SOUTH AFRICAN CHAMBER OF COMMERCE AND INDUSTRY

Business Confidence Index

November 2018

SACCI

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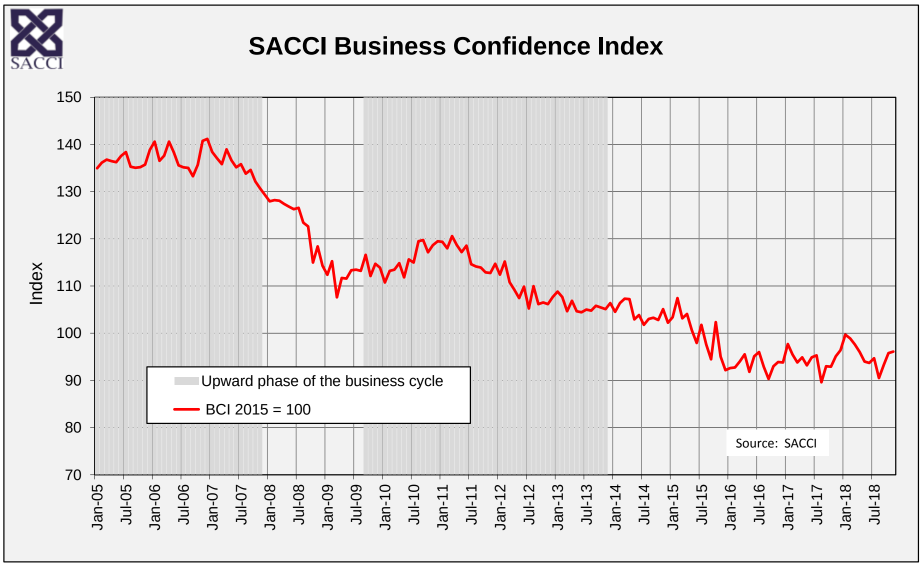
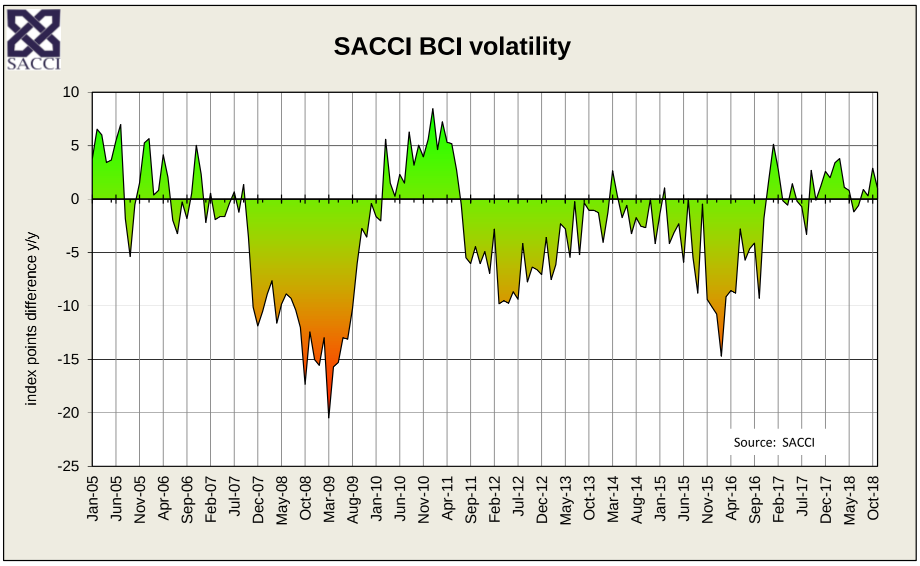
Because of information lags and changes in expectations, the dynamics of the business mood, may, at times, be at variance with the economic environment. As a result, always read the BCI with other economic data and the accompanying economic commentary. For notes on the BCI, see the SACCI website at www.sacci.org.za.

The SACCI Business Confidence Index
2015=100

Month	2011	2012	2013	2014	2015	2016	2017	2018
January	119.4	112.4	108.8	104.5	103.4	92.6	97.7	99.7
February	118.0	115.2	107.7	106.4	107.4	92.7	95.5	98.9
March	120.6	110.8	104.7	107.3	103.2	94.0	93.8	97.6
April	118.7	109.2	106.9	107.2	104.1	95.5	94.9	96.0
May	117.2	107.4	104.7	102.9	100.6	91.8	93.2	94.0
June	118.5	109.9	104.4	103.8	97.9	95.1	94.9	93.7
July	114.6	105.2	105.0	101.8	101.8	96.0	95.3	94.7
August	114.2	110.0	104.8	103.0	97.6	92.9	89.6	90.5
September	113.9	106.2	105.8	103.3	94.5	90.3	93.0	93.3
October	112.9	106.5	105.5	102.8	102.3	93.0	92.9	95.8
November	112.8	106.2	105.1	105.1	95.1	93.9	95.1	**96.1**
December	114.7	107.7	106.4	102.2	92.2	93.8	96.4	
Average	**116.3**	**108.9**	**105.8**	**104.2**	**100.0**	**93.5**	**94.4**	





This month's BCI results

SACCI's Business Confidence Index (BCI) for November 2018 measured 96.1 and increased by only 0.3 index point month-on-month (m/m). The BCI was 1.0 index point higher than in November 2017. Unlike October, there were no notable events in November 2018 that affected the local business climate or the economy. The upward momentum of the BCI since September 2018 appears to have slowed somewhat and it is the second time this year that the business climate hesitated after encouraging exogenous efforts and developments enhanced business confidence.

Six of the thirteen sub-indices of the **SACCI** BCI were positive in October m/m and six were unchanged with one sub-index declining. However in November 2018, three sub-indices were positive m/m, three were unchanged, and seven declined on their October levels. It appears that some of the intentions for reasserting and introducing economic policy certainty could be more challenging than anticipated. Adverse socio-political, economic and business conditions continue to prevail to the detriment of the business climate.

Four of the seven real-activity sub-indices had a negative m/m impact on the BCI and three of the six financial sub-indices were negative in November 2018. The negative effects on the BCI were more widely dispersed with the largest negative m/m effects coming from real retail sales, merchandise import volumes, the real value of building plans passed. The biggest positive m/m contributions to the BCI in November came from merchandise export volumes, the rand exchange rate and energy supply.

The causes for the y/y increase in the BCI in November 2018 compared to November 2017, differed from the October 2018 year-on-year (y/y) reasons for improvement. The November BCI level was supported by improvements of merchandise export and import volumes, the real value of building plans passed and manufacturing output. The y/y decline in the all-share price index of the JSE, higher inflation, lower precious metal prices, and real retail sales weighed the most negatively on the BCI in November 2018.

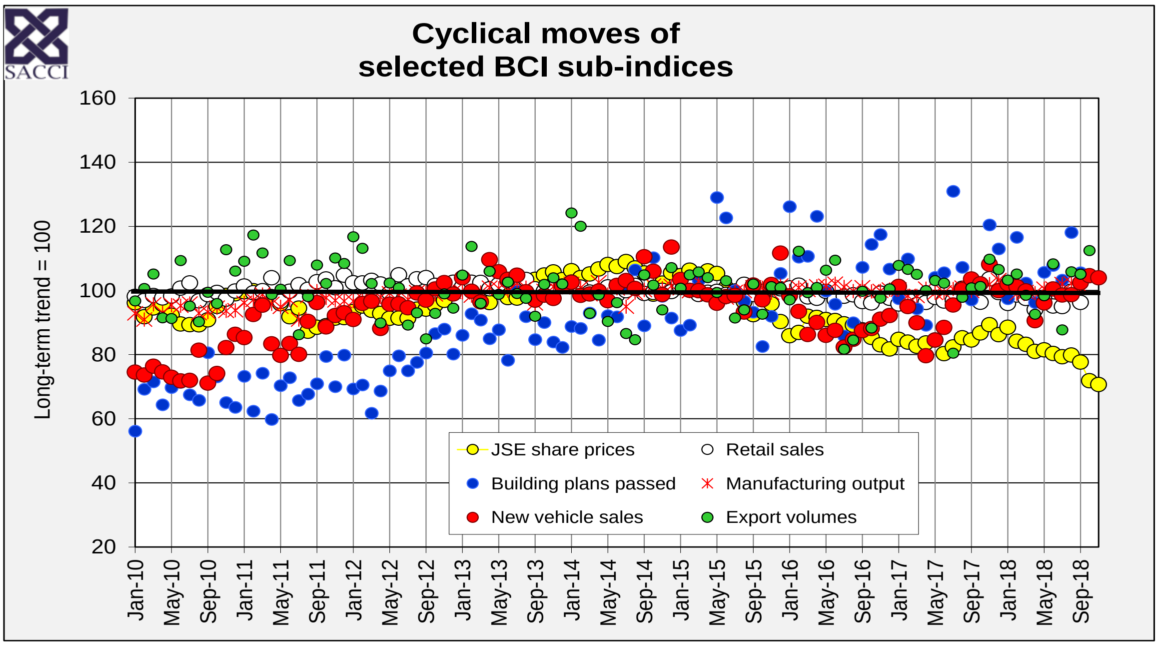
Four of the seven real-activity indices made positive y/y impacts on the BCI in November 2018, while only one (rand exchange rate) of the six financial sub-indices had a positive y/y effect on the business climate. Three financial sub-indices had negative y/y impacts on the business climate confirming tighter financial conditions than a year ago.

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	o
Manufacturing	-	o	+	o
Exports	+	o	+	+
Imports	-	+	+	-
Vehicle sales	o	+	-	+
Retail sales	-	+	-	-
Construction - buildings	-	+	+	+
Inflation[1]	-	o	-	+
Share prices	-	-	-	-
Real private sector borrowing	o	o	o	o
Real financing cost	-	o	o	-
Precious metal prices	o	+	-	-
Rand exchange rate	+	+	+	-

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

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



Economic commentary

Domestic economic constraints

South Africa's economy is facing various limitations due to inadequate growth, growing public debt, capital outflows, world trade tensions, fiscal constraints and several socio-political challenges that prevent optimal economic performance.

South Africa as Africa's most industrialised economy is facing below one percent economic growth in 2018 - down from previous forecasts of between 1.5 and 1.9 percent. The Treasury and the South African Reserve Bank anticipate growth of 0.7 percent and 0.6 percent respectively for 2018.

Some public sector institutions and state owned enterprises (SOEs) in particular are facing serious financial constraints and experience an inability to deliver proper public services. In November the state owned power enterprise Eskom, as a case in point, again had to revert to load shedding and which presents a key risk to real economic activity. As a cash-strapped state-owned enterprise, debt-ridden Eskom as a critical power supplier is struggling to meet low demand for the economy in recession.

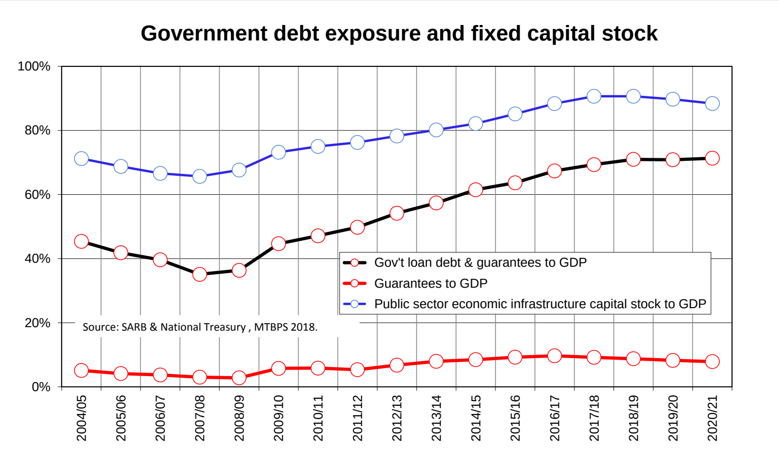
Proposals and debates to allow for land expropriation without compensation need to be considered with the utmost sensitivity for its economic consequences. It should be guided by lessons of international experience and focus on enhancing productivity and strengthening security of tenure.

Opportunity to implement concrete measures

South Africa skipped a further downgrade when Standard & Poor's Global Ratings agency (S&P) on the 23rd of November announced that the country's credit ratings have remained unchanged. The agency rates government bonds in rand one level below investment grade and government bonds in foreign currencies two levels under investment grade while the prospect for the ratings has been left stable.

The agency cited slow economic growth and large state financial guarantees as problematic for South Africa's fiscal outlook and debt burden. See figure 1. Nevertheless, the government’s attempted series of economic reforms should start bearing fruit in 2019 - despite structural barriers and the dichotomy between a chronic shortage of appropriate skills and high unemployment. Therefore economic growth could rise moderately in 2019, which should provide some relief for the government's debt burden and anticipated revenue shortfall. S&P nonetheless expects economic growth of 0.8% for 2018, increasing to 1.8 in 2019 and 2.3 in 2020 and 2021.

Figure 1



Given the dire need for foreign direct investment in South Africa to enhance economic growth, investment is conditional to upholding the rule of law and the application of contracts to remain unchanged. The country's institutional framework must ensure a constitutionally independent judiciary.

In addressing the fiscal dilemma, Treasury has indicated that - "These measures include the re-prioritization of government spending, the creation of the infrastructure fund as well as partnerships for growth." According to Treasury the government is "determined" to improve the country's credit ratings in future and acknowledges that it is fully aware of the risks that S&P highlighted. The next few months are decisive - "To position South Africa as an attractive investment destination, and that government will cooperate and improve the coherence between business, labour and civil society."

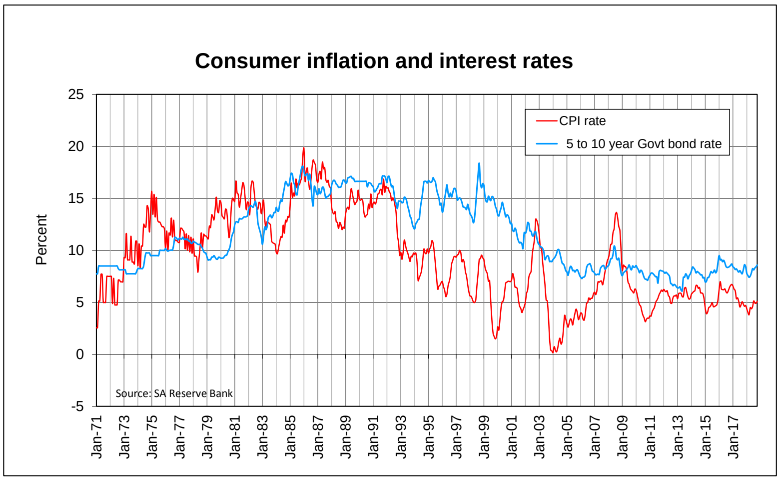
Tighter financial conditions

Although inflation forecasts has improved slightly since the previous Monetary Policy Committee (MPC), the SA Reserve Bank (SARB) projects an increase in headline inflation. Inflation is expected to average 4.7% in 2018, increasing to 5.5% in 2019, but moderating to 5.4% in 2020. Headline CPI inflation is expected to reach a high at around 5.6% in the 3rd quarter of 2019. Core inflation is forecast at 4.3% in 2018, 5.3% in 2019, and 5.5% in 2020.

The SARB estimates US-dollar 73 price for a barrel of crude oil for 2019 and 2020. Administered prices, including fuel, electricity and water tariffs, are expected to increase at rates above the upper end of the inflation target range.

Although the latest decision by the MPC on the 22nd of November 2018 to raise the repo rate by 25 basis points to 6.75% is critically assessed by borrowers (consumers and investors), the cost to financial institutions is dependent on movements of interest rates in financial markets (local and abroad) and was also a main consideration. Over the medium term the rand, as other emerging market currencies will remain volatile. Monetary policies in some advanced economies will likely be tightening - exerting additional cost pressures on financial institutions. It is evident that market interest rates (local and abroad) closely follow inflationary trends and that there was a widening gap - see figure 2.

Figure 2



Source: SARB. Quarterly Bulletin, September 2018.

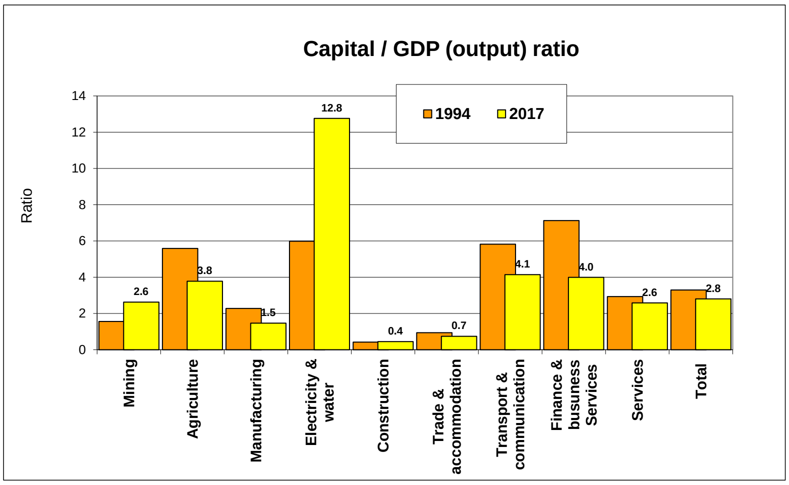
Investment challenges

The renewed impetus for economic reform supported by the Investment Summit held last month included the emphasis on infrastructure and tourism, the reprioritization of spending and the effort to reverse the dismal financial and management situation at SOEs. This should contribute to a positive effect on medium term growth and at least stabilising public finances.

Although the government must remain fiscally prudent, the 2019 election may entice spending not to be contained while government may not receive the revenue budgeted for. With the world economy moving ahead rapidly in coping with the Fourth Industrial Revolution, South Africa cannot afford political popularity at the cost of becoming and remaining an investment destination.

Figure 3 gives an indication of the changing the capital/output ratio of main sectors between 1994 and 2017 and for South Africa to stay ahead of the curve or making adjustments for the economy's peculiar situation in promoting South Africa as a preferential investment destination. This does not only imply changing production processes of the different sectors, but also the cost and efficacy of production factors to which technology is integrated.

Figure 3



Source: SARB. Quarterly Bulletin, September 2018.

Conclusion

It has become evident that South Africa has entered a process and period of economic recuperation and implementation given the assessment as indicated in the MTBPS in October. The further loss of momentum in business confidence must be averted in order to create a situation where investor confidence could be nurtured.

General economic indicators

Indicator	Period	Direction	Latest	Previous	2017	2012
Consumer inflation headline urban (%)	Oct-18	▲	5.1	4.9	5.3	5.6
Consumer inflation urban - excl. food, bev. & fuel (%)	Oct-18	▲	4.4	4.3	4.8	4.9
Money supply M3 eop (% Δ Y-o-Y)	Oct-18	▼	6.0	7.0	6.4	5.2
Private sector credit eop (% Δ Y-o-Y)	Oct-18	▼	5.8	6.3	6.4	10.4
Real prime overdraft rate eop (%)*	Oct-18	▶	5.5	5.5	5.2	3.4
Prime overdraft rate eop (%)	Nov-18	▲	10.25	10.00	10.25	8.50
Liquidations number sa	Oct-18	▲	194	148	1868	2716
Bond yield 5-10y govt eop (%)	Nov-18	▲	9.02	8.59	7.88	6.50
R / US$ average	Nov-18	▼	14.10	14.52	13.31	8.21
R / Euro average	Nov-18	▼	16.02	16.67	15.04	10.55

Indicator	Date	Direction	Latest	Previous	2017	2012
Income & wealth tax / GDP (%) saar	q2-18	▲	16.5	16.0	15.4	14.2
Total tax / GDP (%) saar	q2-18	▲	30.2	28.5	28.0	26.3
Public sector borrowing requirement / GDP (%)	q2-18	▲	3.6	1.8	4.4	6.0
Public sector expenditure / GDP (%)	q2-18	▼	27.5	27.6	27.5	27.2
Budget balance / GDP (%)	q2-18	▼	-2.3	-2.4	-4.4	-5.2
Imports / GDE (%)	q2-18	▼	27.7	28.2	28.7	30.7
Exports / GDP (%)	q2-18	▲	28.3	27.9	29.8	29.7
Net foreign investment flows / GDP (%)	q2-18	▼	5.6	3.3	2.7	6.4
Current account balance / GDP (%)	q2-18	▼	-1.9	-6.1	-2.4	-5.1
Gross domestic saving / GDP (%) saar	q2-18	▲	14.5	14.1	16.2	14.8
Gross capital formation / GDP (%) saar	q2-18	▼	17.8	18.6	18.6	20.0
Net fixed capital formation / GDP (%)	q2-18	▼	-	-	5.2	6.1
GDP growth (% Δ Y-o-Y)	q2-18	▼	0.4	0.8	1.3	2.2

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.