SOUTH AFRICAN CHAMBER OF COMMERCE AND INDUSTRY

Business Confidence Index

September 2017

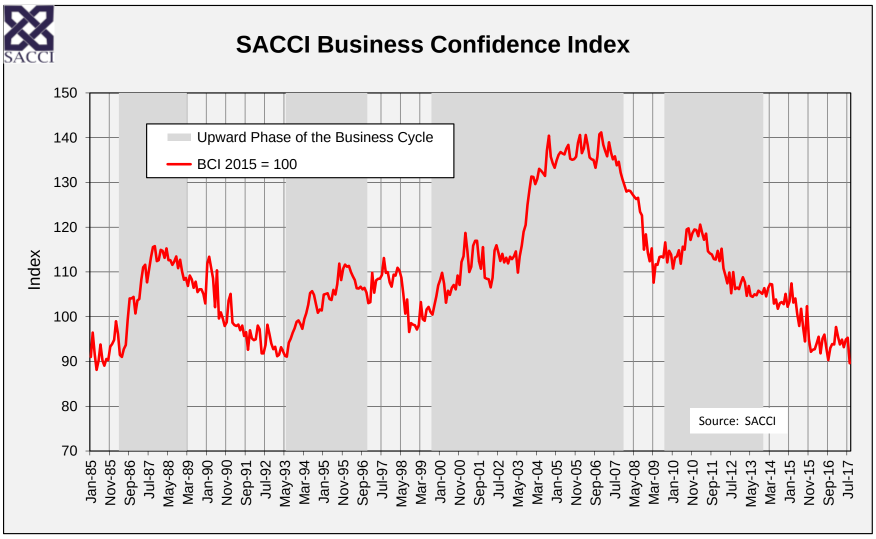
SACCI

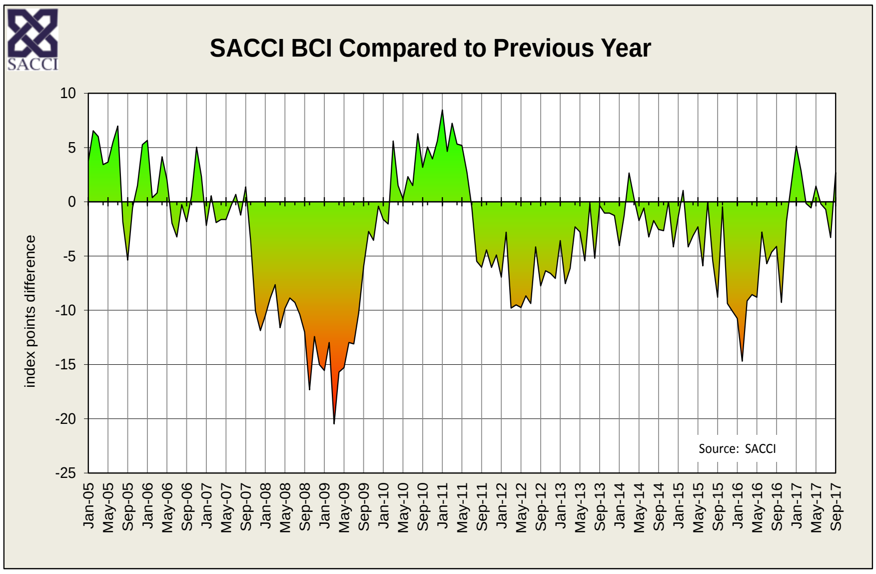
Content:

Because of information lags and changes in expectations, the dynamics of the business mood, at times, may be at variance with the economic environment. As a result, always read the BCI with other economic data and the accompanying economic commentary. For notes on the BCI, see the SACCI website at www.sacci.org.za.

The SACCI Business Confidence Index
2015=100

Month	2010	2011	2012	2013	2014	2015	2016	2017
January	110.8	119.4	112.4	108.8	104.5	103.4	92.6	97.7
February	113.2	118.0	115.2	107.7	106.4	107.4	92.7	95.5
March	113.5	120.6	110.8	104.7	107.3	103.2	94.0	93.8
April	114.8	118.7	109.2	106.9	107.2	104.1	95.5	94.9
May	111.8	117.2	107.4	104.7	102.9	100.6	91.8	93.2
June	115.7	118.5	109.9	104.4	103.8	97.9	95.1	94.9
July	115.0	114.6	105.2	105.0	101.8	101.8	96.0	95.3
August	119.5	114.2	110.0	104.8	103.0	97.6	92.9	89.6
September	119.8	113.9	106.2	105.8	103.3	94.5	90.3	**93.0**
October	117.2	112.9	106.5	105.5	102.8	102.3	93.0	
November	118.7	112.8	106.2	105.1	105.1	95.1	93.9	
December	119.5	114.7	107.7	106.4	102.2	92.2	93.8	
Average	**115.8**	**116.3**	**108.9**	**105.8**	**104.2**	**100.0**	**93.5**	





This Month's BCI Results

The Business Confidence Index (BCI) of **SACCI** reflects the business climate that is market-related and recognizes economic developments that have a bearing on the business mood in South Africa. The Index therefore does not reflect business sentiment, but how businesses are reacting and how they are experiencing the prevailing business climate.

After the **SACCI** BCI declined to its lowest level thus far in 2017 in August 2017, the Index recovered by 3.4 index points to 93.0 in September 2017. The BCI also improved on last year's September level by 2.7 points. This is the largest month-on-month recovery for the BCI this year except for January.

Although the business climate improved on August's 2017 subdued business conditions, the slow growing economy still constrains business activity. It appears that the depressed BCI in August 2017 was a temporary setback as negative factors converged. The average for the first nine months of 2017 was 94.2 compared to 93.4 for the corresponding period of 2016 – a slightly better but still restrained business climate.

Seven of the thirteen sub-indices of the BCI reflect positive month-on-month (m/m) movements in the business climate between August 2017 and September 2017. Two sub-indicators had a negative impact and four did not change month-on-month. The positive m/m movements in the sub-indices surpassed the negative aspects of the business climate and lifted the index in September 2017. Two positive sub-indices were from the financial environment and five of the seven real economic sub-indices had a positive m/m impact on business confidence in September 2017.

Higher merchandise import and export volumes made notable contributions to the monthly improvement of the BCI in September 2017. No particular sub-indices made substantial negative monthly contributions to the BCI in September 2017.

The year-on-year (y/y) improvement in the September 2017 BCI was the net result of six sub-indices that improved on a year ago, six sub-indices were worse off and one was unchanged. Considerable higher merchandise exports volumes, lower inflation, a higher real value of building plans passed and improved new vehicle sales were the main contributors to the positive y/y impact on the BCI.

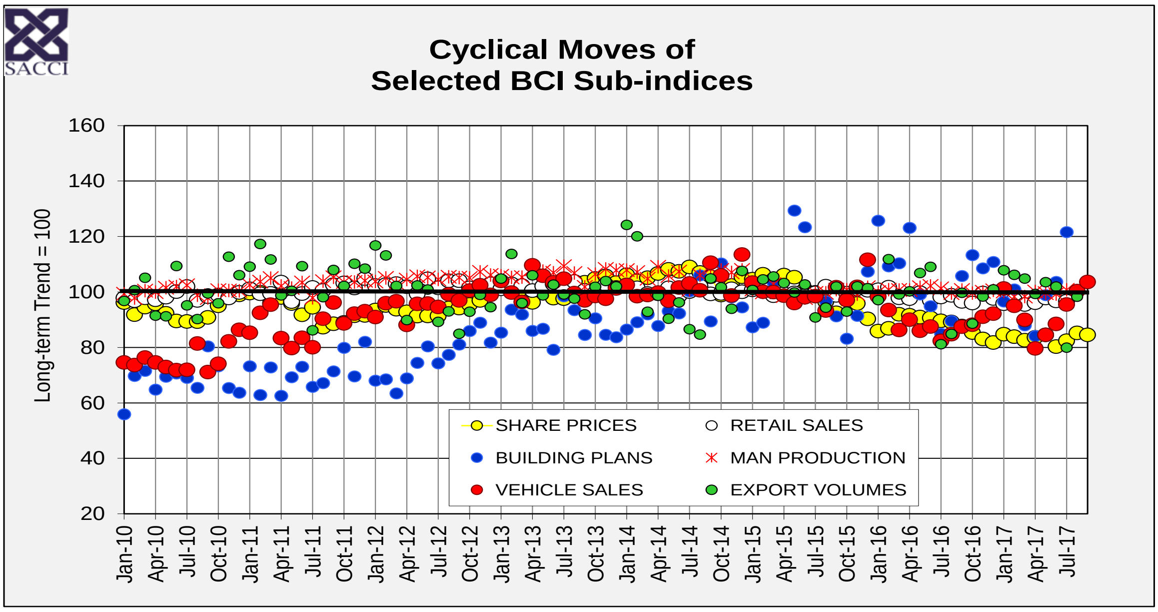
The higher real financing costs (by default due to lower inflation and unchanged nominal interest rates) and lower merchandise import volumes (reflecting the subdued domestic economy), had the most prevalent negative y/y influence on the business climate in September 2017.

Impact of BCI Sub-indices on the BCI

BUSINESS CLIMATE INDICATORS *	m/m Changes		y/y Changes	
	This Month	Previous Month	This Month	Previous Month
Energy Supply	o	o	-	+
Manufacturing	+	o	o	-
Exports	+	-	+	-
Imports	+	-	-	-
Vehicle sales	+	+	+	+
Retail sales	o	-	-	o
Construction - buildings	+	o	+	+
Inflation[1]	+	+	+	+
Share prices	o	+	-	-
Real private sector borrowing	o	o	+	o
Real financing cost	-	-	-	-
Precious metal prices	+	+	-	-
Rand exchange rate	-	-	+	+

** See notes on BCI on www.sacci.org.za*

1. Excludes petrol, food and non-alcoholic beverages.



Economic Commentary

Challenging Environment

With global economic growth gaining momentum in the 2nd quarter of 2017, real economic activity in emerging market economies slowed and was mainly headed by slowing growth in the Brics countries of Brazil, China and India. Consumer inflation in advanced and emerging market economies eased recently. The lower inflationary pressures were reinforced by the sustained low price of crude oil and a decline in prices of commodities in the 2nd quarter of 2017. Recently, however, the price of crude oil has increased to above 56 US dollar per barrel.

Mixed and Weak Local Economic Performance

The South African GDP advanced by 1.1% year-on-year in the 2nd quarter of 2017 – shrugging off the technical recession of two successive quarters of contraction. The recovery in the 2nd quarter of 2017 was largely caused by higher real output by the primary and tertiary sectors. The notable increase in the volume of agricultural production (28.9%) was made possible by a record domestic maize crop.

The annualised growth of real output of the secondary sector in the 2nd quarter of 2017 included an increase by the manufacturing sector after three consecutive quarters of decline. Growth in the electricity, gas and water sector speeded up notably in the 2nd quarter of 2017 in supplying higher mining and manufacturing production. The construction sector contracted further, consistent with subdued fixed investment. If agricultural output is excluded the 2nd quarter 2017 the GDP only rose by 0.2% in real terms – leaving the first half 2017 real GDP 0.6% above the corresponding period in 2016.

GDP GROWTH

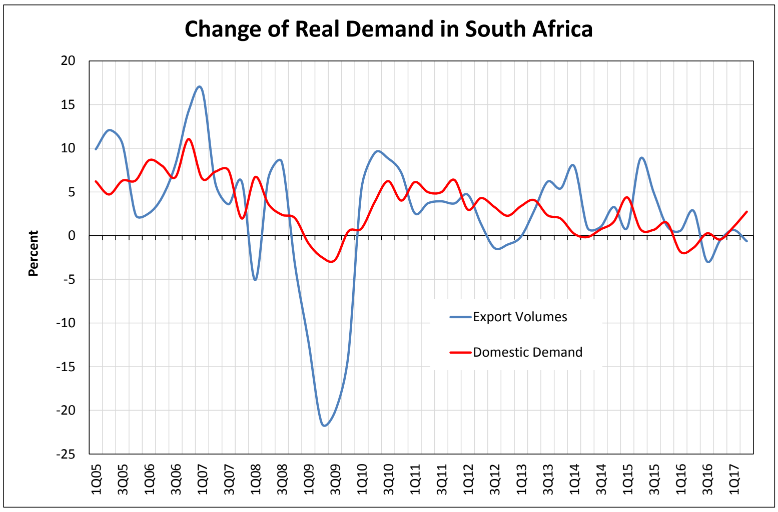
SECTOR	2015	1Q 2016	2Q 2016	3Q 2016	4Q 2016	2016	1Q 2017	2Q 2017
	Y-o-Y %Δ	Y-o-Y %Δ	Y-o-Y %Δ	Y-o-Y %Δ	Y-o-Y %Δ	Y-o-Y %Δ	Y-o-Y %Δ	Y-o-Y %Δ
Agriculture, forestry and fishing	-4.9	-4.8	-16.0	-5.2	2.4	-5.9	11.4	28.9
Mining and quarrying	4.0	-11.3	-4.4	-0.1	-3.1	-4.7	6.8	2.1
Transport and communication	1.2	-0.9	0.3	0.4	1.7	0.4	1.5	1.2
Finance, real estate and business services	2.8	2.2	2.0	1.7	1.8	1.9	0.9	1.1
Personal services	1.1	1.0	1.1	1.5	1.1	1.2	0.8	0.9
Electricity and water	-1.5	-5.6	-3.1	-2.1	-3.2	-3.5	-1.6	0.5
Construction	1.7	1.6	0.1	1.0	0.2	0.7	0.2	0.4
General government services	0.8	1.2	1.1	1.1	2.2	1.4	0.7	0.2
Wholesale and retail trade; hotels and restaurants	1.4	1.3	1.7	0.7	1.1	1.2	-1.0	-1.2
Manufacturing	-0.2	-0.8	3.8	0.5	-0.7	0.7	-0.9	-2.0
GDP excluding agriculture	**1.5**	**-0.3**	**1.1**	**0.8**	**0.7**	**0.6**	**0.8**	**0.2**
GDP at market prices	**1.3**	**-0.6**	**0.3**	**0.7**	**0.7**	**0.3**	**1.0**	**1.1**

Note: Y-o-Y %Δ = year-on-year % change

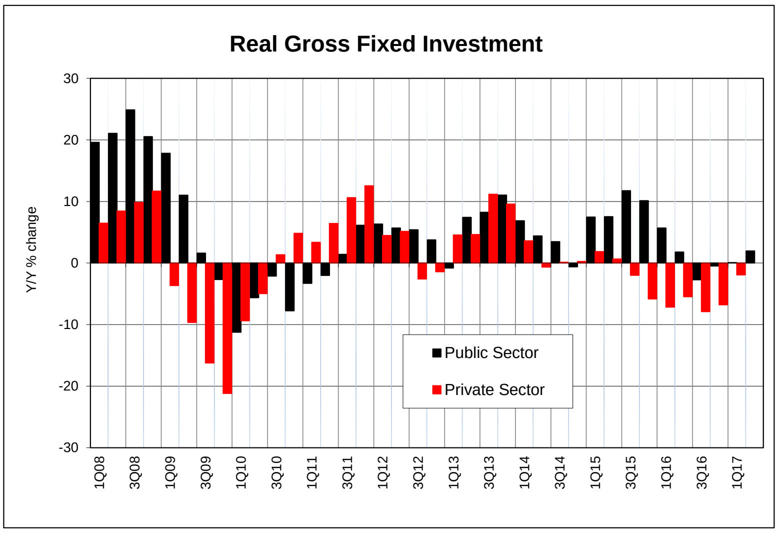
The tertiary sector's real economic activity increased was mainly supported by the commerce and finance sectors. Robust growth in real retail trade underpinned the turnaround in the commercial sector while output in the financial sector was enhanced by increased commercial banking and trading activity in the financial markets. The real value added by general government slowed due to fiscal constraints.

Stronger Domestic Demand

The increase of real gross domestic expenditure accelerated to 2.7% y/y the 2nd quarter of 2017. The acceleration resulted primarily from real final consumption expenditure by households and less so by general government. Real gross fixed capital formation contracted further in the 2nd quarter of 2017 while real inventory stockpiling slowed.



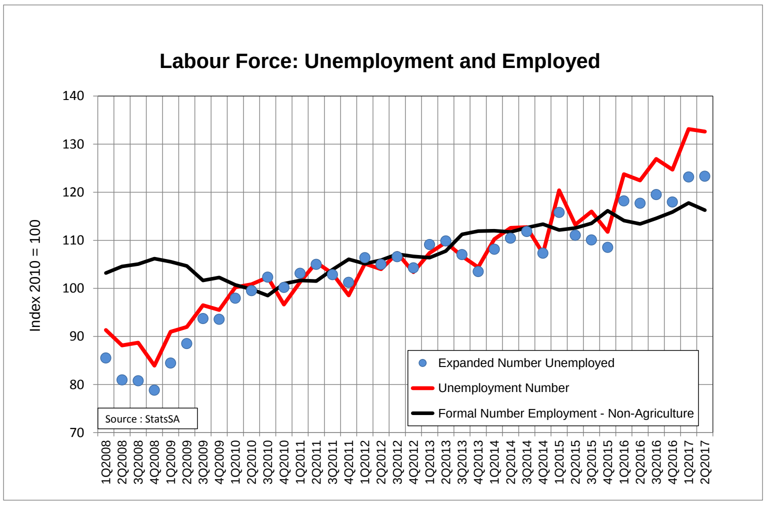
Domestic demand components like real expenditure by households contributed notably in the 2nd quarter of 2017, while real government consumption expenditure and exports volumes contributed only marginally to demand for South African goods and services. There was less real demand by fixed capital formation in the 2nd quarter of 2017.



Real gross fixed capital formation declined in the 2nd quarter of 2017. Following a brief recovery in the 1st quarter of 2017, fixed investment by the private sector continued its downward trend as investment in transport equipment and in residential and non-residential buildings diminished.

Remaining High Unemployment

Declining fixed capital formation and insistently depressed business and consumer confidence, the economy did expand and therefore did not create meaningful employment opportunities. Formal non-agricultural employment remained virtually unchanged from the 1st quarter of 2017 to the 2nd quarter of 2017 and remained around 11.2 million.



Inflation Contained

Consumer price inflation declined notably in 2017 to around 4½%. Domestic price pressures were less for a lot of products and core inflation moderating further. Despite the lower inflation and low output growth, the Monetary Policy Committee (MPC) of the South African Reserve Bank (SARB) lowered the repurchase rate by 25 basis points to 6.75% with effect from 21 July 2017, but kept the repo-rate unchanged at the latest MPC meeting due to a higher price risks.

BoP Delicately Balanced

The shortfall on the services account of the balance of payments (BoP) widened causing the deficit on the current account of the BoP widening from 2.0% of GDP in the 1st quarter of 2017 to 2.4% of GDP in the 2nd quarter, despite the trade surplus. The deficit on the current account was financed through mainly net portfolio investment inflows.

Restrained Public Sector

National government's finances remained restrained and although government expenditure was below budgeted, revenue increased at a much slower pace than expenditure following weak real economic activity. Apart from the economic impact on public finances, certain institutions, especially those operating as quasi enterprises, experience financial difficulties. This could have a negative effect when the credit rating agencies come up with their next assessment.

Conclusion

The South African economy is experiencing a myriad of challenges. Although some matters like inflation, monetary policy and certain BoP aggregates reflect easier circumstances, aspects like slow economic growth, shortage of capital formation and restrained public finances need a strong resolve to succeed and create the necessary business and investor confidence.

General Economic Indicators

Indicator	Period	Direction	Latest	Previous	2016	2011
Consumer inflation headline urban (%)	Aug-17	▲	4.8	4.6	6.3	5.0
Consumer inflation urban - excl. food, bev. & fuel (%)	Aug-17	▼	4.3	4.5	5.8	4.0
Money supply M3 eop (% Δ Y-o-Y)	Aug-17	▼	6.5	6.8	6.1	8.3
Private sector credit eop (% Δ Y-o-Y)	Aug-17	▲	6.0	5.7	5.1	6.2
Real prime overdraft rate eop (%)*	Aug-17	▲	5.7	5.5	4.4	4.8
Prime overdraft rate eop (%)	Sep-17	▷	10.25	10.25	10.50	9.00
Liquidations number sa	Aug-17	▲	169	124	161	297
Bond yield 5-10y govt eop (%)	Sep-17	▼	7.27	7.85	8.65	8.01
R / US$ average	Sep-17	▼	13.16	13.22	14.70	7.25
R / Euro average	Sep-17	▲	15.66	15.62	16.28	10.08

Indicator	Date	Direction	Latest	Previous	2016	2011
Income & wealth tax / GDP (%) saar	q2-17	▲	16.4	16.2	15.1	14.1
Total tax / GDP (%) saar	q2-17	▲	29.1	28.6	28.2	26.0
Public sector borrowing requirement / GDP (%)	q2-17	▲	6.3	0.7	3.7	4.2
Public sector expenditure / GDP (%)	q2-17	▼	28.4	28.5	28.4	27.1
Budget Balance / GDP (%)	q2-17	▲	-3.2	-2.0	-4.2	-4.0
Imports / GDE (%)	q2-17	▲	29.2	28.9	30.2	29.9
Exports / GDP (%)	q2-17	▲	30.1	29.7	30.3	30.4
Net foreign investment flows / GDP (%)	q2-17	▲	3.3	0.6	4.8	3.4
Current account balance / GDP (%)	q2-17	▼	-1.6	-2.8	-3.3	-2.2
Gross domestic saving / GDP (%) saar	q2-17	▼	16.3	17.2	16.1	17.5
Gross capital formation / GDP (%) saar	q2-17	▼	18.7	19.3	19.4	19.7
Net fixed capital formation / GDP (%)	q2-17	▼	-	-	5.4	6.2
GDP growth (% Δ Y-o-Y)	q2-17	▲	**1.1**	**1.0**	**0.3**	**3.3**

Δ=change; eop=end of period; Y-o-Y=year-on-year; q=quarter; sa = seasonally adjusted; saar=seasonal adjusted annual rate; GDP=Gross Domestic Product; GDE=Gross Domestic Expenditure. *Deflated by inflation excl.food, bev. & fuel.