

Fourth Quarter 2017

CONFEDERATION
OF ZIMBABWE
INDUSTRIES
BUSINESS
CONFIDENCE
INDEX



CZI
CONFEDERATION OF
ZIMBABWE INDUSTRIES

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THE CONFEDERATION OF ZIMBABWE INDUSTRIES (CZI) BUSINESS CONFIDENCE INDEX

Since 2015, CZI has assessed business conditions in the manufacturing sector on quarterly basis. The quarterly survey aims to ascertain, at a given moment, the views of those in charge of manufacturing enterprises regarding their situation and expectation. It collects opinions from manufacturing establishment Managers regarding the performance of their business activities between the reference quarter and the previous quarter, both quarter-on-quarter and year-on year (quarterly basis) changes, as well as the same for their expectations in the next quarter. From this quarterly CZI survey that complements the CZI manufacturing survey as a monitoring tool, a system of qualitative short-term indicators and composite indexes as a business barometer, such as the business confidence index (BCI) and Purchasing Managers' index (PMI), are constructed. Other important statistics within the manufacturing sector such as capacity utilization, raw materials supply and exports are also tracked.

Business Confidence is indicative for the appetite of business decisions that relate to increasing economic activity in the business sector. For business people, having access to the full view of business conditions helps to validate their own perceptions and views about the business environment against the prevailing conditions as indicated by this index. For policy makers, the information gives an indication on policy performance, areas requiring policy interventions and the relevance and timeliness of any impending policy. The information obtained from business condition surveys is crucial for business people and policy makers operating in developing economies like Zimbabwe to anticipate, position for and act on growth phases, booms and slow downs.

The main objectives of the 2017 fourth quarter business condition survey were to:

- Assess manufacturing enterprises regarding their situation and expectation in reference to the 2017 fourth quarter;
- Compute 2017 fourth quarter composite indexes (BCI and PMI) as barometers for manufacturing performance;
- Assess and construct the composite indexes in terms of enterprise location, size, sector;
- Generate and construct a regular and dependable data base on business condition that can be useful in time series and panel analysis; and
- Point to the imperative areas requiring intervention to shift business conditions and business confidence

BCI measures the amount of optimism or pessimism that business managers feel about the prospects of their companies or organizations. Businesses were asked to provide their opinions with regards to the performance of their business activities, manufacturing sector and the economy compared to the previous quarter (quarter on quarter situation) and previous year (year of year situation). In addition, they were asked to provide their opinions regarding the expected future performance of their business activities, manufacturing sector and the economy compared the current quarter (quarter on quarter and year on year expectation).

The BCI fluctuates between -100 and 100. A positive value of BCI indicates business optimism and a negative value indicates pessimism and a value of zero neutrality.

The PMI fluctuates between 0 and 100. A PMI of 50 means that the variable is unchanged, a number over 50 indicates an improvement, while below 50 suggests a decline and if it is less than 42, anticipates a downturn in the national economy.

SUMMARY OF RESULTS

The composite Business Confidence Index for fourth quarter of 2017 stood at 5.8 for quarter on quarter and 22.9 for year on year. This indicates improved confidence and optimism of business leaders regarding the economy. The results are a notable improvement from Business Confidence Index for the third quarter of 2017 which stood at -29.6 for quarter-on-quarter and -9.9 for year-on-year. As stated earlier, a positive BCI depicts confidence and the further the result is from zero on the positive, the more confident industry is.

The Situation Diffusion Index (SDI) remains negative for both quarter on quarter and year on year comparison, indicating that respondents feel that the current situation is worse off compared to the previous quarter and also compared to same quarter of 2016.

The Expectation Diffusion Index (EDI) was 21 for quarter-on-quarter and 56.9 year-on-year. The EDI results indicate that business managers are optimistic of the first quarter of 2018 as well as the fourth quarter of 2018. A comparison of third quarter 2017 results and fourth quarter 2017 results is provided below.

Summary BCI Results				
	<i>Quarter on Quarter</i>		<i>Year on Year</i>	
	<i>3rd Quarter</i>	<i>4th Quarter</i>	<i>3rd Quarter</i>	<i>4th Quarter</i>
BCI	-29.6	5.8	-9.9	22.9
Situation Diffusion Index (SDI)	-37.5	-8.3	-45.5	-6.7
Expectation Diffusion Index (EDI)	-21.4	21	34.4	56.9

The results are also analysed for each of the 5 BCI components using the stratification variables sector, size and region. The results are provided in the graphs below. The graphs on the components of the BCI show the Situational Diffusion Index, Expectation Diffusion Index and the BCI. In terms of the situation, the situation at firm level, investment and profitability have improved on both quarter on quarter and year on year. While the general economic situation has deteriorated on a

quarter on quarter and year on year basis. All variables are expected to improve at both quarter on quarter and year on year basis.

From the Purchasing Managers Index (PMI) analysis, both quarter on quarter and year on year results are above 50 indicating that the situation has improved relative to third quarter 2017 Page 2 of 10 (55.1) as well as fourth quarter 2016 (57.2). As is the case with the BCI, the results are an improvement

compared to third quarter 2017 findings. From the PMI findings, volume of production, employment and order books have increased on both quarter on quarter and year on year, while stock levels and speed of supplier deliveries have declined. The results are shown as weighted and adjusted indices. For interpretation purposes, the magic number for the indices is 50; a PMI over 50 means that manufacturing is growing and expanding and a figure under 50 means that

manufacturing is declining. The further away from 50.0 the index is, the stronger the change over the quarter.

Capacity utilization, and exports are also tracked and results show that both these variables have improved at both quarter on quarter and year on year. Raw material supply has deteriorated on both quarter on quarter and year on year.

KEY CONCLUSIONS

The new dispensation coupled with His Excellency, President Emmerson Mnangagwa's inauguration speech as well as the National Budget presented by Minister of Finance Honourable Chinamasa has boosted confidence.

While expectations are high, the overall situation remains difficult for industry. Investment, production, employment and order books have increased signalling increased activity in the manufacturing sector.

To maintain confidence and improve the situation in industry, implementation of the stated policies and strategies should commence immediately. Further delay will result in reduced confidence in the coming period.

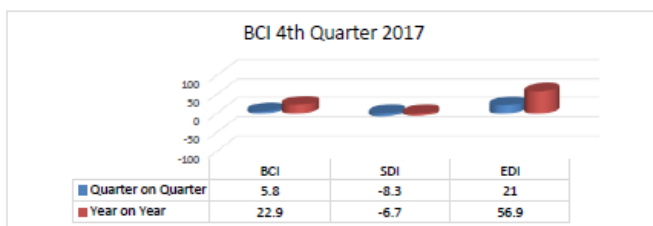
The situation on raw material supply and speed of supplier deliveries is deteriorating. This is largely due to foreign currency shortages and CZI has in different submissions proposed an importer financed export incentive scheme to ease the foreign currency shortages. The Enhancing the Nostro Stabilisation facilities by \$400m as recently announced in the monetary policy statement by the Governor, Dr JP Mangudya will not be sufficient to meet the foreign currency requirements of the productive sector.

NB: For the analysis by sector, 15=Food & Beverages; 17-18=Clothing & Textiles and Others=Remaining Sub-Sectors

The BCI fluctuates between -100 and 100. A positive value of BCI indicates business optimism and a negative value indicates pessimism and a value of zero neutrality.

A PMI of 50 means that the variable is unchanged, a number over 50 indicates an improvement, while below 50 suggests a decline and if it is less than 42, anticipates a downturn in the national economy.

Overall Business Confidence Index (BCI)

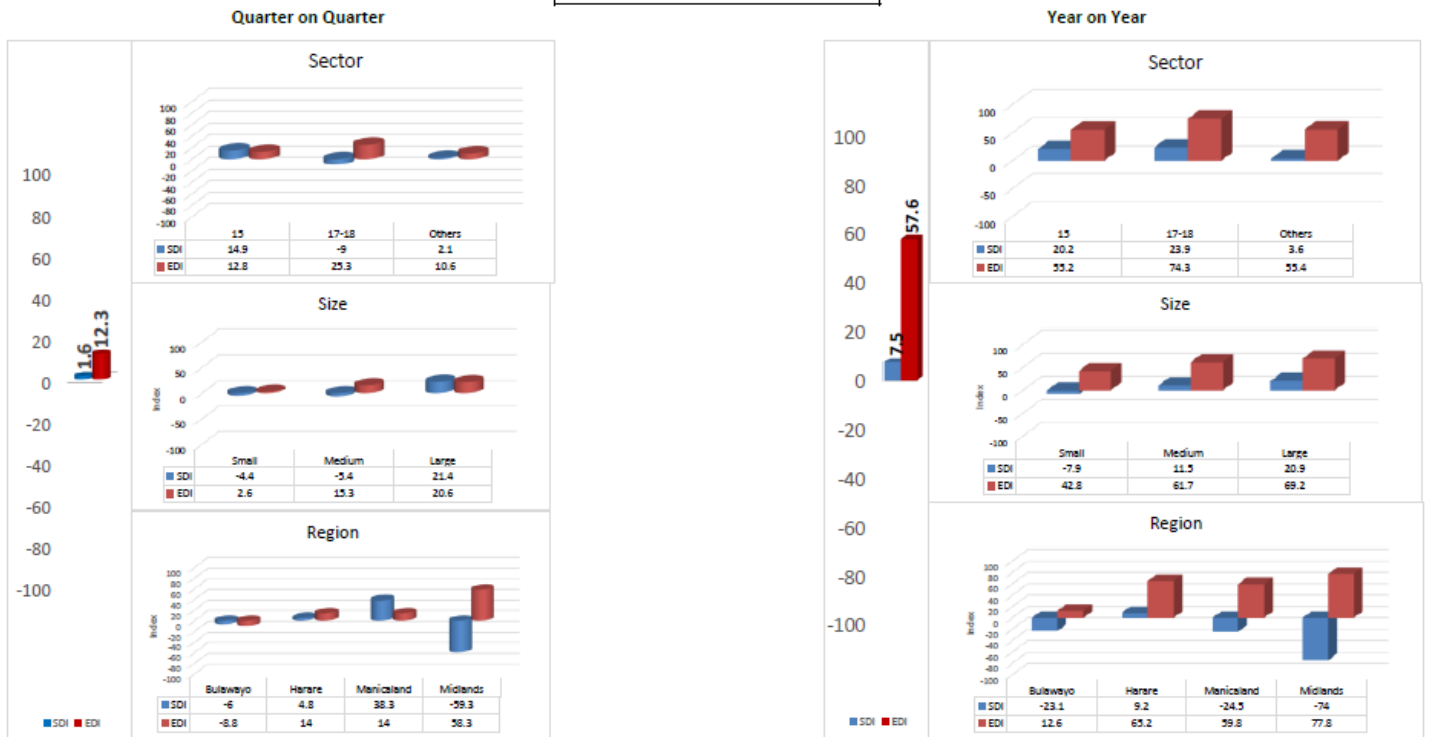


Overall Purchasing Managers Index (PMI)

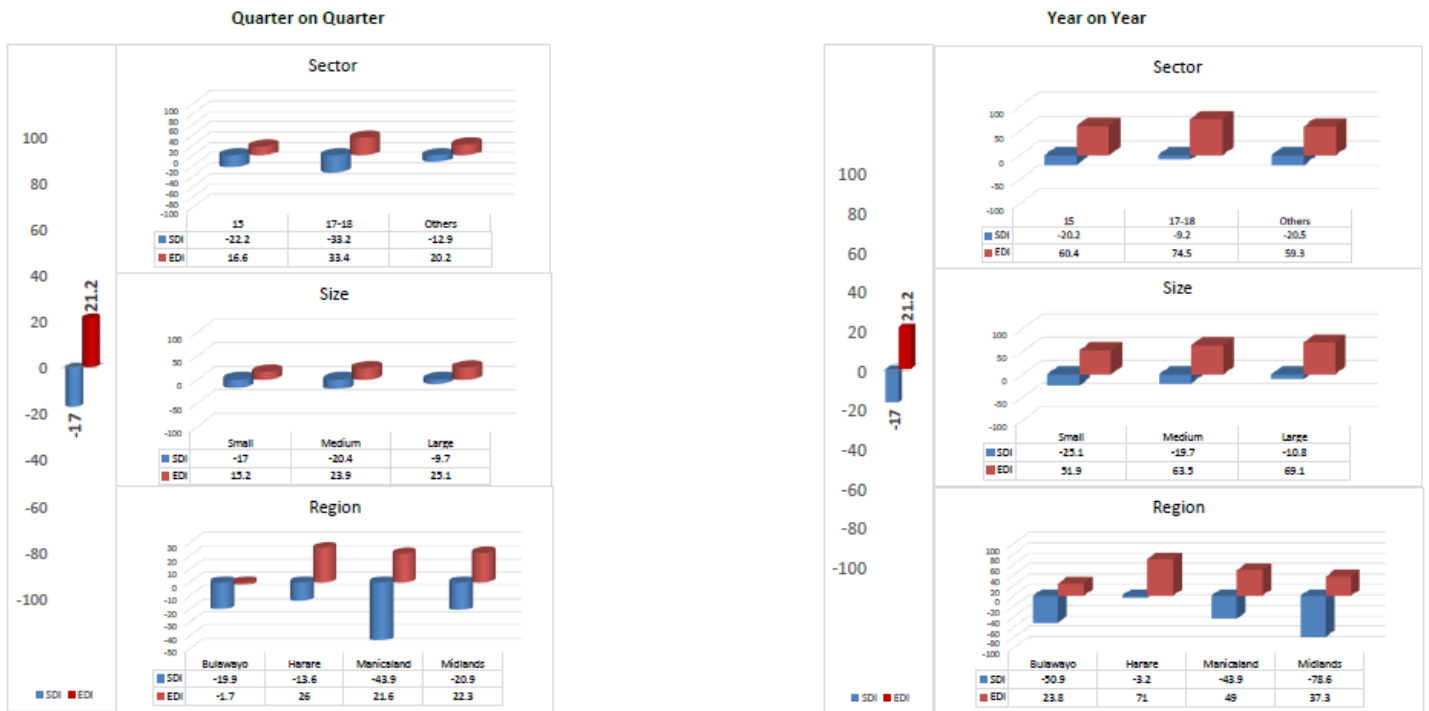


Business Confidence Index (BCI) Components

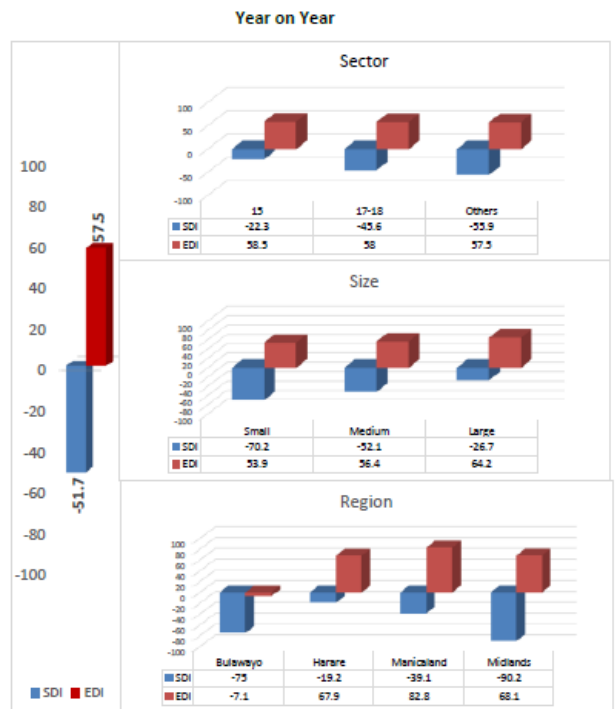
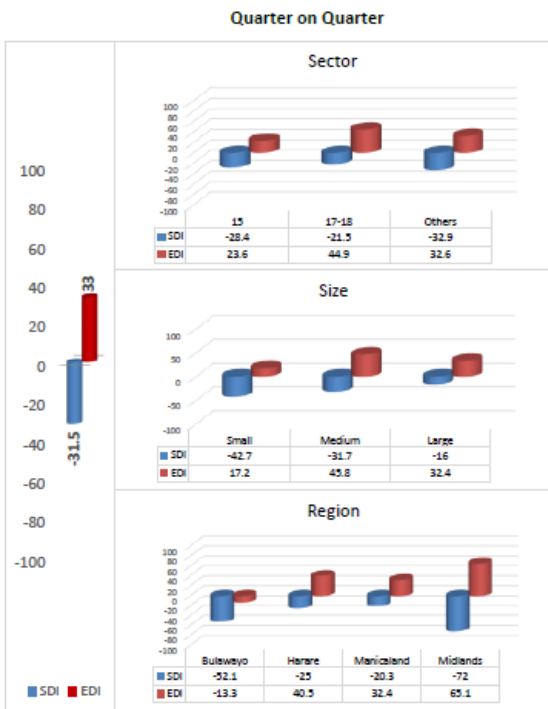
Economic Situation of the Establishment



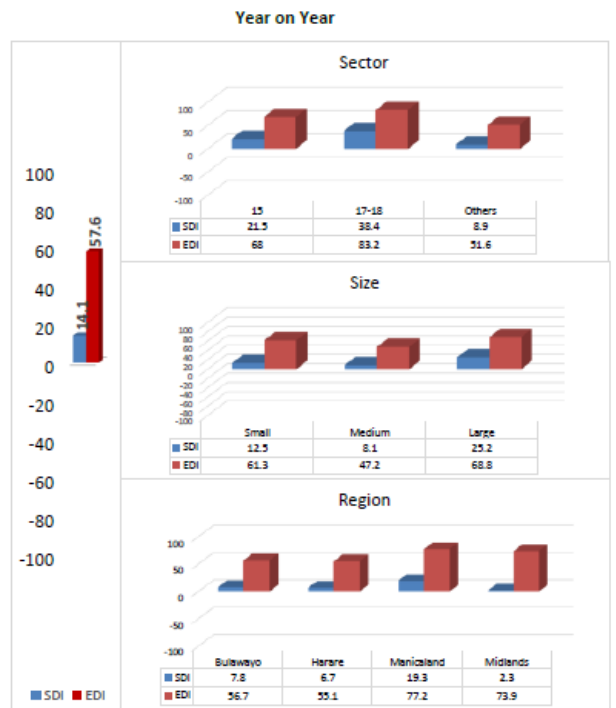
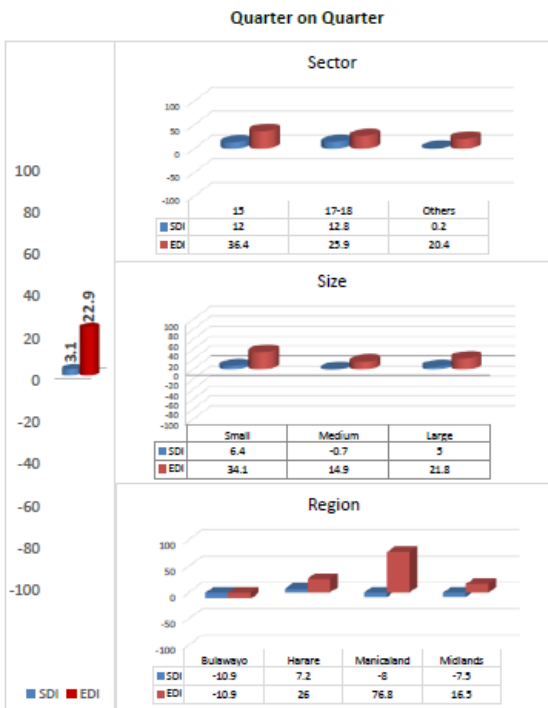
About manufacturing sector of the establishment



Economic Situation of the Country

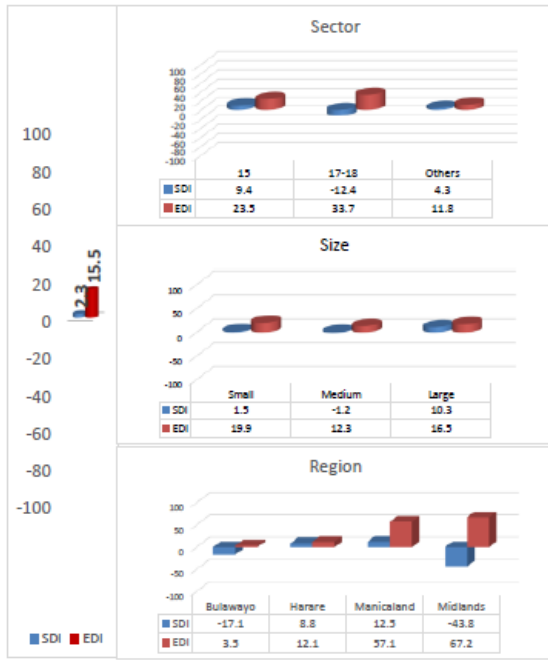


Investment

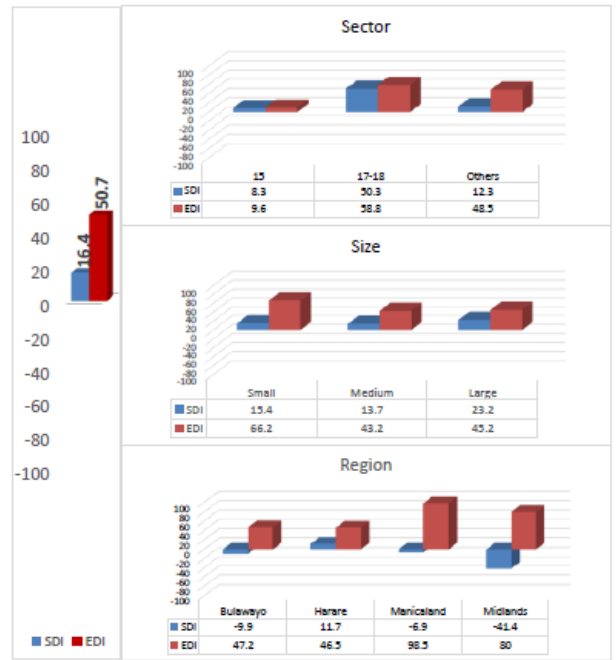


Profitability

Quarter on Quarter



Year on Year



Purchasing Managers Index(PMI) Indicators

Production Volume

Quarter on Quarter



Year on Year

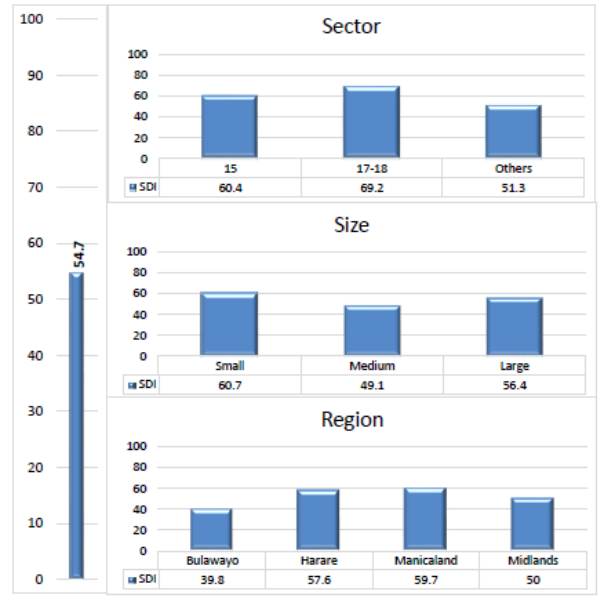


Employment

Quarter on Quarter



Year on Year



Quarter on Quarter



Order Books

Year on Year

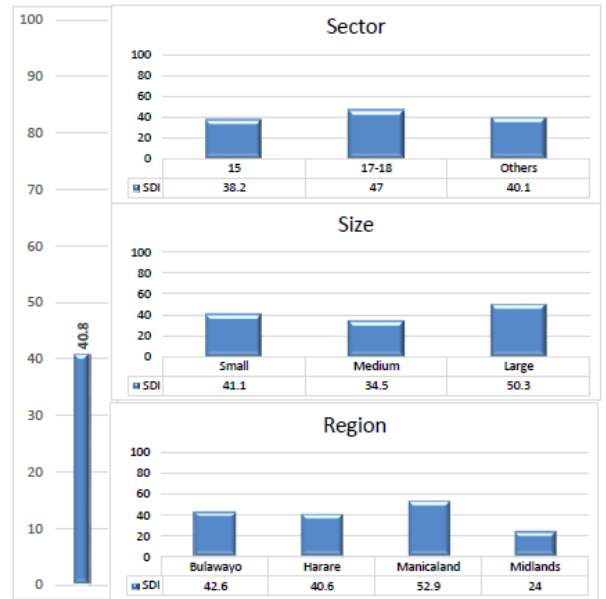


Inventory

Quarter on Quarter



Year on Year

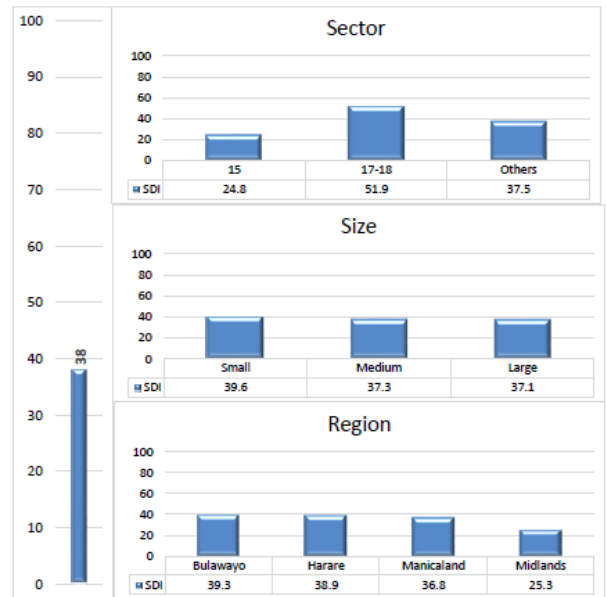


Delivery Speed of Suppliers

Quarter on Quarter

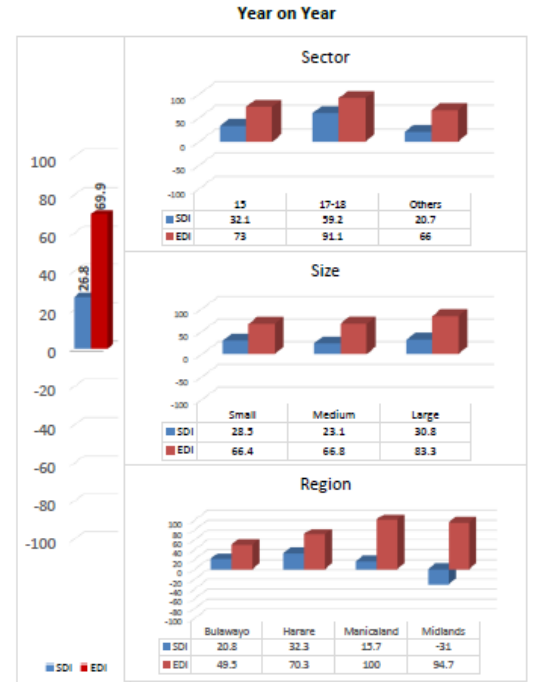
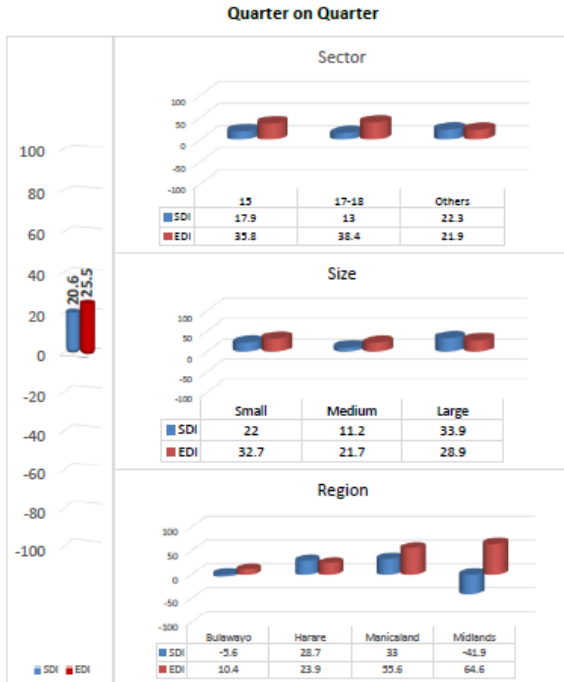


Year on Year

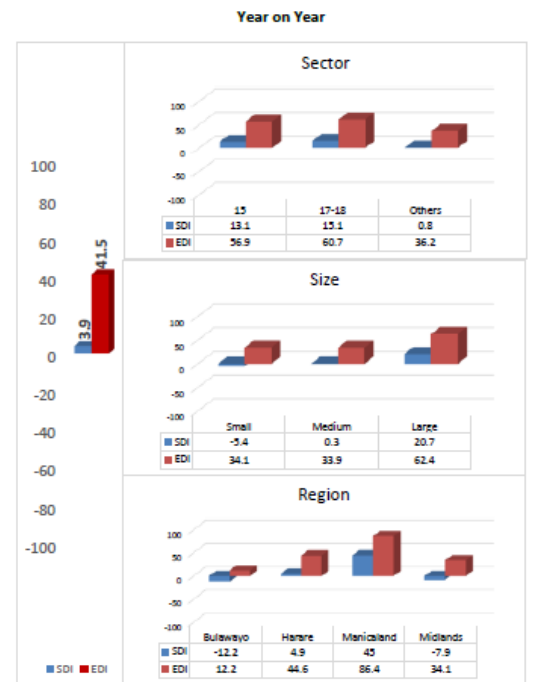
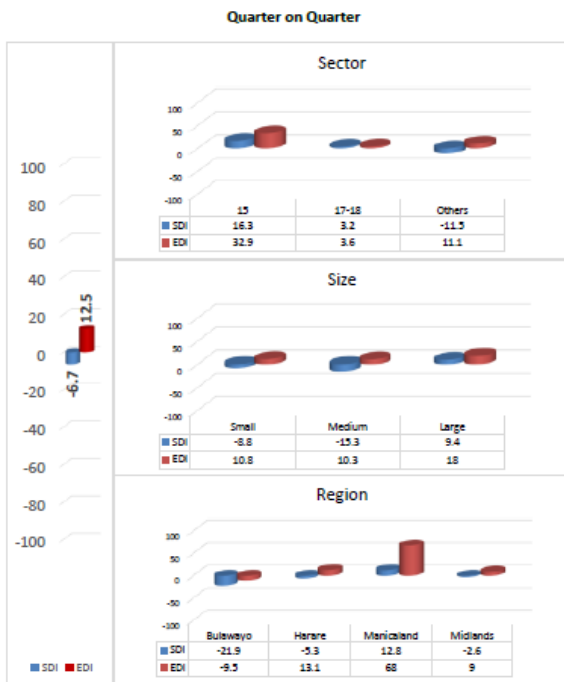


Other Indicators

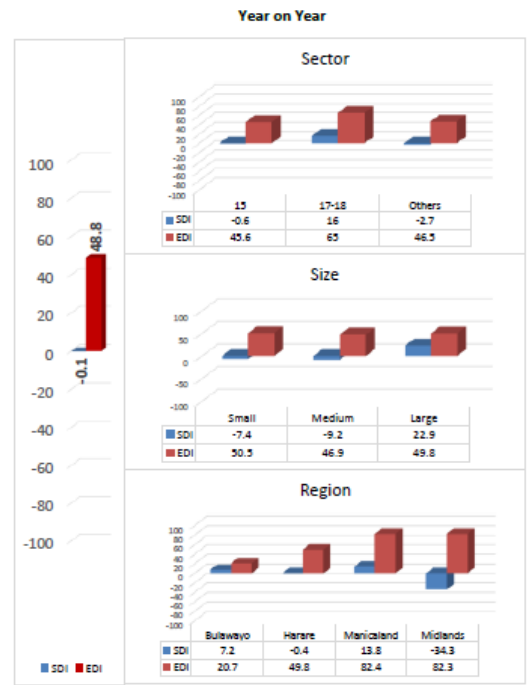
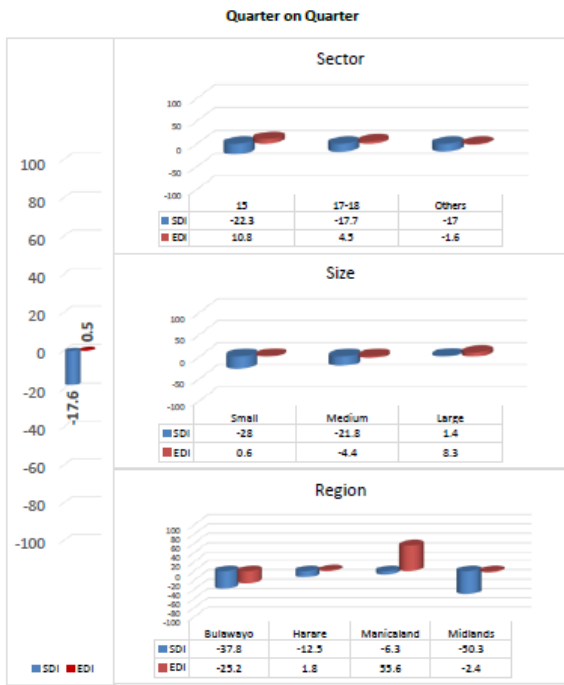
Capacity Utilization



Exports



Stocks of Raw Materials



ANNEX 1:THE METHODOLOGY

THE BUSINESS CONFIDENCE INDEX (BCI)

The methodological approach of BCI used for this survey is based on the Japanese Tankan Sentiment index (Economic short-term company's survey of Bank of Japan). BCI measures the amount of optimism or pessimism that business Managers feel about the prospects of their companies or organizations. BCI is constructed by summing the following unweighted five indicators given equal weight.

- *Economic situation of the establishment;*
- *About the manufacturing sector of the establishment;*
- *Economic situation of the country;*

- *Investment; and*
- *Profitability.*

For these five indicators, respondents have three reply multiple choice options; 1 for better or increased, 0 for the same and -1 for worse or decreased. Diffusion Index (DI) or the net balance is then computed by subtracting the unfavourable percentage of establishments from the favourable percentage, that is, the percentage of positives (favourable) less percentage of negatives (unfavourable).

BCI is therefore computed as the geometric average of the balances of the business Situation Diffusion Index (SDI) and the Expectations Diffusion Index (EDI) in the reference quarter t using a conveniently standardized geometric average as follows:

$$BCI_t = \sqrt{(SDI_t + 200) \times (EDI_t + 200)} - 200 \dots\dots\dots (1)$$

Where the Situation Diffusion Index (SDI_t) is the difference between the percentages of favourable and unfavourable responses in the reference quarter t regarding the previous quarter ($t - 1$) and the same quarter of

the previous year and Expectation Diffusion Index (EDI_t) is the difference between the percentages of favourable and unfavourable responses in the reference quarter t regarding the following quarter $(t + 1)$ and the same quarter of the following year. If the SDI is positive, there are more favourable opinions regarding how the business performed and if the EDI is positive, the optimists exceed the pessimists with regard to how the business will perform in the future.

The BCI fluctuates between -100 and 100. A positive value of BCI indicates business optimism and a negative value indicates pessimism and a value of zero neutrality.

THE PURCHASING MANAGERS' INDEX (PMI)

The PMI is based on the methodological approach developed by the Markit Group. It is a composite weighted average index formed by the following five indicators (weights in brackets):

- Production level (0.25);
- Employment (0.2);
- Orders book (0.3);
- Stocks of raw materials and supplies (0.1); and
- Delivery speed of suppliers (0.15).

Diffusion indexes are computed separately for each PMI indicator in the same way as in BCI (by subtracting the unfavourable percentage of establishments from the favourable percentage). Unlike the BCI, the PMI is constructed from the situation diffusion index (SDI) only.

SDI for each indicator is given as:

$$SDI_{jt} = (p_{1j,t-1} \times 1) + (p_{2j,t-1} \times 0.5) + (p_{3j,t-1} \times 0) \dots \dots \dots (2)$$

For j = production, employment, orders book, stocks of raw materials & supplies and delivery speed of suppliers.

p_1 , p_2 and p_3 are percentage number of answers that reported an improvement, no change and a deterioration, respectively. The composite PMI is therefore computed as:

$$PMI_t = (SDI_{1t} \times 0.25) + (SDI_{2t} \times 0.2) + (SDI_{3t} \times 0.3) + (SDI_{4t} \times 0.1) + (SDI_{5t} \times 0.15)$$

OTHER KEY VARIABLES

Over and above business conditions and business confidence, this report also tracks the following key variables:-

- Capacity Utilization
- Exports and
- Supply of Raw Materials