

SOUTH AFRICAN CHAMBER OF COMMERCE AND INDUSTRY

Business Confidence Index

September 2020



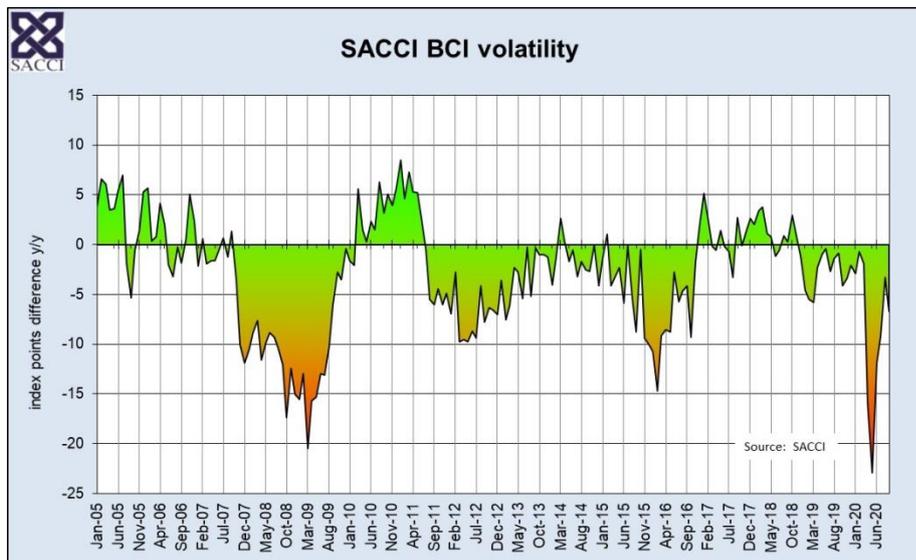
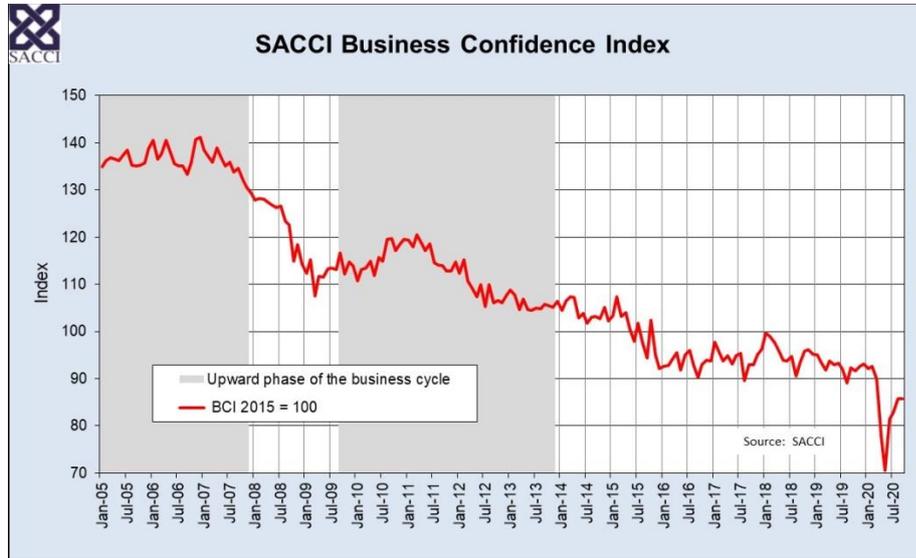
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Because of information lags and changes in expectations, the dynamics of the business mood, may, at times, be at variance with the economic environment. As a result, always read the BCI with other economic data and the accompanying economic commentary.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

The SACCI Business Confidence Index (BCI) 2015=100

| Month | 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 | 85.8 |
| September | 105.8 | 103.3 | 94.5 | 90.3 | 93.0 | 93.3 | 92.4 | 85.7 |
| 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 last release of the **SACCI** BCI in July 2020, the index improved from 82.8 to 85.8 in August 2020 but dipped marginally to 85.7 in September 2020. After declining by 12.1 index points in April 2020 and a further 7.7 in May 2020, the BCI has now recovered some 15.7 index points up to August 2020. However, business confidence appears to find it difficult to regain its rhythm as the BCI declined marginally in September 2020 by 0.1 index point.

The effect of the economic lockdown (amongst the most severe in the world), has caused damage to the economy (see economic commentary) and the business climate that will take time and effort to salvage. The BCI was still 6.7 index points below the September 2019 level and averaged 84.3 over the 1st nine months of 2020 compared to 92.6 for the comparative period in 2019. Covid-19 and the lockdown process appear to have worse consequences for the business climate than the global recession of 2007/08 as the SACCI BCI is currently well below the depressed average BCI level of some 113 in 2009.

On a month-on-month basis the most negative effects by sub-indices of the BCI came from still depressed retail sales volumes, lower share prices on the JSE, and less real credit to the private sector. On the positive side, improved merchandise export and import volumes, and manufacturing output made the largest contributions to business climate in September. The accommodative financial environment helped to ease some of the difficulties experienced in business.

The annualised impact of the real economic activity sub-indices of the BCI remained negative although the financial sub-indices like real financing costs and higher precious metal prices helped to soften the negative blow on the business environment. Markedly less merchandise import volumes owing to depressed real domestic demand, lower manufacturing output, and decreased new vehicle sales made the largest negative impact over the year. The much weaker rand, compared to last year September, was the financial variable that had a notable adverse effect on the business confidence index.

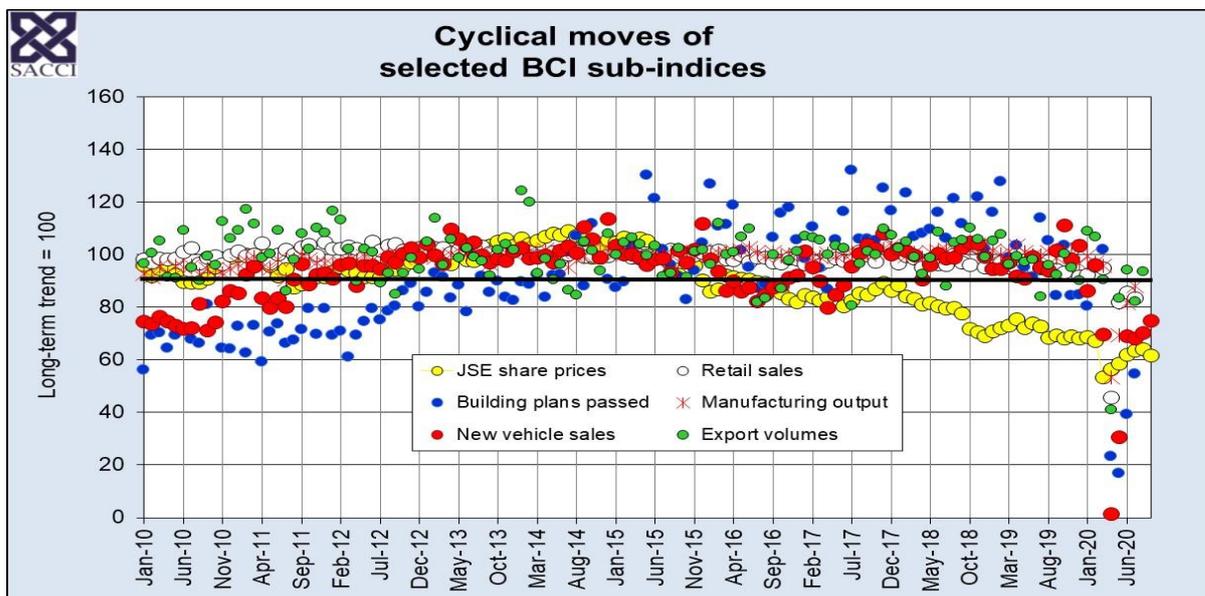
The strict and long-running Covid-19 mitigation measures in South Africa and some of the regulatory measures had a significantly negative impact on business, households, and government revenue. South Africa had to manage and contain the public health effects of the Covid-19 pandemic and its calamitous effects on business and the economy. It appears that the management of the Covid-19 pandemic by government's Command Council had a relatively successful impact on managing the health pandemic and ensuring mortality rates were much lower than originally forecast. The economy however took the pain given rising unemployment, business closures and the GDP decline.

Business Climate Indicators

| 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 | - | + | - | - |
| Construction - buildings | + | + | - | - |
| Inflation ¹ | O | - | - | + |
| Share prices | - | + | - | - |
| Real private sector borrowing | - | O | - | - |
| Real financing cost | O | O | + | + |
| Precious metal prices | - | + | + | + |
| Rand exchange rate | + | - | - | - |

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

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



This month's economic review

Salvaging Economic Recovery

It appears that the effect of the Covid-19 pandemic had dissimilar consequences for economies throughout the world. To a large extent this depended on how the health hazards were managed and balanced with the risk of minimizing the impact on the economy. It also hinged on the knowledge that was gained, especially with regard to treatment of patients and hospitalization. The northern hemisphere countries went through a steeper learning curve first while countries of the southern hemisphere had the advantage of hindsight in the management of the Covid-19 pandemic.

The economic effect is following a different pattern and timeline in countries with Asian counties being the first to experience and handle the Covid-19 pandemic. The major economic impact occurred in the 2nd quarter of 2020 in most economies while countries like China felt the economic impact already in the 1st quarter of 2020. Other countries in south-east Asia were also amongst the first to realign their economies. Most countries have moved beyond the peak of Covid-19 and are trying to avoid a second-round resurgence of infections and a return to lockdown with concurrent economic consequences. See table below for selected countries.

| Data Covid-19 : 28-09-20 | | | | | | | |
|---|---------------|------------|-------------|------------|------------|-------------|-------------|
| | World | RSA | USA | Italy | Spain | Netherlands | Brazil |
| Population | 7,814,863,000 | 59,622,000 | 331,002,000 | 60,461,000 | 46,754,000 | 17,135,000 | 212,934,000 |
| Infections | 33,328,000 | 670,766 | 7,321,343 | 309,870 | 735,198 | 111,626 | 4,732,309 |
| Official infection rate | 0.4% | 1.1% | 2.2% | 0.5% | 1.6% | 0.7% | 2.2% |
| Deaths | 1,002,665 | 16,398 | 209,453 | 35,835 | 31,231 | 6,374 | 141,776 |
| Official death rate | 0.013% | 0.028% | 0.063% | 0.059% | 0.067% | 0.037% | 0.067% |
| Deaths per million of population | 128 | 275 | 633 | 593 | 668 | 372 | 666 |

Source: www.Worldometer.info/coronavirus/

The economic growth performances in the table below give some idea of how the pandemic has affected some selected countries and at different time periods. More open economies was notably impacted on by economic developments in their trading and investment partners.

| Economic Growth for Some Selected Countries | | |
|---|--|--|
| Country | 2 nd quarter 2020 growth % y/y | 1 st quarter 2020 growth % y/y |
| China | +3.2% | -6.8% |
| USA | -9.1% | +0.3% |
| Britain | -21.7% | -1.7% |
| Euro Area | -15% | -3.1% |
| India | -23.9% | +3.1% |
| South Korea | -2.8% | -3.0% |
| South Africa | -17.1% | -0.1% |
| Australia | -6.3% | +1.4% |
| Brazil | -11.4% | -0.3% |

Source: The Economist, 2 September 2020.

Due to global economic linkages and interaction, there was little room for countries to avert developments in other economies. The lockdown also exposed economies' vulnerabilities and their structural and financial deficiencies.

Restoring the South African Economy

The South African economy faces an uphill battle in salvaging the economy from the effects of the pandemic and the consequences of a prolonged lockdown process. Although the impact is evident across all sectors of the economy, the table below gives an indication of which sectors were particularly hard hit.

| GDP GROWTH | | | | | | | | | | | |
|--|------------|------------|------------|------------|------------|------------|-------------|------------|-------------|--------------|-------------|
| SECTOR | 3Q 2018 | 4Q 2018 | 2018 | 1Q 2019 | 2Q 2019 | 3Q 2019 | 4Q 2019 | 2019 | 1Q 2020 | 2Q 2020 | 1H 2020 |
| | Y-o-Y %Δ | Y-o-Y %Δ | Y-o-Y %Δ | Y-o-Y %Δ | Y-o-Y %Δ |
| Agriculture, forestry and fishing | 9.4 | -0.6 | -2.8 | -12.7 | -6.3 | -7.4 | 2.1 | -6.1 | 15.9 | 8.9 | 12.4 |
| General government services | 1.6 | 1.0 | 1.3 | 1.0 | 1.8 | 1.9 | 2.0 | 1.7 | 1.6 | 0.6 | 1.1 |
| Finance, real estate and business services | 1.9 | 3.1 | 1.8 | 2.4 | 3.1 | 2.3 | 1.4 | 2.3 | 3.1 | -6.6 | -1.7 |
| Personal services | 0.7 | 1.1 | 1.0 | 1.3 | 0.8 | 1.3 | 0.5 | 1.0 | 0.9 | -9.0 | -4.1 |
| Electricity and water | 1.4 | 1.1 | 0.9 | -1.4 | -0.5 | -2.4 | -3.6 | -2.0 | -2.9 | -14.2 | -8.6 |
| Wholesale and retail trade; hotels and restaurants | 1.1 | 0.3 | 0.6 | -0.6 | 0.4 | 0.6 | -0.3 | 0.0 | 0.6 | -25.9 | -12.6 |
| Transport and communication | 1.9 | 2.4 | 1.5 | 1.1 | 2.5 | -1.0 | -3.7 | -0.3 | -3.0 | -27.6 | -15.3 |
| Manufacturing | 1.2 | 1.3 | 0.9 | 0.6 | 0.5 | -1.5 | -2.6 | -0.7 | -3.5 | -32.4 | -17.9 |
| Mining and quarrying | -3.8 | -3.4 | -1.7 | -4.6 | -1.4 | -0.7 | -1.0 | -1.9 | -4.5 | -33.4 | -19.0 |
| Construction | -0.8 | -1.1 | -1.2 | -2.3 | -2.5 | -3.7 | -4.6 | -3.3 | -5.3 | -33.4 | -19.4 |
| GDP excluding agriculture | 0.9 | 1.1 | 0.9 | 0.4 | 1.2 | 0.5 | -0.4 | 0.4 | -0.2 | -17.4 | -8.8 |
| GDP at market prices | 1.3 | 1.1 | 0.8 | 0.0 | 0.9 | 0.1 | -0.5 | 0.2 | 0.1 | -17.1 | -8.5 |

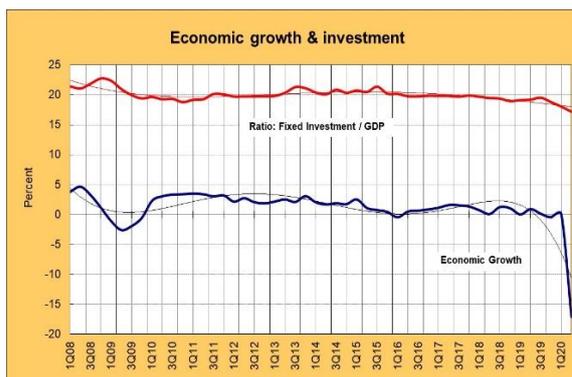
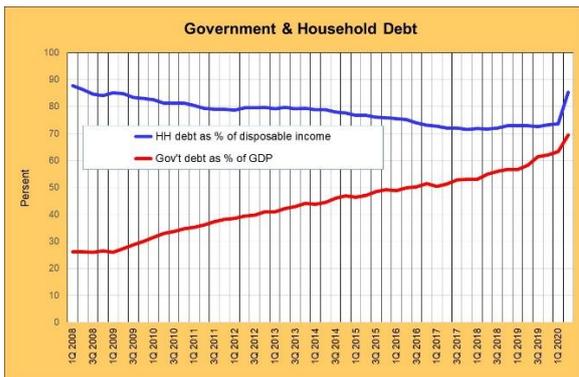
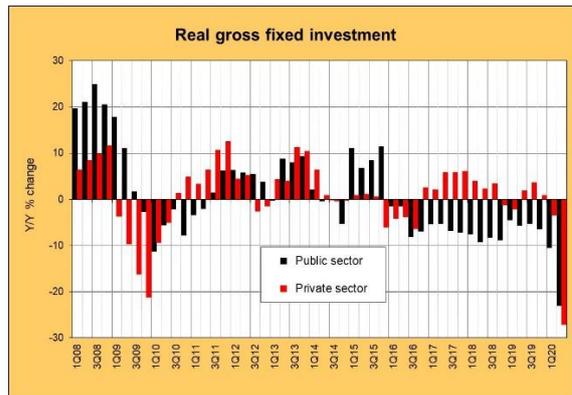
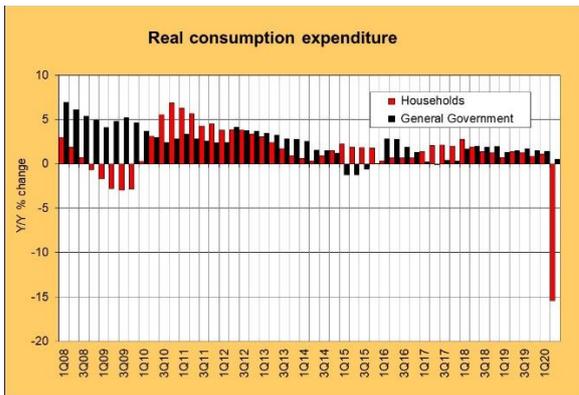
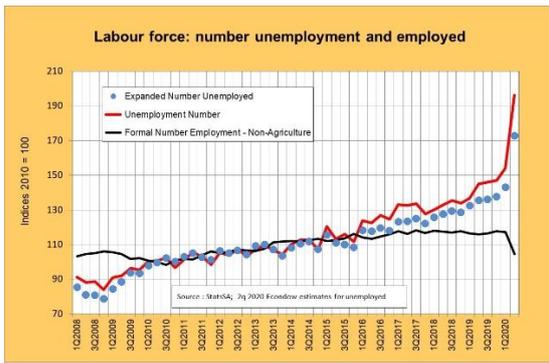
Note: Y-o-Y %Δ = year-on-year % change

Apart from government and agricultural activity, all the other sectors in the economy suffered from the lockdown process. Although the health risks and health hazards remain, the way in which the lockdown process was conducted in some cases had more severe and unintended consequences than the virus itself. Agriculture, however, caused the economy to decline by 0.3% point less and fulfilled the daunting task of providing food security in these trying times.

The decline in the supply side of the economy only represents part of the salvation process of the economy that needs urgent attention. A suffocated demand side and notable dwindling fixed investment coupled to the effect on unemployment, provide the overriding challenges for the economy to grow and create jobs. Structural adjustment is not a choice anymore but a necessity while attending to contemporary economic restoration in the meantime.

The sequence for restoring the economy has already begun with the gradual phase down of restrictions to level 1 but should be expedited and restrained to the highest infection areas and communities without causing further damage to the broader economy. Corrective action is necessary to the unsustainable fiscal situation in all public sector institutions. The high-profile public arrests for corruption will go some way to restore local and foreign investor confidence but further structural economic adjustments are required to steer economic policy in a credible direction and towards growth and employment creation.

The most critical issues for the moment present themselves in the following figures:



It is clear that the Covid-19 pandemic and the lockdown process managed by government had a paralysing effect on the economy and the business climate. It has become apparent that the economy can be restored if a corrective phased process is implemented as a matter of urgency.

Conclusion

The initial sharp decline in the Business Confidence Index and the partial recovery have shown the sensitivity of the economy and the business environment to an exogenous radical intervention in the economy. As the country remains in a fragile situation, government should continue to pursue enabling policies and an environment that encourage the business sector to fast track growth and employment creation at a time when the Northern Hemisphere appears to be heading into a second wave of infections. By contrast, South Africa appears to have gone past its worst phase of its infections.

Annexure 1

General Economic Indicators

| Indicator | Period | Direction | Latest | Previous | 2019 | 2014 |
|--|--------|-----------|--------|----------|-------|-------|
| Consumer inflation headline urban (%) | Aug-20 | ▼ | 3.1 | 3.2 | 4.1 | 6.1 |
| Consumer inflation urban - excl. food, bev. & fuel (%) | Aug-20 | ▶ | 3.5 | 3.5 | 4.4 | 5.7 |
| Money supply M3 eop (% Δ Y-o-Y) | Aug-20 | ▲ | 10.9 | 10.5 | 6.1 | 7.2 |
| Private sector credit eop (% Δ Y-o-Y) | Aug-20 | ▼ | 3.5 | 5.2 | 6.1 | 8.5 |
| Real prime overdraft rate eop (%)* | Aug-20 | ▶ | 3.4 | 3.4 | 5.5 | 2.9 |
| Prime overdraft rate eop (%) | Sep-20 | ▶ | 7.00 | 7.00 | 10.00 | 9.25 |
| Liquidations number sa | Aug-20 | ▲ | 214 | 185 | 2042 | 2064 |
| Bond yield 5-10y govt eop (%) | Sep-20 | ▲ | 9.49 | 9.11 | 8.17 | 7.39 |
| R / US\$ average | Sep-20 | ▼ | 16.72 | 17.23 | 14.44 | 10.84 |
| R / Euro average | Sep-20 | ▼ | 19.81 | 20.39 | 16.17 | 14.40 |
| Indicator | Date | Direction | Latest | Previous | 2019 | 2014 |
| Income & wealth tax / GDP (%) | 2q-20 | ▼ | 15.6 | 16.9 | 15.5 | 14.7 |
| Total tax / GDP (%) | 2q-20 | ▼ | 26.1 | 31.9 | 28.7 | 27.2 |
| Public sector borrowing requirement / GDP (%) | 2q-20 | ▲ | 14.8 | 5.6 | 5.1 | 4.3 |
| Public sector expenditure / GDP (%) | 2q-20 | ▲ | 5.0 | 4.9 | 5.4 | 6.9 |
| Budget balance / GDP (%) | 2q-20 | ▲ | -11.7 | -7.6 | -6.3 | -4.7 |
| Imports / GDE (%) | 2q-20 | ▼ | 26.2 | 27.5 | 29.5 | 32.5 |
| Exports / GDP (%) | 2q-20 | ▼ | 27.5 | 29.7 | 29.8 | 31.5 |
| Net foreign financial inflows excl. loans / GDP (%) | 2q-20 | ▲ | 3.4 | 1.2 | 2.9 | 3.8 |
| Current account balance / GDP (%) | 2q-20 | ▼ | -0.8 | -0.6 | -3.1 | -5.1 |
| Gross domestic saving / GDP (%) | 2q-20 | ▼ | 12.6 | 13.2 | 14.5 | 15.4 |
| Gross capital formation / GDP (%) | 2q-20 | ▼ | 13.4 | 13.8 | 17.6 | 20.5 |
| Net fixed capital formation / GDP (%) | 2019 | ▼ | - | - | 3.9 | 6.6 |
| GDP growth (% Δ Y-o-Y) | 2q-20 | ▼ | -17.1 | 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.