

SOUTH AFRICAN CHAMBER OF COMMERCE AND INDUSTRY

Business Confidence Index

December 2019



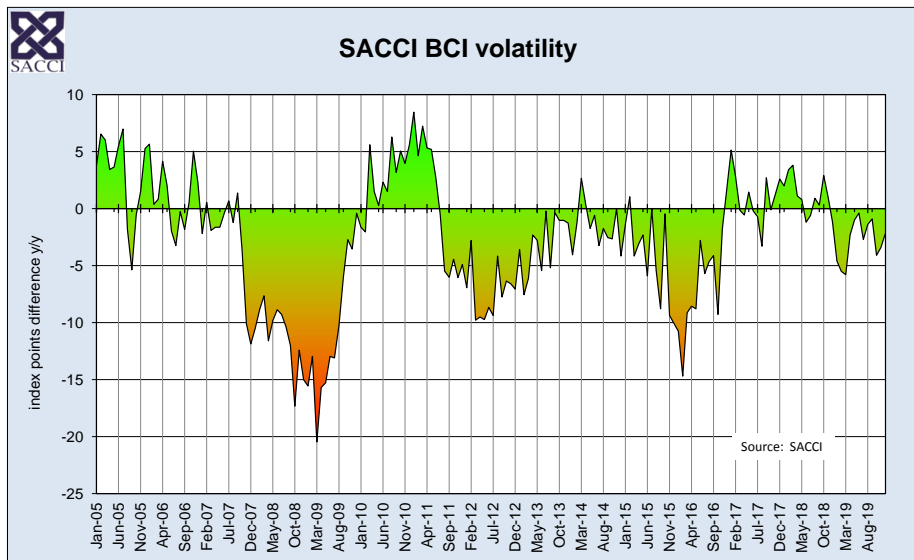
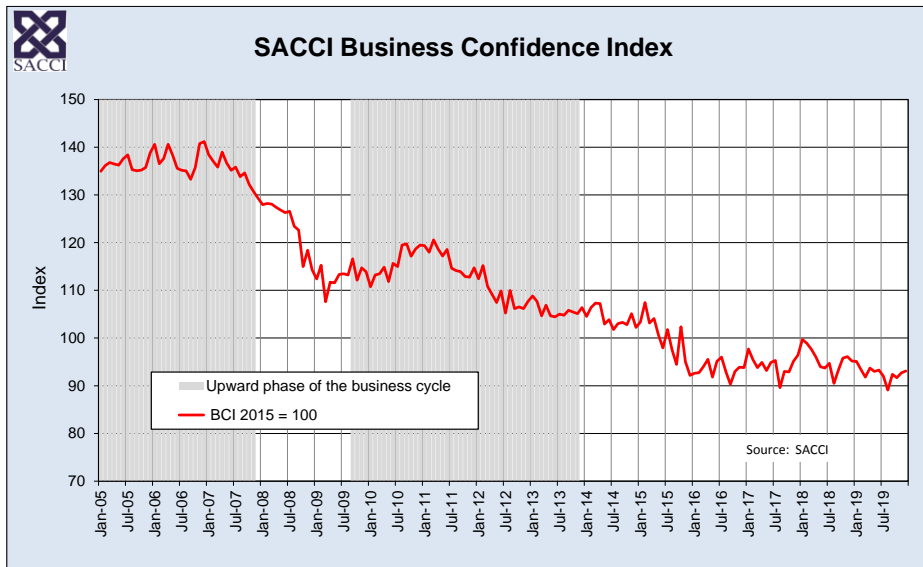
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Because of information lags and changes in expectations, the dynamics of the business mood, may, at times, be at variance with the economic environment. As a result, always read the BCI with other economic data and the accompanying economic commentary.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

The SACCI Business Confidence Index (BCI) 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	93.0
June	109.9	104.4	103.8	97.9	95.1	94.9	93.7	93.3
July	105.2	105.0	101.8	101.8	96.0	95.3	94.7	92.0
August	110.0	104.8	103.0	97.6	92.9	89.6	90.5	89.1
September	106.2	105.8	103.3	94.5	90.3	93.0	93.3	92.4
October	106.5	105.5	102.8	102.3	93.0	92.9	95.8	91.7
November	106.2	105.1	105.1	95.1	93.9	95.1	96.1	92.7
December	107.7	106.4	102.2	92.2	93.8	96.4	95.2	93.1
Average	108.9	105.8	104.2	100.0	93.5	94.4	95.5	92.6



This month's BCI results

The Business Confidence Index (BCI) of **SACCI** reflects how businesses are reacting to and how they are experiencing the business environment. The BCI is therefore market-related and recognizes economic developments that have a bearing on the business mood in South Africa. Although the BCI virtually moved sideways at 93.1 in December 2019 when compared to 92.7 in November 2019, it nevertheless was 2.1 index points below the level of 95.2 in December 2018 and declined from an average of 95.5 in 2018 to 92.6 in 2019.

The composite BCI stood its ground in December, but some of the sub-indices were quite inconsistent during December. This was particularly the case with the rand exchange rate against major trading currencies, US-dollar precious metal prices, the JSE all-share price index, and the US-dollar crude oil price. These intra-month moves had positive and negative impacts on the business mood during December.

Six of the thirteen sub-indices of the BCI were unchanged between December and November 2019, four were positive, and three made a negative impact on the BCI in December. Despite the impulsive moves in some of the financial sub-indices during December, the six financial sub-indices on average remained unchanged. Of the seven activity sub-indices, the impact between negative and positive moves in December were slightly positively slanted.

The largest monthly positive impacts on the BCI came from merchandise import volumes, the real value of building plans passed, new vehicle sales, and manufacturing output. Real merchandise exports and energy supply (due to load shedding and oil price), had notable negative monthly impacts on the BCI in December.

The BCI declined by 2.1 index points on the December 2018 level. The most positive annual impacts came from the US-dollar price of precious metals, new vehicle sales and lower inflation. Merchandise import and export volumes, and energy supply had notable negative impacts on the BCI in December 2019 compared to December 2018.

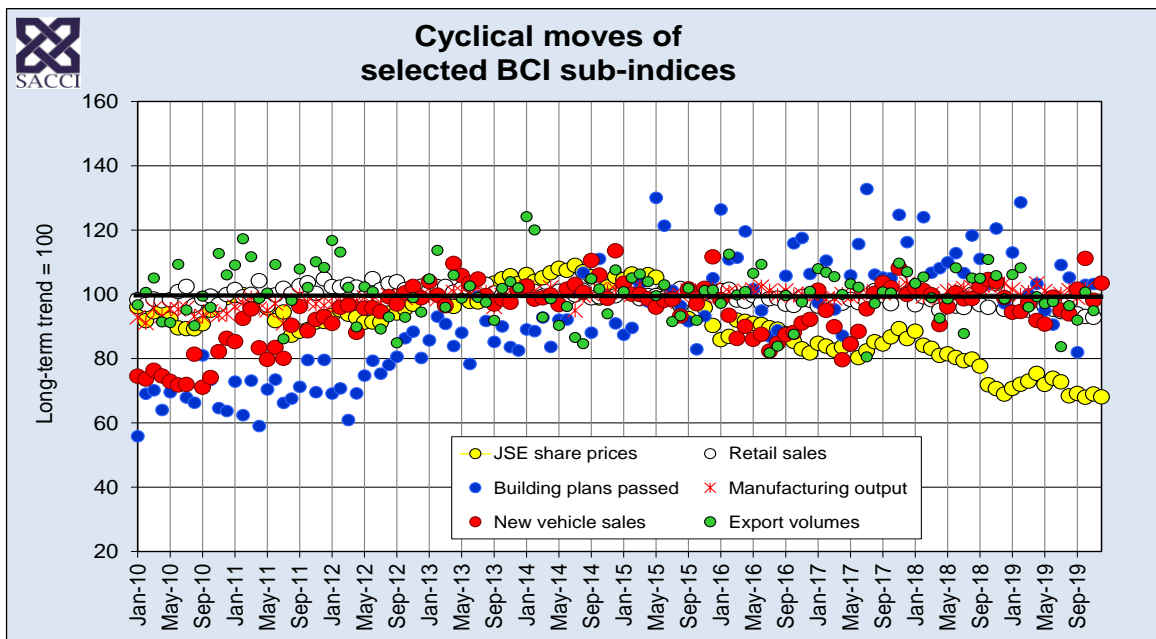
Business confidence could tilt either way in the weeks and months ahead, and will depend on the economic performance envisaged in the upcoming State of the Nation address (SONA) and Budget. Broader economic developments are reviewed in the Economic Review on page 5.

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	-	+	-	0
Manufacturing	+	-	-	-
Exports	-	+	-	-
Imports	+	+	-	-
Vehicle sales	+	-	+	-
Retail sales	0	-	-	-
Construction - buildings	+	-	0	-
Inflation ¹	0	0	+	+
Share prices	0	0	0	-
Real private sector borrowing	-	+	0	+
Real financing cost	0	0	0	-
Precious metal prices	0	0	+	+
Rand exchange rate	0	+	0	-

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

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



This month's economic review

Flat Economic Performance

The 3rd quarter 2019 data on the performance of the South African economy reflects an under-performing economy. Indications are that the economy's potential is wavering and requires positive corrective steps to direct the economy in an appropriate direction. The subdued world economy also does not facilitate an export driven recovery. With South Africa's structural challenges impacting on our global competitiveness, the business climate will remain murky. The upcoming SONA and Budget 2020/21 together with the evaluation of the credit rating agencies will provide some direction on the way forward.

Slowing Economic Growth

The table below reflects how economic growth in South Africa faltered. The more labour intensive sectors like manufacturing, mining and quarrying, construction, and agriculture, forestry and fishing hardly expanded or even declined during 2019 compared with the corresponding period a year ago. With the unemployment rate hovering above 29 percent and less job opportunities evident, socio economic circumstances are bound to get worse before they can get better.

The GDP grew by a low 0.3% y/y in the first three quarters of 2019. GDP declined between the 2nd and the 3rd quarters of 2019 – suggesting possible technical recessionary conditions in the economy. The worst performing sectors over the first nine months of 2019 was agriculture (-9.4% y/y), construction (-2.6% y/y), mining (-2.2% y/y), electricity (-1.4% y/y), and manufacturing (-0.1% y/y). With the tertiary sector being the best performer, the evidence suggests turbulent period ahead for the South African economy.

A mismatch between domestic supply and demand could indicate serious implications for the Balance of Payments (BoP), the rand exchange rate and inflation if not carefully managed. Needs and expectations contain structural risks if growth (supply) contracts. It is in this vain that prudent monetary policy stance and current relative price stability (low inflation) should be continued. Given the serious public sector financial imbalances there is little room for manoeuvring on the fiscal position or indeed, adopt a more accommodating monetary stance.

GDP GROWTH										
SECTOR	2017	1Q 2018	2Q 2018	3Q 2018	4Q 2018	2018	1Q 2019	2Q 2019	3Q 2019	¾ 2019
	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	Y-o-Y %Δ	Y-o-Y %Δ
Finance, real estate and business services	2.1	1.3	0.9	1.9	3.1	1.8	2.4	3.1	2.3	2.6
General government services	0.3	1.2	1.5	1.6	1.0	1.3	0.9	1.7	1.8	1.5
Personal services	1.3	1.3	1.0	0.7	1.1	1.0	1.3	0.8	1.3	1.1
Transport and communication	1.4	2.0	-0.1	1.9	2.4	1.5	1.1	2.5	-1.0	0.8
Wholesale and retail trade; hotels and restaurants	-0.3	0.6	0.4	1.1	0.3	0.6	-0.6	0.4	0.6	0.1
Manufacturing	-0.2	0.3	1.0	1.2	1.3	0.9	0.6	0.5	-1.4	-0.1
Electricity and water	0.6	1.0	0.1	1.4	1.1	0.9	-1.4	-0.5	-2.4	-1.4
Mining and quarrying	4.3	-0.9	1.4	-3.8	-3.4	-1.7	-4.6	-1.4	-0.7	-2.2
Construction	-0.6	-1.8	-1.3	-0.8	-1.1	-1.2	-2.3	-2.3	-3.1	-2.6
Agriculture, forestry and fishing	18.7	-3.1	-16.9	9.4	-0.6	-2.8	-12.7	-6.7	-8.9	-9.4
GDP excluding agriculture	1.0	0.8	0.8	0.9	1.1	0.9	0.4	1.2	0.5	0.7
GDP at market prices	1.4	0.7	0.1	1.3	1.1	0.8	0.0	0.9	0.1	0.3

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

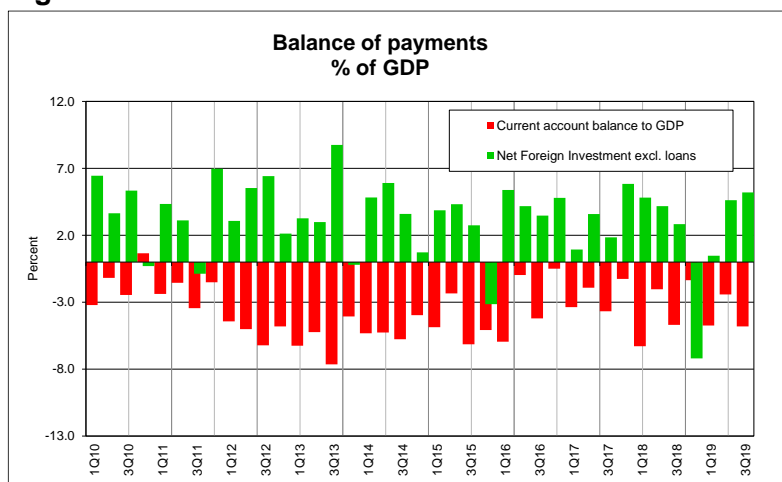
Balance of Payments (BoP) Developments

Together with the compromised fiscal position of a large number of public sector entities, the current and financial accounts of the BoP remain critical aggregates that serves as a check on the economic situation. The under performance of the South African economy on the output side is preventing the easing of monetary policy as an easier monetary stance could lead to relative excessive domestic demand and exacerbate already sensitive BoP imbalances. These imbalances could further lead to demand inflation and price instability - notably in the presence of an erratic rand. The 3rd quarter of 2019 current account deficit stood at 4.8% of GDP. This deficit was comfortably financed by net direct investment, net portfolio investment and net derivative inflows of 5.2% of GDP. See figure 1.

Net borrowing from abroad by monetary authorities, the general government, public corporations, banks, and the private sector, added another 6.5% of GDP to net foreign inflows on the financial account of the BoP. These loans supported the rand although causing substantial unpredictability on financial proceeds or costs that impact on foreign trade and add to uncertainty due to the higher risk associated with cost of finance. However, servicing these loans could have a longer term negative effect if not managed prudently and applied in a constructive way to assist the economy to perform better. Distress borrowing should be avoided.

Though the rand appreciated on average by 1.9% during December 2019 against a weighted trade and investment rand, it depreciated by 2.6% in the first week of December, then appreciated by 5.4% to four days before month end, and then remain steady for the rest of December. The thin trade in December probably contributed to the volatility, but nevertheless reflected vulnerability.

Figure 1



Source: Quarterly Bulletin, December 2019, SA Reserve Bank

Net sales of shares by non-residents amounted to R112 billion up to November 2019 compared to R53 billion for the whole of 2018. Net sales of bonds by non-residents amounted to R33 billion up to November 2019 compared to R88 billion for the whole of 2018. Though net sales of bonds declined markedly R55 billion, net sales of shares increased substantially by R59 billion. Somewhat in contrast to efforts to market South Africa as an investment destination abroad.

Conclusion

On balance, business confidence remained subdued in December 2019. Sensitivities with regard to the fiscal situation, the balance of payment, views expressed in the SONA, the Budget, and credit ratings, could have decisive impacts on the business climate and the economic performance of South Africa in 2020. In short, business confidence remains fragile going forward.

General Economic Indicators

Indicator	Period	Direction	Latest	Previous	2018	2013
Consumer inflation headline urban (%)	Nov-19	▼	3.6	3.7	4.6	5.8
Consumer inflation urban - excl. food, bev. & fuel (%)	Nov-19	▶	4.3	4.3	4.3	5.4
Money supply M3 eop (% Δ Y-o-Y)	Nov-19	▲	7.4	7.3	5.6	5.8
Private sector credit eop (% Δ Y-o-Y)	Nov-19	▼	6.6	7.3	5.6	6.3
Real prime overdraft rate eop (%)*	Nov-19	▶	5.5	5.5	5.5	2.9
Prime overdraft rate eop (%)	Dec-19	▶	10.00	10.00	10.25	8.50
Liquidations number sa	Nov-19	▲	223.0	176	1845	2374
Bond yield 5-10y govt eop (%)	Dec-19	▼	8.17	8.45	8.91	7.73
R / US\$ average	Dec-19	▼	14.42	14.80	13.24	9.65
R / Euro average	Dec-19	▼	16.03	16.35	15.62	12.82
Indicator	Date	Direction	Latest	Previous	2018	2013
Income & wealth tax / GDP (%)	3q-19	▼	13.8	15.4	15.5	14.4
Total tax / GDP (%)	3q-19	▼	27.1	27.6	28.8	26.7
Public sector borrowing requirement / GDP (%)	3q-19	▲	6.3	4.9	3.0	5.6
Public sector expenditure / GDP (%)	3q-19	▼	26.4	26.6	27.0	27.7
Budget balance / GDP (%)	3q-19	▲	-10.3	-4.6	-3.9	-4.8
Imports / GDE (%)	3q-19	▲	30.3	29.8	29.6	32.5
Exports / GDP (%)	3q-19	▲	30.6	29.5	29.9	30.9
Net foreign investment flows / GDP (%)	3q-19	▲	11.7	0.4	3.2	5.2
Current account balance / GDP (%)	3q-19	▲	-4.8	-2.4	-3.6	-5.8
Gross domestic saving / GDP (%)	3q-19	▼	14.2	17.0	14.4	15.3
Gross capital formation / GDP (%)	3q-19	▼	19.0	19.4	18.0	21.1
Net fixed capital formation / GDP (%)	2018	▼	-	-	4.3	6.7
GDP growth (% Δ Y-o-Y)	3q-19	▼	0.1	0.9	0.8	2.5

Δ=change; eop=end of period; Y-o-Y=year-on-year; q=quarter; sa = seasonally adjusted;

GDP=Gross Domestic Product; GDE=Gross Domestic Expenditure. *Deflated by inflation excl.food, bev. & fuel.