SOUTH AFRICAN CHAMBER OF COMMERCE AND INDUSTRY

Business Confidence Index

January 2019

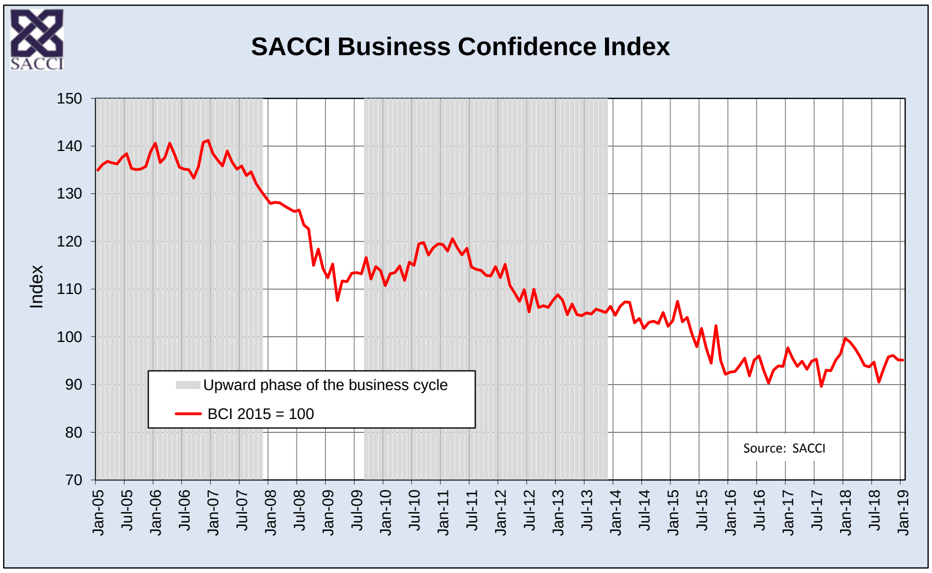
SACCI

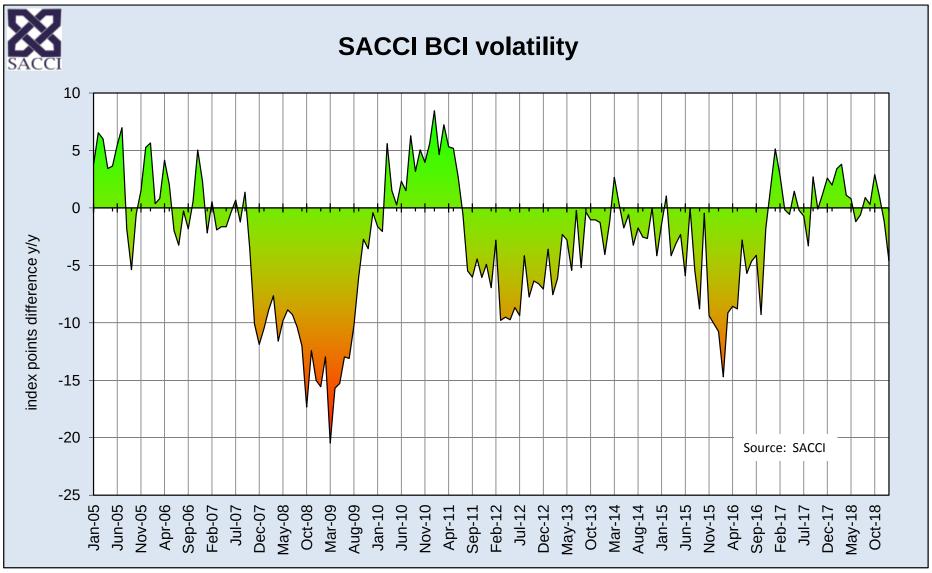
Content:

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	2012	2013	2014	2015	2016	2017	2018	2019
January	112.4	108.8	104.5	103.4	92.6	97.7	99.7	**95.1**
February	115.2	107.7	106.4	107.4	92.7	95.5	98.9	
March	110.8	104.7	107.3	103.2	94.0	93.8	97.6	
April	109.2	106.9	107.2	104.1	95.5	94.9	96.0	
May	107.4	104.7	102.9	100.6	91.8	93.2	94.0	
June	109.9	104.4	103.8	97.9	95.1	94.9	93.7	
July	105.2	105.0	101.8	101.8	96.0	95.3	94.7	
August	110.0	104.8	103.0	97.6	92.9	89.6	90.5	
September	106.2	105.8	103.3	94.5	90.3	93.0	93.3	
October	106.5	105.5	102.8	102.3	93.0	92.9	95.8	
November	106.2	105.1	105.1	95.1	93.9	95.1	96.1	
December	107.7	106.4	102.2	92.2	93.8	96.4	95.2	
Average	**108.9**	**105.8**	**104.2**	**100.0**	**93.5**	**94.4**	**95.5**	





This month's BCI results

The **SACCI** Business Confidence Index (BCI) remained virtually unchanged in January 2019 by measuring 95.1 compared to 95.2 in December 2018. Compared to January 2018, however, the BCI was 4.6 index points down from the exceptional level of 99.7 in January 2018. The level of January last year was to a large extent based on expectations for better business prospects following on new leadership of the ruling party. The deterioration of the economic and business climate in the preceding years was however worse than realised and it soon became clear that it would call for more active engagement to get the economy and business climate back on track.

The **SACCI** BCI continued to level out and move sluggishly during 2018 as there was little real progress in economic performance with recessionary conditions being experienced during two quarters of the year. Further attention was drawn to the extent of redress necessary to address the prevalence of maladministration and corrupt practices that impacted negatively on the economy and the business environment.

Lack of action against those implicated by maladministration and a continuing uncertain economic policy environment did not benefit the business climate. More recent efforts to convince business and investors on positive actions planned will have to be followed by implementation - thus demonstrating commitment to improve the economic performance of the affected entities and thus the broader economy.

Nine of the thirteen sub-indices of the **SACCI** BCI were worse off in January 2019 than in January 2018. However, in general the assessment is that the economy and the business climate are better placed for improved performances than the sentimental euphoria of a year ago. The realism of challenges facing the economy and the ability of the economy to adhere to expectations are more sober.

The month-on-month (m/m) movements of the BCI sub-indices remained irregular with January 2019 being no exception. Three of the seven real-activity sub-indices and two of the six financial sub-indices had positive m/m impacts on the BCI in January 2019. The main positive m/m effects were caused by increased real retail sales, the increased real value of building plans passed, and the stronger rand exchange rate. Higher share prices on the JSE also contributed positively to the BCI in January compared to December 2018. Merchandise import and export volumes and new vehicle sales had notable negative m/m effects on the BCI in January 2019.

The year-on-year (y/y) decline of the BCI in January 2019 was mainly caused by less merchandise import and export volumes, lower share prices, and a weaker rand exchange rate. There was no major positive y/y impact by the sub-indices on the January 2019 BCI.

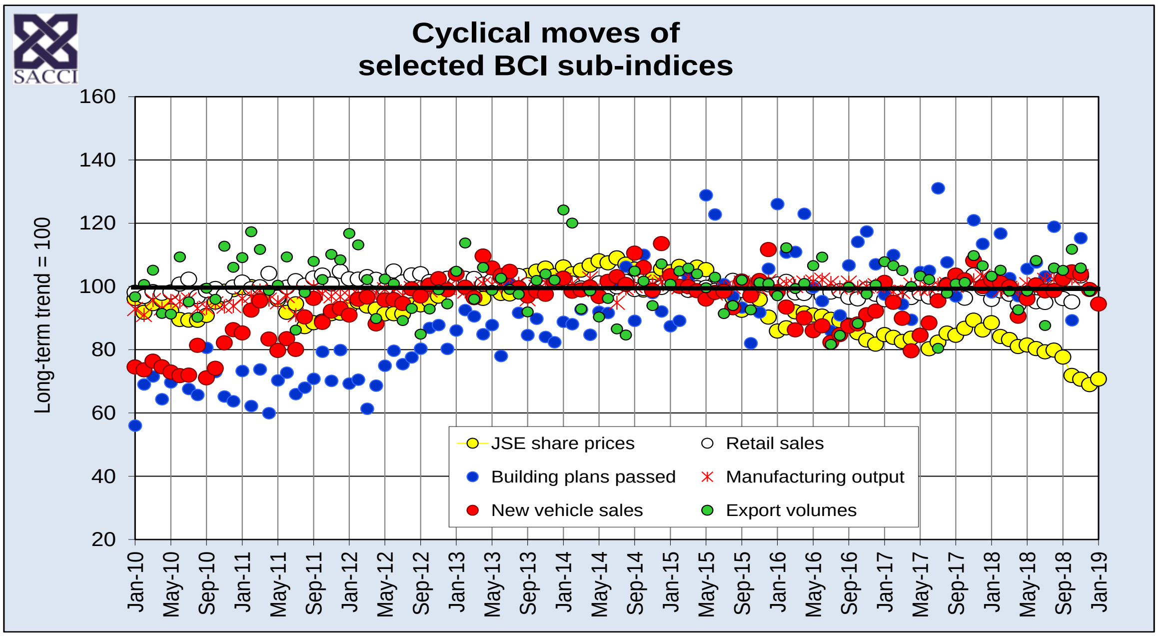
Four of the seven real-activity indices made negative y/y impacts on the BCI in January 2019, while only the real cost of finance (by default) had a positive y/y effect on the business climate. The five financial sub-indices that had negative y/y impacts on the business climate reiterate the tighter financial environment 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	+	+	+	+
Manufacturing	o	+	+	+
Exports	-	-	-	-
Imports	-	+	-	+
Vehicle sales	-	-	-	o
Retail sales	+	-	o	-
Construction - buildings	+	-	-	-
Inflation¹	-	o	-	-
Share prices	+	-	-	-
Real private sector borrowing	-	o	-	o
Real financing cost	o	-	+	+
Precious metal prices	o	o	-	-
Rand exchange rate	+	-	-	-

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

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



Economic commentary

Challenging economic climate

The World Economic Forum (WEF) annual meeting that took place from 22 to 25 January 2019 in Davos dealt with a number of matters, but its economic agenda amongst others paid specific attention to the future of economic progress. 2019, to some extent, is regarded as '… the year of confusion..” by not being clear on what is the direction with an uncertain outcome of Brexit, French demonstrations, the government shutdown in the USA, and a slowing world economy. For South Africa the meeting provided an opportunity to promote South Africa as an investment destination and to quell concerns about economic policy, secure investment, and a return on investment that is compatible with international standards.

Evidence suggests that global economic growth is slowing. Although the probability of a recession in 2019 is low, the probability increases through 2020 and 2021. A US-China trade deal or certainty on Brexit could be a positive catalyst. However, according to the IMF, global growth is on the downside while the intensification of trade tensions remain a key risk to economic prospects. Financial conditions have already tightened and a number of causes beyond the trade tensions could spark a deterioration in investor sentiment with negative growth implications – notably in economies with high levels of public and private debt. A “no-deal” Brexit and a more than anticipated slowdown in China's economic growth could hold particular consequences for some emerging market economies.

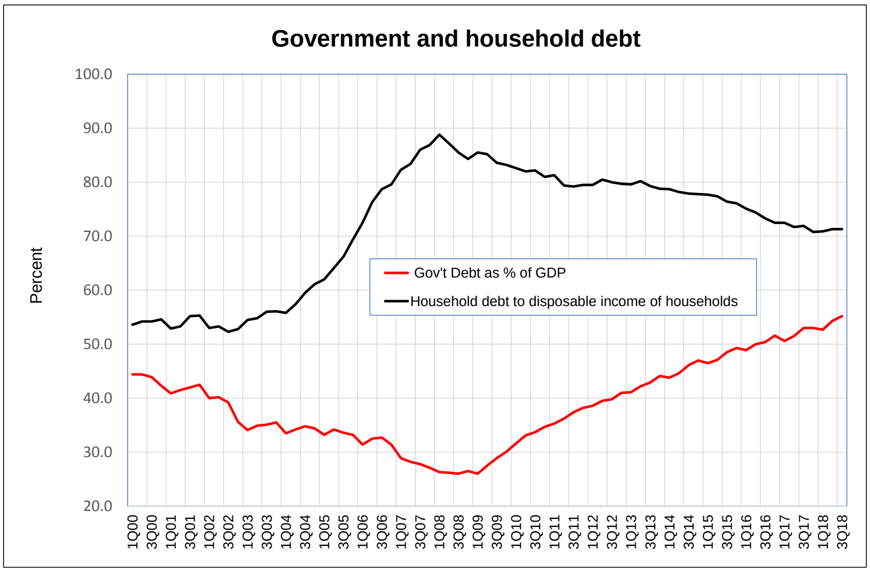
The IMF has therefore revised the global growth prospects for 2019 downward – from 3.7% to 3.5%. Sub-Sahara ought to grow by 3.5% with South Africa much lower at 1.4%. A return of investor confidence could, however, provide a boost if accompanied by measures to boost potential output, enhance inclusiveness, and strengthen fiscal and financial cushions given high debt burdens of households and the public sector.

The importance of the 2019/20 Budget

In his presentation of the Medium Term Budget Policy Statement (MTPBS) on 24 October 2018, the Minister of Finance indicated stark economic realities and choices that come with prospects for the future. These choices and realities do not only indicate challenges, but could also serve as guidance for areas in the economy that need structural changes. It is not only an exercise of selecting spending priorities, but Budget 2019/20 could be a key event for setting the economy on a renewed growth path to compliment the Davos investment showcase.

The Minister indeed has to deal with difficult choices, not only on the spending side (functional – education, health, law & order, grants, etc., and economic – salaries & wages, current versus capital, etc.), but also on revenue issues. It is the revenue side that ultimately set the parameters for the spending priorities. From figure 1 it is clear that government debt has already reach worrying proportions and that it does not provide any space nor comfort.

Figure 1

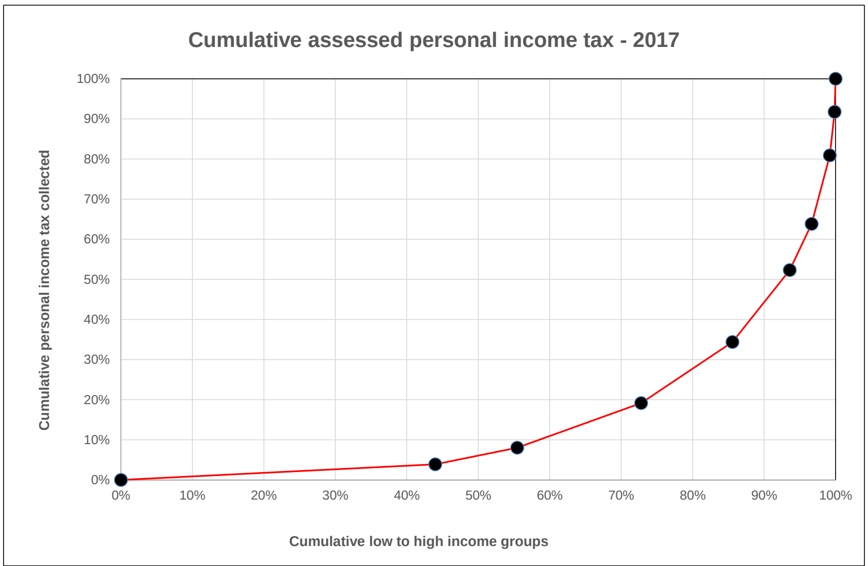


Source: SA Reserve Bank, Quarterly Bulletin December 2018.

On the revenue side the options are limited with political and economic consequences. Figure 2 shows that a small number of tax payers are responsible for the bulk of revenue from personal income tax collected by SARS. The chart indicate that roughly 73% of tax payers contribute only about 20% of personal income tax collected.

Some 4.9 million personal income tax payers (76.5%) have been assessed in the 2017 tax year. In 2014 87% of personal income tax payers were assessed by SARS but assessments steadily declined to 76.5% in 2017. The scope for higher indirect tax like the fuel levy and VAT, apart from economic consequences, could also spark political resentment. The financial position of households (see figure 1) also limit the proposition of increasing the tax burden. It appears that cutting public sector spending may be the only viable avenue at present.

Figure 2



Source: SARS, 2018 Tax statistics.

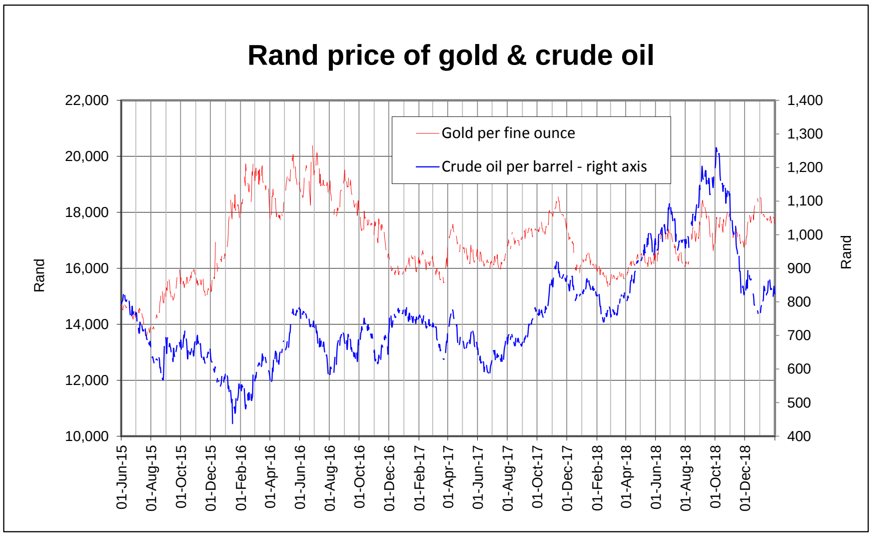
Impact of the drought and fuel price on inflation

Producer inflation (PPI) fell noticeably to 5.2% in December 2018 from 6.8% in November, mainly due to a significant moderation in rand fuel prices. Inflation within the coal, petroleum, chemical, rubber and plastic products component came to 8.9% in December from 17.1% in November as the petrol and diesel price respectively declined by 184c/litre and 145c/litre.

Inflation of manufactured food, which has a notable weighting in the PPI basket and has provided a substantial contribution to PPI inflation during most of 2018 but edged up marginally in December as it measured 2.2% from 1.8% in November. Drought conditions, however, could initially cause some agricultural prices to even decline, but an uptick is anticipating in food price inflation later this year. This follows minimal rainfall in the central and western parts of the country, which subsequently deferred white maize and sunflower plantings.

While short-term inflationary pressures have subsided somewhat (CPI averaged 4.6% in 2018), upside risks to inflation are present. Surging administered prices, especially electricity, a key input for manufacturers remains a key concern, following Eskom's recent appeal for a further 15% rise in tariffs, per year, for the next three years. This, coupled with gradually rising domestic food prices, a highly volatile international oil price and lower global growth prospects, amid a volatile rand exchange rate, continue to weigh on the inflation outcome.

Figure 3



Conclusion

Although the **SACCI** BCI appears to have stabilised, investor confidence remains the panacea to higher economic growth in 2019 and beyond. Dealing effectively with institutions and individuals involved with adverse business practices in the public domain becomes an important element for restoring confidence. Of equal importance is creating the attraction for investors when the Davos investment destination imperatives are implemented. Budget 2019/20 provides a timeously and ideal opportunity to pursue the right investor friendly climate.

General economic indicators

Indicator	Period	Direction	Latest	Previous	2018	2013
Consumer inflation headline urban (%)	Dec-18		4.5	5.2	4.6	5.8
Consumer inflation urban - excl. food, bev. & fuel (%)	Dec-18		4.5	4.4	4.3	5.4
Money supply M3 eop (% Δ Y-o-Y)	Dec-18		5.7	5.7	5.7	5.8
Private sector credit eop (% Δ Y-o-Y)	Dec-18		5.6	5.7	5.6	6.3
Real prime overdraft rate eop (%)*	Dec-18		5.5	5.6	5.5	2.9
Prime overdraft rate eop (%)	Jan-19		10.25	10.25	10.25	8.50
Liquidations number sa	Dec-18		159	143	1845	2374
Bond yield 5-10y govt eop (%)	Jan-19		8.73	8.91	8.91	7.73
R / US$ average	Jan-19		13.82	14.24	13.24	9.65
R / Euro average	Jan-19		15.78	16.26	15.62	12.82

Indicator	Date	Direction	Latest	Previous	2017	2012
Income & wealth tax / GDP (%) saar	q3-18		14.0	16.6	15.4	14.2
Total tax / GDP (%) saar	q3-18		27.6	30.2	28.0	26.3
Public sector borrowing requirement / GDP (%)	q3-18		4.2	3.9	4.6	6.0
Public sector expenditure / GDP (%)	q3-18		27.5	27.7	27.5	27.2
Budget balance / GDP (%)	q3-18		-7.9	-2.2	-4.4	-5.2
Imports / GDE (%)	q3-18		30.1	27.8	28.7	30.7
Exports / GDP (%)	q3-18		30.1	28.3	29.8	29.7
Net foreign investment flows / GDP (%)	q3-18		2.1	5.6	2.7	6.4
Current account balance / GDP (%)	q3-18		-4.5	-1.9	-2.4	-5.1
Gross domestic saving / GDP (%) saar	q3-18		14.6	14.4	16.2	14.8
Gross capital formation / GDP (%) saar	q3-18		18.0	17.7	18.6	20.0
Net fixed capital formation / GDP (%)	q3-18		-	-	5.2	6.1
GDP growth (% Δ Y-o-Y)	q3-18		1.1	0.4	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.