SOUTH AFRICAN CHAMBER OF COMMERCE AND INDUSTRY

Business Confidence Index

July 2020

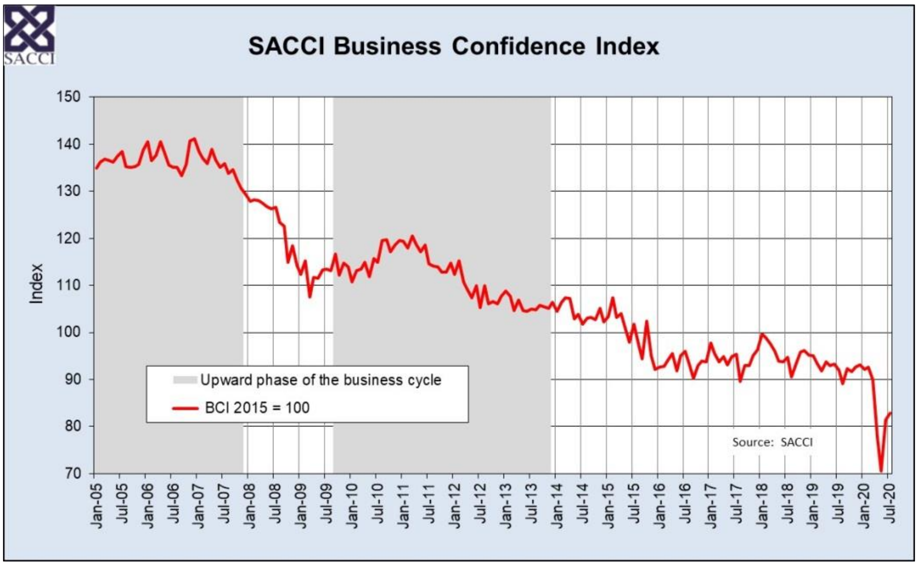
SACCI

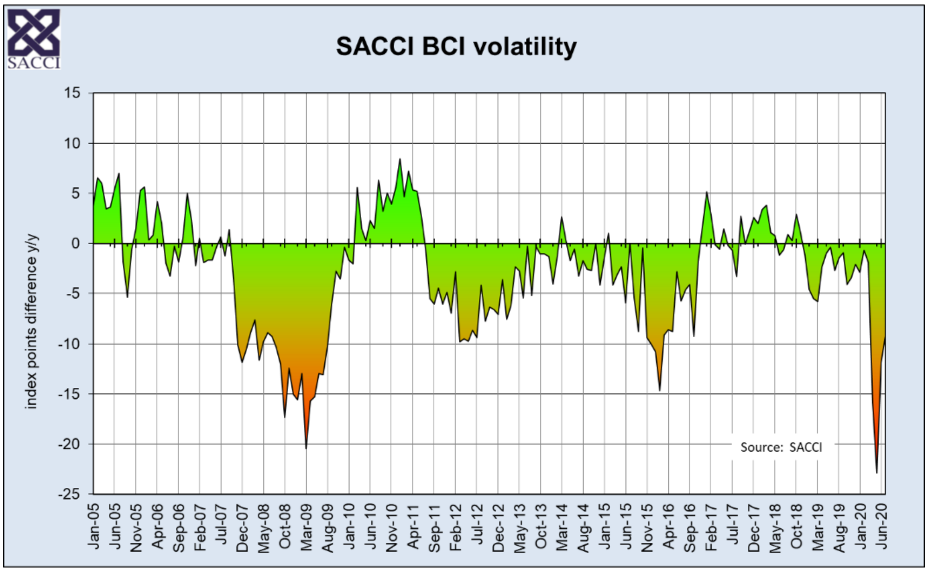
Content:

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	70.1
June	104.4	103.8	97.9	95.1	94.9	93.7	93.3	81.4
July	105.0	101.8	101.8	96.0	95.3	94.7	92.0	**82.8**
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

Since the previous media release of the SACCI BCI in April 2020, the BCI slumped to 70.1 in May 2020, but recovered to 81.4 in June and to 82.8 in July 2020. Although the BCI was 12.7 index points up on the low May 2020 level, it was still 9.2 index points below the level of 92.0 of July 2019. The turnaround of the SACCI BCI that started in June 2020 continued in July 2020 but the momentum slowed.

On a month-on-month basis the most negative affect on the sub-indices of the BCI were caused by lower manufacturing output, less merchandise import volumes, less new vehicles sold, decreased real retail sales, and disrupted construction activity. Lower inflation and increased precious metal prices together with a lower US dollar crude oil price were notable although the rand continued its volatility and tend to trade lower.

Compared to July 2019, the annual impact of all the real economic sub-indices of the BCI were negative while the financial sub-indices had a mixed impact on business confidence. Less merchandise import volumes – reflecting the depressed domestic economy, lower manufacturing output, and the weaker rand were notable and had the worse negative impacts on business confidence compared to a year ago.

It appears that the global economy has moved beyond the economic trough that resulted from measures to curb the spread of Covid-19 and prepare countries to flatten the curve of infections. The economic lockdown processes, however, had a substantial real impact on the global economy. Certain sectors was especially hard hit and the pandemic affected countries differently. Due to globalisation linkages and interaction, there was little room for countries to escape these impacts. The lockdown also highlighted the economic vulnerabilities of economies and their structural deficiencies.

South Africa has retained a strict and long-running Covid-19 mitigation. Some measures have had a devastating effect on business, households, and government revenue and expenditure, while the experience and success of the government's emergency relief measures might have had mixed results. It was essential for South Africa to manage and balance the punitive effects of the lockdown process on business and the economy, with the need to contain the public health effects of the Covid-19 pandemic.

Getting this balance right should have meant that whilst the economy was in lock-down, the intended public health benefits of containing the pandemic should have been visible. The exponential rise in Covid-19 positive cases has catapulted South Africa to be in the top 5 countries in the world and we have the highest number of positive cases of all of African countries combined. This may well mean that whilst the imposed lock down has had a devastating effect on the economy and livelihoods, the benefit to the public health care is not as clear, given the exponential rise in positive cases, hospital admissions and mortality numbers in this period.

The view we publicly expressed months ago, that it was the priority testing of employees, not just screening, that should be a central pillar of quick and sustainable economic re-engagement, remains apposite. This strategy would have ensured that those returning to work would not be going to unsafe work places, and neither would they as individuals, be unintended asymptomatic spreaders at the work place. The dual advantage would have been a rapid and sustainable re-opening of the economy, whilst mitigating the Covid-19 pandemic at the same time.

The allegations of corruption on the Covid-19 procurement and the apparent irregular awarding of contracts to "sudden" businesses owned by friends and relatives of influential, ruling party and top government officials is serious cause for concern.

This is damaging SA's recovery effort and brings into question the new administration's intent to stamp out corruption. In announcing the Covid-19 relief measures, the President had stated that measures would be put in place to ensure that public finances would not be irregularly spent. This promise has not been fulfilled and raises the issue of credibility. Questions must be asked on whether the state has both the will and capability to root out and stop corruption. **SACCI** is not sure whether another cabinet committee is a solution. South Africa have had other cabinet committees on a number of hard issues including Eskom, infrastructure, and other matters.

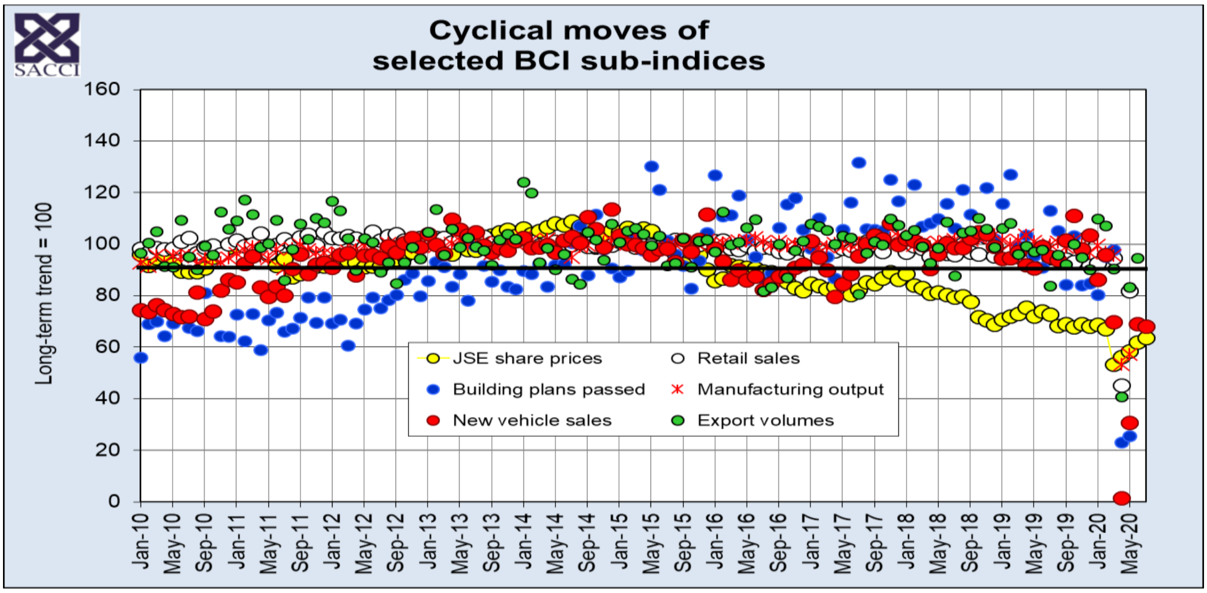
Perhaps the time has come for government to pause, reassess and re-evaluate its own cabinet resource capabilities, by enquiring whether some of its cabinet committees have the required level of competence, grit and experience to handle the big tasks. Otherwise, the government could end up contracting a bad condition of "not knowing what they don't know", and this generally leads to delusion and self-deception.

Business Climate Indicators

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

Beyond the Global Economic Trough?

It appears that the global economy has moved beyond the economic trough that resulted from measures to curb the spread of Covid-19 and prepare countries to flatten the curve of infections. The economic lockdown processes, however, had a substantial real impact on the global economy. Certain sectors were especially hard hit and the pandemic affected countries differently. Apart from merchandise global trade, the tourist industry and associated activities were the first to experience the serious effects of the lockdown. Due to globalisation linkages and interaction, there was little room for countries to escape the impacts. The lockdown also highlighted the economic vulnerabilities of economies and their structural deficiencies.

As China was the first country to experience the effect of Covid-19, its GDP declined by 6.8% y/y in the 1st quarter of 2020, but subsequently was the first major economy to experience GDP growth of 3.2% y/y in the 2nd quarter of 2020. China is expected to grow by 1.4% in 2020.

The US GDP declined by 5% q/q in the 1st quarter 2020 and decline by an expected 5.3% in 2020. The 2nd quarter could see a decline of more than 30% q/q in the US economy before starting to recover in the 3rd quarter of 2020. Japan and Britain, the other major economies, will both experience a decline of 5.4% and 9% respectively in economic activity in 2020. It appears that the 2nd quarter growth will still be negative but that both economies have turned for the better as the lockdown processes have ease considerably.

South Africa has not yet reached the peak of the Covid-19 pandemic and is still in a relatively strict lockdown process. It is however expected that the lockdown might be eased further and favour a more conducive business climate. It is anticipated that economic activity has contracted by some 25 to 30% q/q in the 2nd quarter of 2020 with a deepening recession. Forecasts for the GDP in 2020 range from a decline of 7.5% to 12% y/y. It is evident that the economic effect of the lockdown process could have more dire consequences than the virus itself. It is particularly notable that the closure of businesses and the subsequent higher unemployment is on the increase.

South Africa currently maintains one of the strictest and longest-running Covid-19 restrictions in the world. This restriction presents unprecedented challenges to many businesses. It is therefore important to recognise the impact on business' revenue and employment. Although various human and business activities and behaviour might have health effects, these patterns and habits will not be resolved during the pandemic and could have serious longer-term economic consequences. Some measures have a devastating effect on business, households and government revenue and expenditure while the experience and success of the government's emergency relief measures might have had mixed results.

Covid-19 Effects on the South African Economy

It is worth noting economic developments that were prevalent over the last months since the introduction of the State of Disaster at the end of March 2020 following the Coid-19 global pandemic. These developments have directly and indirectly followed on the declaration of the Covid-19 pandemic by the WHO. The local and worldwide measures that were introduced worsened the already fragile business climate in South Africa as a relative open economy and more susceptible to global economic developments.

The following implications of the lockdown process were the most notable:

- The global mobility of people and the effect on tourism;
- The pressure on and management and financing of health facilities;
- Prohibiting crowd gatherings and the effect on related economic activities;
- Interference with consumer choices by government and the effect on supply, demand and prices;
- Utilising financial reserves and savings to remain financially solvent;
- Pressure on profitability and viability of businesses;
- Political expediency and social responsibility;
- The fiscal fallout on expenditure and revenue;
- The effect on longer-term spending priorities of the public sector; and
- Monetary accommodation and emergency measures;

In the Ministry of Finance's 2020 Supplementary Budget Review of 24 June 2020, the Minister emphasised the magnitude of the pandemic on the South African economy. The Minister specifically dealt with the effect on public finances and indicated the need for reprioritisation of spending on a functional (shift towards health expenditure) and economic basis (shift in remuneration of employees towards servicing rising public debt). Although not palatable options, the economic performance and effect necessitated these adjustments.

The following charts give some indication of the major economic effects of the pandemic. The figures below represent areas of the economy that will remain delicate during the recovery process of the economy and the business climate.

Figure 1 - Rising unemployment

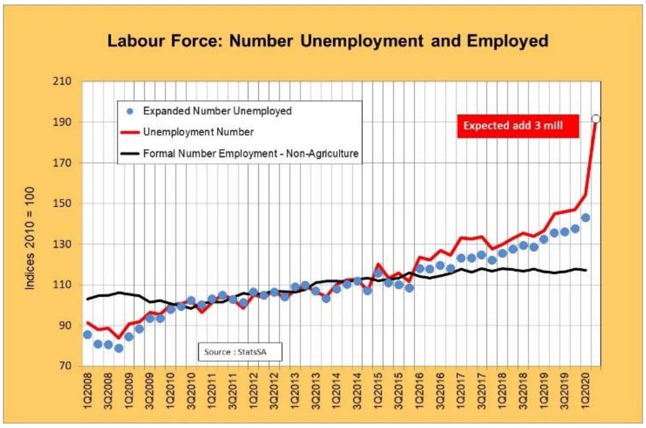


Figure 2 – Increasing public sector debt

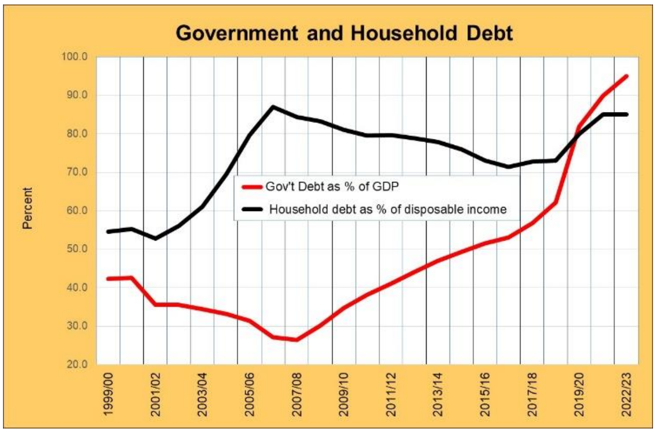


Figure 3 – Containing inflation

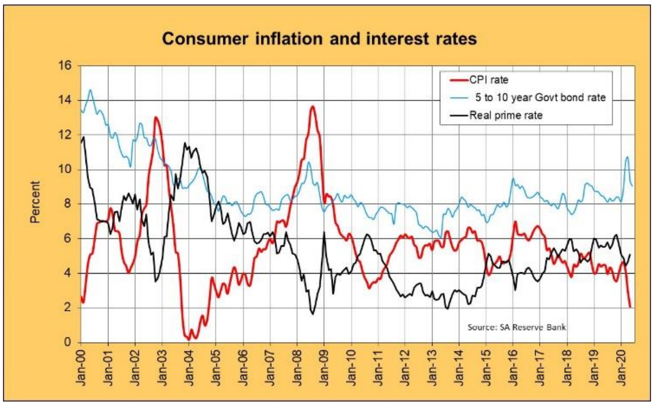


Figure 4 – Favourable terms of trade

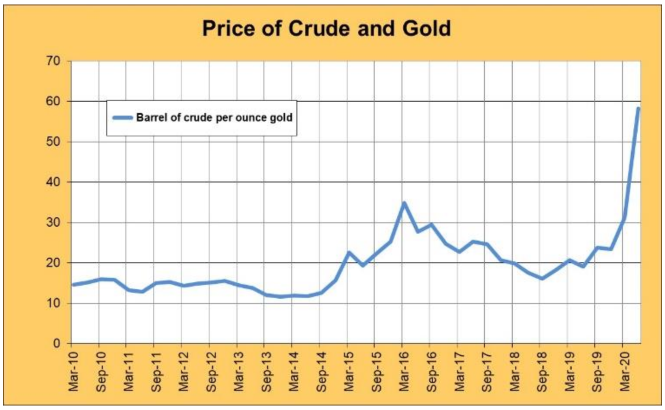
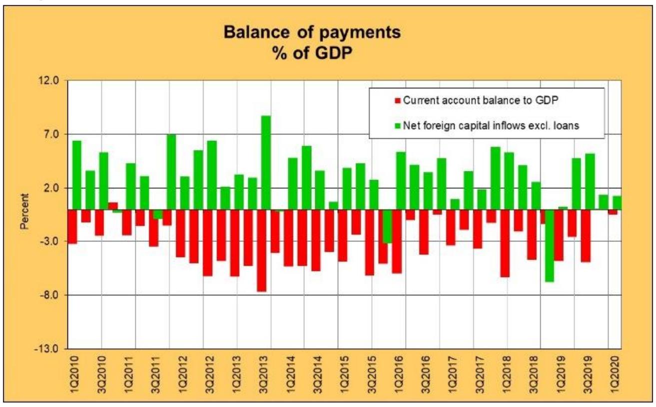


Figure 5 – Balance of payments



Conclusion

The South African business climate is still prone to the Covid-19 pandemic and the lockdown process that is in place since the end of March 2020. As a global pandemic, the southern hemisphere is presently moving towards the peak of the pandemic while the northern hemisphere countries has moved past the peak but still have to follow health protocols to prevent a resurgence of infections.

Economies the world over had to deal with lower levels of activity, government intervention, and the economic fallout. South Africa was caught at a vulnerable stage of the economy underperforming with structural deficiencies that provided an even bigger challenge. It is therefore essential that the South African government should be sensitive to the effects of the lockdown process and its deleterious effect on the business environment. The balance should rather lean towards opening up activity than following a rigid approach that adds little to mitigating the pandemic.

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Annexure 1

General Economic Indicators

Indicator	Period	Direction	Latest	Previous	2019	2014
Consumer inflation headline urban (%)	Jun-20	▲	2.2	2.1	4.1	6.1
Consumer inflation urban - excl. food, bev. & fuel (%)	Jun-20	▶	3.4	3.4	4.4	5.7
Money supply M3 eop (% Δ Y-o-Y)	Jun-20	▲	11.0	10.6	6.1	7.2
Private sector credit eop (% Δ Y-o-Y)	Jun-20	▼	5.5	6.2	6.1	8.5
Real prime overdraft rate eop (%)*	Jun-20	▼	3.5	3.7	5.5	2.9
Prime overdraft rate eop (%)	Jul-20	▼	7.00	7.25	10.00	9.25
Liquidations number sa	Jun-20	▼	134	201	2042	2064
Bond yield 5-10y govt eop (%)	Jul-20	▲	9.28	9.17	8.17	7.39
R / US$ average	Jul-20	▼	16.76	17.12	14.44	10.84
R / Euro average	Jul-20	▼	19.24	19.28	16.17	14.40

Indicator	Date	Direction	Latest	Previous	2019	2014
Income & wealth tax / GDP (%)	1q-20	▲	16.9	15.0	15.5	14.7
Total tax / GDP (%)	1q-20	▲	32.0	28.3	28.7	27.2
Public sector borrowing requirement / GDP (%)	1q-20	▲	5.2	3.2	5.1	4.3
Public sector expenditure / GDP (%)	1q-20	▶	4.9	5.1	5.4	6.9
Budget balance / GDP (%)	1q-20	▲	-7.6	-4.5	-6.3	-4.7
Imports / GDE (%)	1q-20	▼	27.5	29.0	29.5	32.5
Exports / GDP (%)	1q-20	▼	29.8	30.4	29.8	31.5
Net foreign investment flows / GDP (%)	1q-20	▼	1.2	1.3	2.9	3.8
Current account balance / GDP (%)	1q-20	▼	-0.5	0.0	-3.1	-5.1
Gross domestic saving / GDP (%)	1q-20	▼	12.3	15.4	14.5	15.4
Gross capital formation / GDP (%)	1q-20	▼	12.8	15.4	17.6	20.5
Net fixed capital formation / GDP (%)	2019	▼	-	-	3.9	6.6
GDP growth (% Δ Y-o-Y)	1q-20	▲	-0.1	-0.5	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.