

# **SOUTH AFRICAN CHAMBER OF COMMERCE AND INDUSTRY**

Business Confidence Index

May 2023



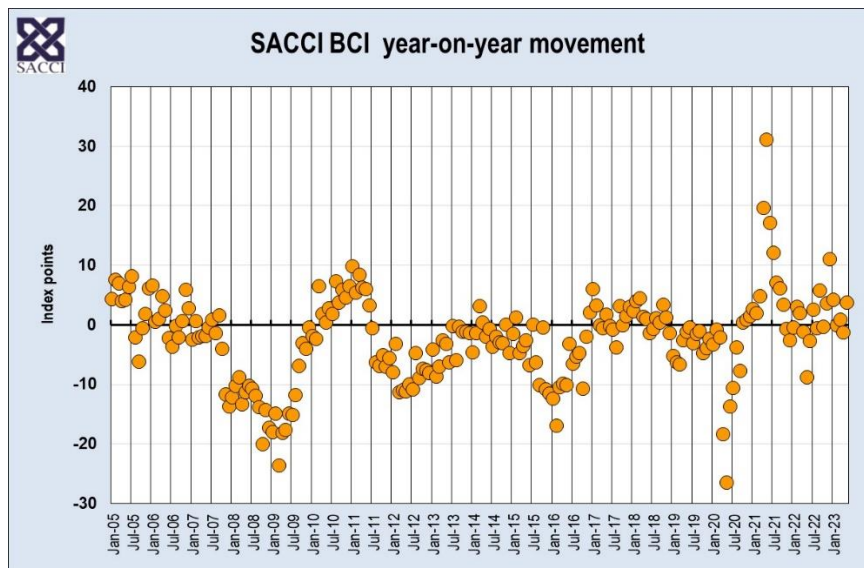
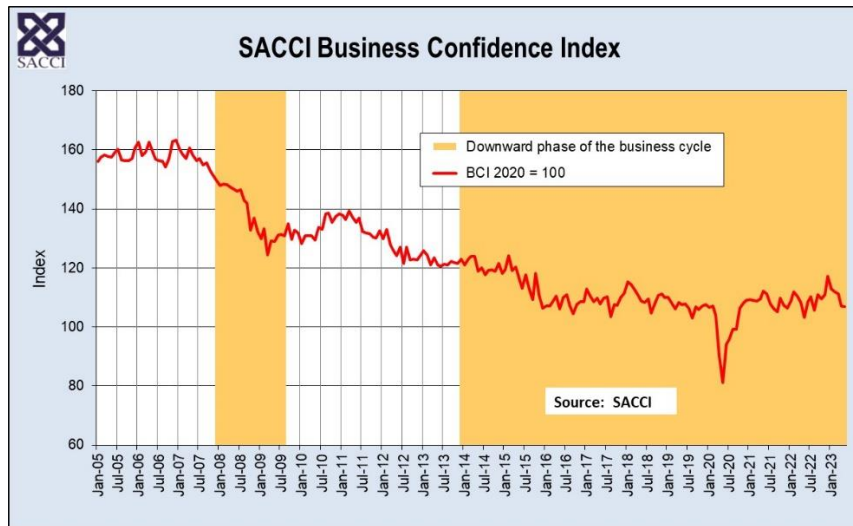
**Content:**

- **The SACCI Business Confidence Index (BCI)**
- **This month's BCI results**
- **Impact of BCI sub-indices**
- **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](http://www.sacci.org.za).*

## The SACCI Business Confidence Index (BCI) 2020=100

Month	2016	2017	2018	2019	2020	2021	2022	2023
January	107.0	112.9	115.3	109.9	106.6	109.2	108.8	112.9
February	107.1	110.4	114.3	108.0	107.2	109.0	112.0	111.9
March	108.6	108.4	112.8	106.1	103.9	108.7	110.5	111.3
April	110.4	109.7	111.0	108.3	89.9	109.5	108.3	107.1
May	106.1	107.7	108.7	107.5	81.0	112.1	103.2	<b>106.9</b>
June	109.9	109.7	108.3	107.9	94.1	111.2	108.5	
July	111.0	110.2	109.5	106.4	95.7	107.7	110.3	
August	107.4	103.6	104.6	103.0	99.2	106.2	105.6	
September	104.4	107.5	107.9	106.8	99.1	105.2	110.9	
October	107.5	107.4	110.8	106.0	106.4	109.7	109.4	
November	108.6	109.9	111.1	107.2	108.0	107.3	110.9	
December	108.4	111.4	110.1	107.6	109.0	106.4	117.3	
<b>Average</b>	<b>108.0</b>	<b>109.1</b>	<b>110.4</b>	<b>107.1</b>	<b>100.0</b>	<b>108.5</b>	<b>109.6</b>	



## This month's BCI results

The SACCI Business Confidence Index (BCI) peaked at 111.3 in March 2023, and declined by 4.2 index points in April 2023 and settled down at 106.9 in May 2023. This represents a decrease of 10.4 index points since the BCI measured 117.3 in December 2022. The virtual sideways movement between April and May 2023 of only 0.2 index point suggests that the business climate might be settling down after the uncertain effects of electricity supply has been factored in. The 106.9 reading for the BCI in May 2023 is 3.5 index points higher than in May 2022 (a random dip) while the average of 110.0 for the first five months of 2023 is 1.4 index point higher than the average of 108.6 for the BCI during the corresponding period in 2022.

Although international developments and South Africa's positioning towards global relations featured prominently during May 2023, it was mainly domestic issues like electricity load shedding by the SOE Utility (Eskom) that affected the business climate detrimentally. A number of other socio-economic developments pertaining to health and service delivery also surfaced more desperately during May. Global economic matters and structural domestic economic issues further added to a tight and uncertain business environment (see **economic commentary** in this review).

On a **month-to month** basis (between April and May 2023) there were three sub-indices that had a positive effect on the BCI, namely more new vehicle sales, energy supply (mainly caused a lower US dollar crude oil price), and increased manufacturing output from a low unenergetic level. The largest negative short-term impacts came from sub-indices related to international relations – less merchandise import and export volumes, less inward tourists, and the weaker rand exchange rate against major trade and investment currencies.

Over the **medium-term (year-on-year)** the business environment took a marginal dip in April 2023 of 1.2 index points and further declined more severely by 3.7 y/y index points in May 2023. Positive year-on-year impacts came from increased merchandise import volumes, increased inward tourists, and notably more new vehicles sold. Less merchandise export volumes, the rand under pressure and higher real financing cost were in particular causing a dent in business confidence.

In the short-term - m/m, the real economic activity sub-indices had a less negative effect on the business climate than the financial sub-indices (none of which were positive). For the medium-term - y/y, real activity sub-indices had a more positive impact on the business climate than the sub-indices of the financial environment.

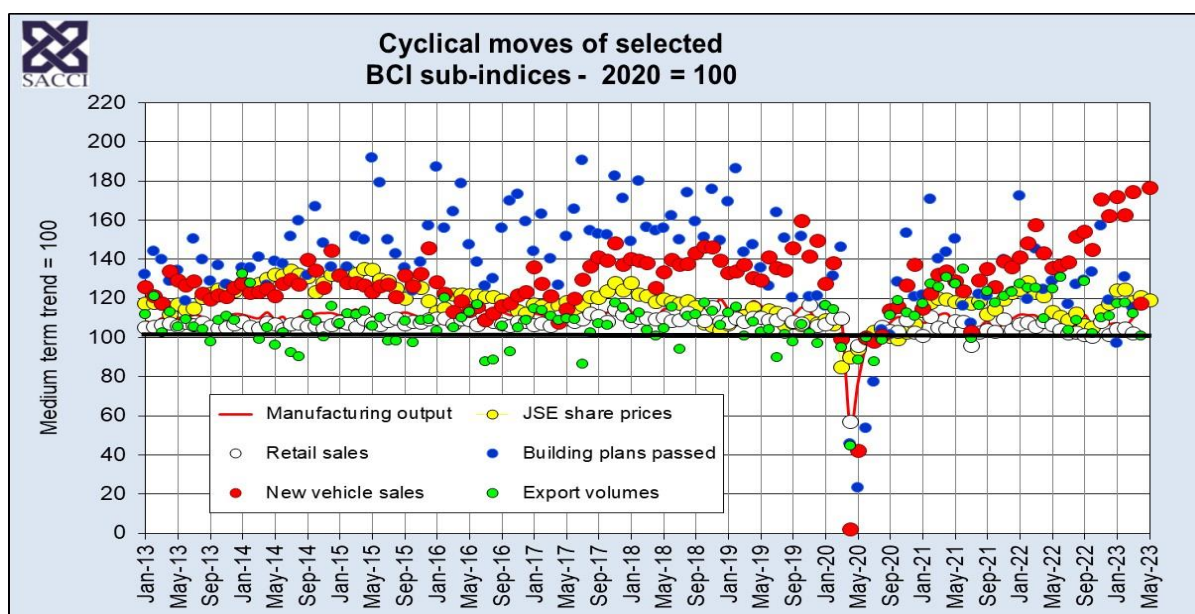
See the **economic commentary** for the latest economic developments and background to the business climate.

### Impact of BCI sub-indices

Business climate indicators *	m/m changes		y/y changes	
	This month	Previous month	This month	Previous month
Energy supply	+	-	+	0
Manufacturing	+	-	0	-
Exports	-	-	-	-
Tourism inward	-	-	+	+
Imports	-	+	+	+
Vehicle sales	+	-	+	-
Retail sales	-	+	-	-
Construction - buildings	-	+	-	+
Inflation <sup>1</sup>	0	0	-	-
Share prices	-	+	+	-
Real private sector borrowing	0	-	0	0
Real financing cost	-	0	-	-
Precious metal prices	0	+	0	+
Rand exchange rate	-	0	-	-

\* See notes on BCI on [www.sacci.org.za](http://www.sacci.org.za)

1. Excludes petrol, food and non-alcoholic beverages.



## This month's economic review

### *Mixed Causal Economic Interactions*

The April 2023 WEO (World Economic Outlook) by the IMF forecasts global economic growth to measure 2.8% in 2023 (0.1 %-point lower than previous forecast) but rising to 3% in 2024 and remain on 3% till 2028. This outcome suggests that the global economy will take longer to recover given interim setbacks since 2020. Against this background South Africa is barely set to grow by 0.1% in 2023 - rising to 1.8% in 2024 but slowing to 1.4% in 2024 according to the IMF forecast. This is more or less in line with the low growth scenarios that is predicted by local institutions and economists.

The latest GDP data for the 1st quarter 2023 indicates that South Africa averted a technical recession with q/q economic growth of 0.4% in the 1st quarter 2023 compared to a decline of 1.1% in the 4th quarter 2022. The economy expanded at only 0.2% y/y in the 1st quarter 2023 compared to 1.9% growth for 2022. This confirms a possible low growth trend for 2023.

As could be expected the electricity and water sector output declined by 6.3% y/y in the 1st quarter 2023 with agriculture (-5.4%), mining (-3.9%), manufacturing (-3.6%), and trade (-1.5%) in follow suit. On the demand side real household consumption expenditure slowed to a 0.7% y/y increase in the 1st quarter 2023 and real consumption expenditure by general government increasing by 0.4% y/y. It is somewhat worrying to note that gross capital investment growth slowed to 7% y/y in the 1st quarter 2023 after increasing by 14% in 2022.

After export volumes on goods and services increased by 9.1% in 2021 and 7.4% in 2022, it slowed to 3% y/y in the 1st quarter 2023. However, although import volumes of goods and services were also increasing at a slower rate of 8.7% y/y in the 1st quarter 2023 (14.9% y/y in 2022), it is going to lead to a larger deficit on the foreign trade current account and pressure on the rand.

GDP GROWTH								
SECTOR	2020	2021	1Q 2022	2Q 2022	3Q 2022	4Q 2022	2022	1Q 2023
	%Δ	%Δ	Y-o-Y %Δ	Y-o-Y %Δ	Y-o-Y %Δ	Y-o-Y %Δ	%Δ	Y-o-Y %Δ
Transport and communication	-15.3%	5.0%	8.8%	5.9%	10.9%	7.5%	8.3%	7.8%
Construction	-17.8%	-2.0%	-6.9%	-5.7%	-1.7%	1.0%	-3.4%	4.2%
Finance, real estate and business services	0.9%	2.5%	1.3%	4.3%	4.6%	3.5%	3.4%	2.3%
Personal services	-1.7%	5.3%	5.8%	3.7%	1.9%	-0.8%	2.6%	0.3%
General government services	1.1%	0.0%	1.1%	-0.4%	-0.2%	-0.4%	0.1%	-1.1%
Wholesale and retail trade; hotels and restaurants	-12.0%	6.2%	5.8%	1.4%	7.9%	-0.2%	3.5%	-1.5%
Manufacturing	-11.7%	6.7%	0.8%	-3.6%	2.9%	-1.5%	-0.4%	-3.6%
Mining and quarrying	-12.3%	12.0%	-4.3%	-10.0%	-6.6%	-7.3%	-7.1%	-3.9%
Agriculture, forestry and fishing	17.8%	7.4%	-1.4%	-19.9%	31.5%	8.8%	0.9%	-5.4%
Electricity and water	-5.8%	1.9%	-0.1%	-1.6%	-4.3%	-3.7%	-2.5%	-6.3%
<b>GDP excluding general government</b>	-6.2%	4.9%	2.6%	0.3%	4.6%	1.0%	2.1%	0.3%
<b>GDP excluding agriculture</b>	-6.1%	4.3%	2.6%	1.2%	3.3%	0.7%	2.0%	0.3%
<b>GDP at market prices</b>	-6.0%	4.7%	2.5%	0.2%	4.1%	0.8%	1.9%	0.2%

Source: StatsSA. Note: Y-o-Y %Δ = year-on-year %

As an open economy South Africa should take advantage of positive global trade developments. In this regard the IMF in its April 2023 Outlook forecasts that world trade volumes are set to pick up and accelerate by 2.4% and 3.5% in 2023 and 2024 – see table

below. Import volumes by advanced economies are to register positive growth in 2023 and 2024 while import volumes by emerging economies are expected to grow by more than 5% in 2024. It therefore remains important that South Africa encourage and nurture its business and economic relations with established trade and investment partners as being essential to economic progress, growth and employment.

World Trade	2019	2020	2021	2022	2023f	2024f
<b>Goods and Services Trade Volumes</b>						
World - %Δ	1.0	-7.8	10.6	5.1	2.4	3.5
Imports by advanced economies - %Δ	2.1	-8.3	10.0	6.6	1.8	2.7
Exports by advanced economies - %Δ	1.4	-8.9	9.5	5.2	3.0	3.1
Imports by emerging economies - %Δ	-1.1	-7.9	11.7	3.5	3.3	5.1
Exports by emerging economies - %Δ	0.5	-4.9	12.5	4.1	1.6	4.3
<b>World Trade Prices in US\$</b>						
Oil - %Δ	-10.4	-32.0	65.8	39.2	-24.1	-5.8
Average oil spot price per barrel in US\$	61.4	41.8	69.3	96.4	73.1	68.9
Non-fuel primary commodities -						
Food - %Δ	-3.1	1.7	26.1	14.1	-5.6	-2.8
Raw agricultural materials - %Δ	-5.4	-3.4	15.5	5.7	-11.6	-0.2
Metals - %Δ	3.9	3.5	46.7	-5.6	3.5	-2.6

Source: IMF, WEO April 2023. f = forecast. %Δ = percentage change.

South Africa has a high import propensity of about 33% of domestic expenditure (2022) and an export exposure of some 34% of output (2022) – thus indicating the openness and sensitivity of the South African economy to international trade. During the 1st four months of 2023 South Africa had a trade deficit of R3.5 billion compared to a trade surplus of R78 billion for the corresponding period of 2022. The rand value of merchandise exports increased by 5.4% on the 1st four months of 2023 while the rand value of merchandise imports rose by 21.1%.

The substantial swing from a surplus to a notable deficit year-on-year does not only reflect the effect of global trade on South Africa, but also indicates the economic sensitivity of South Africa to international trade relations. This volatility also affects business and investor confidence and eventually economic performance, employment and wealth.

In terms of world zones South Africa only had a trade surplus with Africa of R101 billion in the 1st four months of 2023. Trade deficits were recorded with all the other world zones of which the largest was with Asia (R122 bn), Europe (R13 bn), America (R8 bn), and Oceania (R1 bn). Unclassified merchandise amounted to R37 billion.

### ***Continuing financial stress***

Although world inflation is expected to decline by about 1.5 %-point to 7% in 2023 given lower commodity prices, the decline of inflation will be prolonged and slow. For setting an

inflation target range it remains important to take account of the monetary and fiscal situation and to align the monetary policy stance with key determinants of fiscal sustainability and public debt scenario. With the Reserve Bank aiming at financial stability as a pre-condition for economic growth, the central bank cannot be blamed for strict monetary policy if public sector expenditure remains ill-considered.

A consecutive interest rate hike was announced by the South African Reserve Bank (SARB) on 26 May 2023 resulting in a high 8.25% repo rate and 11,75% prime lending rate. For the first time, inconsistent with emerging market currencies, the rand depreciated to a record low after the announcement. Although consumer inflation slowed to 6.8% in April 2023 the SARB factored in further risk elements – some risks perhaps non-economic but still adding to risk. Producer inflation remained at a high rate of 8.6% in April 2023

Public debt as a ratio to GDP is expected to remain difficult to manage, notably after relief spending and social grants were extended during Covid, and which remain difficult to contain. Supply-chain disruptions and rising geo-political tensions intensified risks and the effect of geo-political divisions came to the fore. These aggravating circumstances were listed by the SA Reserve Bank and published in its Financial Stability Review. The SARB also undertook a number of initiatives and policy actions to enhance financial stability – see Financial Stability Review, First Edition 2023. May 29, 2023.

Distinctive matters in South Africa impact the financial sector and the economy in general:

- fears of a recession,
- likelihood of secondary sanctions,
- monetary policy tightening,
- insufficient and unreliable electricity supply,
- failing rail and port infrastructure logistics,
- persistently high inflation,
- the resilience of the global banking system,
- volatile financial markets, and
- slower economic growth in South Africa.

## ***Conclusion***

Business sentiment is at a low at present. Threats of losing out on lucrative trade agreements may dent an important element of South Africa's economic relationships and wellbeing. This calls for government to ease speculations and remove lingering uncertainties. The SACCI BCI reflects a low inspired outlook for several activities as suggested by a number of key performance indicators.

As a largely open economy there is huge exposure to international trade and investment that necessitates global relations that take care of South Africa's best economic interests. With a global economy that is slowly recovering to perform optimally it is essential that due attention be paid to place South Africa back on a trajectory attracting foreign investment and extend lucrative trade relations.

A large part of the loss of business confidence could be regained by following the best



economic and business interests of South Africa and more attending to local structural impediments.

## Annexure 1

### General Economic Indicators

Indicator	Latest Period	Latest Direction	Latest	Previous	2022	2017
Consumer inflation headline urban (%)	Apr-23	▼	6.8	7.1	6.9	5.3
Consumer inflation urban - excl. food, bev. & fuel (%)	Apr-23	▲	5.4	5.3	4.7	4.8
Money supply M3 eop (% Δ Y-o-Y)	Apr-23	▲	10.1	8.9	8.7	6.4
Private sector credit eop (% Δ Y-o-Y)	Apr-23	▼	6.9	7.2	7.6	6.8
Real prime overdraft rate eop (%)*	Apr-23	▲	6.0	5.7	5.1	4.4
Prime overdraft rate eop (%)	May-23	▲	11.75	11.25	10.75	10.25
Liquidations number sa	Apr-23	▼	118	154	1907	1868
Bond yield 5-10y govt eop (%)	May-23	▲	11.30	10.19	10.21	8.43
R / US\$ average	May-23	▲	19.10	18.17	16.36	13.31
R / Euro average	May-23	▲	20.73	19.87	17.20	15.04
Indicator	Latest Period	Latest Direction	Latest	Previous	2022	2017
Income & wealth tax / GDP sa (%)	4q-22	▲	14.7	14.4	14.5	13.9
Total tax / GDP sa (%)	4q-22	▲	27.4	27.2	27.2	25.7
Public sector borrowing requirement / GDP (%)	4q-22	▼	1.5	5.1	2.4	4.6
Public sector expenditure / GDP (%)	4q-22	▲	23.9	23.0	23.5	24.7
Budget balance / GDP (%)	4q-22	▼	-1.1	-10.3	-4.4	-4.0
Imports / GDE (%)	4q-22	▼	32.6	33.7	32.1	26.5
Exports / GDP (%)	4q-22	▼	32.4	35.7	34.1	27.6
Net foreign financial flows excl. loans / GDP (%)	4q-22	▼	0.1	-2.4	0.2	3.1
Current account balance / GDP (%)	4q-22	▲	-1.0	-1.3	-0.5	-2.4
Gross domestic saving / GDP sa (%)	4q-22	▼	13.0	15.9	14.6	14.3
Gross capital formation / GDP sa (%)	4q-22	▼	15.5	15.9	15.1	16.6
Net fixed capital formation / GDP (%)	2022	▼	-	-	0.8	3.5
GDP growth (% Δ Y-o-Y)	1q-23	▼	0.2	0.8	1.9	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.