SOUTH AFRICAN CHAMBER OF COMMERCE AND INDUSTRY

Business Confidence Index

March 2022

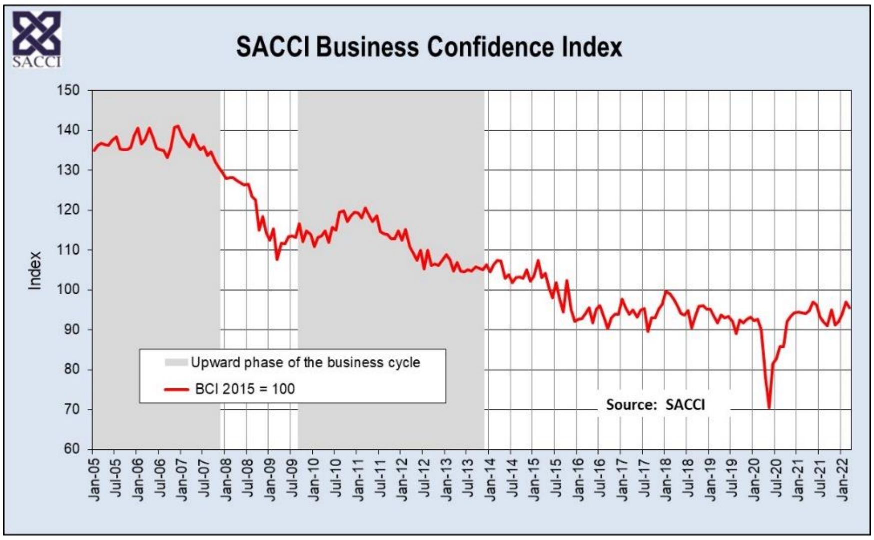
SACCI

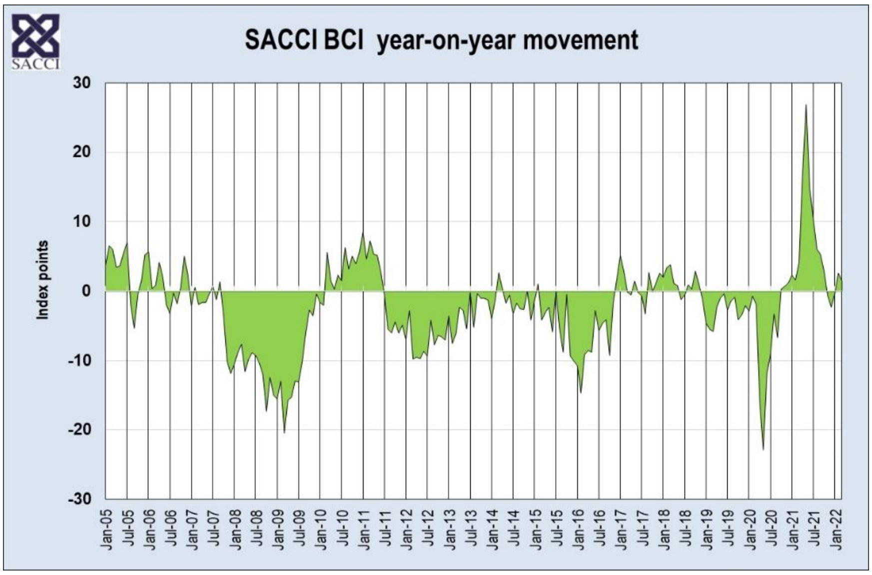
Content:

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	2015	2016	2017	2018	2019	2020	2021	2022
January	103.4	92.6	97.7	99.7	95.1	92.2	94.5	94.1
February	107.4	92.7	95.5	98.9	93.4	92.7	94.3	96.9
March	103.2	94.0	93.8	97.6	91.8	89.9	94.0	**95.6**
April	104.1	95.5	94.9	96.0	93.7	77.8	94.7	
May	100.6	91.8	93.2	94.0	93.0	70.1	97.0	
June	97.9	95.1	94.9	93.7	93.3	81.4	96.2	
July	101.8	96.0	95.3	94.7	92.0	82.8	93.2	
August	97.6	92.9	89.6	90.5	89.1	85.8	91.9	
September	94.5	90.3	93.0	93.3	92.4	85.7	91.0	
October	102.3	93.0	92.9	95.8	91.7	92.0	94.9	
November	95.1	93.9	95.1	96.1	92.7	93.4	92.8	
December	92.2	93.8	96.4	95.2	93.1	94.3	92.0	
Average	**100.0**	**93.5**	**94.4**	**95.5**	**92.6**	**86.5**	**93.9**	





This month's BCI results

SACCI's Business Confidence Index (BCI) continued on its recovery path after the unrests and disruptions in July 2021. The BCI improved by 2.8 index points between January and February 2022 before conceding 1.3 index points in March 2022 to reach 95.6. However, the general trend in business confidence during the first few months of 2022 remained positive.

The SACCI BCI averaged 95.1 in the first half of 2021 but fell to 92.0 in the third quarter due to disruptions. Business confidence then dipped slightly before rising by 1.2 points to 93.2 in the fourth quarter of 2021. The unexpected Russian military campaign in Ukraine added to uncertainty in the global business environment and caused the BCI to lose thrust after indicating a faster recovery in January and February 2022 as the Covid-19 effect waned. The SACCI BCI average for the first quarter of 2022 improved by 2.3 index points over the fourth quarter of 2021 to 95.5 and is 1.2 index points higher than the first quarter of 2021.

In the short term, a higher volume of merchandise imports, an increase in the real value of building plans approved, and more new vehicles sold all contribute to an improved business climate. The main sub-indices that weighed negatively on business confidence in the short term were lower merchandise export volumes, rising interest rates, and lower JSE share prices. The high cost of energy (fuel and electricity) and the inconsistency of energy supply (electricity) contributed to business uncertainty.

The BCI is currently in a positive trend when compared to the business climate a year ago. Although the Covid-19 pandemic and accompanying economic regulations have subsided, recent geopolitical tensions have increased insecurity. As a result, the SACCI BCI is failing to gather the necessary momentum. Regardless, business is still resilient. Between March 2021 and March 2022, the SACCI BCI increased by 1.6 index points.

The improved BCI over the previous year is primarily due to more new vehicles sold; increased real value of building plans passed; and a stronger rand exchange rate, despite higher nominal interest rates and a still lower real prime rate than a year ago. The most prominent negative factors that hampered business confidence were higher inflation than in March 2021, lower merchandise export volumes, and significantly higher energy prices.

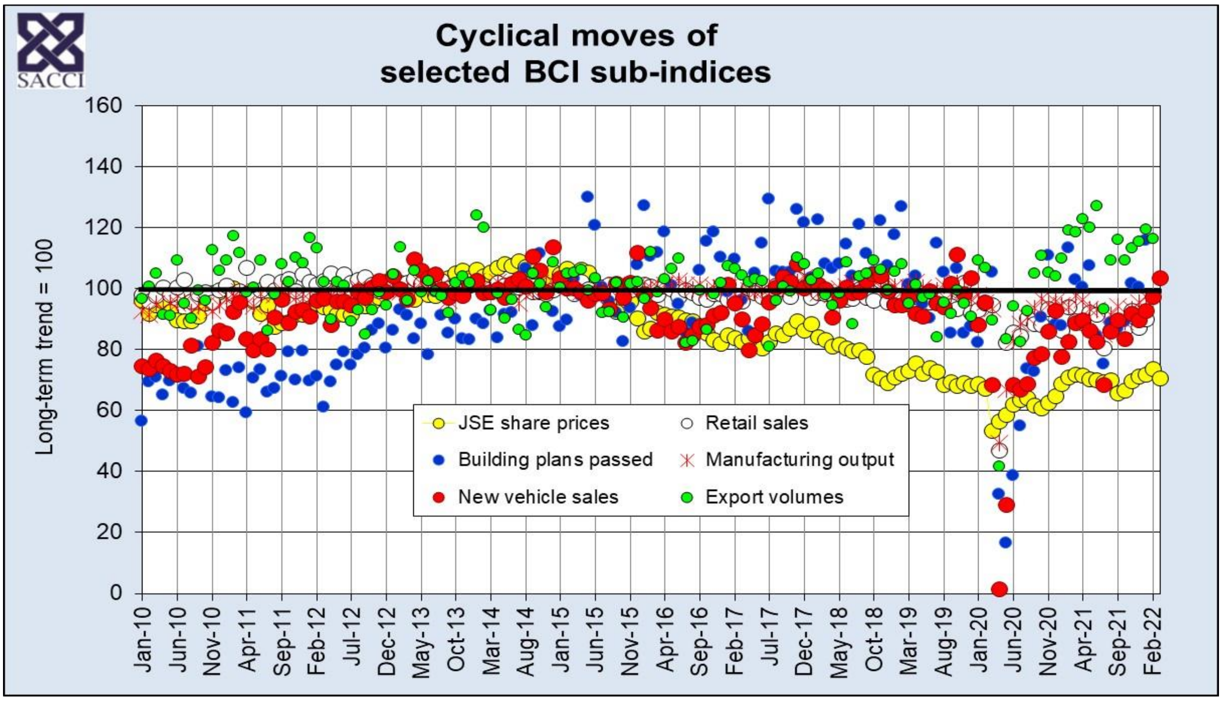
See the economic commentary for more information on the economic background to developments that impacted business confidence and the business climate.

Business Climate Indicators

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

Complex Global Economic Scenarios

The positive reaction to the relaxation of some of the lockdown regulations contributed to the improvement of the business climate. It has become clear that the State of Disaster and its related Command Council are no longer required. However, the global economic volatility caused by the Russian/Ukraine conflict has highlighted some existing domestic economic constraints. War, sanctions, supply chain disruptions, geopolitics, and local socio-economic unrest are all interfering with economic activity and feeding price volatility. This contributes to and exacerbates commodity and financial market uncertainty and volatility.

The alignment and exposure to global events have different effects on economies. Although not all of the consequences are direct, South Africa is indirectly affected and is unlikely to escape the medium-term global consequences of financial market instability and rising energy and food prices. The year 2022 could be a watershed moment for the South African economy.

Structural economic reforms increased private fixed investment, and a better short-term business climate could all be catalysts for accelerating economic performance and growth. This should include changing the public sector's behaviour and attitude, as well as its efficiency and capacity to provide basic government services.

Economic sensitivity to global exposure

South Africa has an open economy with substantial exposure to foreign trade and foreign investment. Import and export volumes and prices across the world continued to be impacted on by extraordinary and unprecedented events over the last three years. This has important Balance of Payment (BoP) and terms of trade consequences for economies. However these exogenous developments (Covid-19, local July 2021 unrest, and Russia/Ukraine conflict) also could have secondary effects on globalisation and supply chains.

Foreign trade and supply chains were hampered at the height of the Covid-19 pandemic by border and harbour restrictions as a result of lockdowns, while the vulnerability of local supply chains and supply logistics became apparent during the July 2021 unrest. Concerns and shortages caused by supply chain disruptions caused by the conflict between Russia and Ukraine have recently inflated prices and the availability of strategic products/inputs. This eventually will have a negative impact on consumer and business confidence. Russia and Ukraine are major exporters of maize, wheat, fertilizer, and key metals, and product prices are impacted on particularly for emerging and developing economies.

According to the International Monetary Fund (IMF), South Africa's two main export destinations are China and the United States, with Russia ranking 37th and Ukraine ranking 101st. In 2021, South Africa's merchandise exports to the Russian Federation (0.33%) and Ukraine (0.02%) represented 0.35% of total merchandise exports. South Africa has trade deficits with both economies – see figure 1. Catalytic converters, computers and mechanical appliances (15%), fruit and nuts (21%), and mineral ores (41%) accounted for 76 percent of exports to Russia. Agriculture accounted for approximately 5% of total merchandise exports to Ukraine, while mining and manufacturing accounted for the remaining 93%. The direct economic impact may thus be minor, but secondary effects, particularly on crude oil and food prices, may be significant.

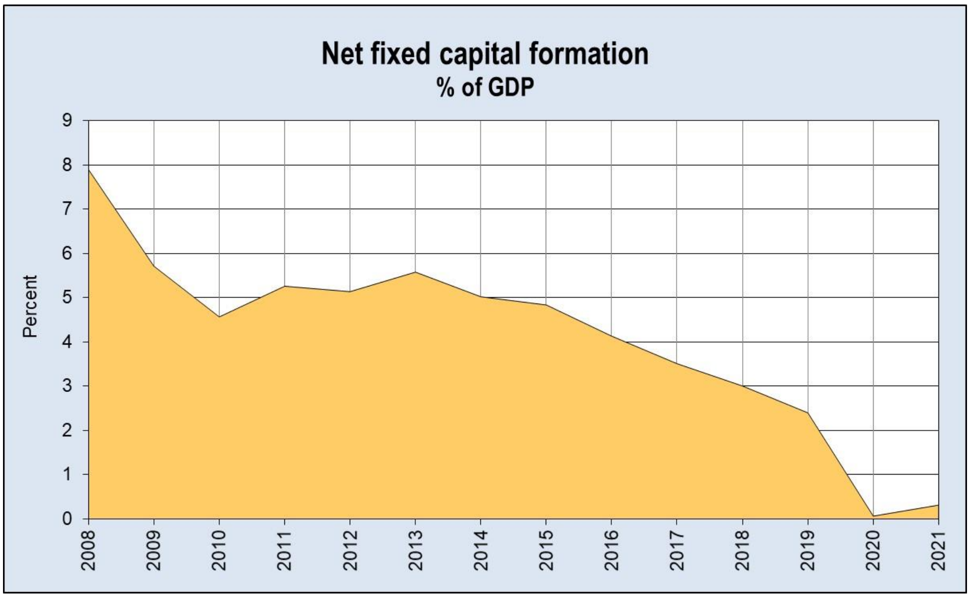
Figure 1

Source: SARS, Customs & Excise.

The need for foreign capital to finance fixed investment in South Africa is well understood. Capital flows to South Africa are required to raise the fixed investment ratio to at least 25% of GDP, which necessitates inflows from abroad of approximately 11% of GDP. Non-residents' net sales of bonds and equity totalled R156 billion in 2021 but changed to net purchases of R34 billion in the first two months of 2022, contributing to the positive business climate in the first quarter of 2022.

In 2021, gross fixed capital formation was estimated at R810 billion, or 14.1 percent of GDP. This level of fixed investment only just managed to keep the economy's capital stock level stable (after allowing for depreciation) – see figure 2. Therefore, it is critical that the President's recent Investment Conference succeeds in obtaining additional fixed investment to accelerate economic growth. Higher growth has become vital in order to begin resolving the unemployment crisis.

Figure 2



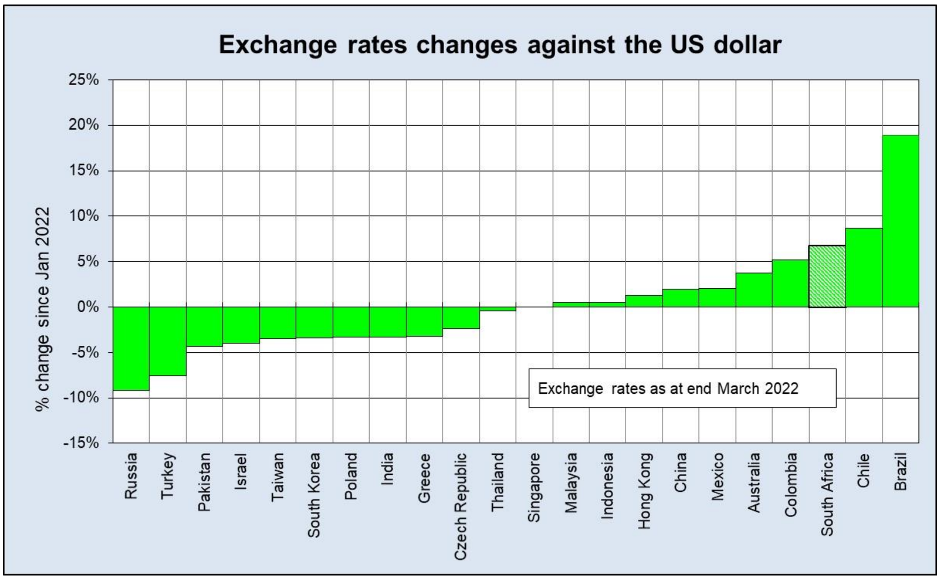
Source: SARB Quarterly Bulletin. March 2022.

Global impact of recent developments

The Russian/Ukraine conflict had no immediate impact on real economic activity. The main immediate effect is the imposition of economic sanctions, as well as the impact on commodity and financial markets. The effects of the conflict, as well as higher inflation and tighter monetary policy, are likely to have a lag effect on real economic activity. The fiscal impact will be reflected in increased refugee relief and defence spending. This could have an impact on future world economic growth.

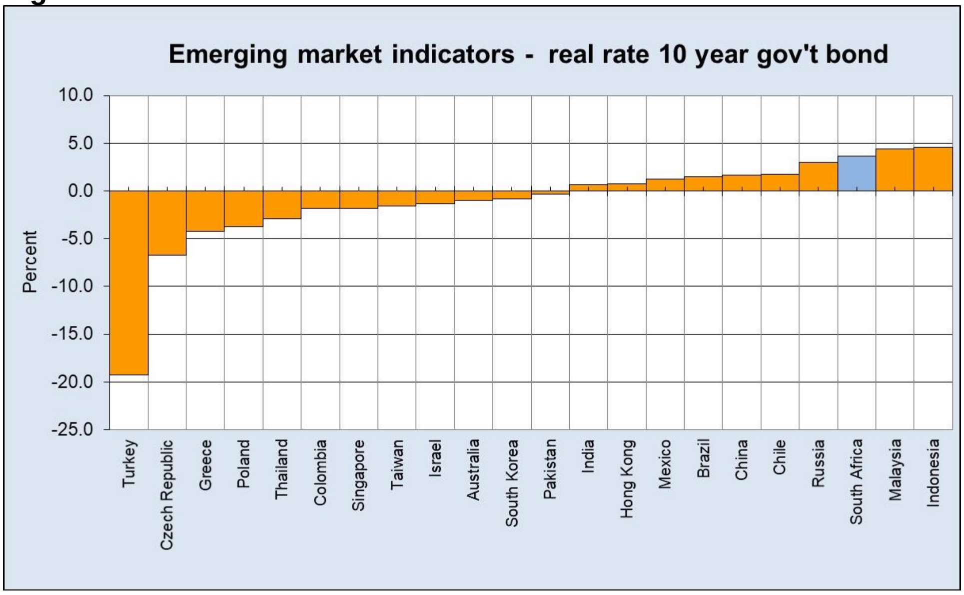
So far, the rand has held up well, while the currencies of the other Brics countries, excluding India, have strengthened since the beginning of 2022. Inflationary fears were heightened, prompting monetary authorities (including the South African Reserve Bank) to tighten monetary policy by raising interest rates. See figures 3 and 4.

Figure 3



Source: https://www.xe.com/currencyconverter/convert/

Figure 4

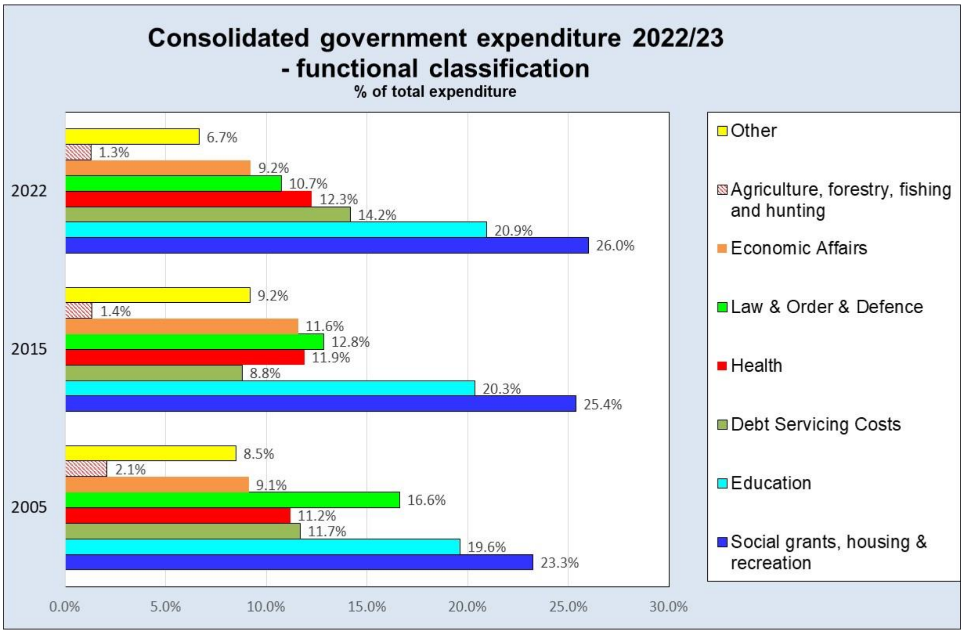


Source: The Economist. 16 March 2022

Budget 2022/23 and Sona points in right direction

SACCI welcomed the decision to increase budget allocations to the justice and security clusters, infrastructure, and education, as announced in Budget 2022/23 on February 23, 2022. SACCI remains concerned as the government spends more on welfare (see figure 5) than it does on the productive sector. South Africa urgently needs improved rail and port infrastructure to capitalize on rising commodity prices. It is difficult to obtain rail capacity for coal and other commodities, and even more difficult to gain increased access to export facilities. In the short term, the revenue windfall generated by high global commodity prices helped to alleviate the fiscal challenges.

Figure 5



Source: SA Treasury. Budget 2022/23. February 2022.

The President in the SONA emphasised the important role the private sector plays in job creation. The private sector has the potential to finally put South Africa on a path of science-based planning, underpinned by the meritocracy drive and visible public sector accountability. In order for a private-sector-led economy to thrive, government at all levels will need to change institutional arrangements and work ethic in public-sector institutions that are charged with supporting economic policy and development.

Conclusion

The global economy continues to move from one uncertainty to the next, affecting economies all over the world. After the Covid-19 pandemic, global interaction and business links are once again disrupted. The global interdependence was threatened by the Covid-19 lockdown, and the conflict between Russia and Ukraine has once again exposed the vulnerability of global trade and linkages. This has an impact on supply chain logistics as well as a more pragmatic view on self-reliance where possible, putting international trade's comparative advantages under pressure.

So far, the short-term effect of global reaction has been to improve on the setback of Covid-19 and get economies back on track. However, the latest geopolitical conflicts should be approached with caution, as the global economy remains vulnerable and susceptible to further disruptions.

Against this backdrop, South Africa's business confidence may struggle to maintain its current higher levels. The promotion of investor confidence in South Africa among both foreign and domestic investors remains critical to the country's approach to global issues.

Annexure 1

General Economic Indicators

Indicator	Latest Period	Direction	Latest	Previous	2021	2016
Consumer inflation headline urban (%)	Feb-22	▶	5.7	5.7	4.5	6.3
Consumer inflation urban - excl. food, bev. & fuel (%)	Feb-22	▼	3.9	4.2	3.5	5.8
Money supply M3 eop (% Δ Y-o-Y)	Feb-22	▲	6.4	5.7	6.4	6.1
Private sector credit eop (% Δ Y-o-Y)	Feb-22	▲	3.6	3.0	2.5	4.8
Real prime overdraft rate eop (%)*	Feb-22	▲	3.5	3.2	3.6	4.4
Prime overdraft rate eop (%)	Mar-22	▲	7.75	7.50	7.25	10.50
Liquidations number sa	Feb-22	▲	159	134	1932	1934
Bond yield 5-10y govt eop (%)	Mar-22	▲	9.63	9.35	9.39	8.69
R / US$ average	Mar-22	▼	14.96	15.22	14.79	14.71
R / Euro average	Mar-22	▼	16.49	17.27	17.50	16.28

Indicator	Latest Period	Direction	Latest	Previous	2021	2016
Income & wealth tax / GDP sa (%)	4q-21	▲	15.3	14.3	14.3	13.6
Total tax / GDP sa (%)	4q-21	▲	29.3	26.8	27.1	25.7
Public sector borrowing requirement / GDP (%)	4q-21	▼	2.0	5.6	4.4	4.4
Public sector expenditure / GDP (%)	4q-21	▲	23.3	22.9	23.0	25.5
Budget balance / GDP (%)	4q-21	▼	-1.0	-11.5	-5.5	-3.8
Imports / GDE (%)	4q-21	▲	28.2	27.1	26.8	27.9
Exports / GDP (%)	4q-21	▼	33.1	33.2	33.1	28.3
Net foreign financial flows excl. loans / GDP (%)	4q-21	▼	-3.5	-4.1	-3.3	4.5
Current account balance / GDP (%)	4q-21	▲	3.4	2.3	3.6	-2.7
Gross domestic saving / GDP sa (%)	4q-21	▼	15.2	17.3	16.6	14.3
Gross capital formation / GDP sa (%)	4q-21	▼	13.3	13.8	12.9	17.0
Net fixed capital formation / GDP (%)	2021	▼	-	-	0.3	4.1
GDP growth (% Δ Y-o-Y)	4q-21	▼	1.7	2.9	4.9	0.1

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.