SOUTH AFRICAN CHAMBER OF COMMERCE AND INDUSTRY

Business Confidence Index

January 2021

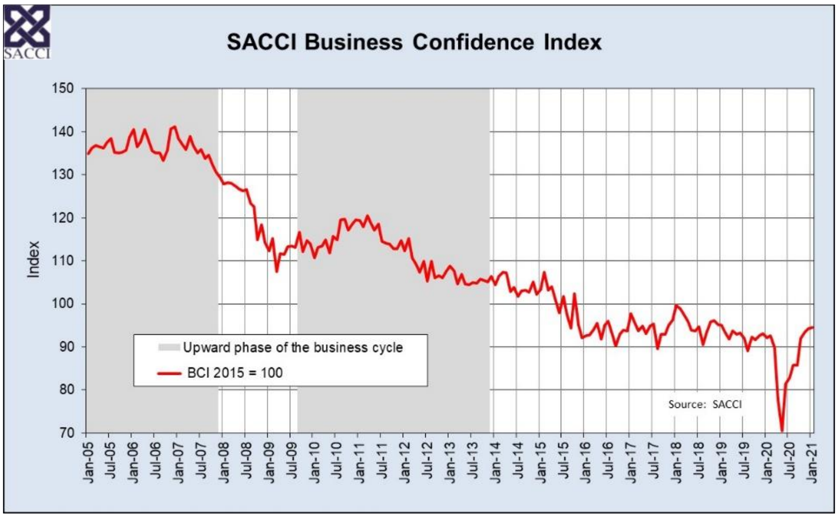
SACCI

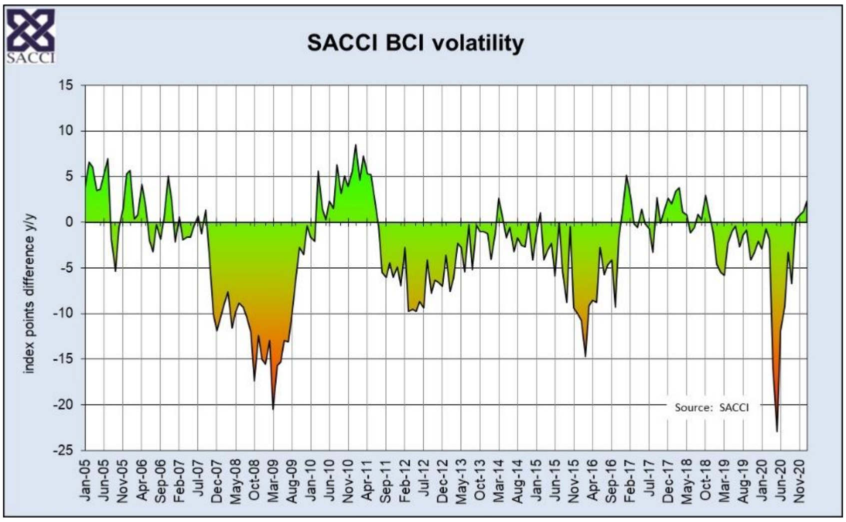
Content:

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	2014	2015	2016	2017	2018	2019	2020	2021
January	104.5	103.4	92.6	97.7	99.7	95.1	92.2	**94.5**
February	106.4	107.4	92.7	95.5	98.9	93.4	92.7	
March	107.3	103.2	94.0	93.8	97.6	91.8	89.9	
April	107.2	104.1	95.5	94.9	96.0	93.7	77.8	
May	102.9	100.6	91.8	93.2	94.0	93.0	70.1	
June	103.8	97.9	95.1	94.9	93.7	93.3	81.4	
July	101.8	101.8	96.0	95.3	94.7	92.0	82.8	
August	103.0	97.6	92.9	89.6	90.5	89.1	85.8	
September	103.3	94.5	90.3	93.0	93.3	92.4	85.7	
October	102.8	102.3	93.0	92.9	95.8	91.7	92.0	
November	105.1	95.1	93.9	95.1	96.1	92.7	93.4	
December	102.2	92.2	93.8	96.4	95.2	93.1	94.3	
Average	**104.2**	**100.0**	**93.5**	**94.4**	**95.5**	**92.6**	**86.5**	





This month's BCI results

Since the **SACCI** Business Confidence Index (BCI) recorded 70.1 in May 2020 - its lowest level ever with the BCI base year 2015 equals100 - some recovery in the business climate occurred but appeared to have stalled in September 2020. However, from October 2020 onwards, the business climate experienced marginal monthly improvements which continued into January 2021. This positive momentum came about despite the return to a more restrictive lockdown that was announced in December 2020 owing to a second wave of Covid-19 infections that became apparent.

The **SACCI** BCI measured 94.3 in December 2020 which was 0.9 index point up on November 2020 and 1.2 point higher than in December 2019. A further 0.2 month-on-month increase in January 2021 to 94.5 kept to the slow upward pace. The positive month-on-month contributions to the January 2021 BCI were mainly attributable to real economic activity (66%) while the financial environment made a 34% positive month-on-month impact.

With base year 2015 at 100, the 2020 average of 86.5 is the lowest annual level for the BCI since its inception in 1985. During the economic sanctions period of the 1980s, the 1985 BCI measured the second lowest average of 91.5, followed by the average of 92.6 in 2019. The highest annual average for the BCI was recorded in 2006 at137.5.

The conducive financial environment more than contributed (104%) to the 2.3 index point year-on-year improvement of the BCI in January 2021 than was made by the negative impact (minus 4%) of real economic activity to the business climate in January 2021. The lockdown had a stifling effect on physical economic activity and output, with a concomitant effect on employment in the formal and informal sectors.

Given that the Business Confidence Index (BCI) of **SACCI** reflects the business climate that is market-related and recognizes economic developments that have a bearing on the business mood in South Africa, the compilation of data measures how business interpret and react to developments in the economy. The **SACCI** BCI therefore does not reflect business sentiment, but rather how businesses are reacting and how they are experiencing the business environment.

Short-term movements of increased merchandise import volumes and real retail trade made significant positive impacts on the business climate of January 2021 compared to December 2020. The full effect of stricter lockdown measures in December 2020 has apparently not yet filter through to the business mood. The most negative short-term effect on the business mood came from less merchandise export volumes and less new vehicles sold in January 2021 than in December 2020.

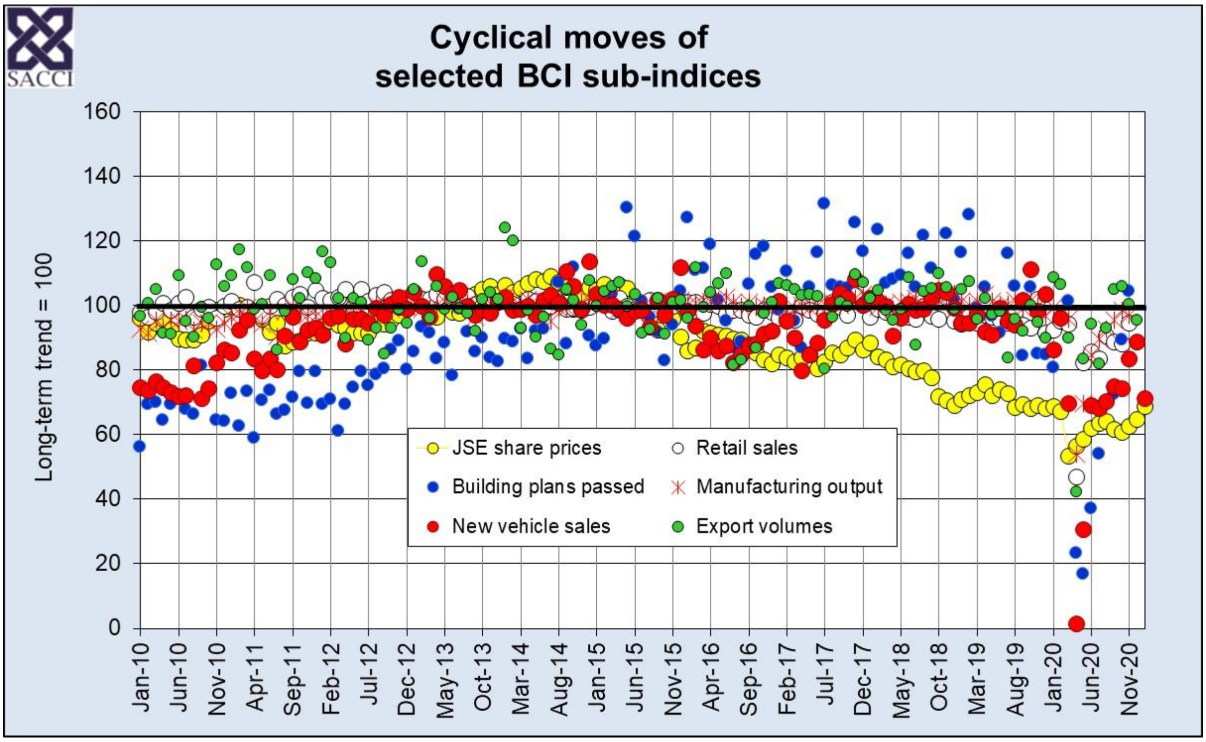
Lower inflation and interest rates largely helped the business mood to improve on a year ago while merchandise export volumes also made a lesser but valuable positive contribution to the business mood. Notably the rand exchange rate against the major investment and trading currencies of the world, as well as retail trade volumes had a negative effect on business confidence if compared to January 2020.

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	+	o	-	-
Construction - buildings	+	+	+	-
Inflation[1]	o	+	+	+
Share prices	+	+	o	-
Real private sector borrowing	o	o	-	-
Real financing cost	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

Time for Economic Restoration

The intensity of the second wave of Covid-19 and more infectious variants of the virus forced a number of countries to go into a more severe lockdown. This helped contain the spread of the virus and tried to ensure that health facilities could cope. However, the economic effects of these lockdowns had global economic repercussions and were notable in particularly tourist, entertaining, hospitality, and air transport activities.

Given the global economic linkages, countries like South Africa with a very open economy had to experience the impact on the economy from the domestic as well as global trade and investment. It is an imperative that further economic damage could be averted if a cure or vaccination against the virus could be expedited. The cost of vaccination should be weighed against the benefit of the restoration of the economy in the medium term.

Differing Effect on Economies

Economies have differing experiences from the Covid-19 pandemic. Apart from levels of development and institutional capacity, the adherence and discipline of the population to basic regulations like wearing masks, frequently washing of hands, social distancing and preventative health care, are all contributing factors to the degree to which economies have been impacted.

In the IMF's January 2021 update of the World Economic Outlook (WEO), world output was revised upward by 0.3 %-points to 5.5% for 2021 but remained on 4.2% for 2022. For Sub-Sahara Africa, growth for 2021 was revised marginally higher by 0.1 %-points to 3.2% for 2021 and down by 0.1 %-points to 3.9% in 2022. South Africa's growth was revised lower by 0.2 %-points to 2.8% for 2021 and 0.1 %-points lower to 1.4% for 2022. This is after South Africa's estimated output has contracted by 7.5% in 2020.

Public Finance Stalemate?

With steep rising unemployment and an unsustainable fiscal position, it is clear that the present core economic policy agenda should focus on restoring the economy before other matters can be addressed. The unsustainable public sector debt situation in South Africa can be ascribed to difficulty in servicing the level of public sector debt, the narrow tax (revenue) base, institutional incapacity, and other urgent social priorities that requires attention.

Capital markets are sceptical of whether re-current expenditure elements like remuneration of employees and social grants could be reined in. The debt trend might therefore become more unsustainable. The only way out of this predicament is to enhance private sector fixed investment, provide credible economic policy that improves confidence in economic growth prospects, and reduce the role of the state to lessen borrowing levels and public debt servicing costs.

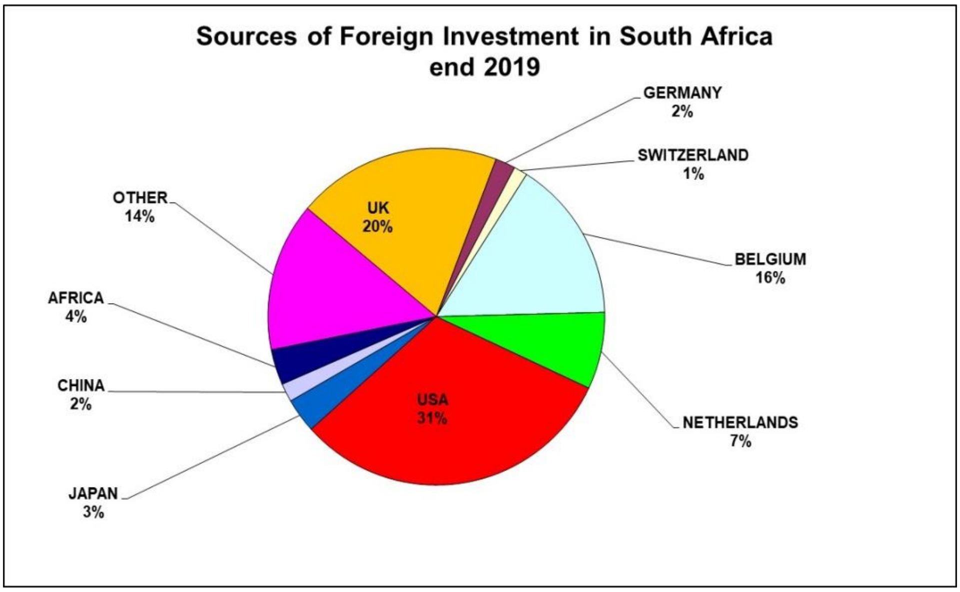
It is in this context that Budget 2021/22 will be a watershed event to pay urgent attention to medium term corrections and adjustments of public sector finances. Read together with the upcoming State of the Nation Address, it will be important to note if decisions that reflect on the realism of the Minister of Finance find their way into the Budget and overall policy direction.

It is not about convincing, but realising the seriousness of getting the economy back on a growth trajectory that goes beyond restoration. To put the economy in a position to attend to matters such as unemployment and equitable rewards for all South Africa's citizens.

Foreign Economic Relations

The new administration in the USA will assumedly bring a fresh approach to the US economy and in global economic interactions. At the moment the new administration is entangled in an economic rescue plan. As the largest economy in the world, South Africa should reassess its economic relations with the US and, with a change in global economic relations, act in the best interest of South Africa and its citizens. The USA as an important foreign investor, could play an important role in assisting in the way forward for structural economic reform and sustainable economic growth and employment. See figure 1 for country origins of investment in South Africa.

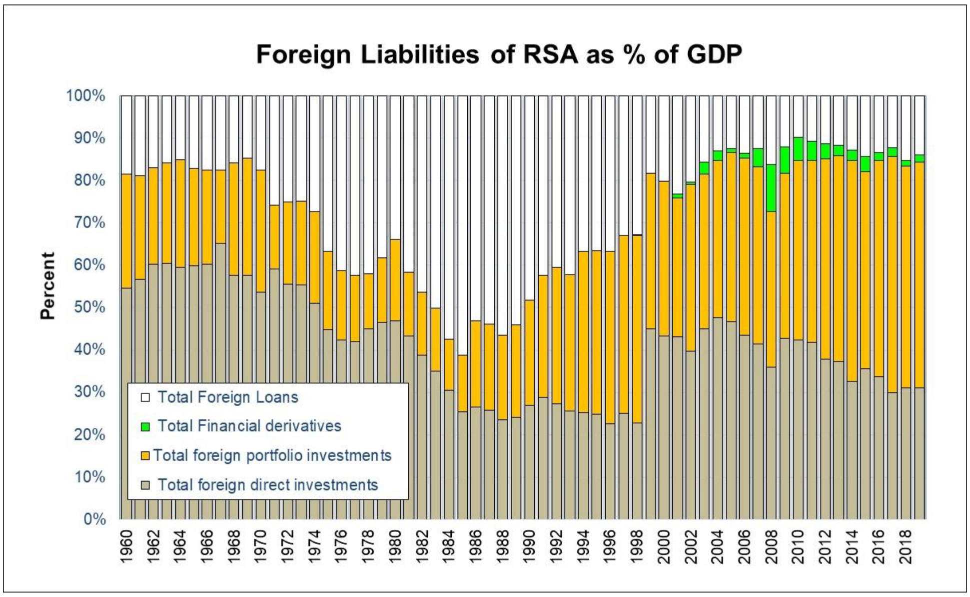
Figure 1



Source: SA Reserve Bank. Quarterly Bulletin, December 2020.

Given South Africa's foreign liabilities, it is notable that during periods of economic crisis like the economic sanctions of the mid-eighties, foreign loans to South Africa made up 61% of total foreign liabilities. In the early sixties foreign loans made up 15% of total foreign liabilities and fixed investment accounted for 65% of total foreign liabilities. In 2019 fixed investment made up 31% of total foreign liabilities (i.e. 4 %-points higher than in 1985) while foreign loans made up 14%. The bulk (53%) of foreign investment in South Africa is by way of portfolio investment. See figure 2.

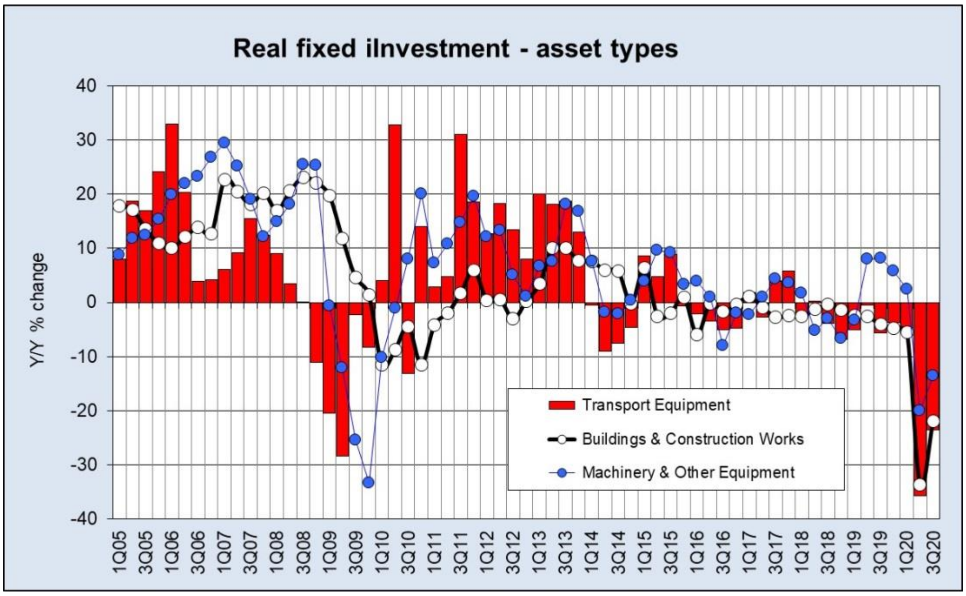
Figure 2



Source: SA Reserve Bank. Quarterly Bulletin, December 2020.

Given that South Africa's savings ratio is vastly inadequate to finance the fixed investment required (at least 25% of GDP), it becomes imperative to have economic policies in place that harness local and foreign direct investment to get economic growth up to higher sustainable levels and create desperately needed jobs. The foreign loan book may even be extended in the short run. However, exchange rate risks and the present junk investment status may call for speedy economic restoration in the first place to be followed by a process of structural economic adjustment. Fixed investment was down by 18% y/y in the first nine months of 2020. Figure 3 reflects changes of fixed investment in types of assets.

Figure 3



Source: SA Reserve Bank. Quarterly Bulletin, December 2020.

Conclusion

The largest economy in the world is putting together an economic rescue plan targeting the health hazards of Covid-19, unemployment and struggling businesses on a non-partisan basis. The rest of the world faces similar situations and is mainly addressing the health hazard while also embarking on economic restoration. Some countries have the fiscal space to attend to these hardships.

Unfortunately, South Africa finds itself in a fiscal logjam caused by excesses of the past and structural economic challenges. It has therefore become essential to concentrate on economic recovery in an unbiased way and attend to the health hazard of Covid-19 simultaneously. The successful application of a viable vaccine appears to have become critical in addressing the Covid-19 risks and ensure the survival of the economy.

Annexure 1

General Economic Indicators

Indicator	Latest Period	Direction	Latest	Previous	2020	2015
Consumer inflation headline urban (%)	Dec-20	▼	3.1	3.2	3.3	4.6
Consumer inflation urban - excl. food, bev. & fuel (%)	Dec-20	▶	3.4	3.4	3.6	4.6
Money supply M3 eop (% Δ Y-o-Y)	Dec-20	▲	9.5	8.2	9.5	10.5
Private sector credit eop (% Δ Y-o-Y)	Dec-20	▲	3.8	3.5	3.8	10.0
Real prime overdraft rate eop (%)*	Dec-20	▶	3.5	3.5	3.5	4.9
Prime overdraft rate eop (%)	Jan-21	▶	7.00	7.00	7.00	9.75
Liquidations number sa	Dec-20	▼	172	277	2180	1962
Bond yield 5-10y govt eop (%)	Jan-21	▶	8.76	8.78	8.78	8.82
R / US$ average	Jan-21	▲	15.14	14.87	16.46	12.75
R / Euro average	Jan-21	▲	18.43	18.10	18.77	14.14

Indicator	Latest Period	Direction	Latest	Previous	2019	2014
Income & wealth tax / GDP sa (%)	3q-20	▼	21.0	28.2	24.9	18.4
Total tax / GDP sa (%)	3q-20	▼	41.9	47.6	46.1	34.2
Public sector borrowing requirement / GDP (%)	3q-20	▲	17.0	14.2	5.9	4.3
Public sector expenditure / GDP (%)	3q-20	▼	1.9	2.1	2.2	2.2
Budget balance / GDP (%)	3q-20	▲	-19.0	-11.7	-6.2	-4.7
Imports / GDE (%)	3q-20	▲	26.4	26.1	29.5	32.5
Exports / GDP (%)	3q-20	▲	13.8	11.1	12.0	9.9
Net foreign financial inflows excl. loans / GDP (%)	3q-20	▼	-5.3	3.4	2.9	3.8
Current account balance / GDP (%)	3q-20	▲	4.9	-0.8	-3.1	-5.1
Gross domestic saving / GDP sa (%)	3q-20	▲	26.9	18.3	23.5	19.4
Gross capital formation / GDP sa (%)	3q-20	▼	16.9	23.0	28.4	25.8
Net fixed capital formation / GDP (%)	2019	▼	-	-	3.9	6.6
GDP growth (% Δ Y-o-Y)	3q-20	▲	-6.0	-17.5	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.