

# **SOUTH AFRICAN CHAMBER OF COMMERCE AND INDUSTRY**

Business Confidence Index

May 2019



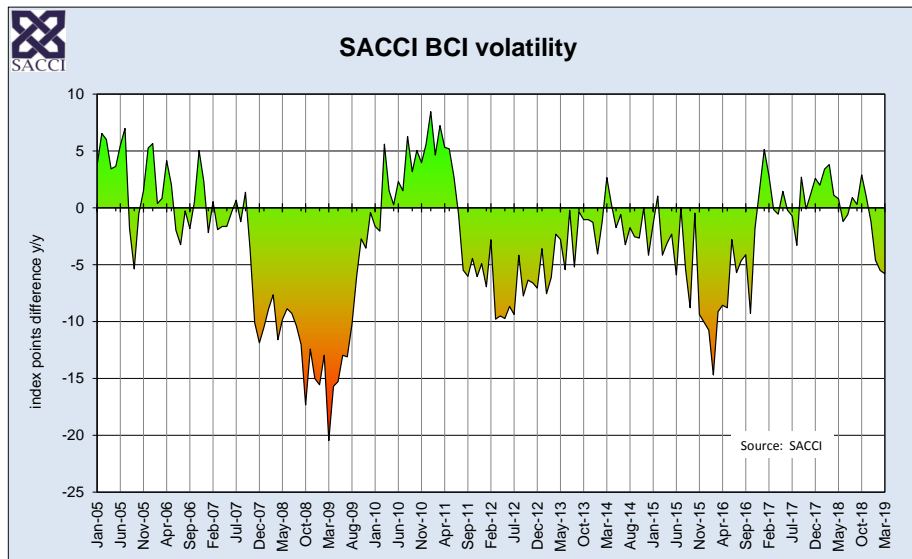
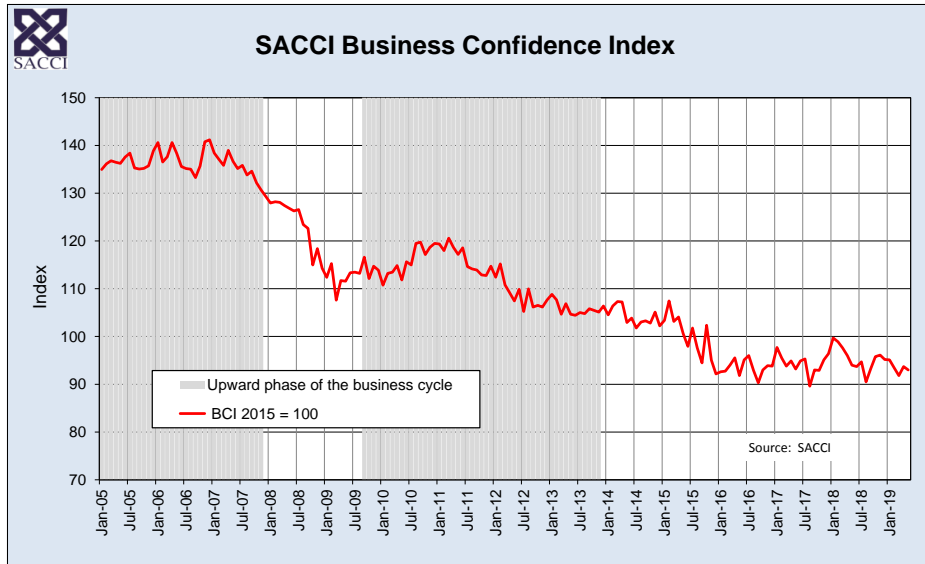
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*Because of information lags and changes in expectations, the dynamics of the business mood, may, at times, be at variance with the economic environment. As a result, always read the BCI with other economic data and the accompanying economic commentary. For notes on the BCI, see the SACCI website at [www.sacci.org.za](http://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        | 93.4        |
| March          | 110.8        | 104.7        | 107.3        | 103.2        | 94.0        | 93.8        | 97.6        | 91.8        |
| April          | 109.2        | 106.9        | 107.2        | 104.1        | 95.5        | 94.9        | 96.0        | 93.7        |
| May            | 107.4        | 104.7        | 102.9        | 100.6        | 91.8        | 93.2        | 94.0        | <b>93.0</b> |
| 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        |             |
| <b>Average</b> | <b>108.9</b> | <b>105.8</b> | <b>104.2</b> | <b>100.0</b> | <b>93.5</b> | <b>94.4</b> | <b>95.5</b> |             |



## **This month's BCI results**

### *Marginally lower Business Confidence*

**SACCI's** Business Confidence Index (BCI) declined to 93.0 in May 2019 from 93.7 in April 2019 and was also one index point lower than the 94.0 level in May 2018. The May 2019 BCI level of 93.0 indicates that the business climate still lags the business conditions that prevailed in 2018, whose average for the year was 95.5. The 5-month average index for 2019 is 93.4.

In the April 2019 to May 2019 month-to-month analysis of the sub-indices, four of the thirteen sub-indices that make up the composite BCI improved, eight decreased and one sub-index remained unchanged. The four sub-indices that improved are increased merchandise export volumes, lower consumer price inflation, and increased real credit extension to the private sector.

The year-on-year decline of the BCI from 94.0 in May 2018 to 93.0 in May 2019 was driven by the following sub-indices - investment and trade weighted rand that depreciated against the US-dollar, the British pound and the Euro; the decline in the all-share index of the JSE; the lower real value of building plans passed; less new vehicles sold, and declining real retail sales. There was an increase in import and export trade volumes, and lower annual consumer inflation.

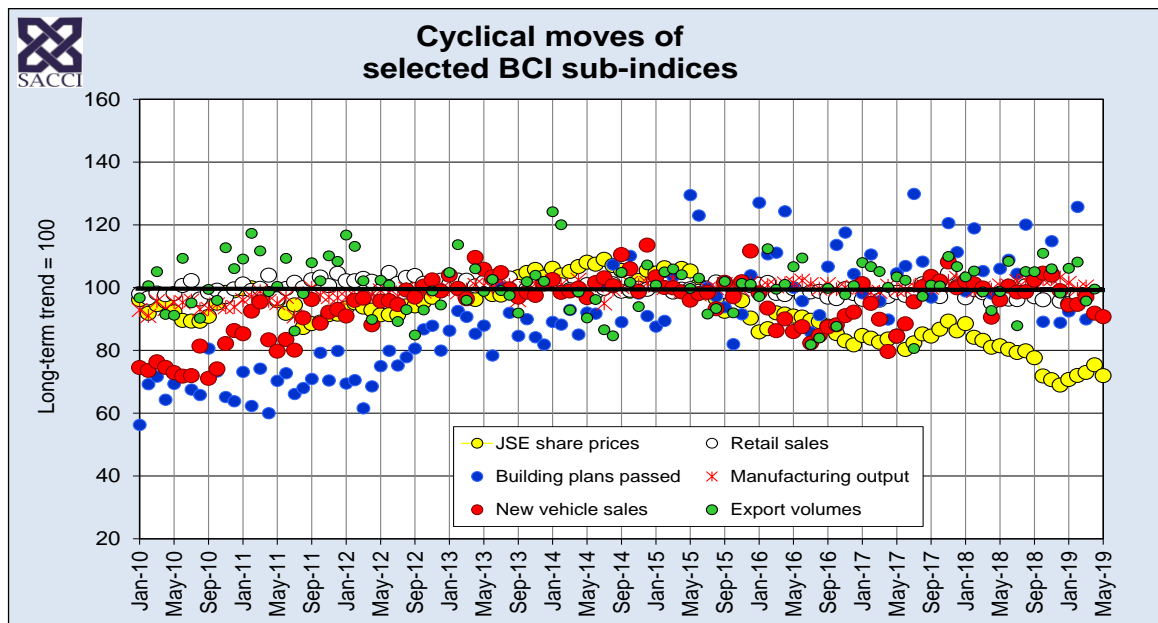
With the national and provincial elections now concluded and the new cabinet and provincial legislature now in place, business anticipates priority focus to be on efforts to grow the economy, to create jobs, to eliminate historical social injustices, to improve education and health care, to fight crime, and broadly to improve the lives of ordinary South Africans.

### 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           | o              |
| Exports                       | +           | -              | +           | -              |
| Imports                       | -           | +              | +           | -              |
| Vehicle sales                 | -           | -              | -           | +              |
| Retail sales                  | -           | +              | -           | -              |
| Construction - buildings      | -           | +              | -           | +              |
| Inflation <sup>1</sup>        | +           | o              | +           | -              |
| Share prices                  | -           | +              | -           | -              |
| Real private sector borrowing | +           | o              | +           | o              |
| Real financing cost           | -           | o              | -           | o              |
| Precious metal prices         | -           | o              | -           | -              |
| Rand exchange rate            | -           | +              | -           | -              |

\* See notes on BCI on [www.sacci.org.za](http://www.sacci.org.za)

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



## **This month's economic review**

### ***Economic Growth Optimism***

With the national and provincial elections now concluded and the new cabinet and provincial legislature now in place, business anticipates priority focus to be on elements that drive economic growth. To that end, there is optimism that business confidence is likely to respond positively to the new government.

In a statement by **SACCI** on the 24<sup>th</sup> of May 2019, **SACCI** listed a number of matters to note:

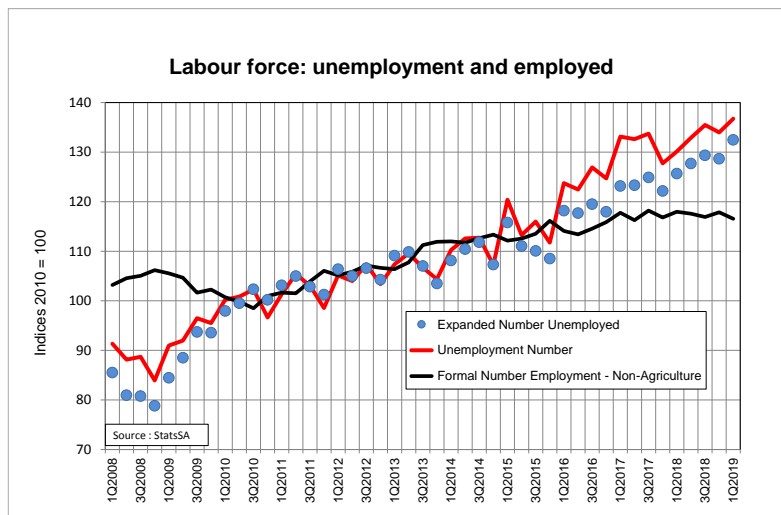
- “South Africans have borne the brunt of the poor performance of the economy, high levels of crime, corruption, and high unemployment among the other adverse factors”....and that
- “South Africans are united in their demands and expectations that competence and credibility rank highest among the many factors”....
- “The next point would be to introduce a progressive performance and competence management system in government.”
- “The President needs to urgently set out a solid roadmap for forcing a culture of competence and the right personal and professional values in government.”

There is an air of optimism as stakeholders seem prepared to give President Ramaphosa an opportunity to deliver on his promises, coupled by his commitment to drive performance, and to be held personally accountable. This bodes well for business confidence, although time will tell if indeed words translate into action and results.

### ***Marginally Subdued Economic Performance***

Global growth has picked up somewhat, but some notable uncertainty remains. World output is expected to average 3.3% in 2019 and remain steady at about 3.5% from 2020 and over the medium term. Continuing international trade disputes add more uncertainty to global economic coherence and purpose. The intensification of global trade tensions and the indecision on Brexit could significantly impact global trade with likely negative impacts for South Africa as a small open economy and with major trading partners like China and Europe.

With moderate global economic activity, the domestic growth momentum has receded somewhat despite optimism for a better business environment under the newly elected government. There are still uncertainties about physical electricity supply, and this factor alone has the highest and immediate impact on business, consumer and investor confidence. This, among several other factors needs urgent attention. Public sector financial challenges at all levels of government as well as some state owned enterprises also call for urgent remedies by the new administration.



## General Economic Developments

Apart from serious supply constraints to the potential output of the domestic economy, one of the well managed areas is monetary policy and the containment of inflation. The SA Reserve Bank (SARB) expects GDP growth for 2019 to average 1.0% - lower than the projected 1.3% in March. Fixed capital spending and household consumption expenditure also remain inadequate with growing pressure on household disposable income. Real fixed investment is now forecast by the SARB to contract by 0.3% in 2019, while household consumption expenditure will rise by a modest 1%.

The SARB assumes the crude oil price to increase from US-dollar 64 to US-dollar 69.50 for 2019 while the Bank considers the rand to be slightly undervalued. Consequently, the medium-term inflation outlook has eased. The forecast headline CPI rate for 2019 is 4.5%; 5.1% in 2020, and 4.6% in 2021. Therefore the SARB views the implied path of policy rates generated by their Projection Model for one cut of 25 basis points to the repo rate by the end of the 1<sup>st</sup> quarter of 2020.

Credit extension to the private sector increased by 8.0% y/y in April 2019 compared to 6.1% y/y in March 2019 with household credit extension increasing by 6% y/y in April 2019, and credit to the business sector increasing by a notable 9.6% y/y in April 2019 from 6% in March 2019. Measured against producer inflation (PPI), the real increase of business credit amounted to 2.8% y/y and credit to households by 3.4% y/y in real terms as measured against the CPI.

Despite optimism for a possible revival of growth of the economy, the credit rating agency Moody's noted that the long-term economic prospects for South Africa remained poor unless remedies are found for effective policy change, the state's credit profile, fiscal financial weakness and low economic growth. Moody's nonetheless maintained its present credit rating.

South Africa's credit rating at Standard and Poor's (S&P) was kept on junk status while the outlook sees no swift improvement. S&P puts South Africa's rand-denominated government debt one level below investment grade and dollar-denominated government debt two levels below investment grade.

The MSCI Emerging Markets Index lately valued South Africa as a less attractive investment destination for non-residents. The index is made up of equity portfolios of 24 emerging market countries, including China, Brazil, India and Russia. The index weighs factors such as earnings, dividends and liquidity. The index is reviewed quarterly and South Africa's weight has lately fallen from 6.34% to 6.05% with potential US-dollar one billion flowing out of the country as being part of the MSCI index.

The flows of portfolio capital remains an important indicator of South Africa as an investment destination and the MSCI index demonstrate the urgency with which economic growth and financial prudence should be approached.

### *Conclusion*

With the national and provincial elections now concluded and the new cabinet and provincial legislature in place, business anticipates priority focus to be on efforts to grow the economy, to create jobs, to eliminate historical social injustices, to improve education and health care, to fight crime, and broadly to improve the lives of ordinary South Africans.

The task at hand in driving a growth economy is no easy task but can be achieved if the President delivers on his promises to drive performance of his new cabinet, and to be held accountable in the event of non-performance. Although business confidence is not at an ideal level, there is a positive mood coupled with hope that indeed President Ramaphosa will drive a positive growth of the economy.



## General economic indicators

| Indicator                                              | Period | Direction | Latest | Previous | 2018  | 2013  |
|--------------------------------------------------------|--------|-----------|--------|----------|-------|-------|
| Consumer inflation headline urban (%)                  | Apr-19 | ▼         | 4.4    | 4.5      | 4.6   | 5.8   |
| Consumer inflation urban - excl. food, bev. & fuel (%) | Apr-19 | ▼         | 4.2    | 4.6      | 4.3   | 5.4   |
| Money supply M3 eop (% Δ Y-o-Y)                        | Apr-19 | ▲         | 8.8    | 6.9      | 5.6   | 5.8   |
| Private sector credit eop (% Δ Y-o-Y)                  | Apr-19 | ▲         | 8.0    | 6.1      | 5.6   | 6.3   |
| Real prime overdraft rate eop (%)*                     | Apr-19 | ▲         | 5.8    | 5.4      | 5.5   | 2.9   |
| Prime overdraft rate eop (%)                           | May-19 | ▶         | 10.25  | 10.25    | 10.25 | 8.50  |
| Liquidations number sa                                 | Apr-19 | ▲         | 176    | 164      | 1845  | 2374  |
| Bond yield 5-10y govt eop (%)                          | May-19 | ▼         | 8.44   | 8.54     | 8.91  | 7.73  |
| R / US\$ average                                       | May-19 | ▲         | 14.43  | 14.15    | 13.24 | 9.65  |
| R / Euro average                                       | May-19 | ▲         | 16.14  | 15.89    | 15.62 | 12.82 |

| Indicator                                     | Date  | Direction | Latest | Previous | 2018 | 2013 |
|-----------------------------------------------|-------|-----------|--------|----------|------|------|
| Income & wealth tax / GDP (%) saar            | q4-18 | ▶         | 14.4   | 14.4     | 15.5 | 14.4 |
| Total tax / GDP (%) saar                      | q4-18 | ▼         | 27.7   | 27.9     | 28.7 | 26.7 |
| Public sector borrowing requirement / GDP (%) | q4-18 | ▼         | 2.2    | 4.2      | 3.1  | 5.6  |
| Public sector expenditure / GDP (%)           | q4-18 | ▼         | 26.1   | 26.3     | 26.4 | 27.6 |
| Budget balance / GDP (%)                      | q4-18 | ▼         | -2.8   | -8.1     | -3.9 | -4.8 |
| Imports / GDE (%)                             | q4-18 | ▼         | 30.5   | 30.8     | 29.6 | 32.5 |
| Exports / GDP (%)                             | q4-18 | ▲         | 31.3   | 30.8     | 29.9 | 31.0 |
| Net foreign investment flows / GDP (%)        | q4-18 | ▼         | 1.8    | 2.0      | 3.2  | 5.2  |
| Current account balance / GDP (%)             | q4-18 | ▼         | -1.4   | -4.7     | -3.6 | -5.8 |
| Gross domestic saving / GDP (%) saar          | q4-18 | ▼         | 14.0   | 14.9     | 14.4 | 15.4 |
| Gross capital formation / GDP (%) saar        | q4-18 | ▼         | 16.2   | 18.5     | 18.0 | 21.2 |
| Net fixed capital formation / GDP (%)         | q4-18 | ▼         | -      | -        | 4.3  | 6.7  |
| GDP growth (% Δ Y-o-Y)                        | q4-18 | ▼         | 1.1    | 1.3      | 0.8  | 2.5  |

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.