SOUTH AFRICAN CHAMBER OF COMMERCE AND INDUSTRY

Business Confidence Index

March 2020

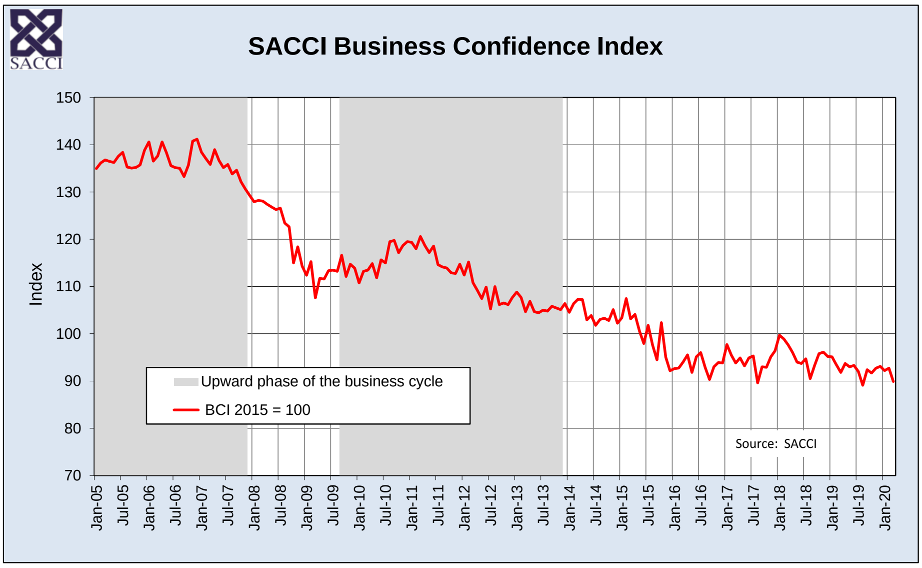
SACCI

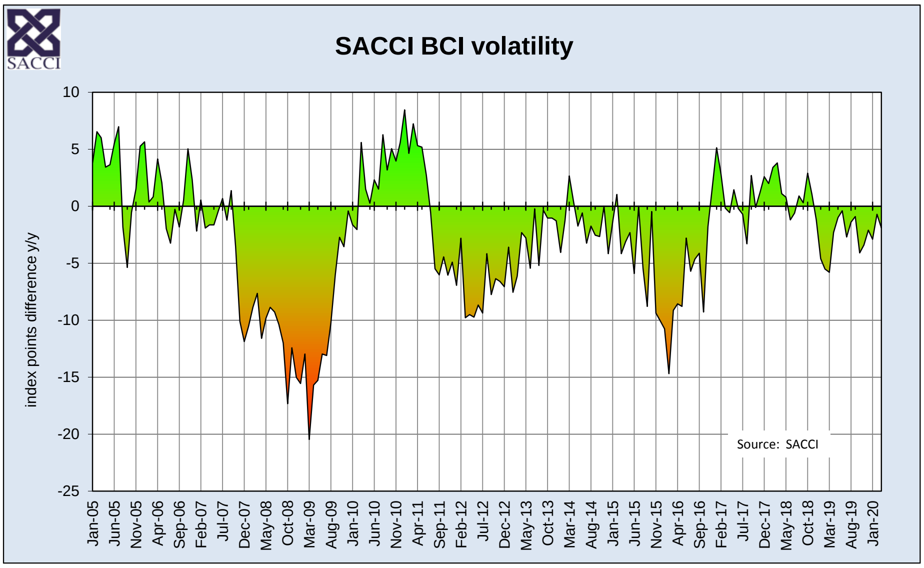
Content:

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	
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

The Business Confidence Index (BCI) of **SACCI** decreased by 2.8 index points in March 2020 to 89.9 following on an uptick of 0.5 index points in February 2020. The BCI of March 2020 was 1.9 index points lower than the 91.8 of March 2019. The March decline is the sharpest month-on-month decrease since the 2.9 index points of the BCI in August 2019. The BCI average for the 1st quarter of 2020 was 91.6 compared to 93.4 of the 1st quarter of 2019 and 92.5 for the 4th quarter of 2019.

The exogenous Covid-19 health shock and the economic impact thereof came on top of a tight business climate and a subdued South African economy. The economic effect of the Covid-19 on trading partners and lately on the South African economy became more evident and pronounced towards the end of March 2020.

Since the second week of March and onwards, sharp downward volatility occurred in the daily financial sub-indices. This was noticeable in the volatility of the rand exchange rate, share prices, and commodity prices – notably the crude oil price. These adverse developments were in pursuit of huge instability on global financial markets. Except for new vehicle sales and energy supply, the effect of Covid-19 was not yet reflected in the available data for the real economy. The credit downgrade to junk status by Moody's on 27 March 2020 did not have a profound effect on the March BCI as this came at the tail end of March.

Seven of the thirteen sub-indices have exerted downward pressure on the business confidence index, and despite the present insecurity, four sub-indices were still contributing towards a positive business climate while two sub-indices remained unchanged. Only one financial sub-index positively influenced the business climate, one remained neutral, and four of the six had a negative effect. Real activity was still relatively balanced and neutral in March with three of the seven activity BCI sub-indices being positive, three being negative and one remaining neutral compared to February.

Exceptional negative monthly impacts on the BCI came from the number of new vehicle sales, the exchange rate of the rand against the major trading currencies, and lower share prices – all mainly due to global uncertainty and unpredictability caused by Covid-19.. Lower interest rates, improved terms of trade, and the decline in the US-dollar crude oil price somewhat comforted a nervous business community.

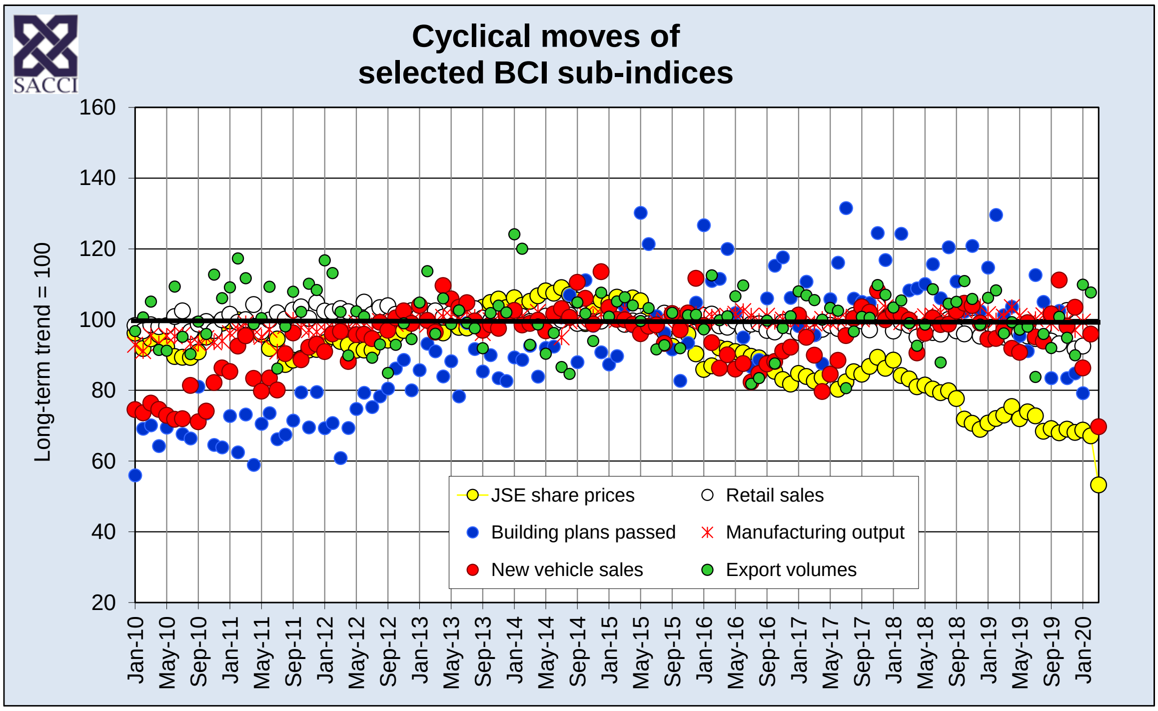
The 2.8 index point drop in the BCI from March 2019 to March 2020 does not yet fully reveal the extent of Covid-19 on the economy and the business climate. The March BCI mainly contains the effect of the subdued performance of the domestic economy and to some measure the effect on international trade owing to the impact of the virus on trading partners.

Some financial sub-indices were directly affected by global financial and commodity markets. The most notable positive annual impact on the business climate came from the lower cost of credit owing to monetary policy easing and lower inflation. The weaker rand, depressed new vehicle sales and the perturbing decline in share prices, mainly contributed to the detrimental effect on the business climate and the decline of the BCI between March 2019 and March 2020.

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	+	o	+	o
Manufacturing	+	-	-	-
Exports	-	-	-	+
Imports	+	+	-	-
Vehicle sales	-	+	-	+
Retail sales	o	-	-	-
Construction - buildings	-	o	-	-
Inflation¹	-	+	+	+
Share prices	-	-	-	-
Real private sector borrowing	o	o	o	o
Real financing cost	+	o	+	o
Precious metal prices	-	o	+	+
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

Major Economic Distraction – Uncharted Terrain

Covid-19 (caused by the Corona virus) as a global health pandemic is having a tragic effect on the lives of people all over the world. After initially starting in the Huwan province of China, Covid-19 rapidly spread throughout the world and was labelled as a pandemic by the WHO (World Health Organization). Apart from hazardous health conditions, the pandemic was a main distraction to the global economy and created huge uncertainty. The world economy's reaction to the pandemic directly affected global financial markets and commodity prices. Due to the spread of the Corona Virus, drastic measures like social distancing and lockdowns were introduced by various countries to stem the tide of spreading the virus.

An important aspect of managing the virus as a health threat is to flatten the curve of infections and mitigate the spread of the virus so that the health system such as medical facilities and hospital are not overwhelmed and able to cope when infections are peaking.

The South African experience

South Africa cited the Covid-19 as a medical emergency and the President early announced the sincerity of the health hazards. A National State of Disaster was introduced that laid emphasis on matters such as a travel ban from high risk countries and social distancing. A national command council was established to manage the government's co-ordinated approach to the pandemic. The President further introduced a national lockdown for 21 days starting on the 26th of March 2020 that confined citizens to their residents while regulations were introduced that affected certain economic activities that where non-essential and laid down rules for being in public. The President emphasised the importance of self-isolation and adherence to the regulations in order to 'flatten the curve'.

The economic effect

Not only could the effect on government spending end up with re-prioritized objectives, but out of necessity the Minister of Finance had to cope with a more challenging and tight fiscal situation. Simultaneously the lockdown promptly affected certain economic activities. The consequences of the desperate measures implemented and the knock on effect for jobs, the SMME sector, economic growth, government revenue all have other unintended economic consequences.

Apart from the fiscal effects, the South African Reserve Bank (SARB) had to introduce extraordinary monetary measures to ensure that financial markets keep on functioning and that the necessary liquidity is provided to lubricate the system. To alleviate some of the short-term economic effects and pressure on households and businesses, the SARB lowered the repo-rate by one percentage point to 5.25% while the SARB also embarked on buying government bonds to provide more liquidity.

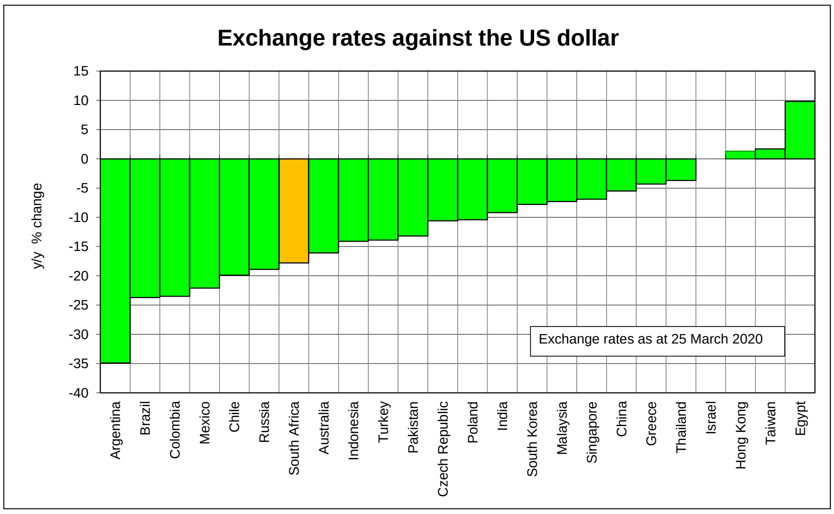
The effect on trading partners emerged early at the outbreak of the Corona virus. Due to a highly integrated global economy, international supply chains were affected. The interaction between financial markets on a 24-hour basis lead to the direct adjustment in the global equity and bond markets. The effect on real economic activity also affected commodity prices with the crude oil price being the most prominent.

On a micro level business had to be assisted on various matters ranging from trading hours, labour laws, essential services, and more. Businesses are currently operating in uncertain terrain as nobody knows the timing and the easing of the current scenario. The current State of Disaster is constantly assessed for the short-term operational impact on business and later there might be a better understanding of the longer-term financial and economic impact.

Peer group experience

At this stage the global economic effect has been dramatic. Depending on each countries' economic well-being before the advent of Covid-19, the fiscal and monetary effects of the virus will take time to filter through into real economic activity. The most promptly and directly affected variables were the exchange rates of currencies – see figure 1. Currencies of poorer performing economies were more seriously affected.

Figure 1

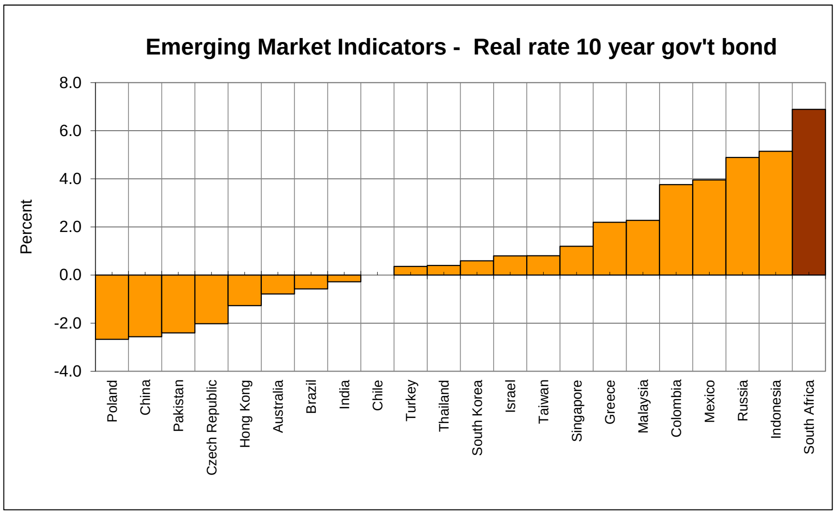


Source: The Economist, 26 March 2020.

All emerging markets had to deal with the flow of global capital and risks assessment. This had different effects depending on economic situations of economies. In figure 2 the real bond rate indicates how government bonds and their risks were assessed. The real rate of the 10-year government bond serves as an indicator of relative lending risk to governments and noting inflationary effects.

The nominal 10-year government bond rate of South Africa came close to 12% towards the end of March, but has since eased to about 11%. On the 27th of March 2020 Moody's downgraded South Africa's sovereign investment to junk status with a negative outlook. Although this came at an inappropriate time, it is important that South Africa return to structural economic reform once the effect of Covid-19 has subsided.

Figure 2



Source: The Economist, 26 March 2020.

Conclusion

In his address on the State of Disaster, the President acted timeously to alert South Africa to the impact of Covid-19. Apart from its effect on health, the effect on the economy could be severe and all social partners have to contribute to limit the impact.

Extraordinary steps and sacrifices by government, business and households will be necessary over the short-term. The long-term effects are not clear, but all efforts should be put in place not to create fear and panic and to put sound economic policy in place to ensure sustainable economic performance post Covid-19.

Much could be learned from other countries on mistakes and efforts made to cope with the short-term effects of Covid19, but South Africa must not neglect efforts to re-establish business and investor confidence after the present distractions of Covod-19 have subsided.

For more economic information, see the General Economic Indicators in Annexure 1.

Annexure 1

General Economic Indicators

Indicator	Period	Direction	Latest	Previous	2019	2014
Consumer inflation headline urban (%)	Feb-20	▲	4.6	4.5	4.1	6.1
Consumer inflation urban - excl. food, bev. & fuel (%)	Feb-20	▲	4.3	4.0	4.4	5.7
Money supply M3 eop (% Δ Y-o-Y)	Feb-20	▲	7.6	7.0	6.1	7.2
Private sector credit eop (% Δ Y-o-Y)	Feb-20	▲	5.2	4.9	6.1	8.5
Real prime overdraft rate eop (%)*	Feb-20	▼	4.2	5.5	5.5	2.9
Prime overdraft rate eop (%)	Mar-20	▼	8.75	9.75	10.00	9.25
Liquidations number sa	Feb-20	▲	163.0	140	2042	2064
Bond yield 5-10y govt eop (%)	Mar-20	▲	11.43	8.68	8.17	7.39
R / US$ average	Mar-20	▲	16.68	15.03	14.44	10.84
R / Euro average	Mar-20	▲	18.42	16.39	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.