

Quarterly Survey of Business Opinions and Expectations

Second Quarter 2022



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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 rebounded in the second quarter of 2022 consistent with expectations. The onset of the agricultural marketing and peak tourism season underpinned the pick-up in business activity. Nonetheless, the expansion in economic activity was constrained by the cost of doing business. In the third quarter, economic activity is expected to weaken as demand decreases after the end of the agricultural marketing season. Firms remain highly optimistic about economic activity 12 month ahead influenced by the likelihood of accessing an IMF Extended Credit Facility (ECF), successful debt restructuring, fiscal consolidation, low inflation, improved foreign investment inflows and further traction in COVID-19 vaccination.

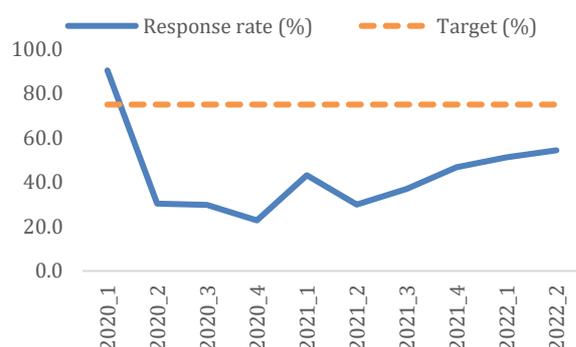
1.0 Introduction

The Bank of Zambia Quarterly Survey of Business Opinions 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, therefore, presents views of firms regarding macroeconomic developments in the second quarter and expectations for the third quarter and 12 months ahead.

A total of 142 responses were received out of the 261 questionnaires administered. This represents a response rate of 54.4 percent, slightly above the 51.2 percent achieved in the first quarter (Chart 1).

Chart 1: Response Rate (%): 2020Q1-2022Q2



Source: Bank of Zambia

Lusaka Province recorded the highest number of responses while Muchinga Province recorded the lowest (Table 1).

Table 1: Distribution of Responses by Province

Province	Frequency	Percent
Lusaka	28	19.7
Copperbelt	21	14.8
Southern	21	14.8
Central	16	11.3
Luapula	16	11.3
Northern	11	7.7
Northwestern	10	7.0
Eastern	10	7.0
Muchinga	9	6.3
Total	142	100.0

Source: Bank of Zambia

The tourism sector had the highest response rate (39.4 percent) while the construction sector was the least with 2.8 percent (Table 2).

Table 2: Distribution of Responses by Sector

Sector	Frequency	Percent
Manufacturing	36	25.4
Merchant	19	13.4
Service	12	8.5
Tourism	56	39.4
Construction	4	2.8
Agriculture	15	10.6
Total	142	100.0

Source: Bank of Zambia

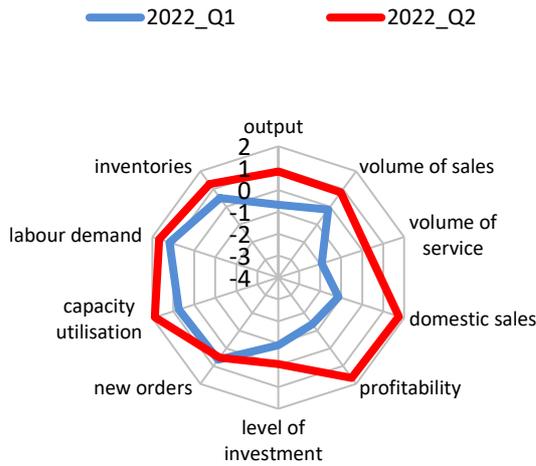
The rest of the Report is organised as follows: Section 2 presents opinions of firms about economic performance during the second quarter of 2022 as well as expectations for the third quarter and one year ahead. Section 3 provides opinions on input costs, wages and prices. Section 4 presents macroeconomic prospects one year ahead. Section 5 concludes. A description of the survey methodology is provided in the appendix.

2.0 Current Economic Performance and Expectations

... economic performance strengthened in the second quarter

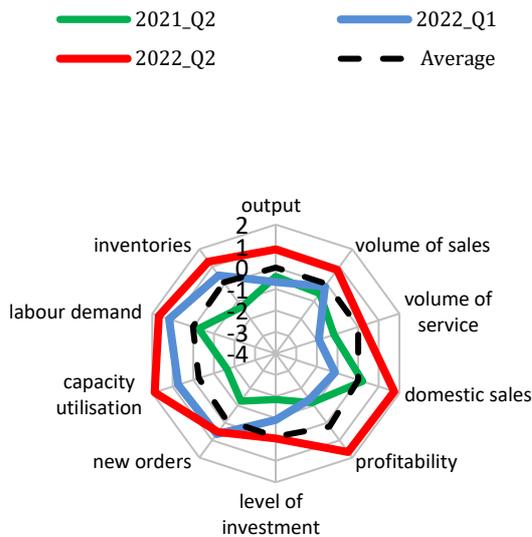
In line with expectations, economic activity rebounded in the second quarter as business activity improved on the back of seasonal agricultural marketing and peak in tourism activity as well as relative stability in the Kwacha exchange rate (Chart 2A and 2B). Nonetheless, firms reported that the high cost of doing business, particularly increases in fuel pump prices, weighed on the recovery.

Chart 2A: Business Opinion Response Patterns*



Source: Bank of Zambia

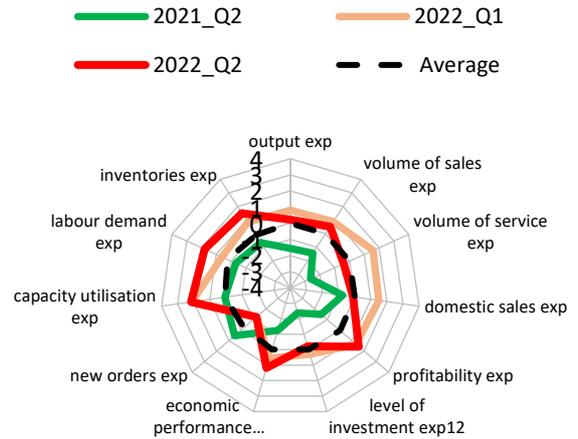
Chart 2B: Business Opinion Response Patterns*



Source: Bank of Zambia

However, sluggish economic activity is expected in the third quarter on the back of moderation in output, new orders, volume of service, volume of sales and domestic sales leading to the accumulation of inventories (Chart 3). This is largely tied to the moderation in agricultural marketing activity following the peak period. Nonetheless, a further pick-up in tourism activity is expected to sustain profitability and demand for labour.

Chart 3: Business Expectations Response Patterns



Source: Bank of Zambia

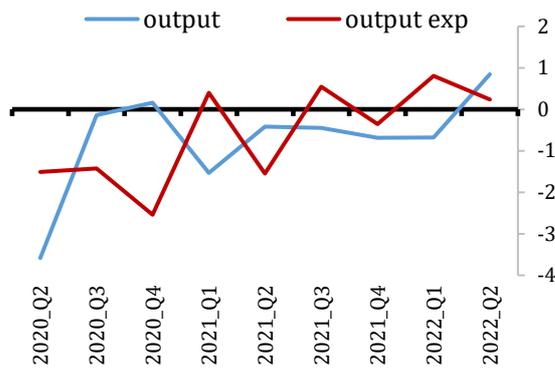
Firms remain optimistic about economic performance one year ahead mainly underpinned by the imminent IMF Extended Credit Facility (ECF), successful debt restructuring, as well as improved fiscal management and foreign investment inflows. Improvement in COVID-19 vaccination and lower inflation are likely to support growth.

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

(Net balance, 0.07; Q1 2022 -0.19)

Output is reported to have expanded further in the second quarter and exceeded the long-term average for the first time in five quarters on the back of the crop harvesting season (Chart 4).

Chart 4: Opinion on Output



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

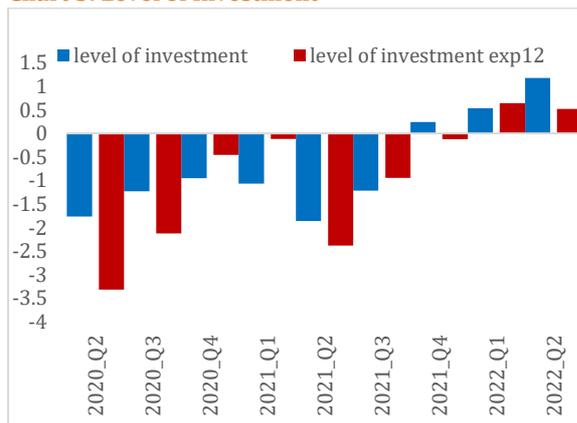
However, output is expected to decline in the third quarter on account of the rise in production costs, particularly in the manufacturing sector, due to the recent increase in fuel pump prices and the impact of the ongoing Russia- Ukraine conflict.

2.2 How was your firm's level of investment?

(Net balance, 0.14; Q1 2022 0.04)

Most firms reported additional investment in comparison to the previous quarter, buttressed by continued optimism about the economic outlook and sound macroeconomic policies by the new Government (Chart 5).

Chart 5: Level of Investment



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

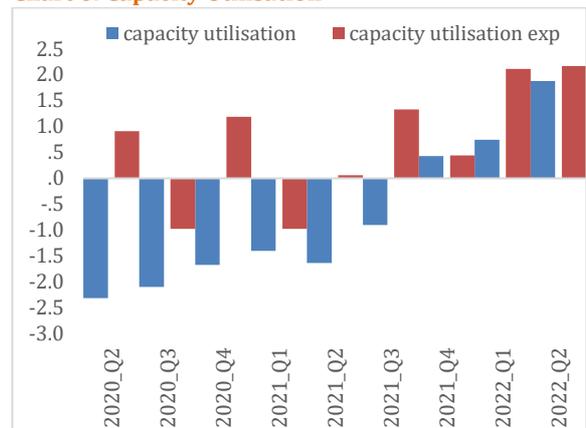
The outlook for investment over the next 12 months remains positive. Higher prospects of successfully concluding an IMF ECF negotiations continue to spur investment.

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

(Net balance, 0.15; Q1 2022 -0.06)

Capacity utilisation continued to improve in the second quarter and remained above the long-term average, explained by increased demand and availability of raw materials from the agriculture sector (Chart 6). This trend is expected to continue in the third quarter.

Chart 6: Capacity Utilisation



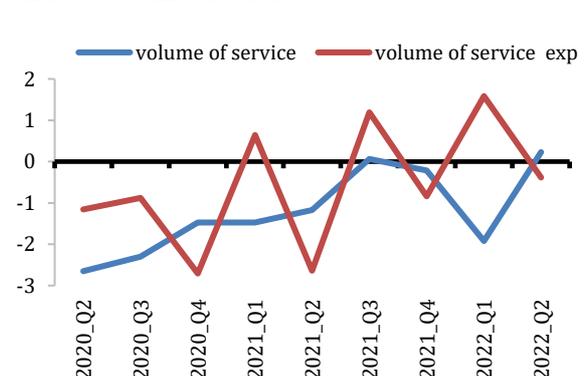
Note: The line at zero (0.0) represents the long-term average
 Source: Bank of Zambia

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

(Net balance, -0.09; Q1 2022, -0.59)

In line with expectations, the volume of service improved in the second quarter, slightly exceeding the long-term average, attributed to increased demand during the peak tourism season (Chart 7).

Chart 7: Volume of Service



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

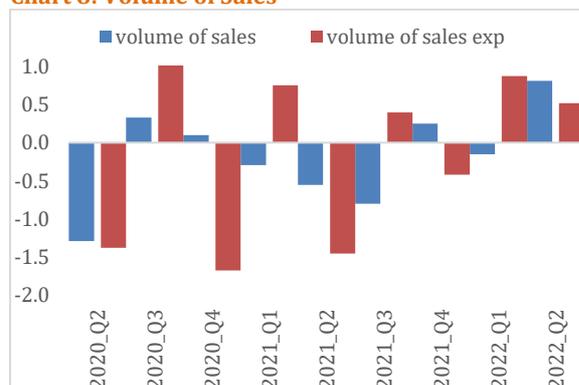
Nonetheless, the overall volume of service is expected to decline in the third quarter on account of high fuel pump prices and tight liquidity conditions.

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

(Net balance, -0.04; Q1 2022, -0.36)

In line with expectations, the volume of sales expanded in the second quarter and surpassed the long-term average (Chart 8). This was attributed to increased demand during the agricultural marketing season.

Chart 8: Volume of Sales



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

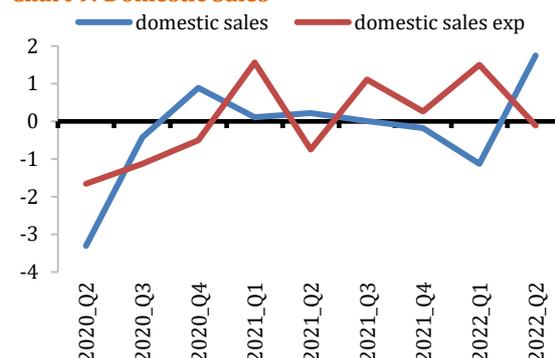
The volume of sales is expected to decline in the third quarter but still remain above the long-term average. The envisaged slump in sales is attributed to moderate demand as the agricultural marketing season comes to a close.

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

(Net balance, -0.24; Q1 2022, -0.28)

Domestic sales rallied in the second quarter on the back of high consumer demand during the agricultural marketing season (Chart 9). However, domestic sales are expected to decrease in the third quarter owing to reduced agricultural marketing activity.

Chart 9: Domestic Sales



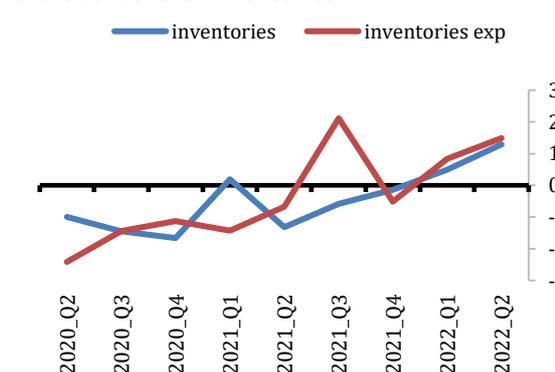
Note: The line at zero (0.0) represents the long-term average
 Source: Bank of Zambia

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

(Net balance, 0.15; Q1 2022, -0.24)

Inventories, particularly in the manufacturing sector, continued to rise due to increased stockpiling in view of the potential rise in prices of raw materials on account of expected increase in energy costs (Chart 10). Inventories are expected to accumulate further in the third quarter based on waning consumer demand as the agricultural marketing period winds down.

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, - 0.03; Q1 2022, 0.09)

In line with expectations, labour demand increased further in the second quarter underpinned by crop harvesting and peak tourism season (Chart 11).

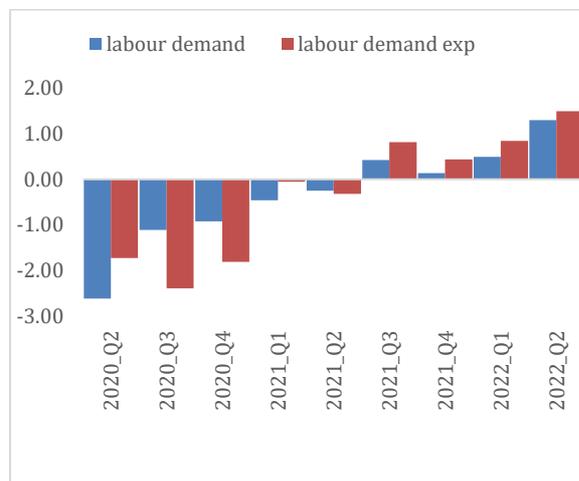


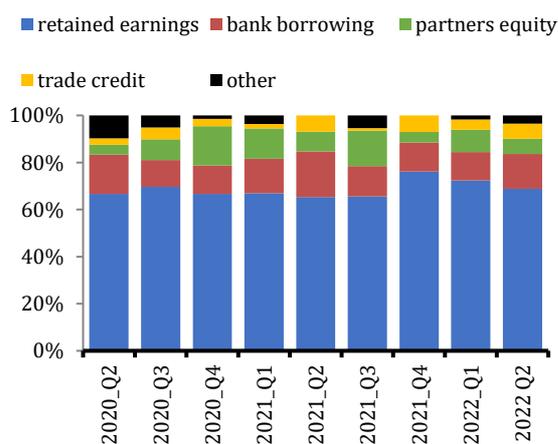
Chart 11: Labour Demand

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 investment finance and working capital?

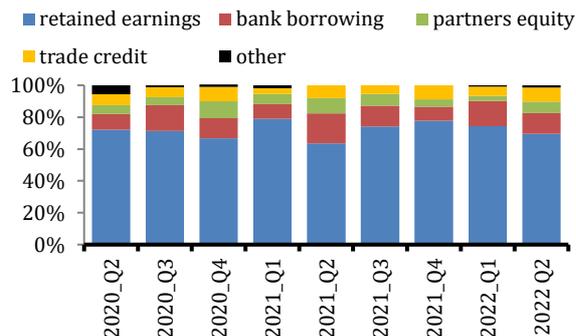
Retained earnings remained the primary source of investment finance and working capital in the second quarter (Charts 12A and 12B).

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



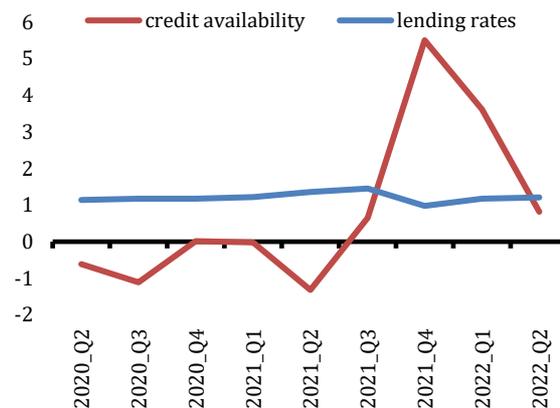
Note: The line at zero (0.0) represents the long-term average
Source: Bank of Zambia

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

(Net balance, -0.50; Q1 2022, -0.07)

Most firms continued to report tight credit conditions in the second quarter due to high lending rates and elevated credit risk—high non-performing loans—(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

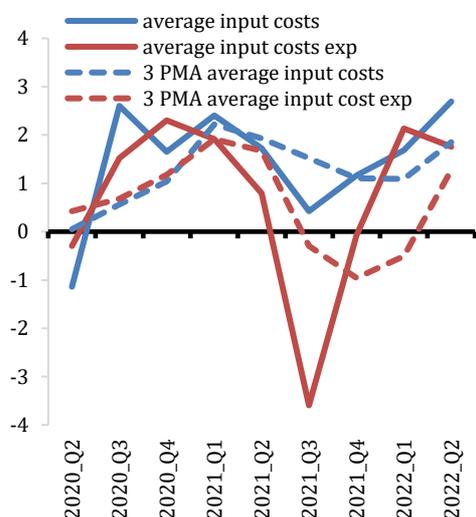
3.1 What has been your firm's experience with average input costs?

(Net balance, 0.74; Q1 2022, 0.59)

High average input costs persisted in the second quarter (Chart 14). The increase in fuel pump prices on account of the partial removal of subsidies on petroleum products coupled with the rise in global oil prices owing

to the Russia-Ukraine conflict escalated input costs. This trend is expected to continue over the next quarter.

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

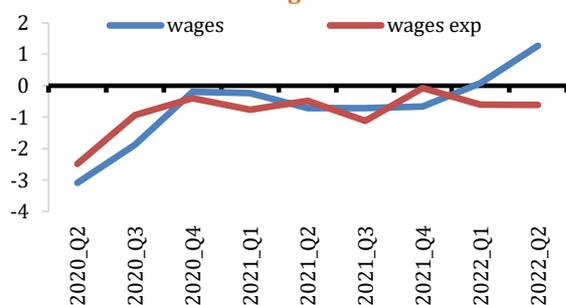
Source: Bank of Zambia

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

(Net balance 0.24; Q1 2022, 0.15)

Most business firms reported a rise in the wage bill in the second quarter as more workers were hired during the crop harvesting period and the peak in tourism activities (Chart 15). However, the wage bill is expected to moderate in the third quarter as the crop harvesting ends.

Chart 15: Evolution of Wages



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

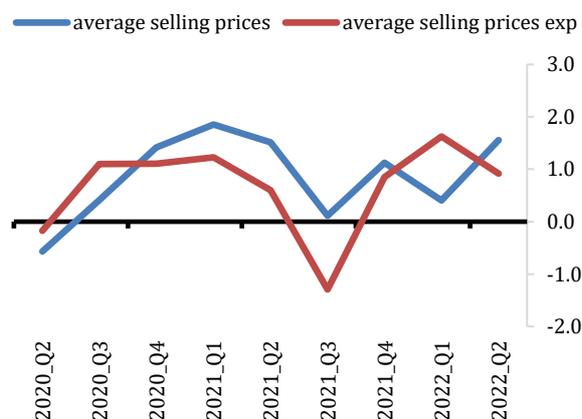
Source: Bank of Zambia

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

(Net balance, 0.11; Q1 2022, 0.25)

Average selling prices rose in the second quarter on account of higher consumer demand. In addition, high costs of production owing to the rise in fuel pump prices necessitated the increase in selling prices (Chart 16). However, selling prices are expected to decline in the third quarter as demand wanes, especially in the wholesale and retail sector, after the close of the agricultural marketing season.

Chart 16: Evolution of Average Selling Prices



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

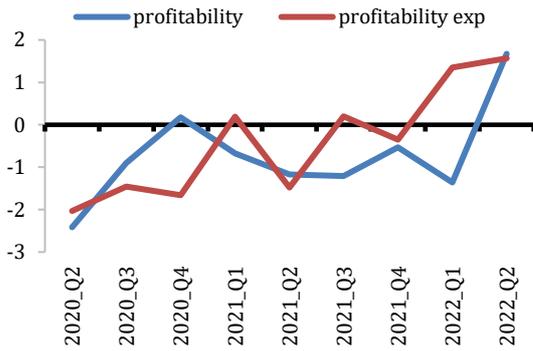
Source: Bank of Zambia

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

(Net balance, -0.44; Q1 2022, -0.35)

Consistent with the rise in the volume of service, domestic sales, volume of sales and average selling prices, profitability increased in the second quarter (Chart 17). This trend is likely to be sustained in the third quarter on favourable business activity in the tourism sector.

Chart 17: Profitability



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

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, 0.44; Q1 2022, 0.70)

Respondents expect inflationary pressures to dissipate in the third quarter following the declining trend in inflation in the recent past coupled with the expected strengthening of the Kwacha exchange rate (Charts 19 and 20). Consequently, the majority of the firms expect inflation to range between 6 and 10 percent (Table 3). Nonetheless, the adverse effects of the Russia-Ukraine conflict on fuel pump prices could stir up price pressures.

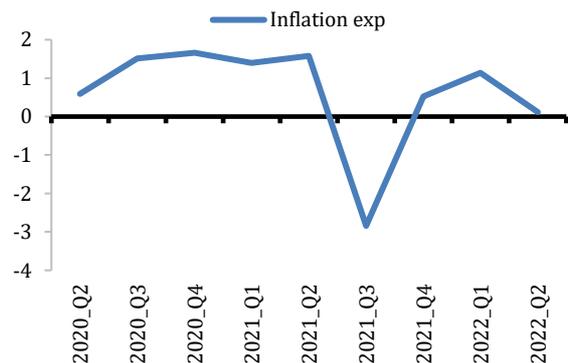
4.0 Macroeconomic Prospects One Year Ahead

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

(Net balance, 0.74; Q1 2022, 0.39)

Prospects for economic growth one year ahead remain positive on account of the expected IMF ECF, successful debt restructuring, fiscal consolidation, improved foreign investment inflows and as COVID-19 vaccination gains momentum (Chart 18). Nonetheless, key downside risks to the growth outlook include the persistence of the Russia-Ukraine conflict, possible resurgence of new COVID-19 infections, higher cost of doing business associated with increases in fuel pump prices, and impending increase in electricity tariffs following the completion of the cost-of-service study.

Chart 19: Inflationary Expectations Next Quarter



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

Chart 18: Economic Performance in the Next 12 Months

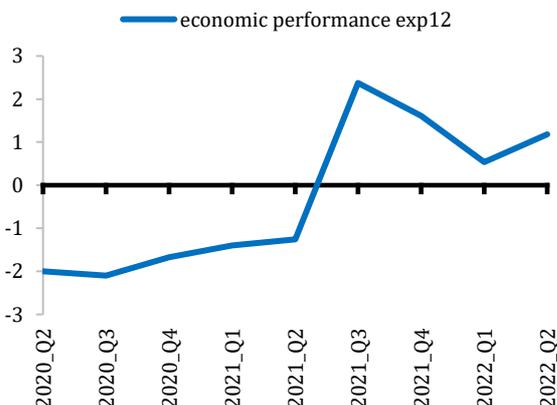
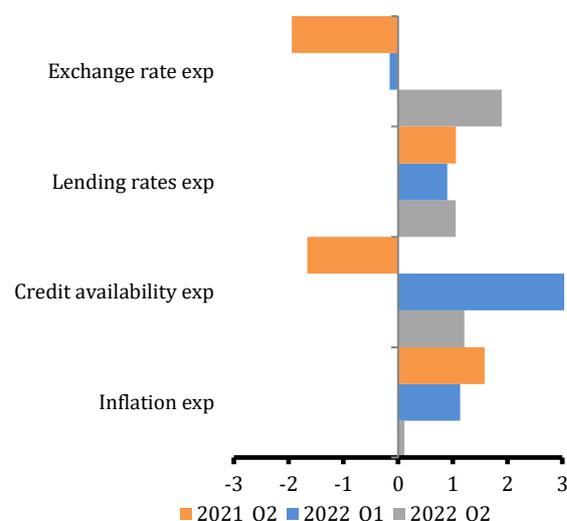


Chart 20: Inflation, Exchange Rates and Lending Rates Expectations



Notes:

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

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

Source: Bank of Zambia

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

Inflation Rate

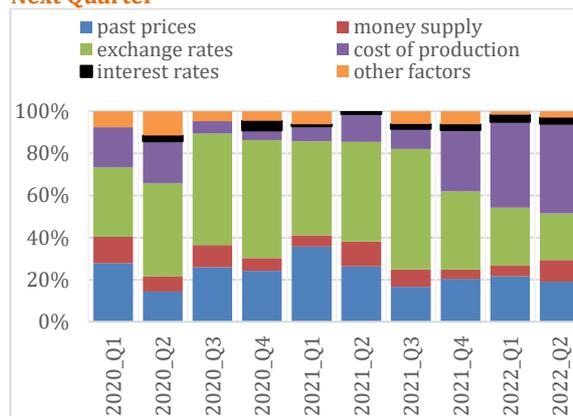
Range	Frequency	Percent
1-5	14	9.9
6-10	53	37.3
11-15	30	21.1
16-20	11	7.7
31-35	1	0.7
Non-Responses	33	23.2
Total	142	100.0

Source: Bank of Zambia

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

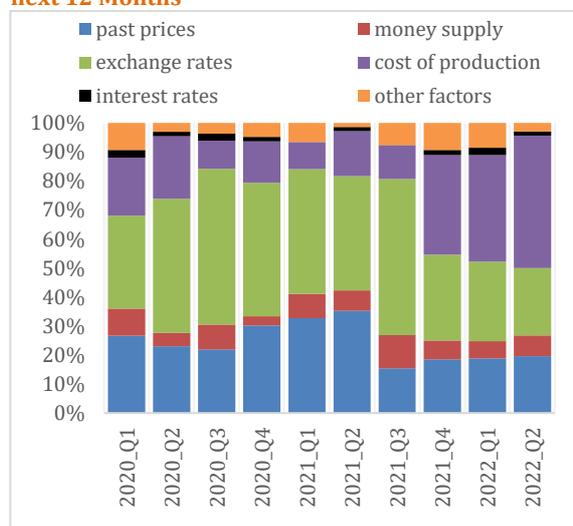
Past prices and a strong Kwacha exchange rate mainly underpin inflation expectations (Charts 21A and 21B).

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

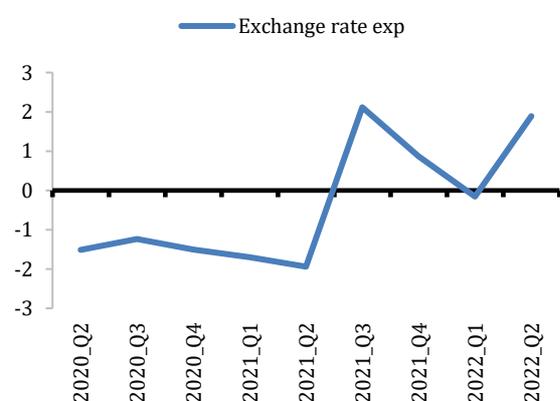
(Net balance, 0.41 Q1 2022, -0.27)

The Kwacha/US dollar exchange rate is expected to appreciate in the third quarter due to the anticipated approval of the IMF ECF and improved fiscal management (Charts 20 and 22, and Table 4). Nonetheless, the adverse impact of the Russia-Ukraine conflict on crude oil and food prices as well as possible capital outflows associated with interest rate hikes by major central banks may weaken the exchange rate.

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

Exchange Rate Range	Frequency	Percent
1-5	6	4.2
6-10	4	2.8
11-15	38	26.8
16-20	78	54.9
21-25	2	1.4
Non-Responses	14	9.9
Total	142	100.0

Chart 22: Exchange rate expectations next quarter



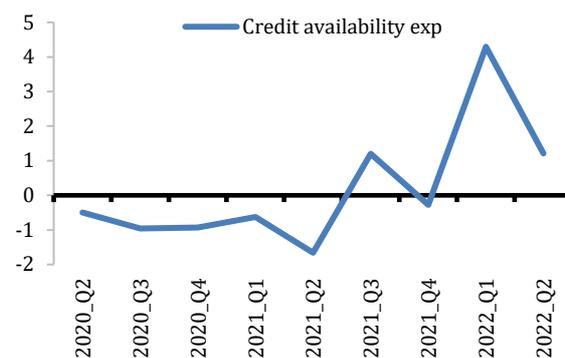
Note: The line at zero (0.0) represents the long-term average
Source: Bank of Zambia

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

(Net balance, -0.44; Q1 2022, -0.09)

Credit availability is expected to remain tight in the third quarter on account of high credit risk associated with the lingering effects of COVID-19 and elevated lending rates in view of Government’s continued dominance in the domestic debt market (Charts 20 and 23).

Chart 23: Credit availability expectations next quarter¹



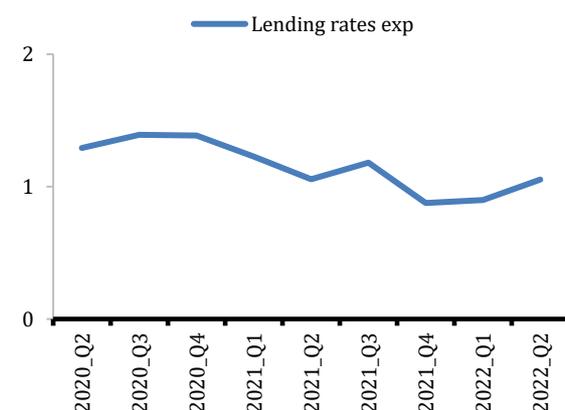
Note: The line at zero (0.0) represents the long-term average
Source: Bank of Zambia

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

(Net balance, 0.68; Q1 2022, 0.63)

Lending rates are expected to rise further in the third quarter on account of tight liquidity conditions (Charts 20 and 24).

Chart 24: Interest rate expectations next quarter



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

5.0 Conclusion

Economic activity recovered in the second quarter in line with expectations. The improvement in business activity was due to the onset of the agricultural marketing and peak in tourism activities. A relatively stable exchange rate also supported the pick-up in economic activity. However, the upturn in economic activity was moderated by the high cost of fuel owing to the effects of the Russia-Ukraine conflict.

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

For the third quarter, economic agents expect business activity to slowdown as the agricultural marketing season comes to close. This notwithstanding, an uptick in tourism activity will support profits and labour demand.

A positive economic performance is envisaged over the next 12 months as prospects of securing an IMF Extended Credit Facility heighten. Further, a moderation in inflationary pressures, improved fiscal management, positive debt resolution and increased foreign investor confidence are expected to support growth.

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).

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.