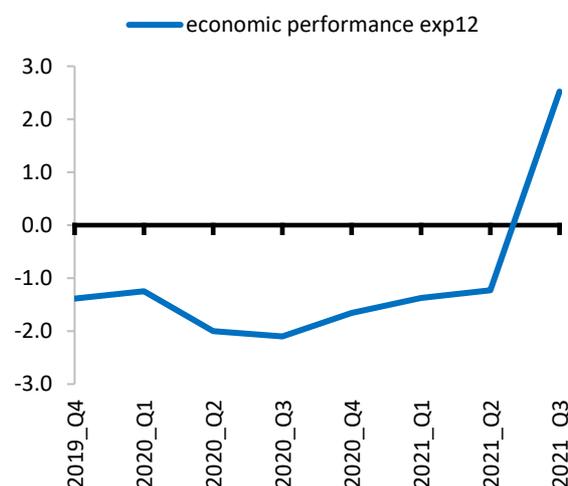
4.0 Macroeconomic Prospects in the Fourth Quarter of 2021 and One Year Ahead

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

(Net balance, 0.90; Q2 2021, -0.23)

Economic performance is expected to significantly improve in the next 12 months as firms are confident that the new Government's policies will create more opportunities for reviving the economy (Chart 17).

Chart 17: Economic Performance in the Next 12 Months



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

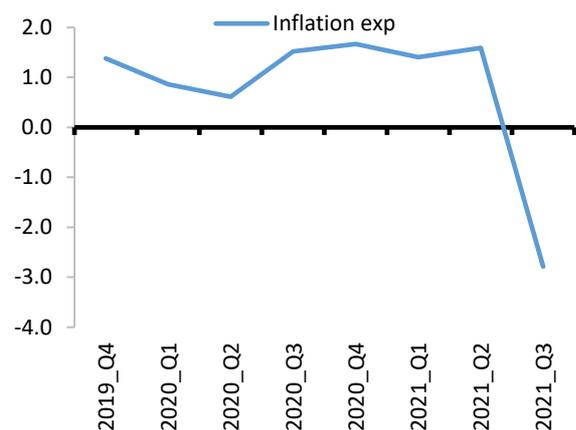
The positive economic outlook is also underscored by the expected implementation of an IMF programme and increased external market confidence that would attract foreign exchange inflows, which are favourable to the economic outlook.

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

(Net balance, -0.32; Q2 2021, 0.81)

Inflationary pressures are expected to ease significantly owing to the appreciation of the Kwacha following improved market sentiments (Chart 18).

Chart 18: Inflationary Expectations Next Quarter



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

Most businesses predicted inflation to lie in the range of 16-20 percent (Table 3).

Table 3: Expected inflation rate at the end of the next quarter

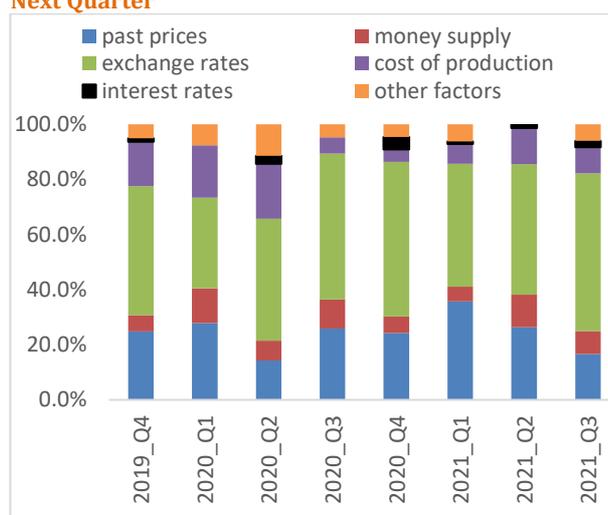
Inflation Rate		
Range	Frequency	Percent
1-5	3	6.1
6-10	8	16.3
11-15	7	14.3
16-20	16	32.7
21-25	13	26.5
26-30	2	4.1
Total	49	100.0

Source: Bank of Zambia

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

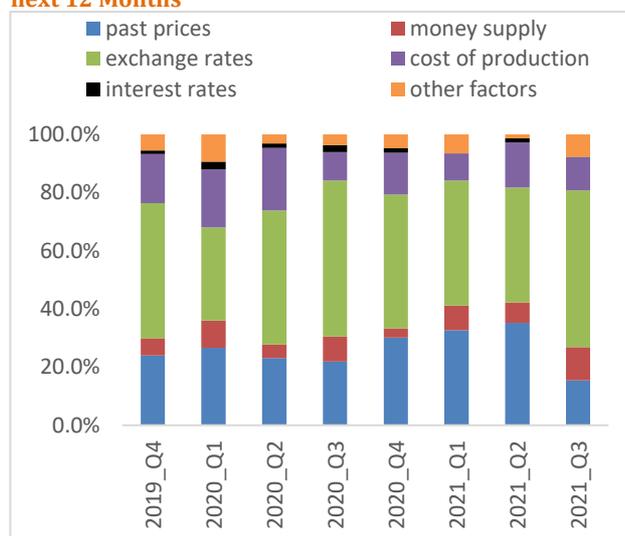
The key drivers of inflationary expectations in the next quarter and year ahead include the exchange rate, past prices, cost of production and money supply (Charts 19A and 19B).

Chart 19A: Key Drivers of Inflationary Expectations Next Quarter



Source: Bank of Zambia

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



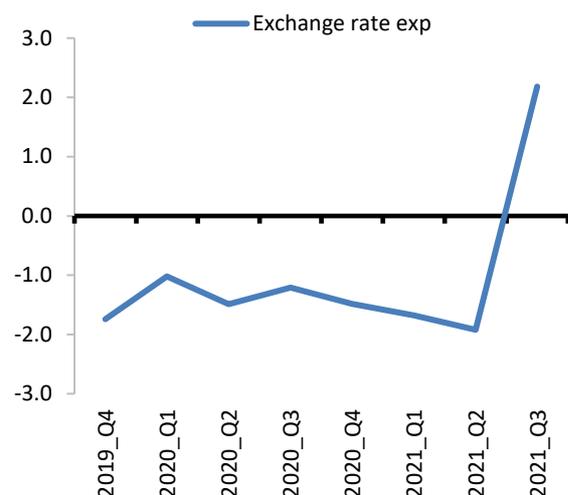
Source: Bank of Zambia

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, 0.48; Q1 2021, -0.86)

Most businesses expect the Kwacha to appreciate sharply during the fourth quarter and hover around K11 – K15 per US dollar compared to a range of K23 – K25 per US dollar in the third quarter (Chart 20 and Table 4).

Chart 20: Exchange rate expectations next quarter



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

Table 4: Expected exchange rate at the end of next quarter

Exchange Rate		
Range	Frequency	Percent
1-5	1	1.2
6-10	5	6.0
11-15	39	47.0
16-20	35	42.2
21-25	1	1.2
36-40	2	2.4
Total	83	100.0

Source: Bank of Zambia

This is premised on the receipt of US\$ 1.3 billion equivalent, general allocation of Special Drawing Rights (SDR) from the IMF in August and the possibility of agreeing on a formal IMF programme.

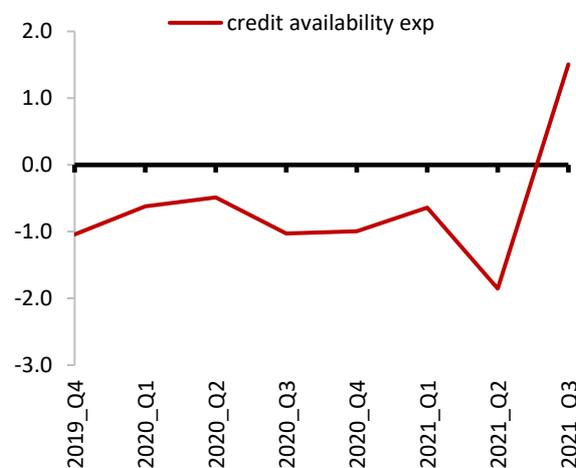
4. How do you expect credit availability to be over the next quarter?

(Net balance, -0.44; Q2 2021, - 0.77)

Credit availability is expected to improve in the fourth quarter despite lending rates remaining elevated (Chart 21). This is attributed to increased demand associated with the festive season and positive perceptions about future economic

performance following a successful General Election.

Chart 21: Credit availability expectations next quarter¹



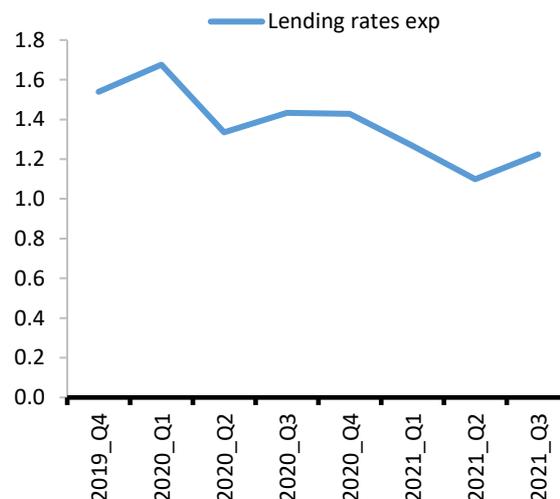
Note: The line at zero (0.0) represents the long-term average
 Source: Bank of Zambia

4.5 What do you expect to happen to commercial banks' lending rates over the next quarter?

(Net balance, 0.73; Q2 2021, 0.68)

Lending rates are expected to increase and remain elevated in the fourth quarter (Chart 22). This is on account of the expected increase in demand for credit during the festive season.

Chart 22: Interest rate expectations next quarter

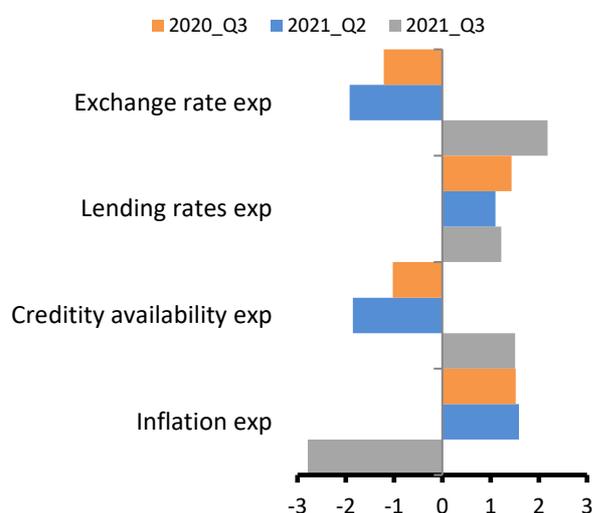


Note: The line at zero (0.0) represents the long-term average
 Source: Bank of Zambia

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

In general, inflationary pressures are expected to subside in the fourth quarter on account of the appreciation of the Kwacha. Lending rates are, however, expected to remain elevated (Chart 23).

Chart 23: 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

5.0 Conclusion

Economic performance remained subdued in the third quarter of 2021 in line with business expectations. Low consumer demand arising from the COVID - 19 restrictions, uncertainty regarding the aftermath of the General Elections and sustained rise in inflation generally explained this outcome.

Businesses anticipate a recovery in economic activity in the fourth quarter as COVID-19 restrictions are eased and the economic environment generally improves following the successful General Elections.

Over the next 12 months, growth prospects are positive mainly due the expectation that the new Government's policies will start to create more opportunities aimed at reviving the economy.

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 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).