SOUTH AFRICAN CHAMBER OF COMMERCE AND INDUSTRY

Business Confidence Index

October 2019

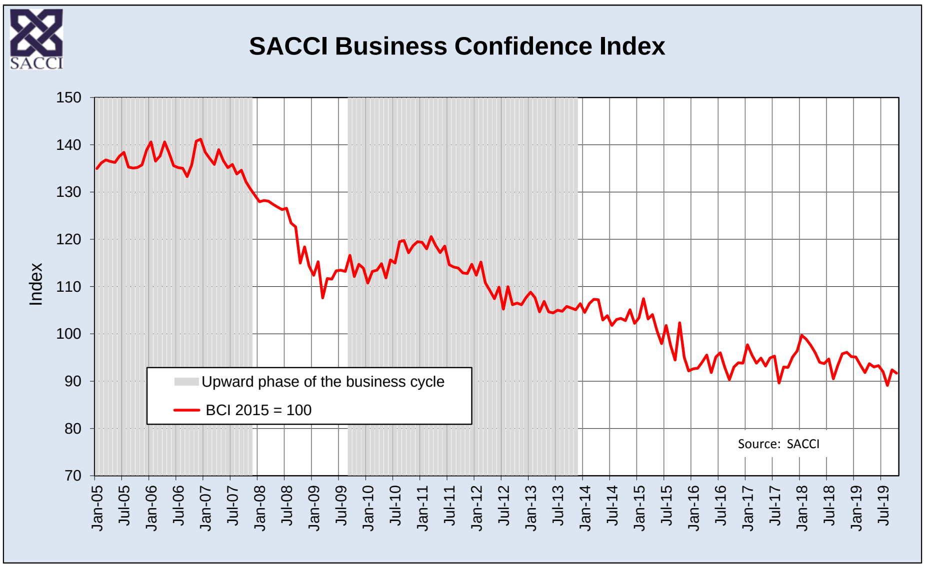
SACCI

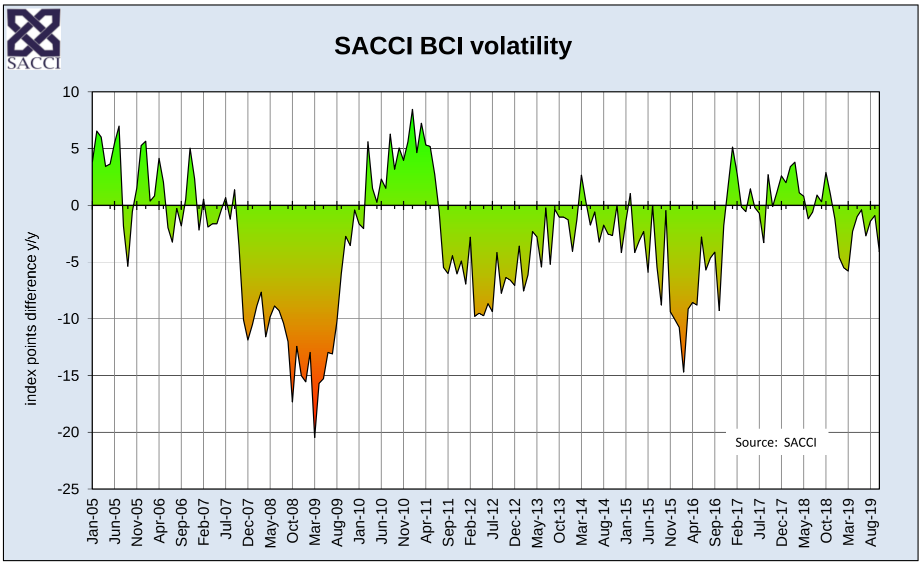
Content:

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	
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) shed 0.7 index points in October 2019 to measure 91.7 compared to 92.4 in September 2019. After dipping below the 90 index level in August 2019, the BCI managed to stay above the 90 index level in October. The BCI is 4.1 points below last year's October level of 95.8. The average for the BCI in the ten months to October 2019 stands at 92.6 – see table on page 2. Since 2014 (6 years), the BCI on three occasions increased between September and October and therefore this month's decline is disappointing.

Between September and October 2019, five sub-indices improved, six weakened, and two remained even. Four of the seven economic activity sub-indices (see box on page 4) contributed positively to the BCI, while of the six financial sub-indices, one made a positive impact on the BCI in October 2019. Eight of the thirteen sub-indices either had an unbiased impact on the BCI, or made a negative contribution.

Particular relative positive monthly contributions came from increased new vehicle sales, lower consumer inflation, and real retail sales. Substantial relative negative impacts on the BCI emanated from decreased merchandise export and import volumes, to a lesser degree from the rand exchange rate depreciation, and disrupted energy supply.

One of the seven economic activity indicators improved on its October 2018 level, while five of the six financial sub-indices were either positive or remained unchanged on their October 2018 levels.

The annual decline of 4.1 index points between October 2019 and September 2018 was mainly due to notable year-on-year decreases in merchandise export and import volumes, a decline in the real value of building plans passed, lower all-share prices on the JSE, and decreased real retail sales. Marginal positive annual contributions to the BCI in October were made by higher US dollar prices for precious metals and an increased number of new vehicles sold.

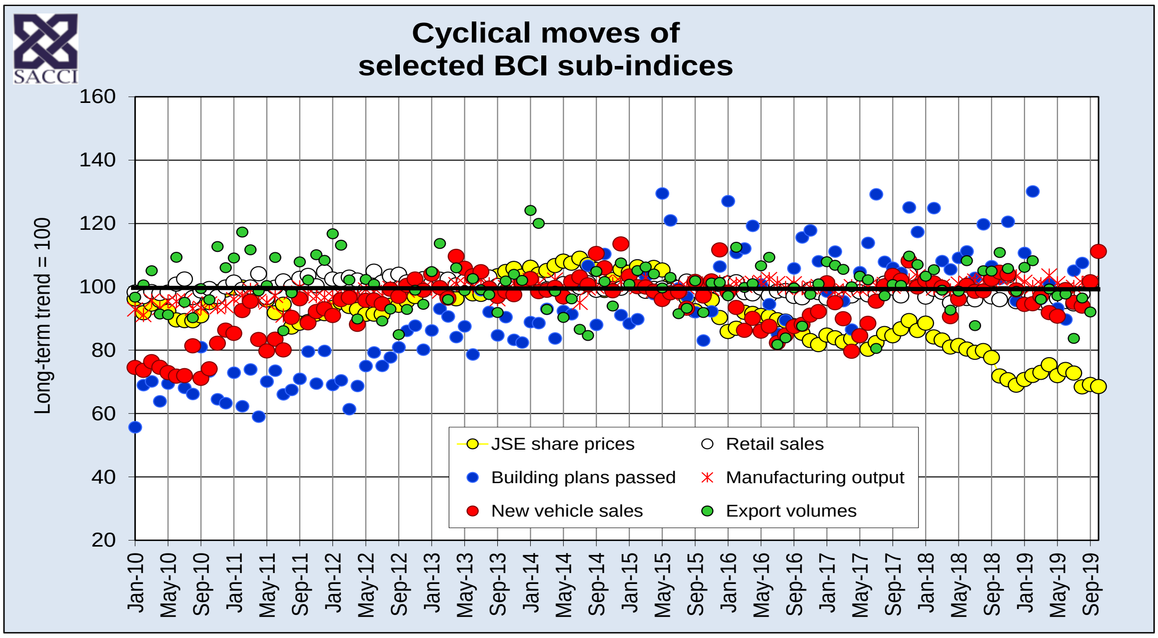
The static level of the **SACCI** BCI shows the market frustration, reflected in the BCI, to gain traction and build the necessary momentum which could support a turnaround of general economic conditions and sentiment. Other economic developments are reviewed in the Economic Review on page 5.

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

Wavering Economic Opportunities

October 2019 has been an eventful month pertaining to the economic environment and the business climate. Various institutions made their forecasts and medium-term outlook public while the latest data imply tightening economic conditions in 2019, but easing somewhat in 2020.

Global Economic Performance

In its October 2019 World Economic Outlook of the IMF, world economic growth is projected to slow to 3% in 2019 from 3.6% in 2018, pick up to 3.4% in 2020 and probably return to 3.6% in 2024. For advanced economies, projections imply a continued slowdown in real growth from 2.3% in 2019 - to 1.6% in 2020 and to 1.7% by 2024. Although emerging market and developing economies will also experience slower growth of 3.9% in 2019, it is projected to increase to 4.6% in 2020 and to 4.8% by 2024. For Sub-Sahara Africa economic growth will remain at 3.2% in 2019, rise to 3.6% in 2020 and increase to 4.8% by 2024.

Global Competitiveness

The World Economic Forum (WEF) recently published its Global Competitiveness Report for 2019 which provides a further relative perspective on economies in the global context. The ranking for each country presents the combination of 103 individual indicators, obtained from information of international organizations as well as from the WEF's executive opinion survey. The indicators consist of 12 'pillars', namely Institutions; Infrastructure; ICT adoption; Macroeconomic stability; Health; Skills; Product markets; Labour market; Financial system; Market size; Business dynamism; and Innovation capability.

In terms of the overall rating, South Africa was 60th out of 141 countries – up from 67th out of 140 countries in 2018. Of all the pillars (categories), the financial system ranked best 19/141, followed by market size 35/141, innovation capacity 48/141, etc. The worst ranking was for health 118/141, skills 90/141, and ICT adoption 89/141, followed by others.

Medium Term Budget Policy Statement - MTBPS

Apart from the Minister of finance painting a sobering picture of the economy which is expected to grow by only ½ a percent in 2019, the fiscal situation appears to be hard to contain within sustainable economic parameters. The revised 2019/20 Budget estimates reveals a fiscal situation that remain of concern. Subtle adjustments indicate that the Minister of Finance presented a MTBPS for 2020/21 onwards that is addressing daunting challenges. A number of public finance features emerged from the MTBPS that is notable in comparing the medium term estimates of 2020/21 with the estimates for 2019/20:

- Current revenue rising faster (7.9%) than nominal GDP (7.4%)
- Debt service costs rising by 10.8%

- Main Budget deficit increasing by 3.6% to record 4.5% of GDP compared to 4.7% in 2019/20
- Projected real changes on recurrent expenditure items like compensation of employees (-1.7%); interest and rent on land (+5.1%); municipalities (+2.8%), and no real increase in social benefits to households
- The 2.9% increase in capital expenditure implies a projected dissaving (borrowing longer term to finance recurrent expenditure) of some 3.8% of GDP
- Expenditure on public order and safety rising only marginally in real terms (+0.4%) despite high crime levels
- Real consolidated government expenditure rising by 1.1%.
- Given present estimates, public sector debt to rise to above 70% in three years' time and become unsustainable.

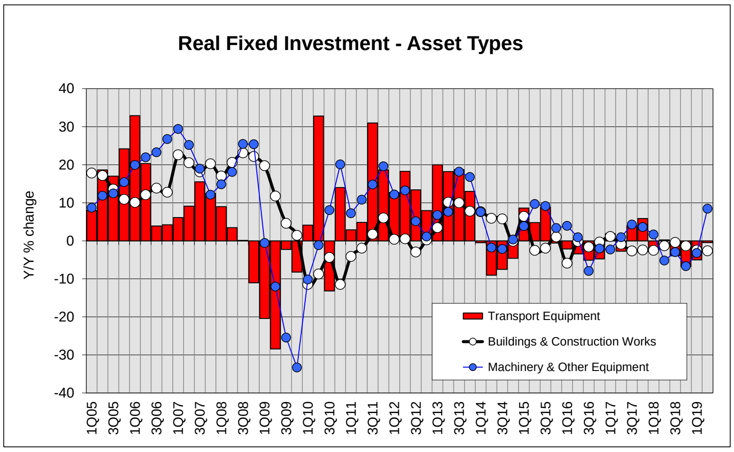
There is scepticism whether the fiscal situation could be contained and reversed to inspire growth and employment. However, the Minister provided a straightforward assessment of the growing fiscal and economic difficulties. Of special concern is the expenditure side with certain items listed above. There appear to be limitations to what the Minister can achieve. The latest Moody's rating agency's negative outlook puts additional pressure on the sovereign rating of the country which in turn will generally dampen the investment prospects in South Africa in the foreseeable future. The February 2020 Budget will be a crucial turning point in this regard.

General Economic Developments

A number of events during October played a role in the business climate and eventually the **SACCI** BCI:

- Unexpected load shedding caught the economy off guard during October for two days seriously disrupting business and demonstrated just how fragile the power situation currently is in South Africa. It was however temporarily resolved, but this added risks to investment and doing business in South Africa. Longer term solutions have become imperative.
- Some technical hitches negatively affected air transport during October.
- Naamsa reported strong sales figures on new vehicle sales. An estimated 20% of sales was to the vehicle rental industry while domestic sales of new light commercial vehicles, bakkies and mini buses recorded a decline of about 6% sold during October 2019. Sales in the medium and heavy truck segments improved by some 8%.
- Both consumer and producer price inflation declined to 4.1% and with prices of imported commodities increasing by 0.5%. Electricity tariffs, reflecting the financial difficulties at Eskom, increased by 18.7% and adding a fundamental risk and knock on effect to inflationary prospects.
- It appears that the Brexit deadlock could be resolved by early next year and thus bring more certainty to an important trading partner of South Africa.
- The upcoming investment summit would need a strong resolve to improve the trend in investment indicated in the figure below. A number of matters mentioned above could provide credibility to lure local and foreign investors to South Africa

as a preferred destination. It appears that investors are starting to renew investments in output capacity such as machinery and other equipment.



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

Conclusion

Business confidence remains at a plateau while policymakers have little manoeuvring space to set the economy on course. Credit rating agencies, lenders and investors are reluctant to make decisions in an uncertain environment. The need for economic growth and reducing unemployment must take centre stage. A cue from the victorious Springbok rugby team could perhaps serve as guide to what needs to be done – Together We Can Make It Happen – if the urgency and the winning game plan as proposed could be followed!

General economic indicators

Indicator	Period	Direction	Latest	Previous	2018	2013
Consumer inflation headline urban (%)	Sep-19	▼	4.1	4.3	4.6	5.8
Consumer inflation urban - excl. food, bev. & fuel (%)	Sep-19	▼	4.3	4.6	4.3	5.4
Money supply M3 eop (% Δ Y-o-Y)	Sep-19	▼	6.1	7.4	5.6	5.8
Private sector credit eop (% Δ Y-o-Y)	Sep-19	▼	6.2	6.9	5.6	6.3
Real prime overdraft rate eop (%)*	Sep-19	▲	5.5	5.2	5.5	2.9
Prime overdraft rate eop (%)	Oct-19	►	10.00	10.00	10.25	8.50
Liquidations number sa	Sep-19	▼	128	165	1845	2374
Bond yield 5-10y govt eop (%)	Oct-19	▼	8.31	8.32	8.91	7.73
R / US$ average	Oct-19	▲	14.91	14.85	13.24	9.65
R / Euro average	Oct-19	▲	16.48	16.35	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.