

SOUTH AFRICAN CHAMBER OF COMMERCE AND INDUSTRY

Business Confidence Index

May 2021



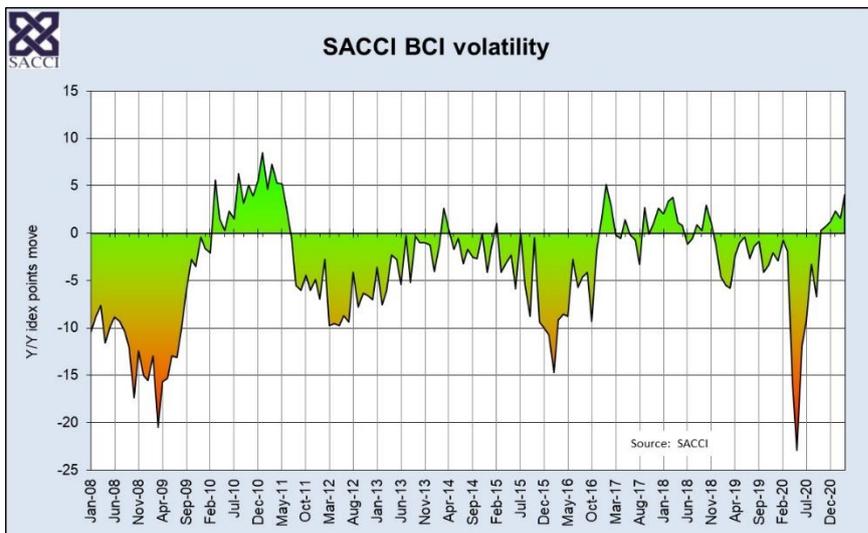
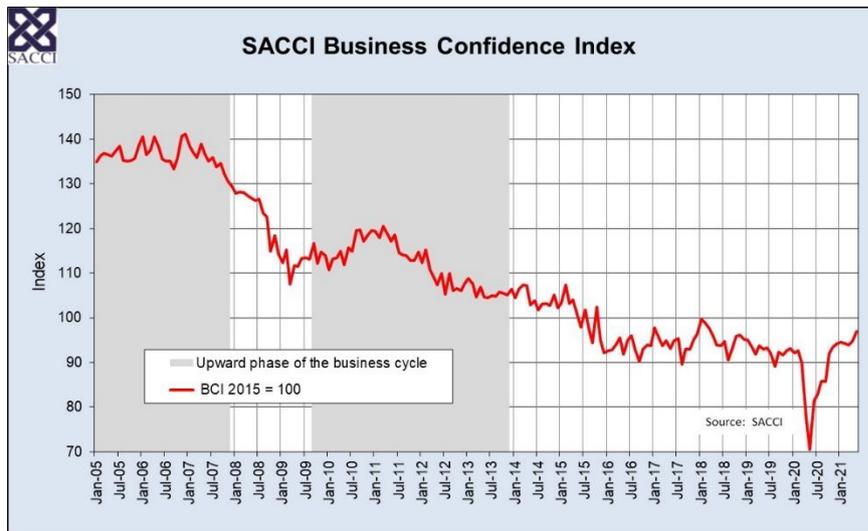
Content:

- **The SACCI Business Confidence Index (BCI)**
- **This month's BCI results**
- **Impact of business climate indicators**
- **This month's economic review**
- **Annexure 1 – General economic indicators**

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	94.7
May	102.9	100.6	91.8	93.2	94.0	93.0	70.1	97.0
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) recorded 94.7 in April 2021 and 97.0 in May 2021 compared to 94.0 in March 2021. The May 2021 BCI was 26.9 up on the desperate level of 70.1 in May 2020 that came about after the initial strict level 5 lockdown in April 2020 was extended to May 2020. Since then, the BCI gradually recovered to middle ninety towards the end of 2020. The BCI level of 97.0 for May 2021 is the highest level recorded since March 2018 when the SACCI BCI measured 97.6.

Particular positive developments in notably foreign merchandise trade lately helped to improve the business climate. International higher commodity prices contributed to a substantial positive balance of payments, exchange rate and fiscal revenue and had effect on the business climate. However, the impact of rising crude oil prices on the domestic fuel price held negative effects for input costs, profit margins, inflation and disposable income while the stronger rand had a partial neutralising effect. While balance of payment developments catapulted the BCI upward, constrained real activity and a less easy monetary environment placed some lid on the business climate.

The recent month-on-month improvement of 2.3 index points from 94.7 in April 2021 to 97.0 in May 2021 reflects some resilience of the business community. The positive month-on-month contributions to the BCI in May 2021 were notably caused by the increase in merchandise export volumes (contributed 58% to the positive impact), and to a lesser extent by manufacturing output and consistent energy supply.

Compared to May 2020, the substantial year-on-year improvement of 26.9 index points to the SACCI BCI in May 2021 needs to be measured against the distortions caused by the Covid-19 lockdown with confidence falling substantially in May 2020. The exceptional trade surplus can be ascribed to increased exports and dampened import demand in 2021

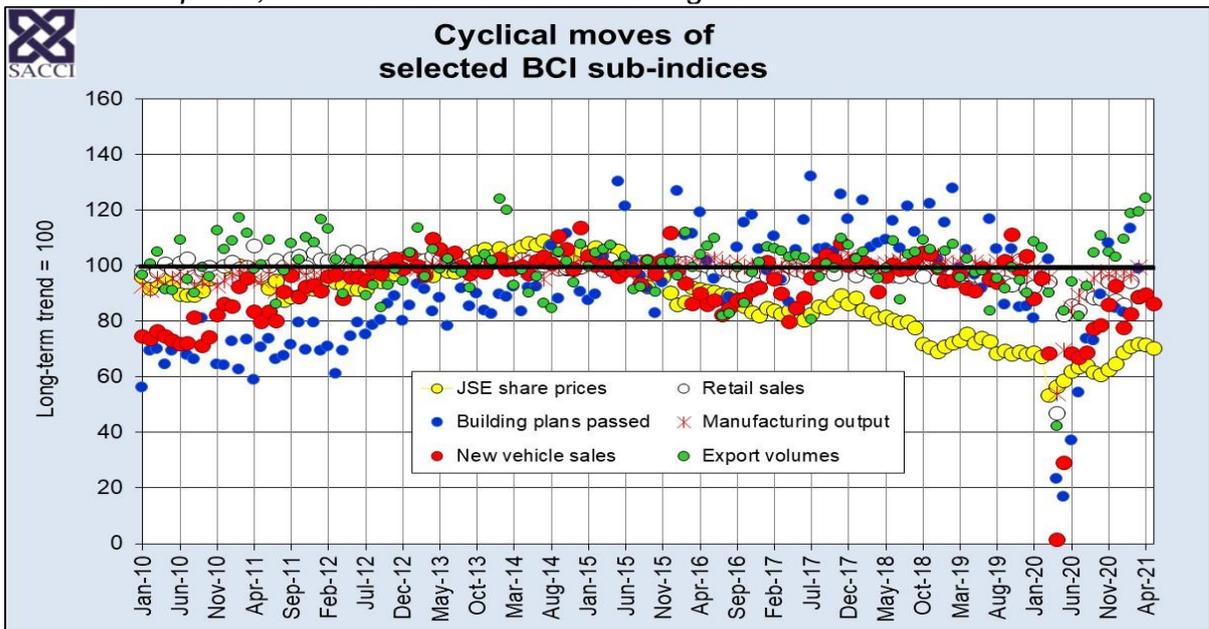
Significant increased volumes of merchandise exports also made the biggest positive annual (y/y) impact on the business climate. It is worrying that constrained real retail sales, slower real credit extension, uncertain energy supply and less building plans passed, are still negatively affecting the business climate compared to a year ago. The effect of the uncertainty of possible lockdowns and the vaccination process for Covid-19 continues to impede the normalisation of the business climate and economic activity.

Business Climate Indicators

Business climate indicators *	m/m changes		y/y changes	
	This month	Previous month	This month	Previous month
Energy supply	O	-	-	-
Manufacturing	+	-	+	-
Exports	+	-	+	+
Imports	-	+	-	-
Vehicle sales	-	+	+	+
Retail sales	-	+	-	-
Construction - buildings	-	+	-	+
Inflation ¹	-	O	+	+
Share prices	-	O	+	+
Real private sector borrowing	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

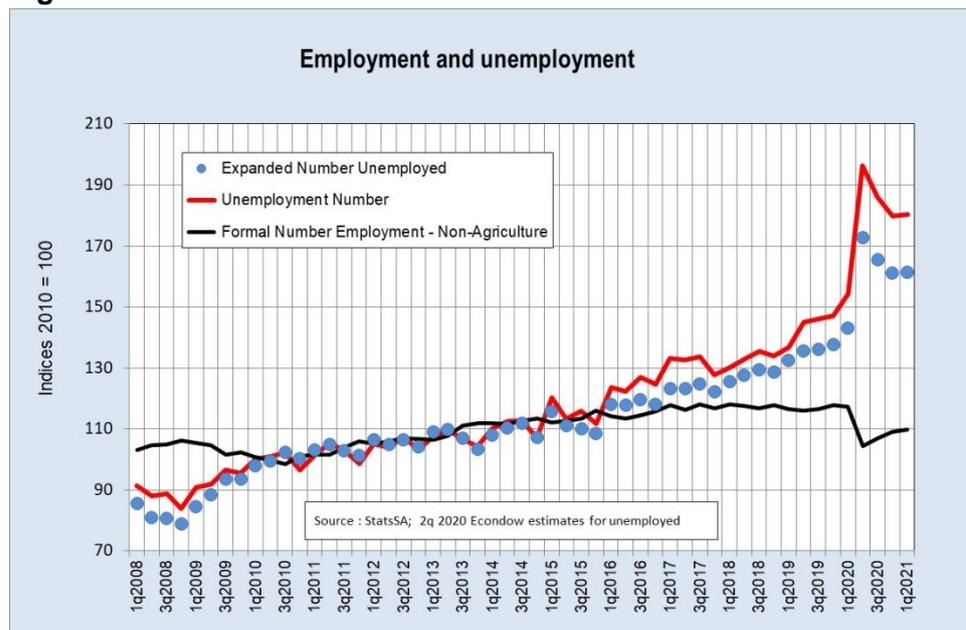
Benefiting from global trade developments

The exceptional surplus on the trade account of the current account of the balance of payments has given South Africa some relief during a domestic recession precipitated by the Covid-19 lockdown. Business is collaborating with government on a recovery strategy on normalising the business environment whilst the vaccine rollout is in progress. There are still many variables at play, but the demand and global prices for South African merchandise exports is likely to remain and which should bolster economic recovery if optimally utilized.

Prospects for higher economic growth

In general, economists are confident that 2021 will render positive economic growth given the disruptions caused to economic activity in 2020 by the lockdown. There are already indications that the primary sector (agriculture and mining) stands to benefit from improved output and trade conditions. In 2020 the GDP excluding government and agriculture declined by 9%. Economists expect positive y/y growth in 2021 although it is likely that it may take three years (by 2023) of above-average growth to get back to activity levels of 2019.

Figure 1



The positive business climate was mainly fuelled by an export led revival. The trade balance increased from a deficit of R4.4 billion in the 1st four months of 2020 to a substantial surplus of R147.8 billion for a similar period in 2021. Merchandise exports soared by not less than 51.6% while merchandise imports increase by a comparatively moderate 11%. This surplus recently was a main reason for rand strength and helped to dampen the effect of rising crude oil prices. The unemployment situation (see figure 1) nevertheless, remains a major concern that can be addressed by a sustainable growing economy.

Some of the larger export categories experienced extraordinary y/y increases in the 1st four months of 2021. Amongst these were base metals and articles of base metals - 40%; mineral products - 55%; products of chemicals or allied industries - 40%; natural or cultured pearls, precious or semi-precious stones, precious metals, etc. 98%; machinery and mechanical appliances, etc. – 55%; and vehicles and other transport equipment - 46%.

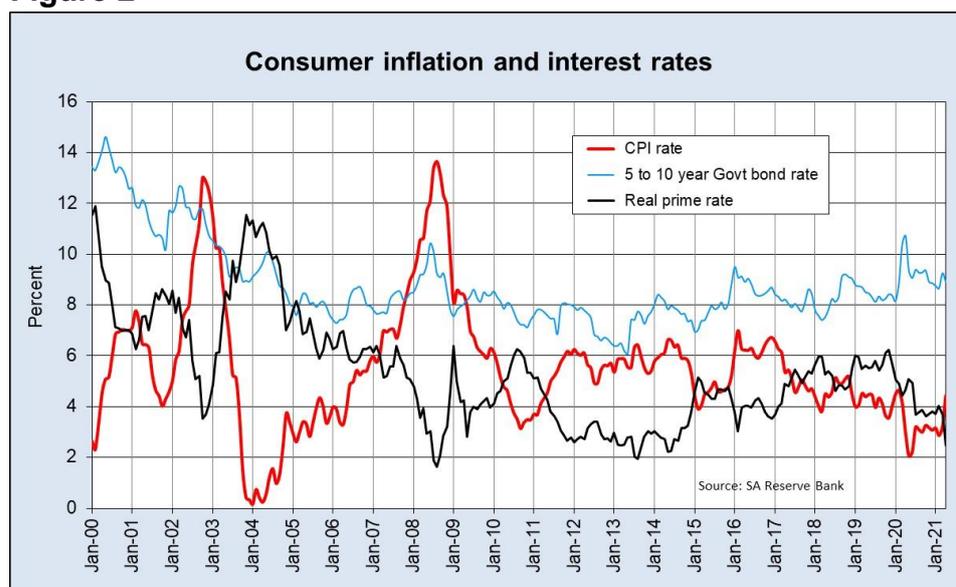
The government's actions to address the pandemic and its effect on real activity caused already decreasing tax revenues to deteriorate further and resulted in government debt to climb fast. This led to fiscal weakening in the public sector in general and caused the three major credit rating agencies to downgrade government’s debt instruments. This poses a continued risk to financial stability and credit ratings by the credit rating agencies.

Price stability and interest rates

The South African Reserve Bank (SARB), in its latest report on South Africa’s financial stability (FSR) indicated that structural issues such as high household and public sector debt levels could impact on the pace of economic recovery. South Africa's financial institutions nevertheless remained well capitalized in 2020 and were comparable to the 2019 position.

It is however somewhat worrying to notice the slower pace of private sector credit extension declining by 1.5% y/y in March and 1.8% y/y in April 2021. Credit extension to business (declining by 6.7% y/y) and households (+4.7% y/y slightly above inflation) left little room for businesses in financial difficulty. Given the tight financial situation of many businesses, notably SMMEs, this could have a serious real adverse outcome for many small businesses and households. The tighter situation also finds its way to money supply (M3) that increased by less than inflation at 2% y/y in April 2021.

Figure 2



The Reserve Bank lately decided to leave interest rates unchanged although the higher inflationary and the effect of substantial tariff hikes for water and electricity as well as the high crude oil price pointed towards substantial cost-push factors in the inflationary process.

Given the financial pressure on households, and businesses, and fiscal constraints it remains unlikely that monetary policy could ease in the months ahead.

Conclusion

The SACCI BCI points towards an improving business climate. This can mainly be ascribed to an improved trade balance that positively affected the rand exchange rate which in turn took pressure off cost-push inflationary pressures. It remains important to continue to assure investors by policy action that South Africa remains an attractive investment proposition.

Annexure 1

General Economic Indicators

Indicator	Latest Period	Direction	Latest	Previous	2020	2015
Consumer inflation headline urban (%)	Apr-21	▲	4.4	3.2	3.3	4.6
Consumer inflation urban - excl. food, bev. & fuel (%)	Apr-21	▲	3.1	2.8	3.6	4.6
Money supply M3 eop (% Δ Y-o-Y)	Apr-21	▼	2.0	3.6	9.5	10.5
Private sector credit eop (% Δ Y-o-Y)	Apr-21	▼	-1.8	-1.5	3.8	10.0
Real prime overdraft rate eop (%)*	Apr-21	▼	3.8	4.1	3.5	4.9
Prime overdraft rate eop (%)	May-21	▶	7.00	7.00	7.00	9.75
Liquidations number sa	Apr-21	▼	161	198	2180	1962
Bond yield 5-10y govt eop (%)	May-21	▼	8.92	9.25	8.78	8.82
R / US\$ average	May-21	▼	14.04	14.40	16.46	12.75
R / Euro average	May-21	▼	17.06	17.25	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.