SOUTH AFRICAN CHAMBER OF COMMERCE AND INDUSTRY

Business Confidence Index

April 2020

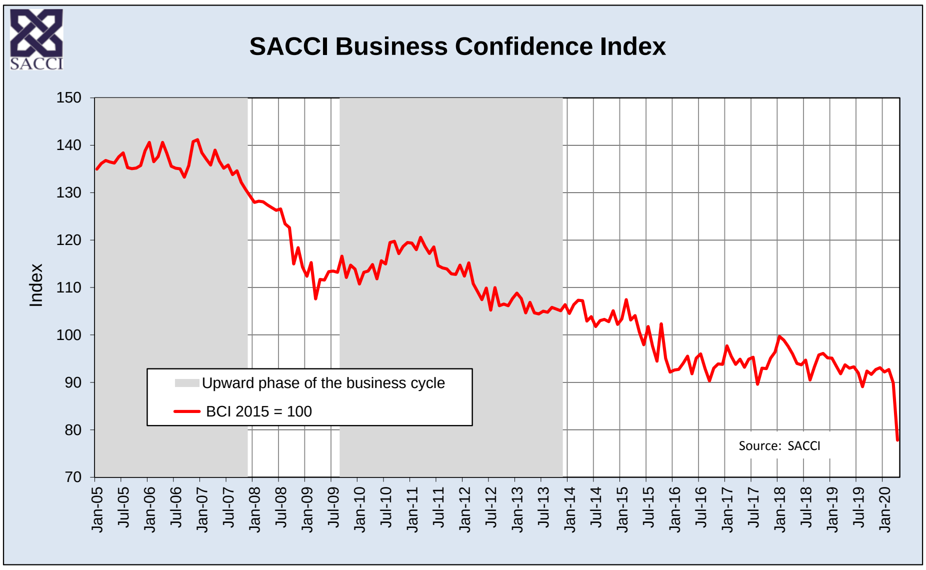
SACCI

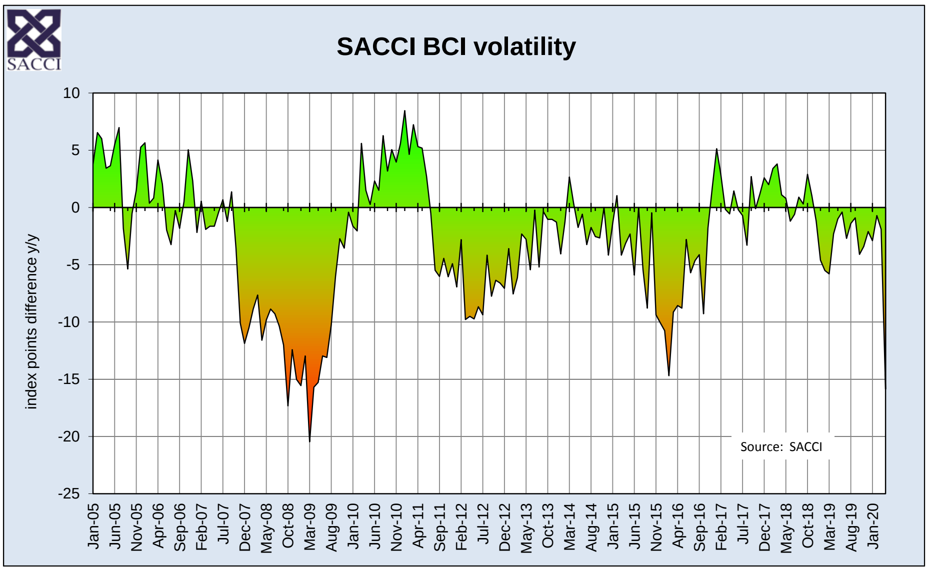
Content:

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	2013	2014	2015	2016	2017	2018	2019	2020
January	108.8	104.5	103.4	92.6	97.7	99.7	95.1	92.2
February	107.7	106.4	107.4	92.7	95.5	98.9	93.4	92.7
March	104.7	107.3	103.2	94.0	93.8	97.6	91.8	89.9
April	106.9	107.2	104.1	95.5	94.9	96.0	93.7	77.8
May	104.7	102.9	100.6	91.8	93.2	94.0	93.0	
June	104.4	103.8	97.9	95.1	94.9	93.7	93.3	
July	105.0	101.8	101.8	96.0	95.3	94.7	92.0	
August	104.8	103.0	97.6	92.9	89.6	90.5	89.1	
September	105.8	103.3	94.5	90.3	93.0	93.3	92.4	
October	105.5	102.8	102.3	93.0	92.9	95.8	91.7	
November	105.1	105.1	95.1	93.9	95.1	96.1	92.7	
December	106.4	102.2	92.2	93.8	96.4	95.2	93.1	
Average	**105.8**	**104.2**	**100.0**	**93.5**	**94.4**	**95.5**	**92.6**	





This month's BCI results

SACCI's Business Confidence Index (BCI), which is a composite index of economic and financial market indicators rated by business as critical indicators of the business climate, has decreased by 12.1 index points to 77.8 in April 2020. This is the lowest level ever, for the **SACCI** BCI since its inception in 1985 and the second sharpest month-on-month decline. The biggest monthly decline of 10.8 index points in the BCI occurred in July 1990 with the business climate being unpredictable and volatile during the period of moving towards a new democratic dispensation. On an annual basis, the **SACCI** BCI declined by 15.9 index points between April 2019 and April 2020.

The sharp deterioration in the business climate followed the worldwide Covid-19 pandemic. Due to the fact that Covid-19 is highly contagious, the government announced a State of Disaster in March 2020 followed by a strict lockdown from the 26th of March. This lockdown was later extended to the 30th of April 2020. Apart from health implications, the lockdown had a major effect on economic activity and the business climate.

High volatility was prevalent in global financial markets in April and was mirrored in South African financial markets. The rand exchange rate, share prices, and commodity prices – notably the crude oil price, therefore reflected global and local uncertainty and unpredictability. The further easing of the monetary stance in South Africa and the leniency of commercial banks provided some relief to business and households as the results of the lockdown took effect. The banking sector's efforts were evidenced by the positive impact by the financial sub-indices on the BCI.

Seven of the thirteen sub-indices weighed negative on the BCI compared to March, but despite the present unpredictability and uncertainty in the business environment, six sub-indices were still contributing positively to the business climate. However, the impact of the lockdown weighed much heavier on real economic activity and on businesses. Four financial sub-index positively influenced the business climate. Real economic activity was severely affected with five of the seven economic activity sub-indices BCI being negative.

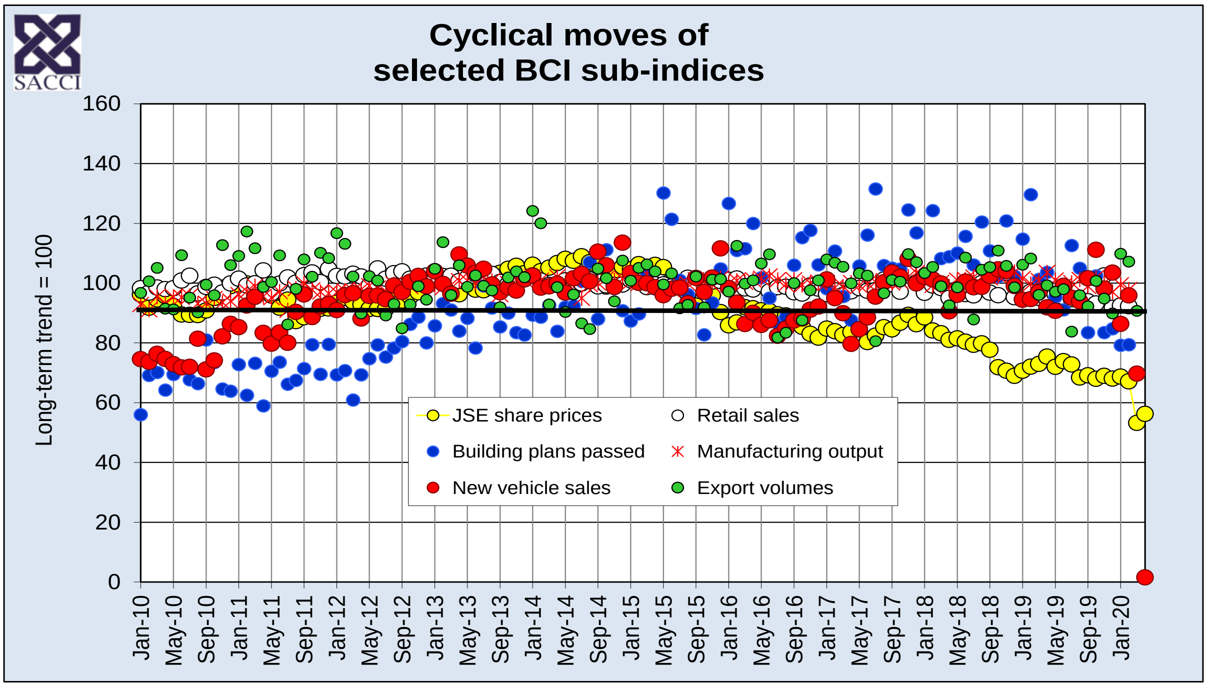
Strikingly negative <u>monthly</u> impacts on the BCI were caused by the lower volume of merchandise exports; the weaker exchange rate of the rand against the major trading currencies; and less new vehicle sold – all mainly due to the lockdown and a subdued economic performance. Lower real financing costs; easier access to credit; continuing improvement in the terms of trade, an increased volume of merchandise imports together with the decline in fuel prices, provided some respite to the business environment over the short-term.

The marked decline of 15.9 index points in the BCI between April 2020 and April 2019 was mainly a result of the lockdown on real economic activity. Notable negative <u>annual</u> impacts on the business climate were exerted by the weaker rand, depressed new vehicle sales, lower merchandise import volumes, and much weaker share prices on the JSE. Financial conditions were somewhat easier and mainly due to lower inflation and lower real financing cost than a year earlier.

Business climate indicators *	m/m changes		y/y changes	
	This month	Previous month	This month	Previous month
Energy supply	+	+	+	+
Manufacturing	-	+	-	-
Exports	-	-	-	-
Imports	+	+	-	-
Vehicle sales	-	-	-	-
Retail sales	-	o	-	-
Construction - buildings	-	-	-	-
Inflation[1]	+	-	+	+
Share prices	+	-	-	-
Real private sector borrowing	+	o	+	o
Real financing cost	+	+	+	+
Precious metal prices	-	-	+	+
Rand exchange rate	-	-	-	-

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

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



This month's economic review

Desperate Global Economic Environment

The global Covid-19 pandemic compelled governments to find a balance between mitigating the infection rate and the need to consider how to ease its impact on economic activity. As is the case with other countries, South Africa recognizes the debilitating effect this pandemic is having on the South African economy. The USA lately reported job losses close to 26.5 million due to the pandemic and the application of a lockdown. The South African Treasury estimates that job losses in South Africa could vary between 3 and 7 million due to the Covid+19 lockdown, with the variants depending on the progressive easing of the lockdown. Given that the expanded unemployment numbers stood at about 10.4 million at the end of 2019, the economy can ill afford a strict sustained lock down.

South Africa's challenges are compounded by four constraints that impact the economy at present - recessionary economic conditions; the Covid-19 lockdown; an over compromised fiscal position, and the downgrading of the South Africa's sovereign credit rating to junk status. Addressing poverty, inequality and unemployment will become even more complex and problematic as much attention at present is diverted to managing the health threat of Covid-19 and preventing the economy sliding into more difficulty over the medium-term.

The fiscal support package announced by government to the amount of R500 billion, will assist the economy, businesses and employees to partly bridge the effects of the lockdown over the short-term. It, however, remains imperative to get the economy back to work – albeit in a safe health environment. A proper functioning economy will be necessary for the public sector to find the means to finance the additional expenditure emanating from the health hazard and service additional government debt.

Government has decided to ease the lockdown in five phases depending on the progress and flattening of the curve of the Covid-19 infections in order to be prepared for when the pandemic reach its peak in South Africa. The process of unlocking the economy will imply that business will have to take responsibility and find a balance between health risks and recovering to pre-lockdown levels of performance.

Global economic impact

Apart from the COVID-19 pandemic imposing additional costs to economies worldwide, it is also severely impacting economic activity. This causes the world economy to contract sharply by 3% in 2020. If Covid-19 weakens in the second half of 2020 and mitigating efforts are phased out, the global economy could rebound from the dented base and grow by 5.8% according to the IMF in 2021 - if accompanied by prudent policy potions.

Uncertainty, however, prevails about global growth forecasts. The forecasts depend on linkages between the pandemic and economic activity, as these are not mutually exclusive. Efficacy of mitigating efforts, supply side disruptions, global financial market conditions, and changes in consumer choices and behaviour are variables that will affect the economic performance in future.

Global Economic Prospects

Economic growth	2016 %	2017 %	2018 %	2019 %	2020f %	2021f %
World	**3.4**	**3.8**	**3.6**	**2.9**	**-3.0**	**5.8**
United States	1.6	2.4	2.9	2.3	-5.9	4.7
Euro Area	**1.9**	**2.5**	**1.9**	**1.2**	**-7.5**	**4.7**
Germany	2.3	1.3	1.3	0.6	-7.0	5.2
United Kingdom	3.1	2.1	1.7	1.4	-6.5	4.0
Japan	0.6	1.9	0.8	0.7	-5.2	3.0
Emerging & Developing Europe:	**1.8**	**3.9**	**3.1**	**2.1**	**-5.2**	**4.2**
Emerging & Developing Asia:	**6.7**	**6.6**	**6.4**	**5.5**	**1.0**	**8.5**
China	6.7	6.8	6.6	6.1	1.2	9.2
India	8.2	7.2	6.8	4.2	1.9	7.4
Sub-Sahara Africa:	**1.4**	**3.0**	**3.2**	**3.1**	**-1.6**	**4.1**
South Africa	**0.4**	**1.4**	**0.8**	**0.2**	**-5.8**	**4.0**

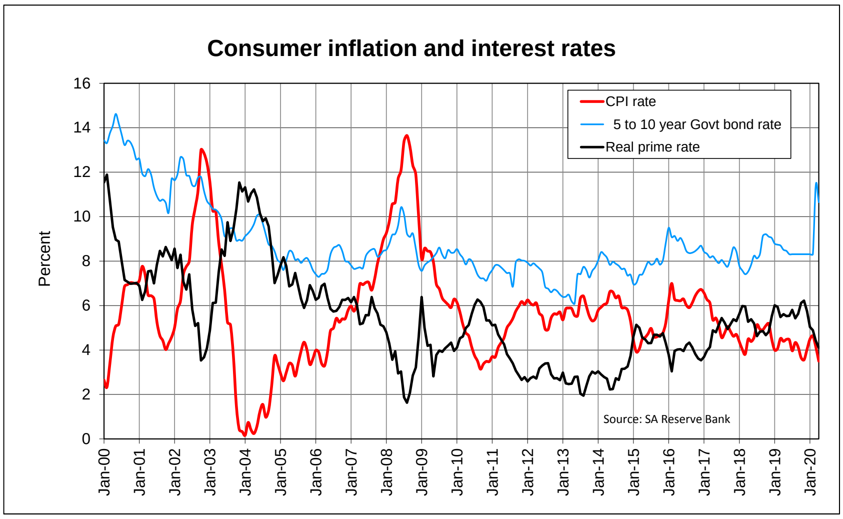
Source: IMF, WEO April 2020. f = forecast.

Economy and the business climate

South Africa has to deal with the Covid-19 pandemic amidst multi-dimensional challenges covering the health shock, recessionary economic conditions, a lack of fiscal space, high unemployment, inequality, junk investment status, a weak currency, capital outflows and stagnant commodity price.

The low international crude oil price present a slight advantage that is difficult to utilise under the present circumstances. The monetary space (see figure 1) shaped by a responsible policy approach before the pandemic, allowed the Reserve Bank to ease the monetary policy stance and alleviate the short-term financial pressure on households and businesses. However, monetary policy has limited scope to address the real effects of Covid-19.

Figure 1



The IMF forecasts that the South African economy will contract by 5.8% in 2020 while the Reserve Bank hinted at a decline of some 6% in 2020. However, the duration of the lockdown and the nature of regulations guiding the lockdown will be crucial regarding the scale of economic contraction and the recovery. Coming from a low base, the growth performance in 2021 will depend on whether the lockdown causes permanent structural damage to the economy. It will also depend on whether future economic policy options and the redress of junk investment status convince investors to make longer term commitments.

There are a number of matters emanating from the State of Disaster and the lockdown process that are impairing the economy, the business climate and the tempo of recovery:

- The timelines of the 5-phase process of reopening the economy;
- The impact on revenue losses to the fiscus;
- Finding alternatives to finance the R500 billion short-term fiscal relief package;
- Limitations to the sustainability of fiscal relief packages;
- Rearranging public sector priorities;
- Dealing with State Owned Enterprises experiencing financial and operational difficulties;
- The institutional capacity of government and the private sector to deal with the application and execution of varying dimensions of the lockdown;
- Uncertainty on the real economic effect of the lockdown process;
- The effect of less global trading and international tourism;
- The utilisation of domestic savings to keep businesses afloat in the short-term and the consequences for future fixed capital formation;
- Criteria for reopening businesses during the phased reopening process; and
- The limited role of monetary easing.

The impact on economic linkages

The economic impact of the global and local lockdown owing to the Covid-19 pandemic underlines the role of global and local economic interdependence and linkages. Additional to the global supply and demand links, the domestic demand and supply linkages in the economy broadens the economic consequences of the lockdown process. The implications of some lockdown restrictions like prescribed essential goods and services and limiting consumer preferences and freedom of choice may have a much broader effect on the economy than the mere listing of essentials.

The lockdown regulations that prescribe essential goods and services thus have indirect economic repercussions and sets negative multipliers in motion that should be carefully considered. In South Africa the prescribed non-essential goods comprise about 55% of manufacturing output directly and in terms of retail trade sales non-essential goods make up about 40% of total retail sales. Though intermediary inputs (sector linkages) forms an integral part of the value added process, it is the final input of capital and labour that bears a considerable burden from the lockdown process in terms of unemployment and lower returns on capital (investment).

In addition to the economic effects of the lockdown process, South Africa's economic performance of late and the further downgrade to junk status by Moody's and Standard and Poor's, led to noticeable net sales by non-residents of bonds (R74.2 billion) and equity (R28 billion) to a total R102.2 billion in the 1st quarter of 2020. Net sales of equities and bonds by non-residents for the whole of 2019 amounted to R140.8 for the whole of 2019. This outflow compounds the difficulty to restore investor confidence and fixed capital formation post-lockdown.

Conclusion

It remains imperative that the economic performance recovers noticeably after the effects of the lockdown has eased. This could provide an opportunity to build a cohesive and more equitable society. Although health risks of Covid-19 might remain, the effect of an economy that suffers from additional structural deficiencies after the lockdown, could lead to further fragmentation and imbalances.

The essentials of increased capital formation and the restoration of a business climate conducive to private sector participation and investor confidence over the longer-term remain pre-conditions for an economy in difficulty.

For economic data see the General Economic Indicators in Annexure 1.

Annexure 1

General Economic Indicators

Indicator	Period	Direction	Latest	Previous	2019	2014
Consumer inflation headline urban (%)	Mar-20	▼	4.1	4.6	4.1	6.1
Consumer inflation urban - excl. food, bev. & fuel (%)	Mar-20	▼	4.0	4.3	4.4	5.7
Money supply M3 eop (% Δ Y-o-Y)	Mar-20	▲	9.4	7.6	6.1	7.2
Private sector credit eop (% Δ Y-o-Y)	Mar-20	▲	7.9	5.2	6.1	8.5
Real prime overdraft rate eop (%)*	Mar-20	▼	3.6	4.2	5.5	2.9
Prime overdraft rate eop (%)	Apr-20	▼	7.75	8.75	10.00	9.25
Liquidations number sa	Feb-20	▲	163.0	139.0	2042	2064
Bond yield 5-10y govt eop (%)	Apr-20	▼	10.65	11.43	8.17	7.39
R / US$ average	Apr-20	▲	18.62	16.68	14.44	10.84
R / Euro average	Apr-20	▲	20.22	18.42	16.17	14.40

Indicator	Date	Direction	Latest	Previous	2019	2014
Income & wealth tax / GDP (%)	4q-19	▲	15.0	13.9	15.5	14.7
Total tax / GDP (%)	4q-19	▲	28.3	27.2	28.7	27.2
Public sector borrowing requirement / GDP (%)	4q-19	▼	3.4	6.0	5.2	4.3
Public sector expenditure / GDP (%)	4q-19	▲	26.4	26.3	26.7	27.7
Budget balance / GDP (%)	4q-19	▼	-4.5	-10.2	-6.3	-4.7
Imports / GDE (%)	4q-19	▼	29.0	30.3	29.5	32.5
Exports / GDP (%)	4q-19	▼	30.4	30.5	29.8	31.5
Net foreign investment flows / GDP (%)	4q-19	▼	1.3	5.2	2.9	3.8
Current account balance / GDP (%)	4q-19	▼	0.0	-4.9	-3.1	-5.1
Gross domestic saving / GDP (%)	4q-19	▲	15.4	13.8	14.5	15.4
Gross capital formation / GDP (%)	4q-19	▼	15.4	18.7	17.6	20.5
Net fixed capital formation / GDP (%)	2019	▼	-	-	3.9	6.6
GDP growth (% Δ Y-o-Y)	4q-19	▼	-0.5	0.1	0.2	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.