SOUTH AFRICAN CHAMBER OF COMMERCE AND INDUSTRY

Business Confidence Index

September 2019

SACCI

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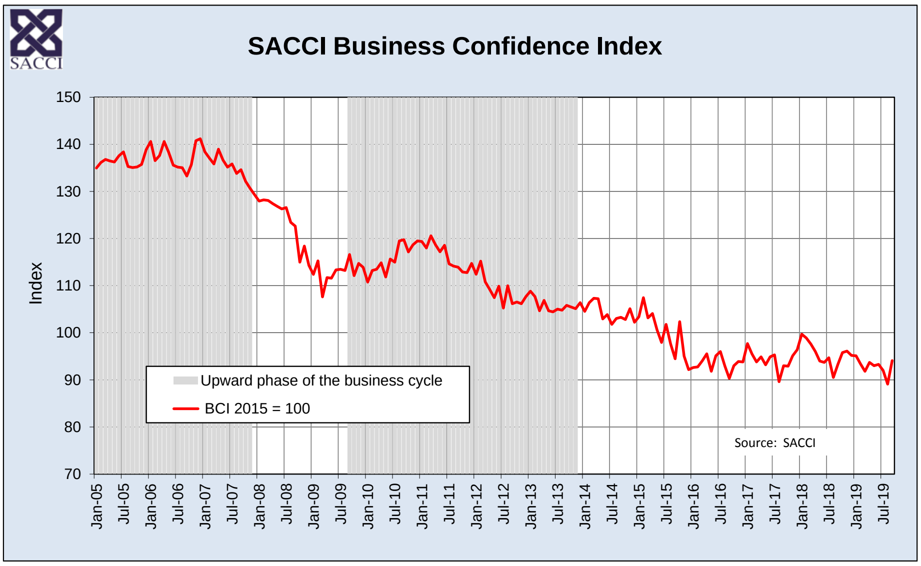
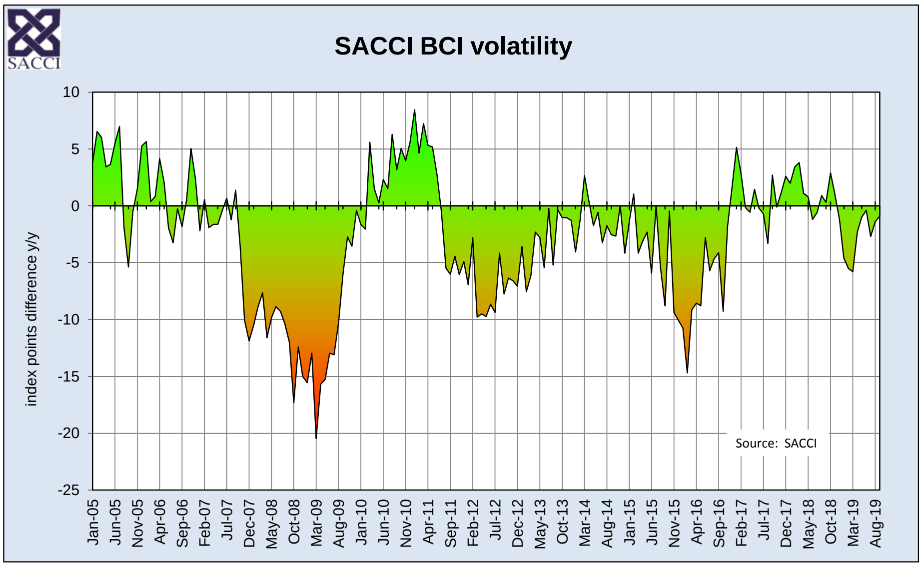
Because of information lags and changes in expectations, the dynamics of the business mood, may, at times, be at variance with the economic environment. As a result, always read the BCI with other economic data and the accompanying economic commentary. For notes on the BCI, see the SACCI website at www.sacci.org.za.

The SACCI Business Confidence Index (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	
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

SACCI's BCI (2015 = 100) recovered from 89.1 index points in August 2019 to 92.4 in September. After dipping below the 90 index level in August 2019 that was caused by the convergence of several negative global and domestic developments, the recovery in September might present a turning point. The BCI improved by 3.3 index points in September from August, but was still 0.9 points below the BCI level of September 2018.

The September level of the BCI is the highest level since June 2019. The average for the BCI for the first nine months of 2019 was 92.6 compared to 95.4 for the corresponding period of 2018. The month-on-month recovery of 3.3 index points in September 2019 (albeit from a lower level), is similar to the month-on-month recovery of January 2018, i.e. after the majority party's new leadership was elected.

Seven sub-indices of the BCI improved, and three remained unchanged between September and August 2019. Five of the seven economic activity indicators improved on their August levels and four of the six financial sub-indices used for the composite BCI either improved or remained unchanged.

Particular positive <u>monthly</u> movements were notable in increased merchandise export volumes (from a subdued level), a stronger rand exchange rate weighted against major trading and investment currencies, increased new vehicle sales, and increased real value of building plans passed. A small negative effect on the BCI was caused by slightly higher core inflation.

On an <u>annual</u> basis, four of the seven economic activity indicators either improved on their September 2018 levels or stayed the same, while three of the six financial sub-indices were positive compared to two in August.

The annual decline of 0.9 index points between September 2019 and September 2018 was mainly due to a marginal reduction in merchandise export volumes, followed by slightly higher core inflation, a notable lower all-share price index on the JSE, and below the trend manufacturing output. Positive annual contributions in September came from the higher US dollar price of precious metals, energy supply – the latter mainly owing to a decline in the crude oil price from some 79 US dollar in September 2018 to about 62 US dollar in September 2019, and a stronger rand exchange rate.

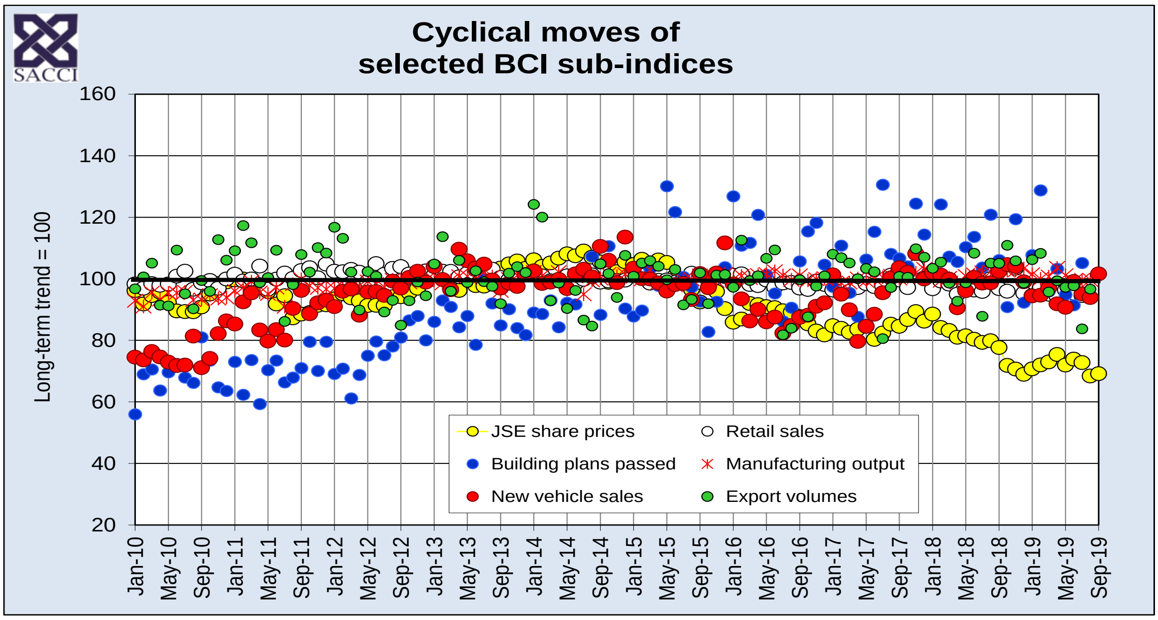
The improved level of the **SACCI** BCI could, however, contribute to a turnaround of general economic conditions and sentiment as reflected in the table on page 8 and the Economic Review on page 5.

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

Economic Performance Bottoming

It appears that the business climate that converged and was prevalent in August 2019 was observed from a number of vantage points. The cautionary level of business confidence that was reflected by **SACCI** BCI as well as other reputable surveys by local as well as global institutions, confirmed a muted business environment. The major question is whether a positive trajectory could gain traction and be maintained from apparent improved circumstances that emerged in September.

In the broader global context, world economic growth is forecast by the IMF to be 3.2% in 2019 and slightly higher at 3.5% in 2020 – these are revised lower projections for both years than was anticipated earlier in 2019. GDP figures for 2019 so far suggest even milder economic activity. Investment and consumer demand have been under pressure in advanced and emerging market economies. Consequently global trade is also subdued.

Risk aversion generates negative trends with trade and technology tensions causing less appetite for fixed investment. Financial caution follows after prolonged periods of low interest rates and deflationary pressures, which eventually resulted in increasing debt service liabilities. This caused strain for monetary policy manoeuvrability and makes systemic shocks more persistent.

Emerging market economies experience varying fortunes and this also applies to the prospects for the key 17 African regional countries that have trade relations with South Africa. Average economic growth forecasts for these countries in 2019 are 2.9%, 3.4% for 2020 and 4.4% for 2024. Growth rates for 2019 range from -5.9% for Zimbabwe to 7.8% for Rwanda with median growth in 2019 at 3.9% for the 17 countries. Congo, Kenya, Rwanda and Uganda, all have growth prospects of more than 5% for 2019 and price stability with consumer inflation ranging from 1.5% to 4.4%.

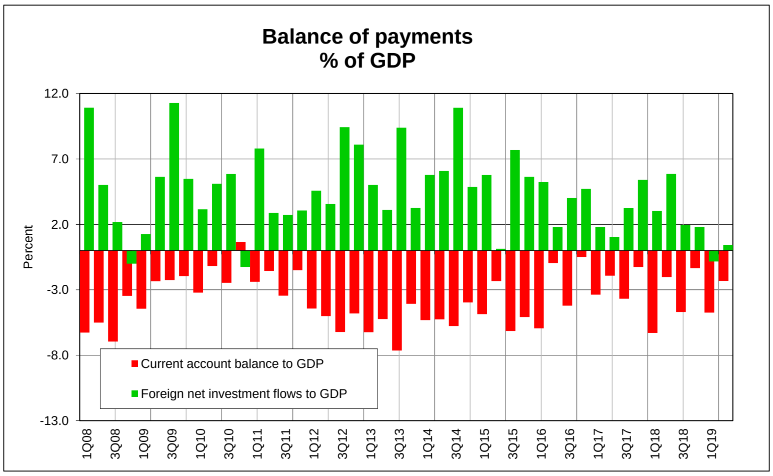
Window of Opportunity

Apart from the **SACCI** BCI that suggests a possible about turn for the business climate in September 2019, there are indications that the economy may have hit a trough and could obtain some stability which could auger well for growth prospects. Decision makers on economic policy should use this window of opportunity to further stabilise the economic situation and provide platforms for sustainable growth. The table on page 7 adds some insight into macro-economic developments that hint at where progress could be obtained.

In the top part of the table indicators of the general financial situation in the economy are reflected. Headline inflation is well within the target range of the Reserve Bank although core inflation indicates some future risks to price stability. Money supply and private sector credit are reasonably well contained. Although a slightly higher bond yield confirms present interest rate levels, the high real interest rates, although a function of a low savings ratio of about 15% to GDP, leaves room for some adjustment in nominal interest rates.

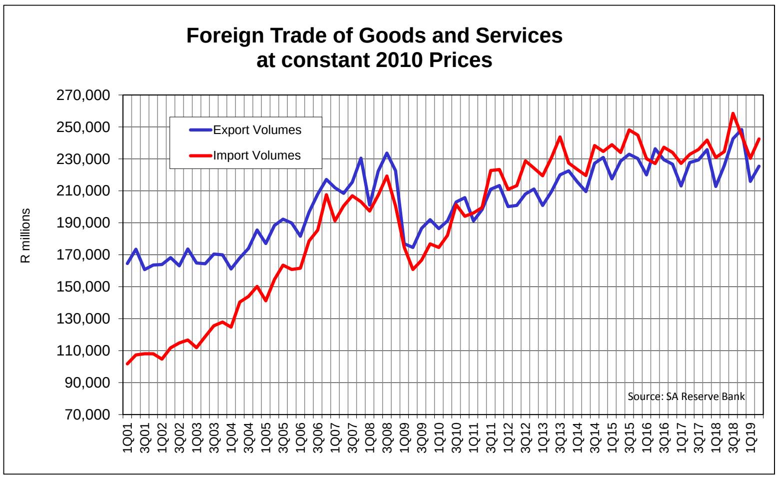
The positive moves of the rand exchange rate in September are supported by the smaller deficit on the current account of the Balance of Payments (BoP) and marginal net foreign investment inflows – see figure 1. However, it is imperative that more fixed investment capital inflows from abroad are needed to fill the gap to finance the fixed capital needs to propel economic growth. The difficulty of export competitiveness is shown in figure 2. Although both import and export volumes have declined, the sideways trend in notably export volumes of goods and services is of concern. With import propensity at a high of around 30% of gross domestic expenditure, the current account of the BoP remains vulnerable.

Figure 1



Source: South African Reserve Bank Quarterly Bulletin. September 2019.

Figure 2



Source: South African Reserve Bank Quarterly Bulletin. September 2019.

The data on public finance indicates a slight improvement, notably on the borrowing side. The high tax burden in total as well on income and wealth are of concern. The level of state involvement in the economy remains a challenge and it is imperative to apply public sector structural adjustments and restraint to ensure a sustainable financial fiscal position.

Conclusion

The present improvement in business sentiment calls for continuing positive action to retain the business and economic momentum and provide certainty on economic policy direction. It has become imperative to use this window of opportunity to implement proposals for economic restructuring and with the upcoming medium term budget, to set the tone for an economic turnaround.

General economic indicators

Indicator	Period	Direction	Latest	Previous	2018	2013
Consumer inflation headline urban (%)	Aug-19	▲	4.3	4.0	4.6	5.8
Consumer inflation urban - excl. food, bev. & fuel (%)	Aug-19	▲	4.6	4.5	4.3	5.4
Money supply M3 eop (% Δ Y-o-Y)	Aug-19	▼	7.4	8.3	5.6	5.8
Private sector credit eop (% Δ Y-o-Y)	Aug-19	▼	6.9	7.2	5.6	6.3
Real prime overdraft rate eop (%)*	Aug-19	▼	5.2	5.3	5.5	2.9
Prime overdraft rate eop (%)	Sep-19	▶	10.00	10.00	10.25	8.50
Liquidations number sa	Aug-19	▼	165	176	1845	2374
Bond yield 5-10y govt eop (%)	Sep-19	▲	8.32	8.19	8.91	7.73
R / US$ average	Sep-19	▼	14.85	15.18	13.24	9.65
R / Euro average	Sep-19	▼	16.35	16.88	15.62	12.82
Indicator	**Date**	**Direction**	**Latest**	**Previous**	**2018**	**2013**
Income & wealth tax / GDP (%) saar	2q-19	▲	17.1	15.7	15.5	14.4
Total tax / GDP (%) saar	2q-19	▲	30.6	28.8	28.7	26.7
Public sector borrowing requirement / GDP (%)	2q-19	▼	5.0	6.4	3.0	5.6
Public sector expenditure / GDP (%)	2q-19	▼	26.3	26.5	26.4	27.6
Budget balance / GDP (%)	2q-19	▼	-4.5	-5.8	-3.9	-4.8
Imports / GDE (%)	2q-19	▲	30.1	29.3	29.6	32.5
Exports / GDP (%)	2q-19	▼	29.5	29.7	29.9	31.0
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 (%) saar	2q-19	▲	14.9	14.8	14.4	15.4
Gross capital formation / GDP (%) saar	2q-19	▲	18.9	17.7	18.0	21.2
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; saar=seasonal adjusted annual rate; GDP=Gross Domestic Product; GDE=Gross Domestic Expenditure. *Deflated by inflation excl.food, bev. & fuel.