SOUTH AFRICAN CHAMBER OF COMMERCE AND INDUSTRY

Business Confidence Index

March 2021

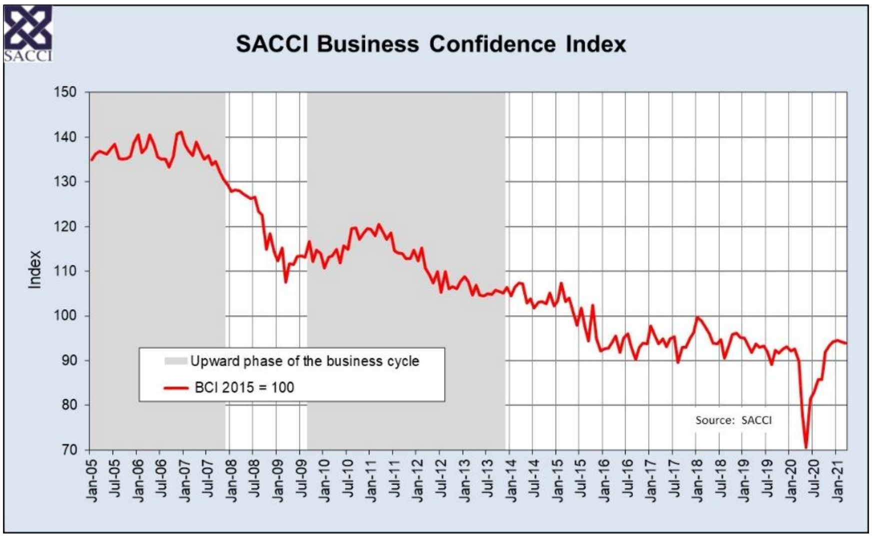
SACCI

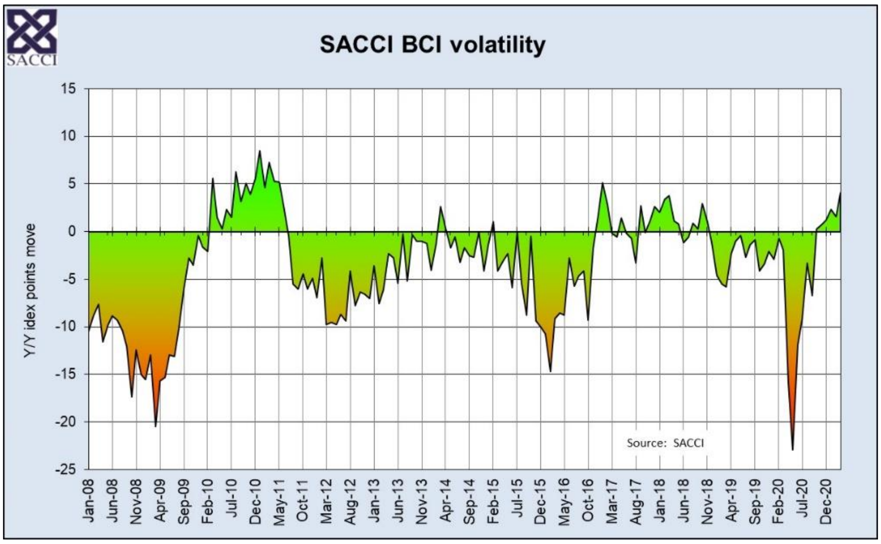
Content:

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	94.3
March	107.3	103.2	94.0	93.8	97.6	91.8	89.9	**94.0**
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

The **SACCI** Business Confidence Index (BCI) measured 89.9 in March 2020 before the lockdown process. Due to the Covid-19 pandemic a State of Disaster was announced near the end of March 2020. In light of the impact of the lockdown on the business climate and economic activity, the private sector has nevertheless shown resilience and tenacity with a substantial number of businesses managing to survive. The **SACCI** BCI has recorded 94.0 in March 2021 – marginally down from 94.5 in January 2021 and 94.3 in February 2021. The BCI averaged 94.3 in the 1st quarter of 2021 compared to 91.6 of the 1st quarter 2020.

Since October 2020 onwards the business climate kept on improving albeit with marginal monthly advances. The business climate remained constrained due to continuing economic uncertainty and the prospects of a further lockdown in the offing with rumours of a third wave of infections becoming prevalent. For the six months ending March 2021, the BCI average improved by 13.2 index points on the preceding six months. It remains important to attend to economic matters that ranges from policy certainty, structural impediments and low investment ratings that are still preventing the economy from breaking through the present impasse

The recent <u>month-on-month</u> decline of 0.3 in March 2021 to 94.0 reflects the current mood of uncertainty as reflected in the economy battling to gather upward momentum. The <u>positive</u> month-on-month contributions to the BCI in March 2021 were notably caused by the increased number of new vehicle sales and higher volume of merchandise imports followed by the lower levels of inflation.

Compared to March 2020, the <u>year-on-year</u> improvement in the **SACCI** BCI in March 2021 by 4.1 index points was mainly enhanced by easier financial conditions than a year ago although more new vehicles sold in March 2021 also surprised on the upside. These improvements were mainly brought about by the stronger rand exchange rate, lower inflation, higher equity prices on the JSE (driven by expectations of economic recovery and global liquidity), and global commodity prices.

Larger volumes of merchandise exports and new vehicle sales also reflected improved conditions and were the <u>only real activities</u> that notably contributed to the increase in business confidence on March last year. The lockdown effect and uncertainty about the process were particularly harsh on physical economic activity and output - spilling over onto unemployment and particularly SMME's going out of business.

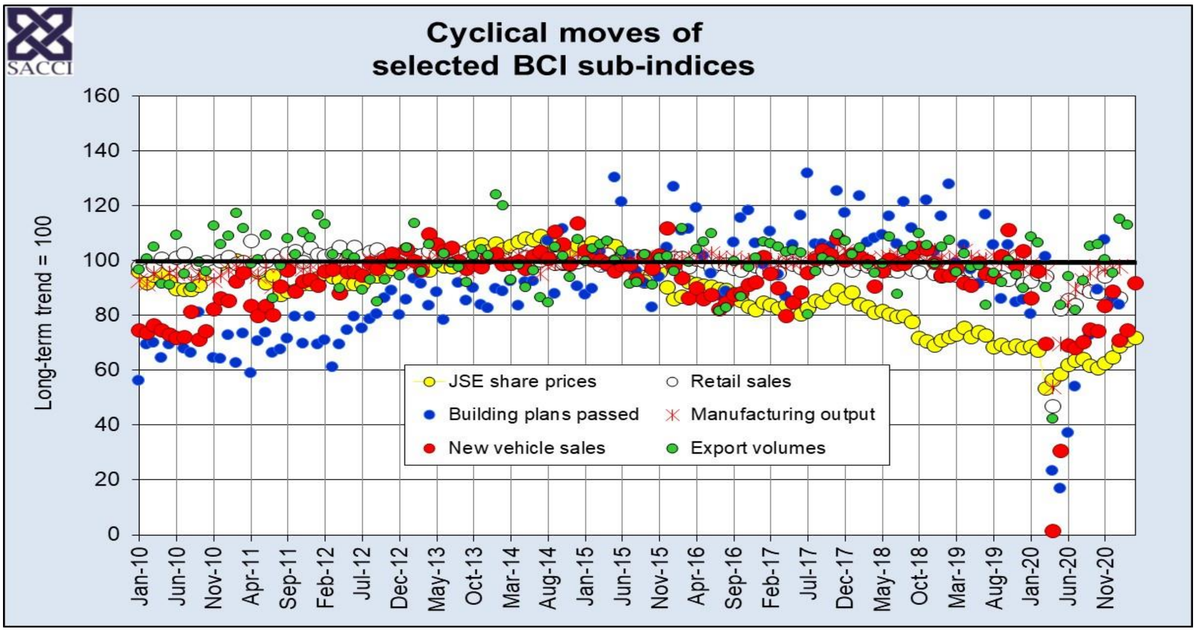
The start of the vaccination process, albeit tentative should however make a meaningful impact on reducing the risk of further random applications of lockdown restrictions and the uncertainty it causes for the economy and business. The impact of vaccinations could create space for attending to inherent shortcomings in economic policy and promotion of longer-term investor confidence which is an imperative for economic growth and business confidence.

Business Climate Indicators

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

Managing the Economic Aftermath

February and March 2021 have been eventful months and developments during the months impacted economies on a global scale. The pandemic itself and variants of the virus triggered additional lockdowns of economies to keep health services manageable but with additional effects on economies and the business climate. Excess deaths beyond the normal death rate confirmed the effect of the Covid-19 virus and its variants – see table 1. Together with large scale vaccinations, the management of the lockdown processes became more sophisticated with due consideration of the economic and business impact.

Table 1: Covid-19 Impact on Selected Countries

Data Covid-19 : 01-04-21							
	World	RSA	USA	Italy	Spain	Netherlands	Brazil
Population	7,854,119,400	59,847,000	332,405,000	60,397,000	46,767,900	17,162,300	213,650,500
Infections	129,606,000	1,548,000	31,166,000	3,585,000	3,284,000	1,273,000	12,753,000
Official infection rate % of poppulation	1.7%	2.6%	9.4%	5.9%	7.0%	7.4%	6.0%
Deaths	2,831,000	52,846	565,256	109,346	75,459	16,538	321,886
Official death rate % of poppulation	0.04%	0.09%	0.17%	0.18%	0.16%	0.10%	0.15%
Deaths per milion of population	**360**	**883**	**1701**	**1810**	**1613**	**964**	**1507**

Source: Worldometer. https://www.worldometers.info/coronavirus/

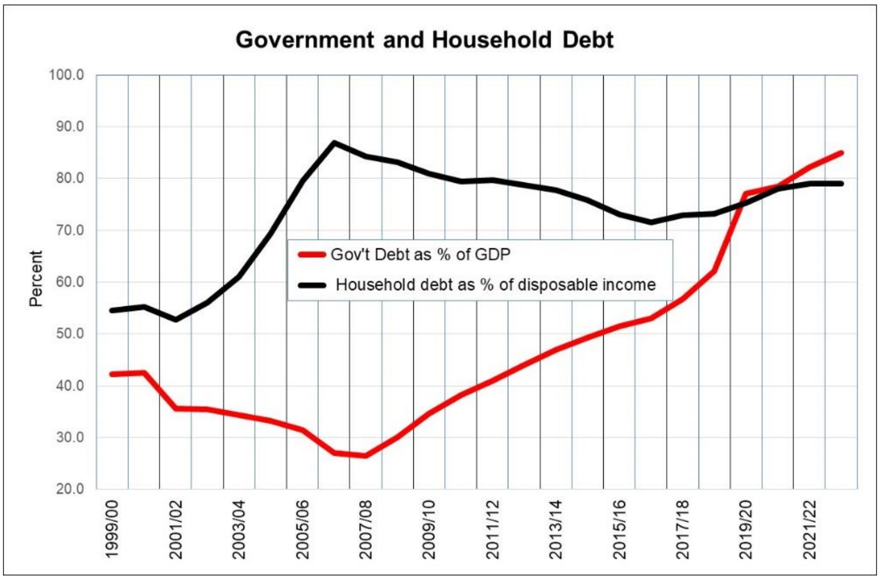
In the analytical chapters of the April 2021 World Economic Outlook (WEO), the IMF pay attention to particularly the "After-Effects of the COVID-19 Pandemic: Prospects for Medium-Term Economic Damage". The IMF notes that financial unsteadiness have been largely avoided so far and medium-term damage are expected to be lower than after the global financial crisis.

The impact on global output will nonetheless be substantial with output anticipated to be 3% lower than the pre-pandemic forecast for 2024. However, the degree of the expected damage differs according to the structure of economies and the ability of policy response. Emerging market and developing economies will probably face a bigger burden than advanced economies.

Budget 2021/22 – Sobering Moment

During February 2021, the Minister of Finance presented his Budget 2021/22 to Parliament. According to the Budget, the revenue forecast of the Medium-Term Budget Policy Statement (MTBPS) delivered in October 2020, was better than expected then but the fiscal dilemma still remains. Of special concern is the effect on public sector debt (see figure 1) and the longer term implications for the public sector to fulfil its role of delivering public collective services relative to the substantial social needs and the concomitant impact on poverty.

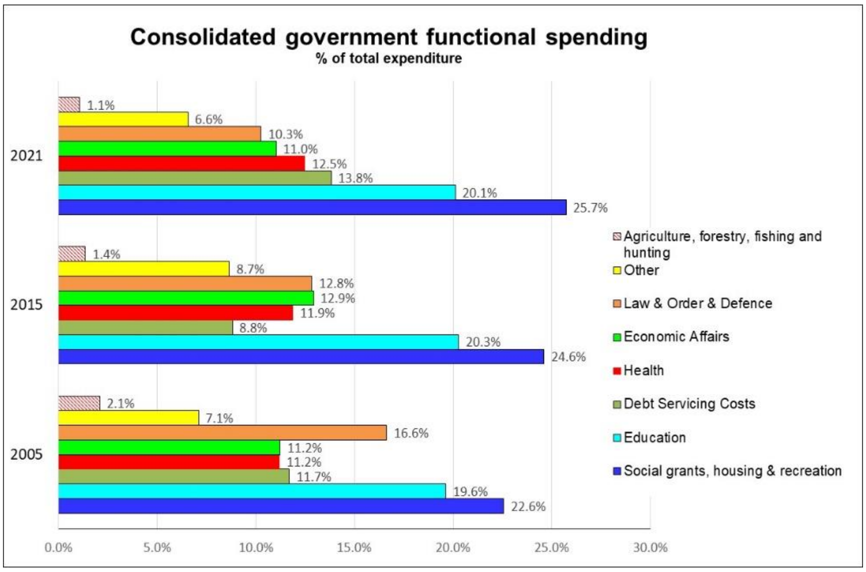
Figure 1



Source: SA Reserve Bank, Quarterly Bulletin, March 2021.

Apart from rising debt levels, the servicing of debt impedes the delivery of other functions of government, notably social functions. The crowding out of expenditure by debt service costs (interest premium due to junk credit rating plus debt management) will get worse if expenditure levels cannot be contained in the broader general government that includes local municipalities. Figure 2 gives an indication of changing expenditure priorities over time.

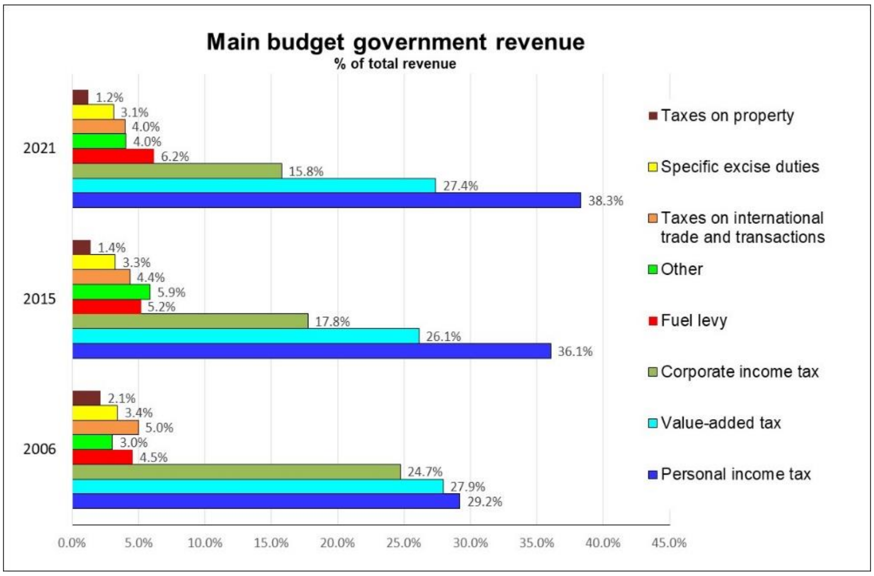
Figure 2



Source: Treasury.gov.za.

Although other economies have higher debt to GDP ratios than South Africa, some have broader tax bases to service those debt levels and deliver on its public sector responsibilities. The changing revenue structure is evident from figure 3.

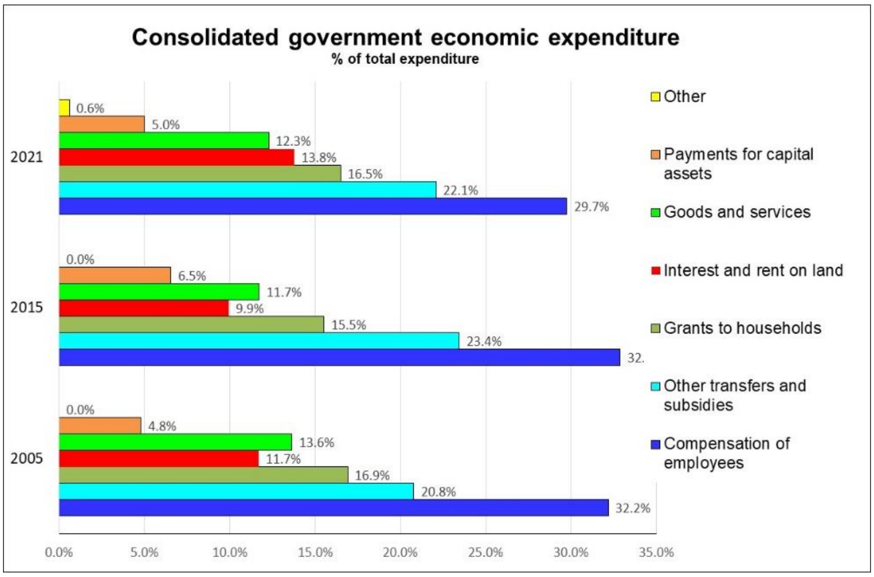
Figure 3



Source: Treasury.gov.za.

Given the economic classification of expenditure, remuneration of employees, transfers and subsidies, and grants to households, make up a substantial part of expenditure (68%). Although remuneration of employees should be contained in numbers and levels of remuneration according to affordable economic limits, the way out of the fiscal dilemma is economic growth to enlarge the tax base and create jobs in the private sector in order to reduce reliance on the social grant system.

Figure 4



Source: Treasury.gov.za.

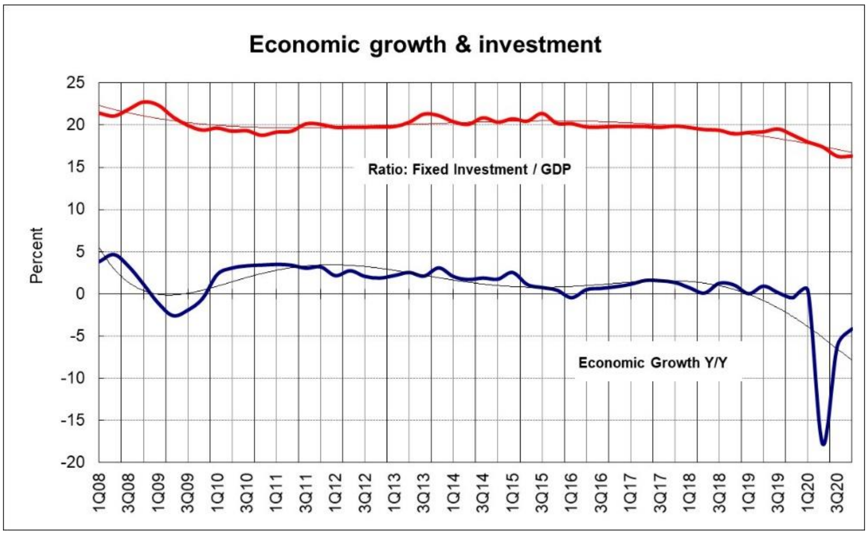
This narrows the economic policy options. With economic growth being the ultimate solution, it will not only broaden the tax base, but also provide the jobs needed for a meaningful recovery. With government playing its distinctive role, the private sector should be encouraged to invest in physical assets to fulfil their role in providing goods and services beyond the collective nature where consumer exclusion prevails.

Dire Need for Fixed Capital Formation

It is quite clear that the economic lockdown caused by the Covid-19 pandemic and the management of the severe lockdown process left an indelible scar on the economy – especially in the 2nd quarter of 2020. Since then the lockdown process caused less disruption to the economy, although it is speculated that this triggered some medium-term sectoral damage that may require state of the art economic policy formulation from lessons learned from other economies – see figure 5.

The vaccination process should play an important positive role in reigniting the economy, with more space for recalibrating the management of government. It will help to refocus the private sector and local and foreign investors into investing in an economy with inherent potential. Investor confidence remains a key element at chipping away at the economic ills.

Figure 5



Source: SA Reserve Bank, Quarterly Bulletin, March 2021.

Conclusion

Although business confidence remains sedate ,the latest restrictions demonstrate a more confident approach by government in handling the situation and the potential health risks looming in the event of a third wave.

Coupled to a speedy vaccination process aimed at achieving herd immunity, this could sooner rather than later allow the economy to return to normality and enhance business and investor confidence.

Annexure 1

General Economic Indicators

Indicator	Latest Period	Direction	Latest	Previous	2020	2015
Consumer inflation headline urban (%)	Feb-21	▼	2.9	3.2	3.3	4.6
Consumer inflation urban - excl. food, bev. & fuel (%)	Feb-21	▼	2.8	3.4	3.6	4.6
Money supply M3 eop (% Δ Y-o-Y)	Feb-21	▼	7.5	9.2	9.5	10.5
Private sector credit eop (% Δ Y-o-Y)	Feb-21	▼	2.8	3.5	3.8	10.0
Real prime overdraft rate eop (%)*	Feb-21	▲	4.1	3.5	3.5	4.9
Prime overdraft rate eop (%)	Mar-21	►	7.00	7.00	7.00	9.75
Liquidations number sa	Feb-21	▲	177	136	2180	1962
Bond yield 5-10y govt eop (%)	Mar-21	▲	9.49	8.88	8.78	8.82
R / US$ average	Mar-21	▲	14.99	14.77	16.46	12.75
R / Euro average	Mar-21	▼	17.84	17.87	18.77	14.14

Indicator	Latest Period	Direction	Latest	Previous	2020	2015
Income & wealth tax / GDP sa (%)	4q-20	▲	15.4	13.7	15.5	14.8
Total tax / GDP sa (%)	4q-20	▲	31.3	27.7	29.4	27.5
Public sector borrowing requirement / GDP (%)	4q-20	▼	5.6	16.7	10.6	4.1
Public sector expenditure / GDP (%)	4q-20	▼	1.2	1.3	1.3	1.8
Budget balance / GDP (%)	4q-20	▼	-4.9	-19.0	-10.8	-4.3
Imports / GDE (%)	4q-20	▲	27.3	26.3	26.9	31.1
Exports / GDP (%)	4q-20	▼	34.7	35.2	31.9	29.8
Net foreign financial inflows excl. loans / GDP (%)	4q-20	▼	0.0	-7.8	-1.5	1.9
Current account balance / GDP (%)	4q-20	▼	0.0	5.1	0.8	-4.6
Gross domestic saving / GDP sa (%)	4q-20	▼	15.4	17.8	15.3	16.1
Gross capital formation / GDP sa (%)	4q-20	▲	11.5	11.4	13.1	20.7
Net fixed capital formation / GDP (%)	2020	▼	-	-	0.6	6.5
GDP growth (% Δ Y-o-Y)	4q-20	▲	-4.1	-6.2	-7.0	1.2

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.