SOUTH AFRICAN CHAMBER OF COMMERCE AND INDUSTRY

Business Confidence Index

November 2021

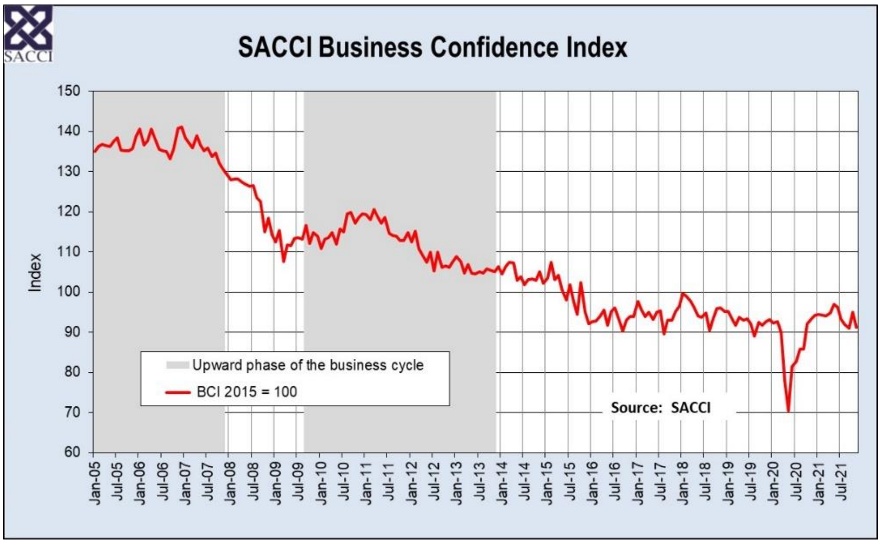
SACCI

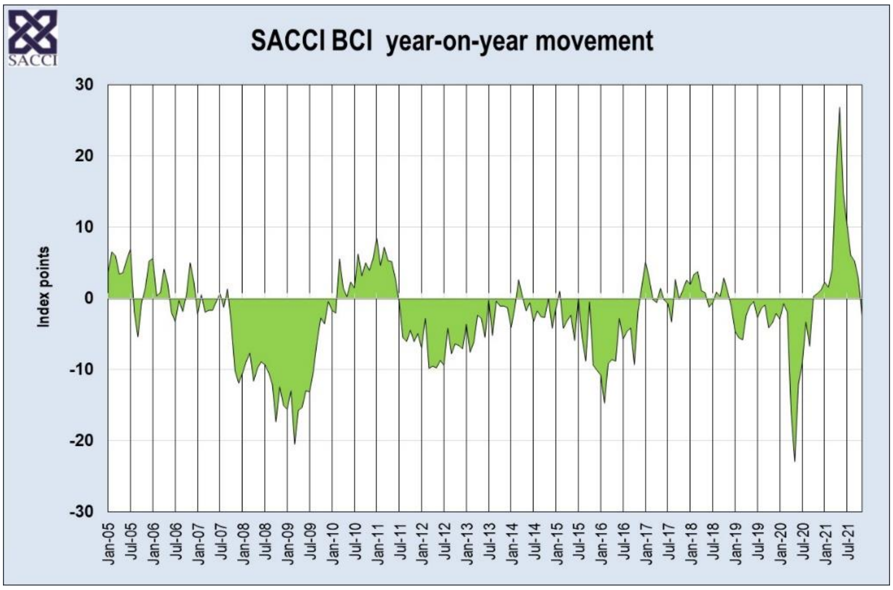
Content:

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	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	96.2
July	101.8	101.8	96.0	95.3	94.7	92.0	82.8	93.2
August	103.0	97.6	92.9	89.6	90.5	89.1	85.8	91.9
September	103.3	94.5	90.3	93.0	93.3	92.4	85.7	91.0
October	102.8	102.3	93.0	92.9	95.8	91.7	92.0	94.9
November	105.1	95.1	93.9	95.1	96.1	92.7	93.4	**92.8**
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) took a severe dip in April/May 2020 as result of the first level 5 lockdown due to Covid-19. Since then business confidence has gradually recovered lost ground. The **SACCI** BCI reached a level of around 96.5 in May/June 2021 – a level last experienced towards the end of 2018. However, the looting mayhem in July 2021 put a brake on the upward momentum and had a negative impact on business and investor confidence.

Notwithstanding, the BCI recovered to 94.9 in October 2021 – mainly driven by more social stability and favourable developments with regard to global commodity prices and a more economic and business responsible approach to lockdowns caused by waves of Covid-19 infections.

Although still substantial, less merchandise foreign trade implying both import as well as export volumes dipped on a month-on-month (m/m) and year-on-year (y/y) basis and contributed notably to the decline in the **SACCI** BCI in November 2021. The BCI declined by 2.1 index points between October and November 2021 to 92.8 and by 0.6 index points between November 2021 and November 2020. The **SACCI** BCI averaged 94.0 for the first eleven months of 2021 and was 8.2 index points higher than the 85.8 average for the corresponding period in 2020.

Apart from the negative impact referred to above, the main positive contributions on a month-on-month basis came from more new vehicles sold. These improved output by manufacturing and higher share prices on the JSE. On a year-to-year basis the main positive impacts were made by increased equity prices on the JSE, increased real value of building plans passed, and more new vehicles sold.

The foreign trade account was the main malefactor that pulled the BCI down - month-on-month and year-to-year. Less merchandise import volumes and merchandise export volumes contributed to the decline in foreign trade experienced in November 2021. Subsequently the rand exchange rate also played a negative m/m role in November but not so much on a y/y basis. Further negative y/y impacts came from higher inflation and the cost and uncertainty of energy supply.

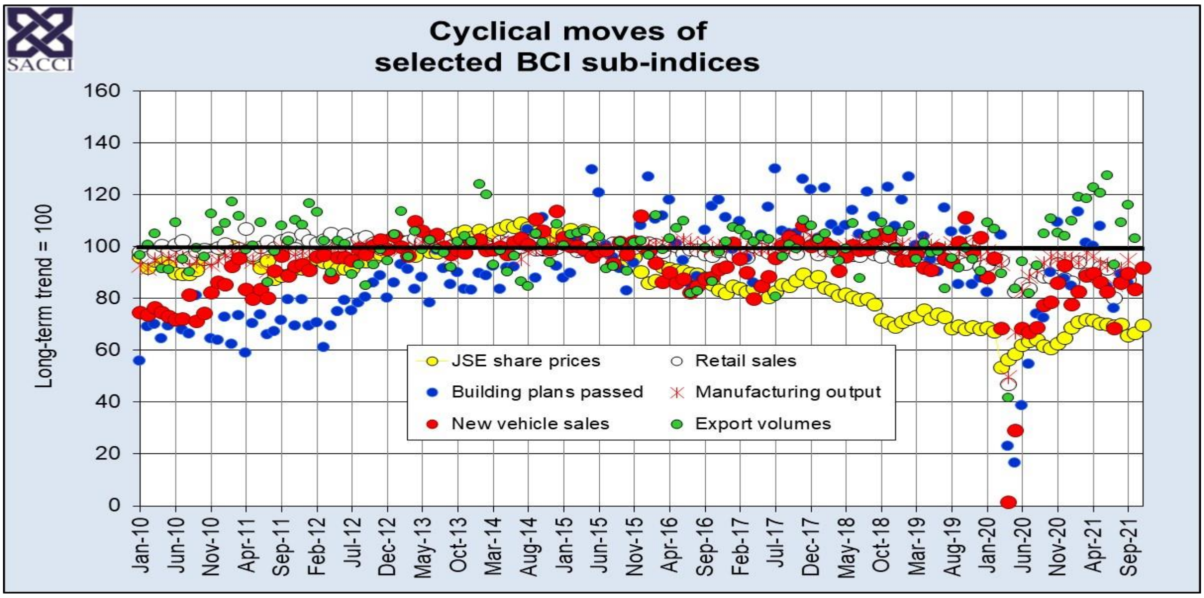
For more information on main economic developments that affected business confidence and the business climate see the economic commentary.

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

Refreshing the Economic Recovery

There were a number of events and developments in October and November 2021 that had an effect on the global and local economy that affected the business climate. Economies in general experienced positive and negative issues simultaneously while others still had to deal with pre-Covid issues.

In its October 2021 World Economic Outlook (WEO), the IMF anticipates global economic growth to be about 6% in 2021 (recovering from a low base) and then slows to some 5% in 2022 and taper down to about 3.5% in 2026. Major economies like the USA and China are to propel the world economic recovery with emerging and developing Asian economies experiencing growth of more than 6% in 2021 and 2022. With the advantage of international trade other developing and emerging market economies stand to benefit. The table below indicates the role world trade is expected to play in the recovery after the disruption of Covid-19 in 2020. By remaining competitive in global markets, the benefits of trade will accrue to economies complying with global norms and standards.

World Trade	2017	2018	2019	2020	2021f	2022f
Goods and Services Trade Volumes						
World - %Δ	5.6	3.9	0.9	-8.2	9.7	6.7
Imports by advanced economies - %Δ	4.8	3.7	2.0	-9.0	9.0	7.3
Exports by advanced economies - %Δ	4.9	3.6	1.2	-9.4	8.0	6.6
Imports by emerging economies - %Δ	7.5	4.8	-0.9	-8.0	12.1	7.1
Exports by emerging economies - %Δ	6.5	3.9	0.4	-5.2	11.6	5.8
World Trade Prices in US$						
Oil - %Δ	23.3	29.4	-10.2	-32.7	59.1	-1.8
Average oil spot price per barrel in US$	52.8	68.3	61.4	41.3	65.7	64.5
Non-fuel primary commodities -						
Food - %Δ	3.8	-1.2	-3.1	1.7	27.8	1.9
Raw agricultural materials - %Δ	5.2	2.0	-5.4	-3.3	17.0	0.2
Metals - %Δ	22.2	6.6	3.7	3.5	49.7	-6.5

Source: IMF, WEO October 2021. f = forecast. Percentage change = %Δ.

Apart from the Covid-19 pandemic possibly moving to the endemic stage early 2022 through medical interventions like broad based vaccination, some negative issues still arise and remain that call for active and rational management and economic policy stances to prevail.

- Who would anticipate that China would run short of coal and experience power shortages? Coal is responsible for some two-thirds of China's electricity generation and contributed to the worst power cuts in a decade that hurt China's growth.
- Global supply chain bottlenecks developed. The rapid spread of the Delta variant affected global industries temporary closures.

- Supply delivery timelines and manufacturing output were also affected by supply chain bottlenecks.
- Lifting of lockdown restrictions caused a demand spike affecting supply chains.
- Countries and notably manufacturers had to deal with supply chain interruptions.
- Brexit for instance caused a shortage of truck drivers in the UK.
- Major economies are struggling with a shortage of specialised manpower – to some extent caused by unemployment benefits and social grants due to Covid-19 providing alternative easy income to households.
- Some countries are facing logistical problems at ports as world trade started to accelerate and normalise.
- Higher inflation is expected in global context rising by 2%-points to about 3%, 11% in sub-Saharan Africa, and 5.5% in emerging markets.
- The SA Reserve Bank consequently raised the repo rate by 0.25%-point to 3.75%.
- In South Africa the radical civil unrest in July highlighted the risk to logistics, law and order, the destruction of trade facilities, and food security. This added an undesirable negative dimension to the economic recovery.
- An additional aggravating matter for South Africa's economic recovery is certainty of energy supply by Eskom - plagued by maintenance neglect in the past, the ageing of coal fired plants, corruption and even criminal activity damaging infrastructure.

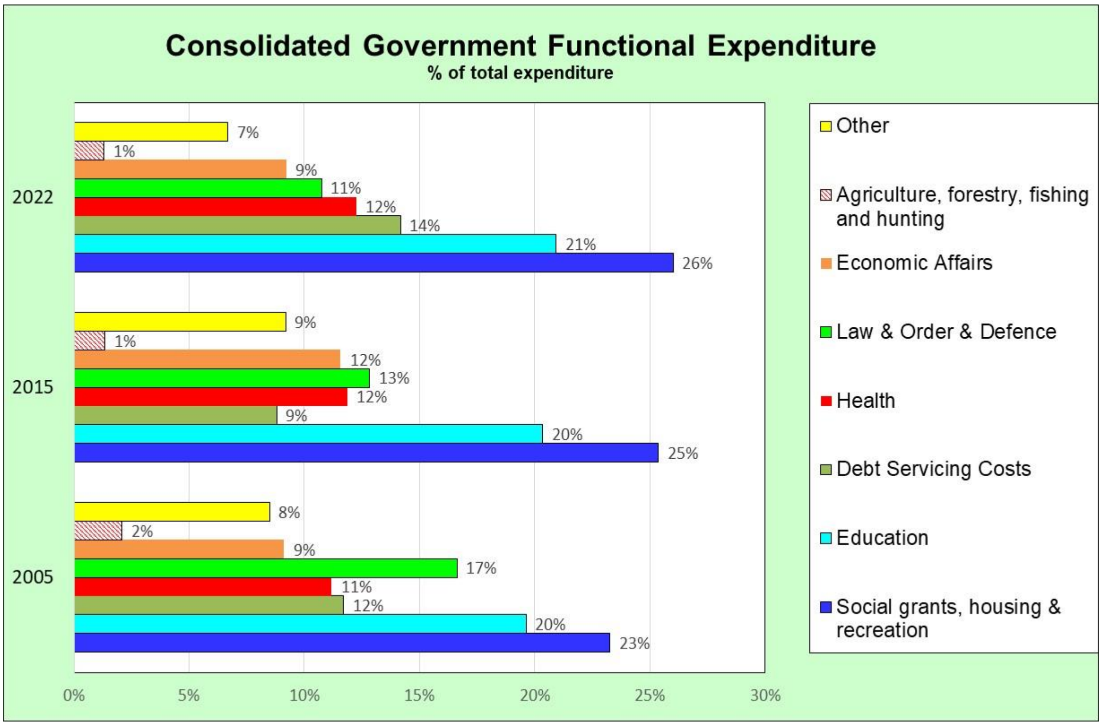
The Medium Term Budget Policy Statement (MTBPS)

A major concern for many economies affected by Covid-19 measures is the inescapable dilemma of the costs of services the welfare state provides, such as health care, education, social grants etc. These costs increase faster than what the economy can afford – especially those countries with a dwindling/narrow tax base. Governments even get bigger as voters demand better education, health care, elderly pensions, and social support. The main extended challenge for the public sector (government) is to ensure a more equitable, relative prosperous and progressive society.

These aforementioned objectives are part of the fiscal overhang that the Minister of Finance had to deal with when he presented the MTBPS to Parliament in November. Although the fiscus experienced a revenue windfall from high global commodity prices, the Minister exercised constraint in dealing with expenditure and the reality of an underperforming economy.

The demand for government goods and services must realistically recognize the public debt situation and servicing that debt. The MTBPS called for a balancing act to determine expenditure priorities under difficult economic circumstances, and the effect state capture had on public sector finances in general. The MTBPS or the mini Budget, to a large extent deals with spending priorities but keeping in mind the financial impact these decisions will exert on an already desperate fiscal situation. The Minister also had to keep the credit rating agencies in sight and the effect it could have on the investment rating. The Minister largely succeeded in bringing home the reality the MTBPS had to deal with.

Despite the Minister's caution, the gross loan debt to GDP increases from 66% in 2020/21 to 72% in 2022/23. The figure below gives an indication of changing spending patterns by government. Revenue and tax issues will mainly be dealt with in the main Budget of 2022/23.



Dealing with Covid-19

A Covid-19 variant identified in South Africa incited other countries to embark on travel restrictions to and from several SADC countries. This was an off-the-cuff decision without having the detail on the spread, severity or the efficacy of the present vaccines. Preliminary evidence only suggests that Omicron (the new variant) might spread more easily than the current Delta variant that dominates cases of Covid-19.

SACCI criticized the manner in which the initial announcement on the Omicron variant was made. The disclosure by South African scientists sparked greater concern and negatively impacted the business climate. These announcements should be made with greater circumspection taking account of broader implications. Hopefully the rushed decisions by other countries on travel restrictions will be tampered as more information on the Omicron variant emerges.

The travel restrictions had an immediate impact before considering more information on the new variant. Tourism, sport, catering, and accommodation were immediately affected as overseas tourists rushed to cancel reservations. This occurred at a stage where the recovery in the South African economy was gaining traction. Hopefully the rushed decisions will be tempered as more information on the Omicron variant emerges.

As the holiday season arrives the best remedy to the health uncertainty of Covid-19 infections and its consequences is to get vaccinated. A concerted effort should be made to convince people to vaccinate for their personal health reasons and those close to them.

In Europe cases are surging as the contagious Delta variant makes its way, belatedly, through the population. In Europe the 4th wave is causing panic and scrambled thinking. It remains important how the situation is managed and communicated to avert unnecessary economic mayhem that affects the livelihoods of people. Some emerging market economies do not have the fiscal and economic ability to handle the economic fallouts.

Conclusion

Improved vaccine application has supported economic recovery and led to a sense of return to economic and business normality. It therefore remains important how the Covid pandemic is managed and communicated. More effort should be made to promote the health advantages of being vaccinated and the extent to which medical science has improved the lifestyle of all citizens.

The present lockdown came from external sources and is a blow to economies emerging from the devastation of the Covid virus. It is therefore welcomed that the South African government is handling the restrictions with due consideration of the economic, fiscal, business and health implications.

Many developing and emerging market economies as South Africa have to deal with various structural difficulties and would therefore appreciate a more amiable/considered process when embarking on regulations and restrictions to deal with the Covid pandemic and even the remnants of a Covid endemic.

Although many structural economic challenges remain to make South Africa a successful free market economy, the Medium Term Budget Policy Statement (MTBPS) brought home the reality of a proper functioning economy and its effect on public sector entities despite difficult circumstances.

Annexure 1

General Economic Indicators

Indicator	Latest Period	Direction	Latest	Previous	2020	2015
Consumer inflation headline urban (%)	Oct-21	►	5.0	5.0	3.3	4.6
Consumer inflation urban - excl. food, bev. & fuel (%)	Oct-21	►	3.8	3.8	3.6	4.6
Money supply M3 eop (% Δ Y-o-Y)	Oct-21	▼	3.2	4.0	9.5	10.5
Private sector credit eop (% Δ Y-o-Y)	Oct-21	►	1.4	1.4	3.8	10.0
Real prime overdraft rate eop (%)*	Oct-21	▲	3.3	3.1	3.5	4.9
Prime overdraft rate eop (%)	Nov-21	▲	7.25	7.00	7.00	9.75
Liquidations number sa	Oct-21	▲	170	142	2180	1962
Bond yield 5-10y govt eop (%)	Nov-21	▲	9.83	9.57	8.78	8.82
R / US$ average	Nov-21	▲	15.55	14.87	16.46	12.75
R / Euro average	Nov-21	▲	17.73	17.25	18.77	14.14
Indicator	**Latest Period**	**Direction**	**Latest**	**Previous**	**2020**	**2015**
Income & wealth tax / GDP sa (%)	2q-21	▲	14.7	13.2	13.1	13.5
Total tax / GDP sa (%)	2q-21	▲	26.8	25.5	24.9	25.7
Public sector borrowing requirement / GDP (%)	2q-21	▼	1.8	7.8	9.9	3.9
Public sector expenditure / GDP (%)	2q-21	▼	22.5	24.2	24.7	25.6
Budget balance / GDP (%)	2q-21	▼	-1.5	-8.2	-9.7	-3.8
Imports / GDE (%)	2q-21	▲	26.3	26.1	24.4	28.6
Exports / GDP (%)	2q-21	▲	37.0	31.1	28.9	27.4
Net foreign financial flows excl. loans / GDP (%)	2q-21	▼	-3.1	-2.3	-0.7	1.9
Current account balance / GDP (%)	2q-21	▲	7.0	2.3	1.8	-4.3
Gross domestic saving / GDP sa (%)	2q-21	▲	18.0	16.6	14.7	14.3
Gross capital formation / GDP sa (%)	2q-21	▲	12.4	12.3	12.9	18.6
Net fixed capital formation / GDP (%)	2020	▼	-	-	0.2	5.0
GDP growth (% Δ Y-o-Y)	2q-21	▲	19.4	-2.5	-6.4	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.