SOUTH AFRICAN CHAMBER OF COMMERCE AND INDUSTRY

Business Confidence Index

November 2019

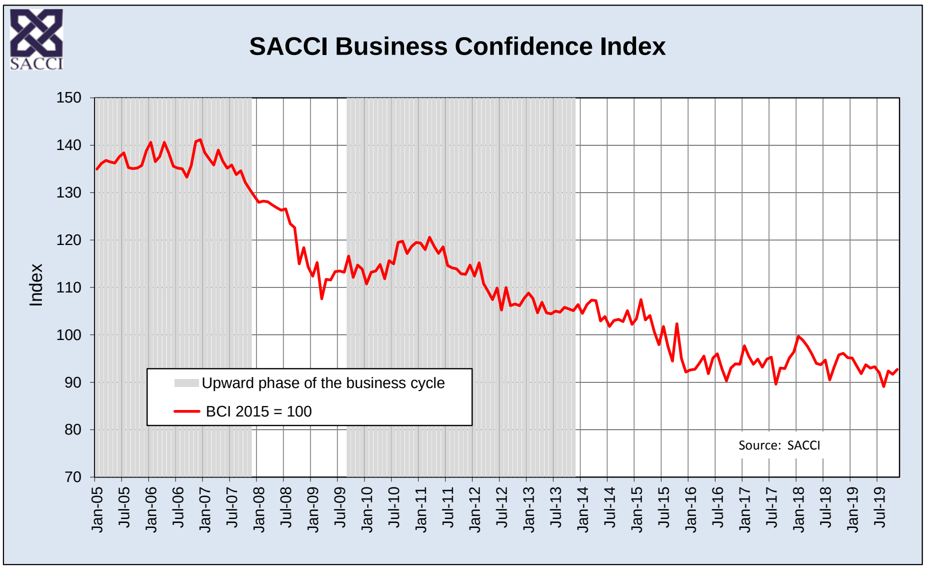
SACCI

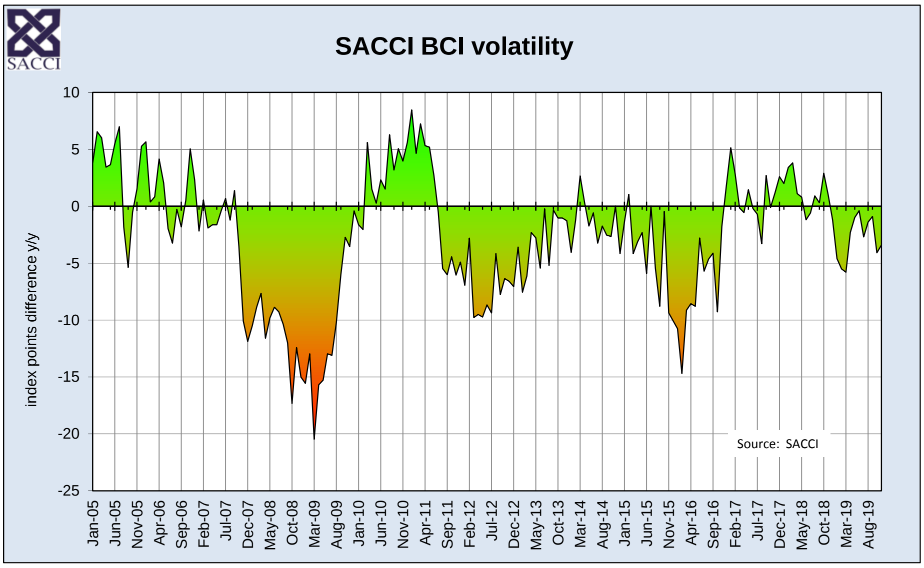
Content:

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 (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	
Average	**108.9**	**105.8**	**104.2**	**100.0**	**93.5**	**94.4**	**95.5**	





This month's BCI results

The **SACCI** BCI (2015 = 100) remained sensitive to the instability in the business climate, both domestically and internationally. However, after declining by 0.7 index points in October 2019, the BCI appears to have crept its way upward in November 2019. The index improved by 1.0 index points on October to reach 92.7 in November 2019. The index was, however, still 3.4 points below the level of November last year.

The upward movement in November was specifically driven by the foreign trade performance as merchandise trade volumes of exports and imports were notably better than the previous month. Due to this specific performance, the increase in the BCI in November must be repeated in the months to come to have a lasting effect on business confidence level. Five sub-indices improved on the October readings, four declined, and four remained stable. Three of the seven economic activity sub-indices (see box on page 4) contributed positively to the BCI, while two of the six financial sub-indices made positive impacts on the BCI in November 2019. Overall, the balance was slightly tipped towards positive territory.

The weak economic performance is especially having a negative impact on sub-indices of manufacturing, retail trade, new vehicle sales and construction. Lower consumer inflation was in support of the financial environment that remained relatively stable to positive.

The annual decline of 3.4 index points in the BCI between November 2019 and November 2018 is marginally better than the 4.1 annual decline of October 2019i. The US-dollar price of precious metals was the only noteworthy sub-index that pushed the BCI higher in November 2019 compared to a year ago. Foreign trade and construction had the largest negative annual impact on the business climate.

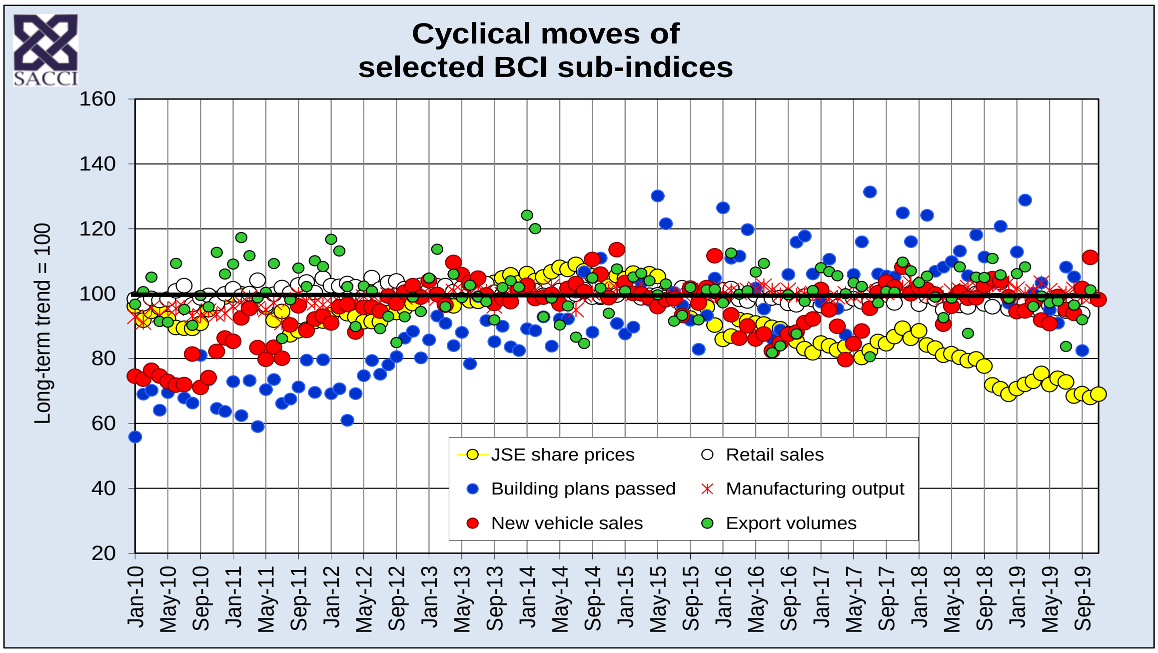
The slight upward movement of the **SACCI** BCI should be viewed with caution as specific once-off positive data releases had a positive effect. However if this positive move could be established in a wider business context, the BCI stands to recover. Further broader economic developments are reviewed 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	+	-	o	-
Manufacturing	-	+	-	-
Exports	+	-	-	-
Imports	+	-	-	-
Vehicle sales	-	+	-	+
Retail sales	-	+	-	-
Construction - buildings	-	+	-	-
Inflation[1]	o	+	+	-
Share prices	o	o	-	-
Real private sector borrowing	+	o	+	o
Real financing cost	o	-	-	o
Precious metal prices	o	-	+	+
Rand exchange rate	+	-	-	o

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

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



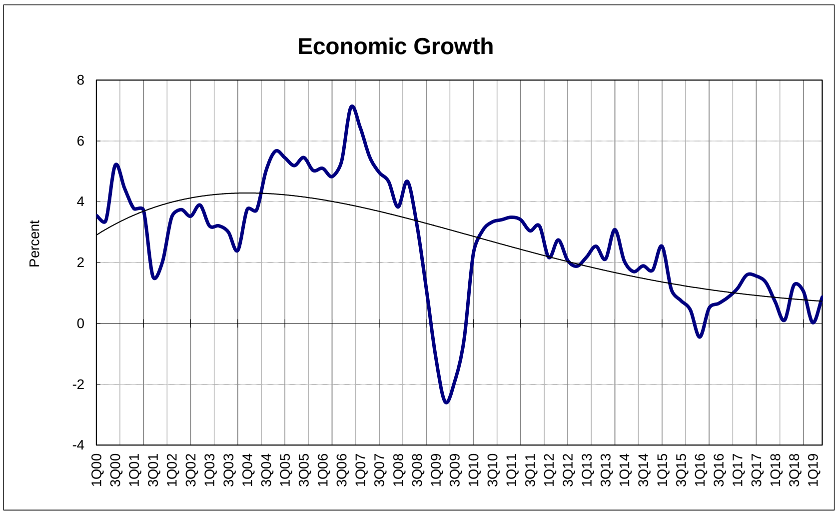
This month's economic review

Stuck in the Middle

The potential economic growth rate is a function of the availability and utilization of scarce resources. Apart from the inevitable presence of entrepreneurs, these resources are critically dependant on human capital and savings (capital – local or abroad) in order to produce the goods and services that are needed. A shortage of either of these three production factors, will impact on the potential of an economy to grow and create employment and improve the wealth of citizens.

From figure 1 below it is evident that economic growth in South Africa has dwindled to levels below one percent. Given the prolonged period for which this low growth has been recorded, it places doubts on the growth potential going forward. There are various structural challenges posed by this low potential growth. It has therefore become paramount that structural bottlenecks to growth be removed for the growth potential to be achieved.

FIGURE 1.



Source: SA Reserve Bank. September 2019, Quarterly Bulletin.

The global recession that came about in 2007/08 had a notable effect on the South African economy, but apart from these exogenous developments, much of the structural problems manifest itself as endogenous structural challenges that cover a wide array of economic policy matters. The projected growth rate of 0.5% for 2019 and slightly higher in 2020, both demonstrate the doldrums the economy finds itself in at present.

Regular IMF Staff Visit

A fresh resolve, following the medium-term budget policy statement (MTBPS), emerged and confirms South Africa's constrained fiscal and government debt situation. The IMF Article IV statement released after the regular IMF staff visit, mentions the already known problems relative to state-owned enterprises, fiscal deficits and low economic growth. Although some economists opt for the short term pump-prime approach that increases government spending to remedy the economic problems, there is no fiscal space to serve as panacea for the fiscal trap South Africa finds itself in, in the medium to long term. This applies to a wide range of public sector institutions and levels of government.

The IMF proposes that obstructions to growth be removed, weaknesses attended to and to rebuild policy manoeuvrability – notably in the public sector and fiscal policy in general. The ultimate goal should be to expedite structural reform that could continuously enhance private investment and participation. The latest South African Airways (SAA) labour challenges provide the impetus for government to address the state owned enterprise issue in a pragmatic way. Notably to separate the political shareholder of the business from the institution’s operations. Much of the malaise can be ascribed to political interference in the running and function of these enterprises to the detriment of the institutions themselves and indeed the negative impact this has had on the South African economy. .

Although the Treasury has anticipated a five percentage point reduction in government expenditure over the next three years, this may not suffice. The fiscal adjustment should “mainly be expenditure-based” with support from increased revenue with SARS’s improving tax administration.

According to the IMF the very low-interest rates around the world enables South Africa to continue to service its debt. But the risk is that this situation may breed a sense of complacency. Low global interest rates could change quickly, and then SA might be in a different position.

Latest Auditor General Report

The Auditor General’s (OG) report on the public service confirmed a civil service in serious trouble. According to this disturbing report, a staggering R62.6 billion was spent irregularity in 2018/19. It represents a continuous weakening in audit results and the OG called on government to act urgently.

Whilst the fight against corruption and misappropriation continues, there remains in office a high percentage of corrupt officials that are responsible for maladministration and financial mismanagement. A Public Service Commission report of 2011 already indicated that up to 60% of government departments has "no basic investigative capacity" for mismanagement and corruption.

It is therefore important that the OG acquired new powers to combat this scourge. Accordingly the OG can, for instance, issue debt certificates to accounting officers and may hold them personally liable.

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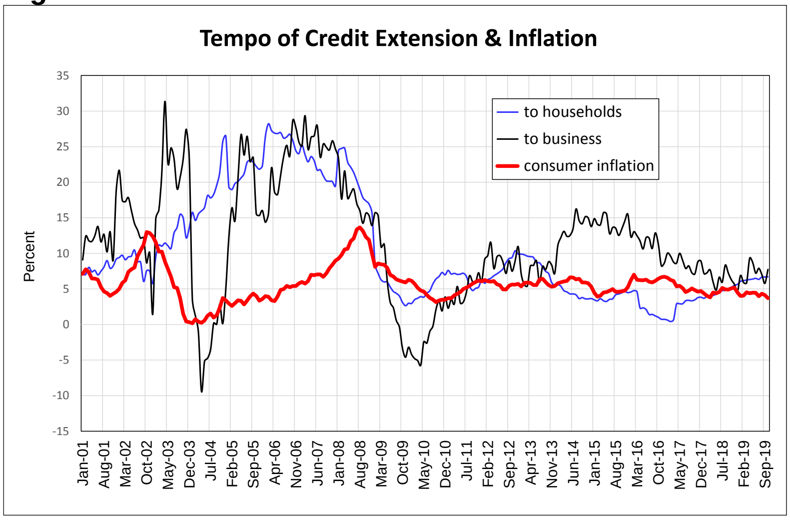
Monetary Policy and Inflation

The Monetary Policy Committee (MPC) has decided to keep the repo rate unchanged at 6.50%. Citing volatility in certain administrative prices, the fiscal implications for financial stability, the effect of severe drought conditions on food prices as well as the negative outlook the rating agencies have factored in, these were amongst the risk factors that were said could influence the inflationary outcome.

Despite real interest rates remaining high, borrowing by both private households as well as businesses continued to increase by more than the inflation rate. See figure 2 for monetary developments and inflation. Consumer inflation measured 3.7% in October 2019 while producer inflation recorded 3%. By default the real interest rate thus increased by about 0.4 percentage between September and October 2019 but the risk for greater price instability convinced the MPC not to ease the policy stance.

Figure 2.



Source: SA Reserve Bank. September 2019, Quarterly Bulletin.

Conclusion

The business climate remains tight as the economy continues to struggle. Lower global growth and uncertain world trade do affect the South African economic performance. The difficulty in decision making aimed at the inevitable structural adjustments necessary to let the economy perform better, are still lacking. The effect of indecisiveness and the time lapses to taking action are going to impact critically on the economy and therefore business and investor confidence as year-end approaches.

General economic indicators

Indicator	Period	Direction	Latest	Previous	2018	2013
Consumer inflation headline urban (%)	Oct-19	▼	3.7	4.1	4.6	5.8
Consumer inflation urban - excl. food, bev. & fuel (%)	Oct-19	▶	4.3	4.3	4.3	5.4
Money supply M3 eop (% Δ Y-o-Y)	Oct-19	▲	7.3	6.1	5.6	5.8
Private sector credit eop (% Δ Y-o-Y)	Oct-19	▲	7.3	6.2	5.6	6.3
Real prime overdraft rate eop (%)*	Oct-19	▶	5.5	5.5	5.5	2.9
Prime overdraft rate eop (%)	Nov-19	▶	10.00	10.00	10.25	8.50
Liquidations number sa	Oct-19	▲	176	128	1845	2374
Bond yield 5-10y govt eop (%)	Nov-19	▲	8.45	8.31	8.91	7.73
R / US$ average	Nov-19	▼	14.80	14.91	13.24	9.65
R / Euro average	Nov-19	▼	16.35	16.48	15.62	12.82

Indicator	Date	Direction	Latest	Previous	2018	2013
Income & wealth tax / GDP (%)	2q-19	▼	15.4	17.5	15.5	14.4
Total tax / GDP (%)	2q-19	▼	27.6	31.5	28.8	26.7
Public sector borrowing requirement / GDP (%)	2q-19	▼	5.0	6.4	3.0	5.6
Public sector expenditure / GDP (%)	2q-19	▼	26.7	27.5	27.0	27.7
Budget balance / GDP (%)	2q-19	▼	-4.5	-5.8	-3.9	-4.8
Imports / GDE (%)	2q-19	▲	29.8	29.0	29.6	32.5
Exports / GDP (%)	2q-19	▲	29.7	28.9	29.9	30.9
Net foreign investment flows / GDP (%)	2q-19	▲	0.4	-0.8	3.2	5.2
Current account balance / GDP (%)	2q-19	▼	-2.3	-4.7	-3.6	-5.8
Gross domestic saving / GDP (%)	2q-19	▲	17.1	12.2	14.4	15.3
Gross capital formation / GDP (%)	2q-19	▲	19.4	16.9	18.0	21.1
Net fixed capital formation / GDP (%)	2018	▼	-	-	4.3	6.7
GDP growth (% Δ Y-o-Y)	2q-19	▲	0.9	0.0	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.