

Quarterly Survey of Business Opinion and Expectations



November 2023

Disclaimer:

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



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Summary

The *2023 November Survey of Business Opinion and Expectations* showed a challenging business environment during the third quarter. Business confidence decelerated as firms struggled to sustain the second quarter growth against the backdrop of weak demand conditions, exchange rate depreciation and rising cost pressures. As a result, output, new orders, capacity utilisation, domestic sales, volume of sales, volume of service, profitability and labour demand decreased. Most respondents expressed slackened optimism about economic performance in the fourth quarter and 12 months ahead despite the successful debt restructuring. The pessimism reflects expected exchange rate volatility, elevated input costs, weak demand and higher inflation pressures. However, improved fiscal management, resolution of challenges at Mopani and Konkola Copper Mines as well as increased Constituency Development Funds allocation may provide impetus for growth.

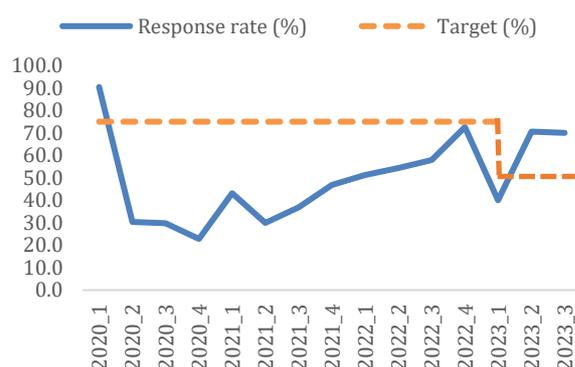
1.0 Introduction

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 third quarter of 2023 and expectations for the fourth quarter and 12 months ahead.

A total of 245 responses were received out of the 350 questionnaires administered. This represents a response rate of 70.0 percent compared to 70.9 percent achieved in the second quarter of 2023 (Chart 1).

Chart 1: Response Rate (%): 2020Q1-2023Q2¹



Source: Bank of Zambia

Central 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
Central (kabwe,mkushi)	52	21
Lusaka	40	16
Copperbelt	32	13
Northwestern	22	9
Northern	19	8
Muchinga	19	8
Eastern	18	7
Luapula	18	7
Southern	13	5
Western	12	5
Total	245	100

Source: Bank of Zambia

The tourism sector had the highest number of responses (25 percent). This was followed by the services (20.0 percent) and merchant (19 percent) sectors. The construction sector remained the lowest, at 9 percent (Table 2).

Table 2: Distribution of Responses by Sector

Sector	Frequency	Percent
Tourism	60	25
Service	50	20
Merchant	46	19
Agriculture	39	16
Manufacturing	27	11
Construction	23	9
Total	245	100

Source: Bank of Zambia

The rest of the Report is organised as follows: Section 2 presents the opinions of firms about economic performance during the third quarter of 2023 as well as expectations for the fourth quarter of 2023 and 12 months ahead. Section 3 provides opinions on input costs, wages and prices. Section 4 presents macroeconomic prospects 12 months ahead. Section 5 concludes. A description of the survey methodology is provided in the appendix.

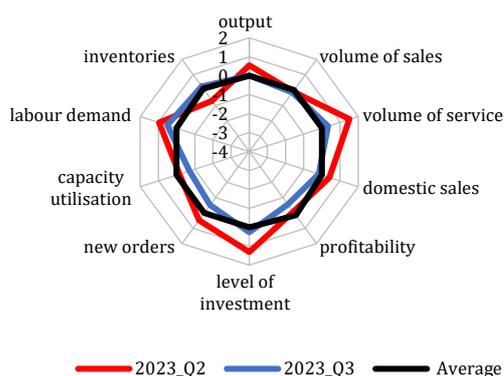
¹ The target response rate was adjusted to 60 percent from 75 percent on account of the change in the data collection mode.

2.0 Current Economic Performance and Expectations

... economic performance slowed down in the third quarter

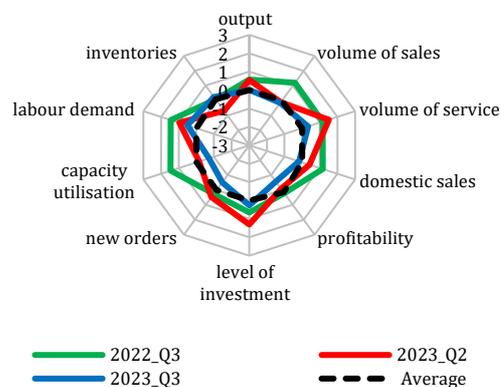
Economic performance deteriorated in the third quarter of 2023. Business activity was dampened by weak demand conditions, depreciation of the Kwacha against the US dollar and higher input costs. As a result, output, new orders, domestic sales, capacity utilisation, volume of sales, volume of service, profitability, level of investment and labour demand declined. Consistent with the fall in demand, inventories accumulated (Chart 2A and 2B).

Chart 2A: Business Opinion Response Patterns



Source: Bank of Zambia

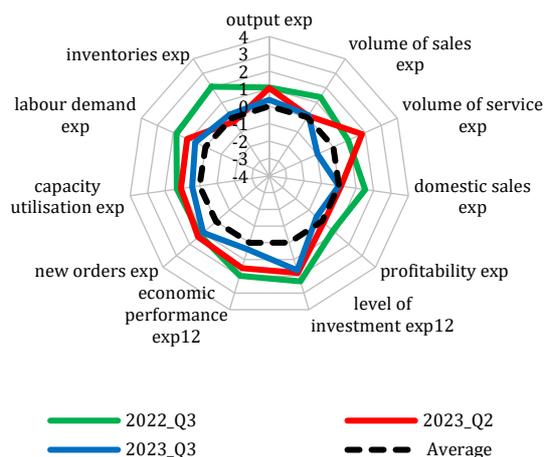
Chart 2B: Business Opinion Response Patterns*



Source: Bank of Zambia

Expectations of sustained weakness in economic activity in the fourth quarter were widespread as softer demand conditions, exchange rate depreciation and high input costs are likely to persist (Chart 3).

Chart 3: Business Expectations Response Patterns



Source: Bank of Zambia

The weak domestic currency and increase in input costs point to high inflation persisting into the fourth quarter resulting in heightened concerns about the recovery in demand.

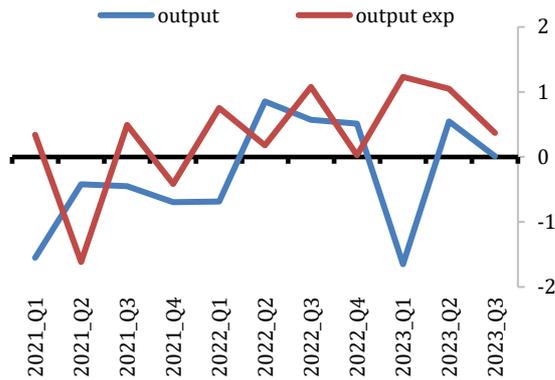
Most respondents are pessimistic about economic performance one year ahead. Despite the success achieved in restructuring the country's external debt and improvement in fiscal management, economic activity is expected to be hampered by rising inflation, exchange rate volatility and the generally elevated cost of doing business.

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

(Net balance, -0.07; Q2 2023, 0.02)

Most respondents, particularly in the manufacturing sector, reported a decline in output in the third quarter and expect the trend to continue in the fourth quarter on account of subdued demand, a weaker Kwacha, and high cost of inputs (Chart 4).

Chart 4: Opinion on Output



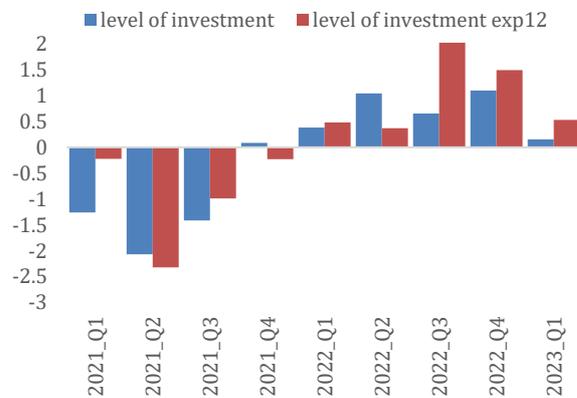
Note: The line at zero (0.0) represents the long-term average
 Source: Bank of Zambia

2.2 How was your firm’s level of investment?

(Net balance, 0.03; Q2 2023, 0.18)

Investment moderated in the third quarter. Subdued demand conditions, reduced profitability, rising input costs, exchange rate depreciation and increased lending rates accounted for the slowdown. These factors are expected to continue undermining investment one year ahead (Chart 5).

Chart 5: Level of Investment



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

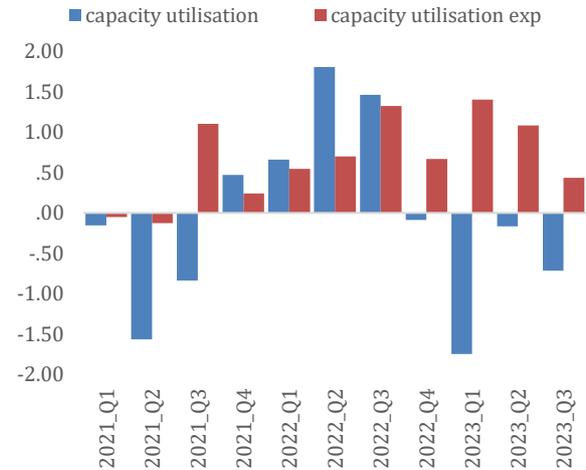
2.3 What has been your firm’s experience with respect to capacity utilisation?

(Net balance, -0.31; Q2 2023, -0.21)

Consistent with the fall in output occasioned by low demand and elevated input costs, capacity utilisation declined and was

expected to remain low in the fourth quarter (Chart 6).

Chart 6: Capacity Utilisation



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

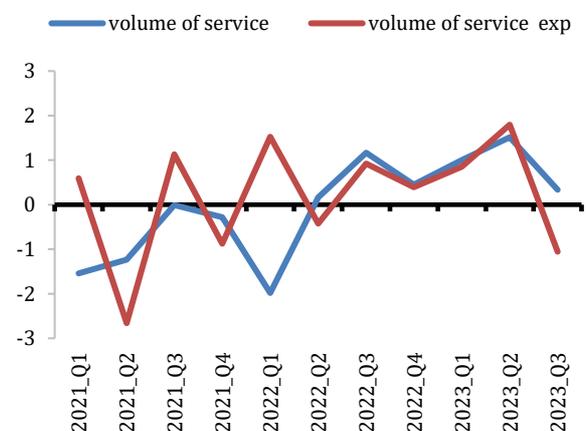
In the construction sector, however, some firms expect capacity utilisation to pick-up as activity increases, driven by further disbursement of Constituency Development Funds.

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

(Net balance, -0.04; Q2 2023, 0.23)

Contrary to expectations, the volume of services decreased during the third quarter as the rise in the cost-of-living suppressed consumer demand (Chart 7).

Chart 7: Volume of Service



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

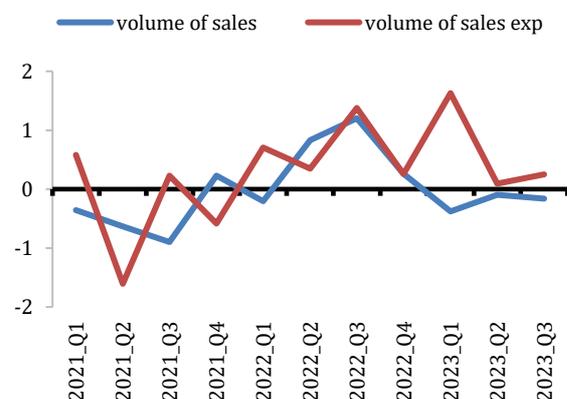
Most firms expect a further decline in the volume of services in the fourth quarter, particularly the tourism sector owing to reduced demand attributed to the off-peak season and industrial break by major clients – Non-Governmental Organisations.

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

(Net balance, -0.35; Q2 2023, -0.33)

In the wholesale and retail trade sector, the volume of sales deteriorated as higher prices and a weak domestic currency dampened demand (Chart 8).

Chart 8: Volume of Sales



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

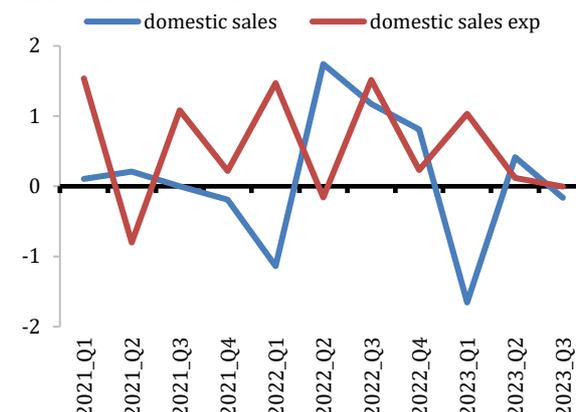
In the fourth quarter, however, firms envisage a slight uptick in volume of sales owing to seasonal festive demand and increased purchases of agricultural inputs.

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

(Net balance, -0.10; Q2 2023, 0.00)

Consistent with the fall in output in both the manufacturing and agriculture sectors, domestic sales moderated (Chart 9).

Chart 9: Domestic Sales



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

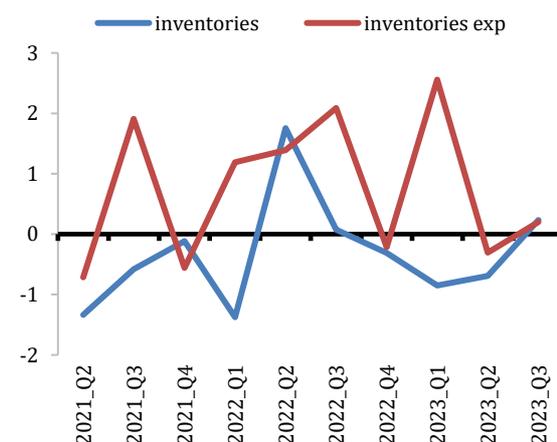
Most firms expect domestic sales to remain weak in line with low output and stifled demand on account of high inflation.

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

(Net balance, -0.07; Q2 2023, -0.15)

The majority of manufacturers and merchants reported an accumulation of inventories in the third quarter owing to waning demand which softened sales and new order growth (Chart 10). Inventories are expected to rise further in the fourth quarter as businesses stockpile to meet rising demand during the festive period.

Chart 10: Level of inventories



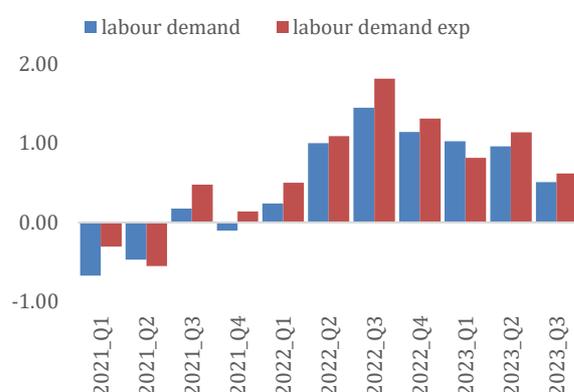
Note: The line at zero (0.0) represents the long-term average
Source: Bank of Zambia

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

(Net balance, 0.00; Q2 2023, 0.08)

Most firms cut down on labour hiring during the third quarter, reflecting subdued business activity amid rising input costs and lower profitability. Some firms also attributed the fall in labour demand to the mechanisation of some production processes (Chart 11). This trend is expected to continue in the fourth quarter.

Chart 11: Labour Demand

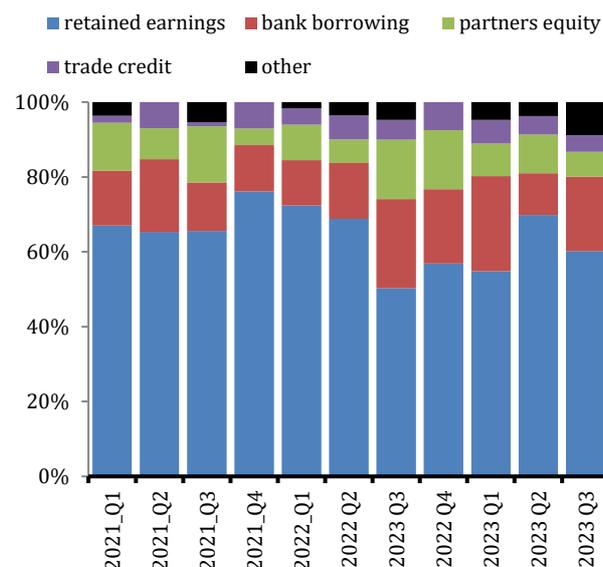


Note: The line at zero (0.0) represents the long-term average
Source: Bank of Zambia

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

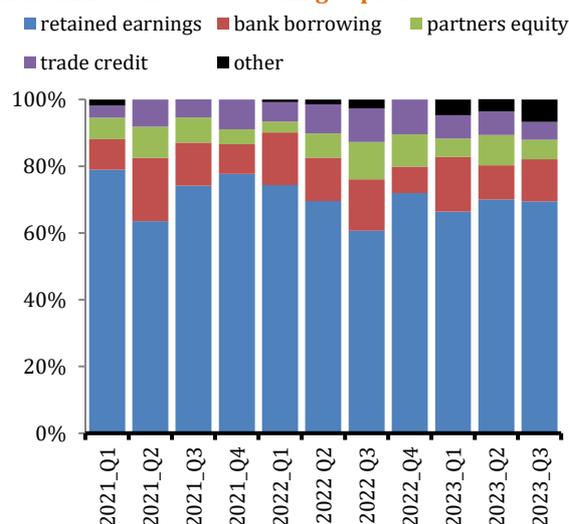
Retained earnings remained the main source of financing for working capital and investment. However, bank borrowing picked up despite the rise in lending rates. Firms borrowed in view of the decline in profitability which consequently eroded retained earnings (Charts 12A and 12B).

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



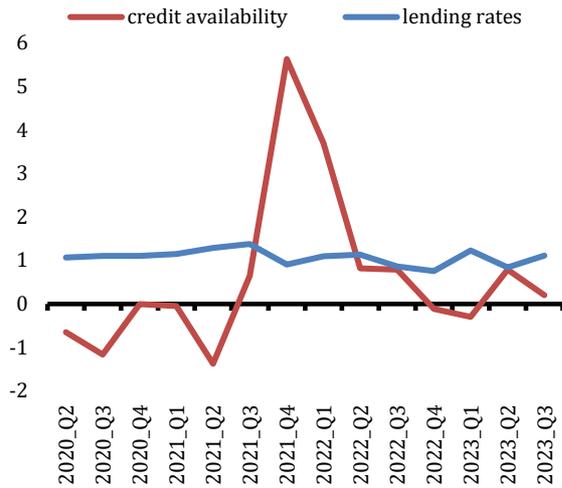
Note: The line at zero (0.0) represents the long-term average
Source: Bank of Zambia

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

*(Credit Availability, -0.58; Q2 2023, -0.50)
(Lending Rates, 0.87; Q2 2023, 0.78)*

Credit conditions tightened further as accessibility was constrained by higher lending rates and stringent collateral requirements. Higher lending rates were largely on account of the adjustment in the Monetary Policy Rate (MPR) to 10.0 percent in August from 9.5 percent in May (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

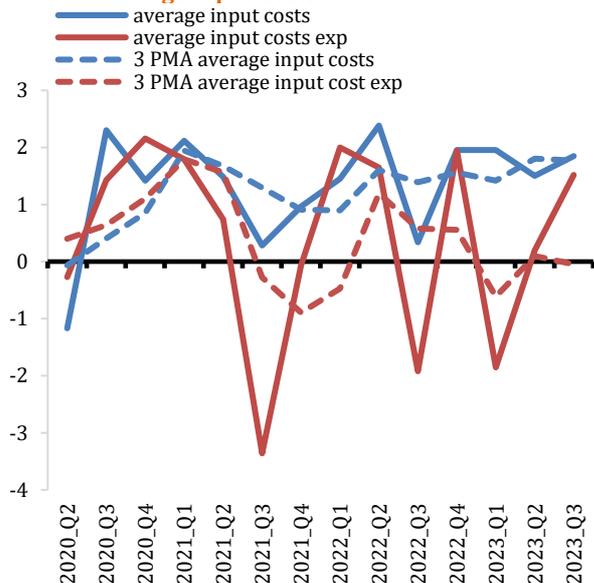
3.0 Evolution of Costs, Wages and Prices

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

(Net balance, 0.64; Q2 2023, 0.60)

Input costs escalated during the third quarter and are expected to rise further in the fourth quarter on account of the depreciation of the Kwacha against the US dollar, increased fuel pump prices, higher maize grain prices and rise in the cost of borrowing (Chart 14).

Chart 14: Average Input Costs



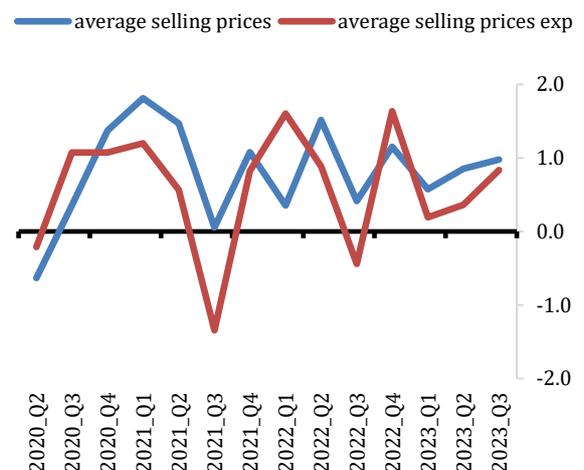
Note: The line at zero (0.0) represents the long-term average. Period Moving Average (PMA) is a 3-month moving average.
Source: Bank of Zambia

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

(Net balance, 0.24; Q2 2023, 0.21)

Despite subdued demand conditions, average selling prices increased, reflecting high fuel pump prices, a weaker Kwacha and rising input costs. In the financial sector, higher inflation and adjustment in the MPR largely influenced the pricing of financial products (Chart 15).

Chart 15: Evolution of Average Selling Prices



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

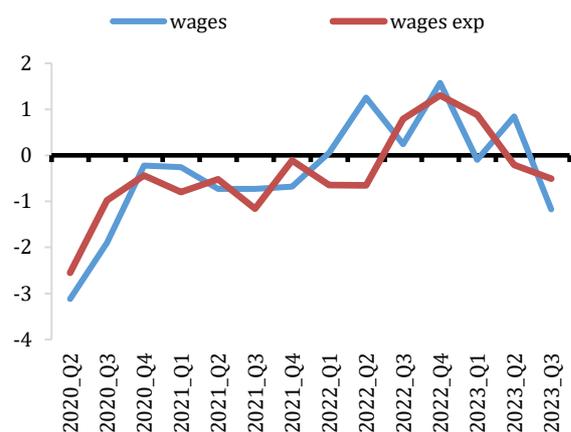
In the fourth quarter, higher fuel and maize grain prices as well as depreciation of the Kwacha are expected to continue driving selling prices.

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

(Net balance 0.05; Q2 2023, 0.21)

The wage bill decreased during the third quarter on account of falling labour demand amid low business activity (Chart 15).

Chart 16: Evolution of Wages



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

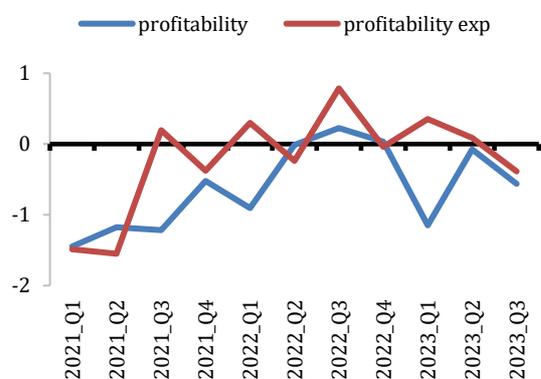
The majority of the respondents expect the wage bill to remain low as cost minimising efforts continue. In the tourism sector, the off-peak period is expected to add to the fall in the wage bill.

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

(Net balance, -0.36; Q2 2023, -0.25)

Most businesses reported a decrease in profitability owing to high input costs, low demand and a weaker Kwacha which led to the rise in foreign exchange losses (Chart 17). In particular, steeper declines in profit margins were reported in the agriculture and services sectors.

Chart 17: Profitability



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

Pressure on profitability from high inputs costs, weak demand and exchange rate depreciation is likely to persist in the fourth

quarter. This is in addition to reduced activity in the tourism sector during the off-peak period.

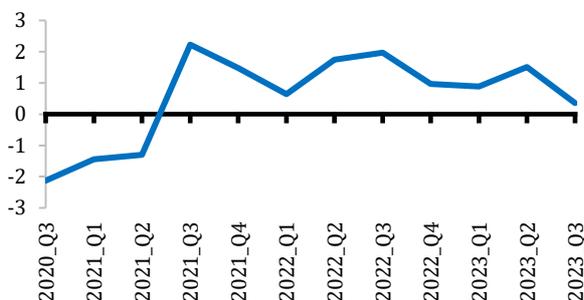
4.0 Macroeconomic Prospects One Year Ahead

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

(Net balance, 0.31; Q2 2023, 0.67)

The economic outlook 12 months ahead is largely pessimistic as productivity may be hampered by the further rise in inflation, exchange rate volatility, high cost-of-doing business and El Niño weather effects (Chart 18). Nonetheless, the successful restructuring of external debt, improved fiscal management, resolution of challenges at Mopani and Konkola Copper Mines as well as increased Constituency Development Funds disbursements may spur economic activity.

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

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

(Net balance, 0.81; Q2 2023, 0.40)

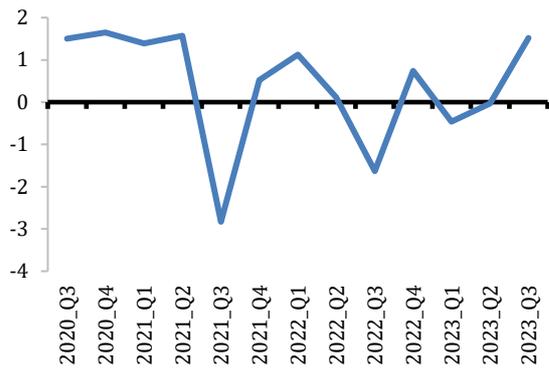
Inflationary pressures are expected to persist in the fourth quarter on account of a weaker Kwacha, increased maize grain prices, and potential rise in prices of meat products due to the outbreak of anthrax (Charts 19 and 20; Table 3). As a result, inflation is expected to average 12.4 percent.

Table 3: Expected Inflation Rate at the end of the Next Quarter (Q4 2023)

Range	Frequency	Percent
1-5	2	1
6-10	43	24
11-15	111	63
16-20	12	7
21-25	8	5
Total	176	100

Source: Bank of Zambia

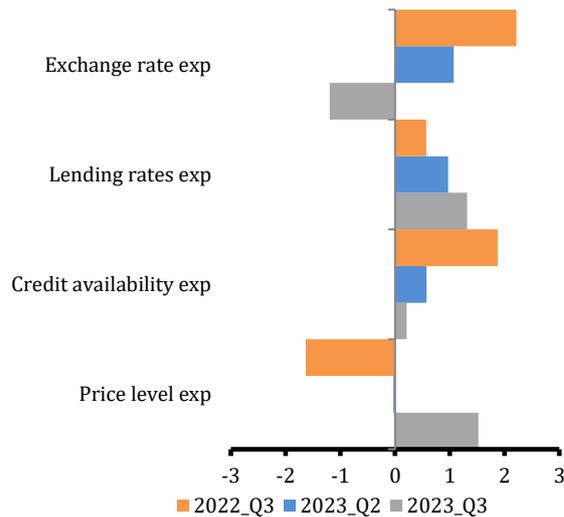
Chart 19: Inflationary Expectations Next Quarter



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 (-)

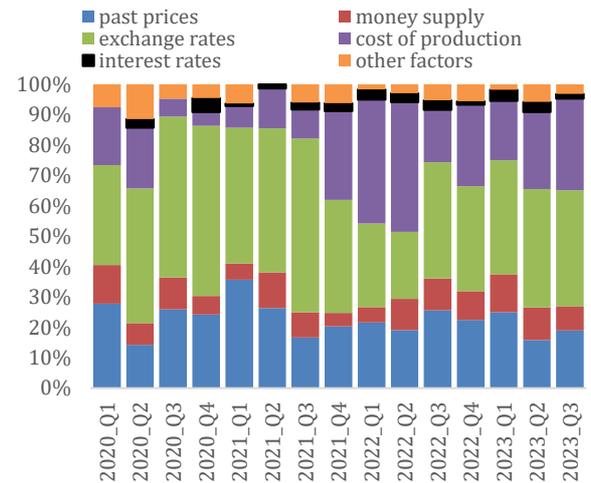
Note: The line at zero (0.0) represents the long-term average

Source: Bank of Zambia

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

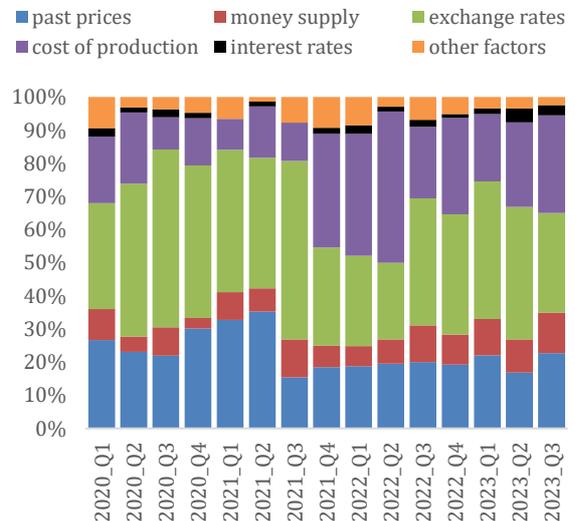
Exchange rate depreciation and high production costs are expected to drive inflationary pressures in the fourth quarter and 12 months ahead (Charts 21A and 21B).

Chart 21A: Key Drivers of Inflationary Expectations Next Quarter



Source: Bank of Zambia

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



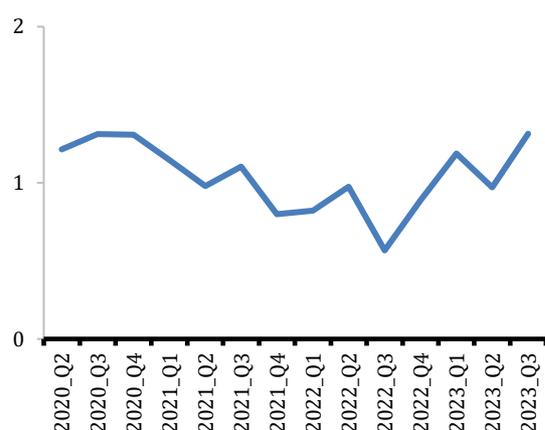
Source: Bank of Zambia

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

(Net balance, 0.80; Q2 2023, 0.68)

Lending rates are likely to continue rising as most respondents anticipate a further upward adjustment in the Monetary Policy Rate by the Central Bank to contain inflation (Charts 20 and 22).

Chart 22: Interest rate expectations next quarter



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

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

(Net balance, - 0.62; Q2 2023, 0.16)

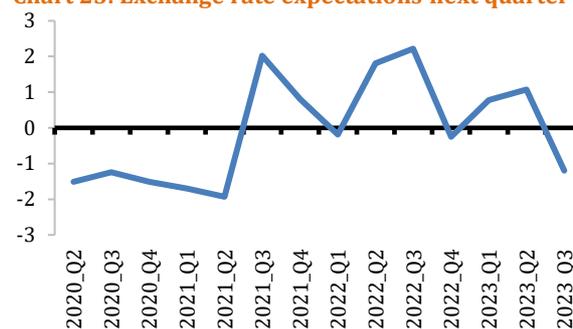
A weaker Kwacha is expected in the fourth quarter on account of higher demand for the US dollar due to the festive period and procurement of fuel (Charts 20 and 23; Table 4). Consequently, most firms expect the Kwacha to average K22.00 per US dollar.

Table 4: Expected Exchange Rate at the end of the Next Quarter (Q4 2023)

Range	Frequency	Percent
1-5	0	0
6-10	0	0
11-15	3	2
16-20	30	17
21-25	141	81
Total	174	100

Source: Bank of Zambia

Chart 23: Exchange rate expectations next quarter



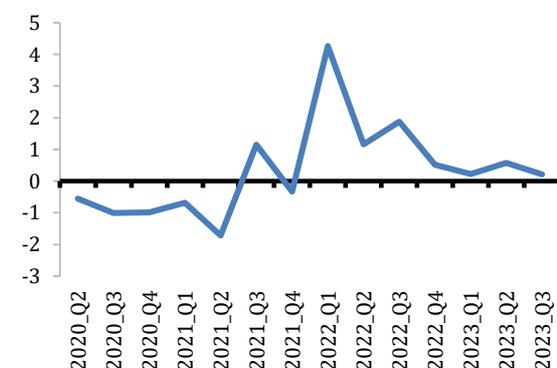
Note: The line at zero (0.0) represents the long-term average
Source: Bank of Zambia

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

(Net balance, -0.54; Q2 2023, -0.51)

Respondents expect high lending rates to remain a major deterrent to credit accessibility in the fourth quarter. On the supply side, increased credit risk in view of rising inflation may constrain extension of credit (Charts 20 and 24).

Chart 24: Credit availability expectations next quarter²



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

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

5.0 Conclusion

Economic activity weakened in the third quarter of 2023. Soft demand conditions, exchange rate depreciation and intense cost pressures largely accounted for the slowdown. Consequently, output, new orders, capacity utilisation, domestic sales, volume of sales, volume of service, profitability and labour demand fell.

Expectations of lackluster economic performance in the fourth quarter and a year ahead dominated. Although the Government successfully secured an external debt restructuring agreement, most respondents expect exchange rate volatility, high input costs, sluggish demand and mounting price pressures to weigh on business activity. Nonetheless, improved fiscal management, resolution of challenges at Mopani and Konkola Copper Mines as well as increased Constituency Development Funds disbursements may improve 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, 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).