SOUTH AFRICAN CHAMBER OF COMMERCE AND INDUSTRY

Business Confidence Index

July 2016

SACCI

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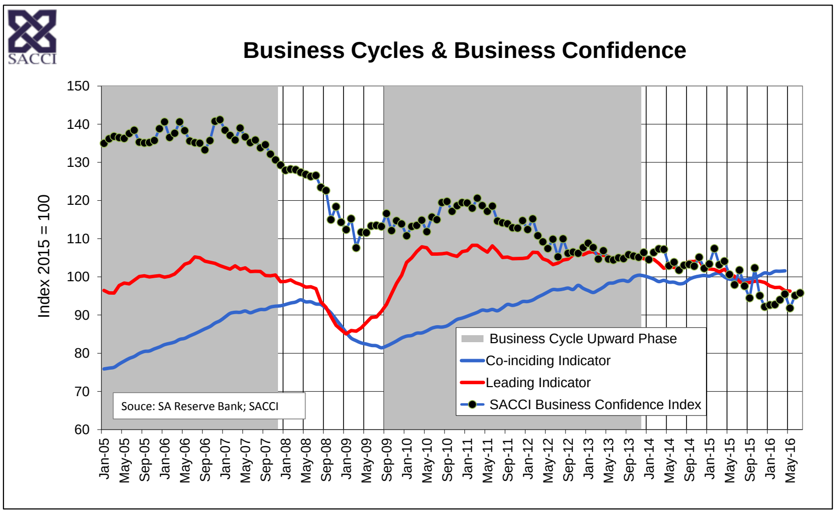
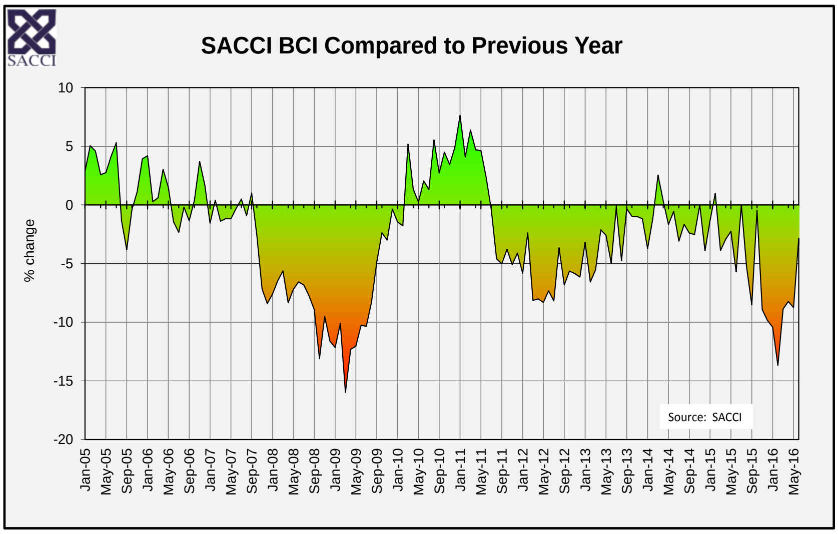
Because of information lags and changes in expectations, the dynamics of the business mood, at times, may be at variance with the economic environment. As a result, always read the BCI with other economic data and the accompanying economic commentary. For notes on the BCI, see the SACCI website at www.sacci.org.za.

The SACCI Business Confidence Index
2015=100

Month	2009	2010	2011	2012	2013	2014	2015	2016
January	112.4	110.8	119.4	112.4	108.8	104.5	103.4	92.6
February	115.3	113.2	118.0	115.2	107.7	106.4	107.4	92.7
March	107.6	113.5	120.6	110.8	104.7	107.3	103.2	94.0
April	111.7	114.8	118.7	109.2	106.9	107.2	104.1	95.5
May	111.6	111.8	117.2	107.4	104.7	102.9	100.6	91.8
June	113.3	115.7	118.5	109.9	104.4	103.8	97.9	95.1
July	113.5	115.0	114.6	105.2	105.0	101.8	101.8	**96.0**
August	113.2	119.5	114.2	110.0	104.8	103.0	97.6	
September	116.6	119.8	113.9	106.2	105.8	103.3	94.5	
October	112.1	117.2	112.9	106.5	105.5	102.8	102.3	
November	114.7	118.7	112.8	106.2	105.1	105.1	95.1	
December	113.9	119.5	114.7	107.7	106.4	102.2	92.2	
Average	**113.0**	**115.8**	**116.3**	**108.9**	**105.8**	**104.2**	**100.0**	





This Month's BCI Results

With 2015=100, the **SACCI** Business Confidence Index (BCI) recorded 96.0 in July 2016 compared to 95.1 in June 2016 – a monthly improvement of 0.9 index points. The July 2016 BCI was 5.8 index points lower than in July 2015. The July 2016 improvement added to the about-turn in the negative business climate that became conspicuous from about May 2014. The decline in the BCI picked up momentum in notably the second half of 2015 up to May 2016. The latest turnaround in June and July might have stemmed the tide. The **SACCI** BCI nonetheless remains at relative low levels and with 2015=100, the BCI measured 141.2 at its highest in December 2006 and 88.1 at its lowest in April 1985.

There were marginally less impediments in the real business environment in July 2016 compared to June 2016 with five of the seven sub-indices improving month-on-month. The month-on-month financial climate also improved with three sub-indices improving in July 2016, two remaining unchanged and one declining. The annual BCI comparison does not indicate any material change in the subdued business climate in the real economy or the tight financial environment of a year ago.

There was one more positive month-on-month (m/m) movement of the BCI sub-indices in July 2016 than in June 2016. Eight sub-indices were positive in June 2016, two were neutral and three were negative. Five real activity sub-indices and three financial sub-indices contributed positively m/m to the BCI in July 2016. The main monthly positive contributions to the BCI came in the order of firstly the rand exchange rate, merchandise export volumes, real retail sales and the US dollar gold and platinum price. Building plans passed, new vehicle sales, and inflation had the largest negative m/m effects in July 2016.

The year-on-year (y/y) change in the business climate paused in July 2016 with a similar number (three) of sub-indices making positive contributions to the BCI as in June 2016. Ten sub-indices made negative y/y contributions in July 2016. Two of the seven real activity sub-indices and one of the six financial sub-indices had a positive y/y impacts.

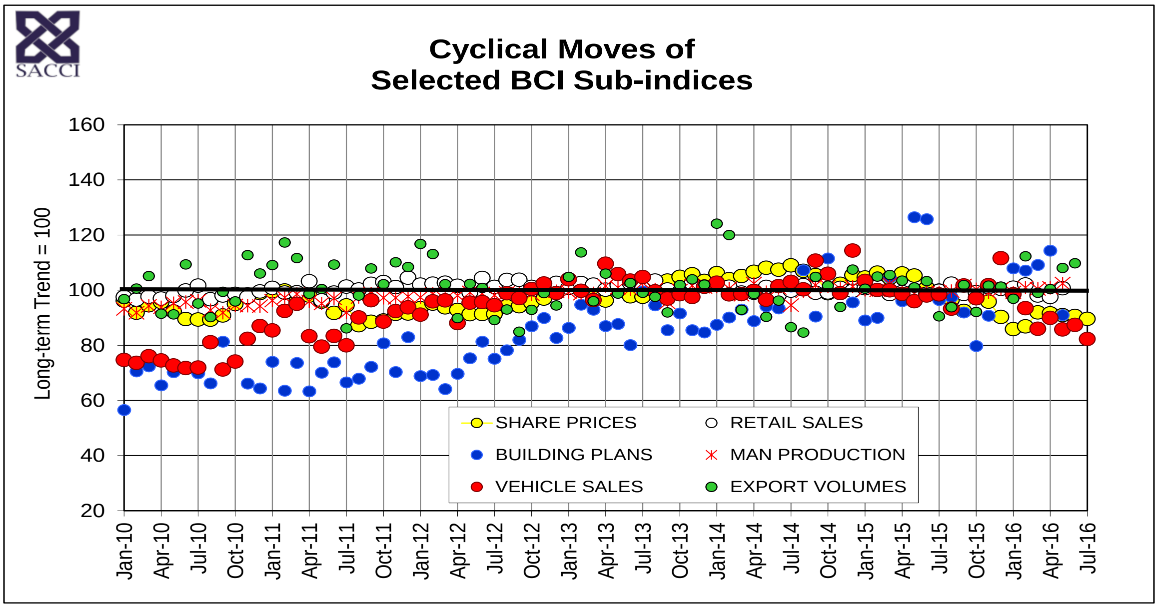
The largest negative y/y contribution to the BCI in July 2016 again came from the rand exchange rate followed by real financing costs and building plans passed. The foreign sector sub-indices in particular had positive y/y impacts on the BCI in July 2016 as reflected by merchandise export volumes and the gold and platinum prices. The financial environment continued to restrict the business climate – virtually similar to a year ago with only precious metal prices that improved.

Impact of the BCI Sub-indices on the BCI

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	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.



Economic Commentary

Domestic Economic Conditions Remain Discouraging

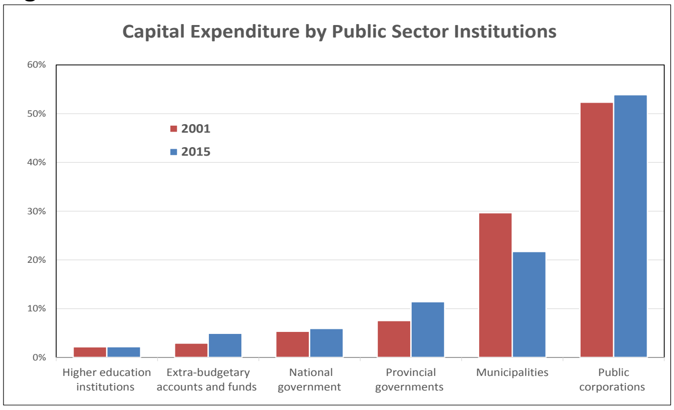
The IMF's has lowered the world economic growth outlook in the update of its projections in July 2016. They revised their global economic growth projections downward by 0.1percentage point to 3.1% for 2016 and 0.1percentage point to 3.4% for 2017. These lower growth scenarios are followed by a lower 2.9% increase in trade volumes of emerging and developing economies in 2016 compared to 3.4% in the April 2016 IMF outlook.

The IMF also lowered South Africa's economic growth projections by 0.5 for 2016 and 0.2 percentage points for 2017 respectively, to 0.1% and 1%. With the probability of a credit ratings downgrade for South Africa in December 2016, caution must be exercised on vulnerable economic issues over the short to medium term. A concerted effort will be necessary to avoid even tighter economic conditions in 2017 as such lower economic growth holds additional repercussions for public finance, unemployment and the real cost of borrowing. However, South Africa experienced stronger merchandise export trade in June and July 2016 while the rand gained a healthy plus 10% on a weighted rand exchange rate against the US dollar, British pound and the euro.

Constrained Public Finance

Public finance is one of the areas of concern in the economy. Recently released data on capital expenditure (CAPEX) by public sector institutions again confirmed the obligatory role in the economy of these outlays. In figure 1, it can be seen how capital expenditure by the different public sector institutions varied between 2001 and 2015. In 2015, Capex was mainly on the acquisition or improvement of fixed assets such as land, roads, buildings and projects to improve service delivery.

Figure 1

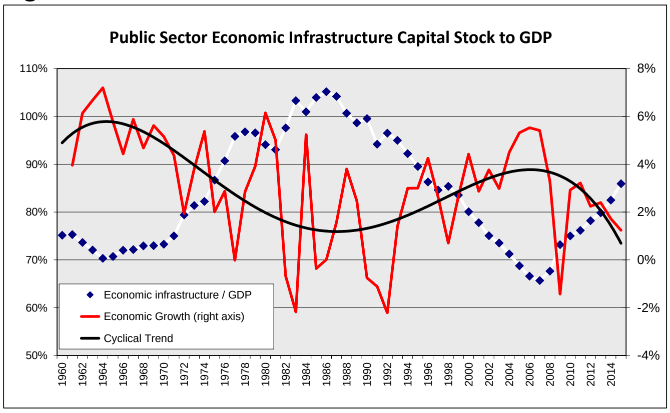


Source: StatsSA. July 2016.

The latest data release by StatsSA cited total <u>capital expenditure</u> of about R272 billion in 2015 compared to R36.7 billion in 2001 – more than 15% nominal increase per year. Public corporations were responsible for 53.9% or R146.5 billion of CAPEX in 2015 where Eskom, Transnet, SANRAL and the Passenger Rail Agency of South Africa (Prasa) were amongst the largest capital spenders of public sector money in 2015. Eskom, in its efforts to improve electricity supply, spent about R35.7 billion on the construction of Kusile, Medupi and Ingula power station. Transnet spent about R35 billion on the acquisition of locomotives, tugboats and underwater equipment. While municipalities spent about R446 billion over the 15 years between 2001 and 2015.

The effect of CAPEX on economic infrastructure capital stock is shown Figure 2. There has been a relative improvement of economic infrastructure in relation to the South African economic output (GDP). The economic performance (real growth), however, does not match the relative expansion in economic infrastructure. The mismatch between business and investor confidence and economic prospects should be addressed. It is important that private sector activity be enhanced while impediments that stifle economic growth and employment creation should be removed. The present weak economic performance necessitates immediate attention.

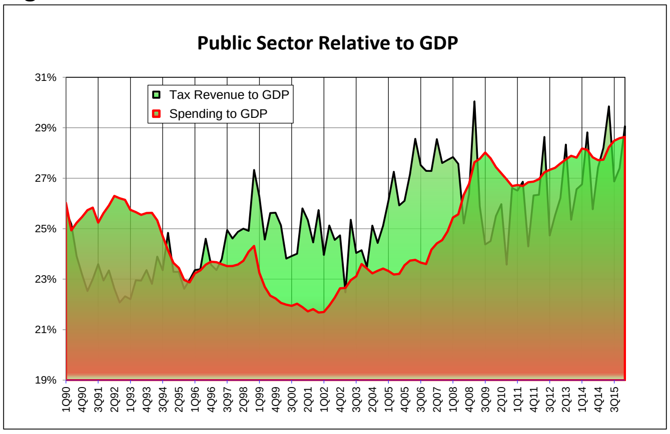
Figure 2



Source: SA Reserve Bank, June 2016 Quarterly Bulletin

From figure 3, it can be seen that public sector expenditure (general government and public corporations) are relatively increasing their role in the economy causing a structural deficit developing on top of an under-performing economy. The role of the public sector has been expanding at a rate that alerted credit rating agencies due to borrowing and trends in certain expenditure components. The overall trends in public sector revenue and expenditure relative to the size of the economy while some specific public sector matters require attention – see figures 3 and 4.

Figure 3



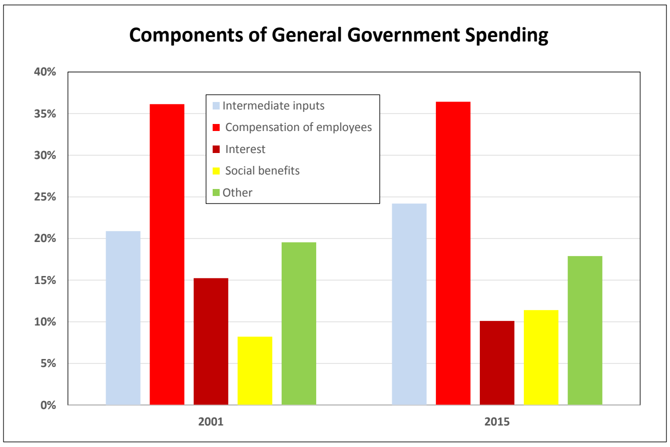
Source: SA Reserve Bank, June 2016 Quarterly Bulletin

The composition of general government expenditure acquires attention, as it has become recurring developments:

- The high wage and salary bill,
- Rising intermediary inputs (including external consultants),
- Top-heavy, flat organisational structures, and
- Expanding social benefits.

The economy experience subdued growth, a heavy tax burden on productive sectors, a rising public debt ratio, and an under-performing public sector that holds political consequences and serious repercussions for future economic growth and unemployment.

Figure 4

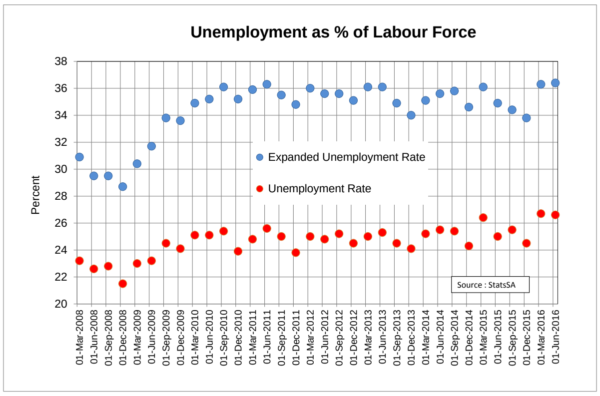


Source: SA Reserve Bank, June 2016 Quarterly Bulletin

Rising High Unemployment

The latest data released by Statistics South Africa (StatsSA) show that the unemployment rate (expanded) has increased by 1.5 percentage point in the year to June 2016 from 34.9% to 36.4% - see figure 5. In absolute numbers, this amounts to an addition of about five hundred thousand people unemployed. The employed to population ratio (absorption rate) declined from 46% in June 2008 to 42.5% in June 2016 – 3.5% less people of the population being employed than available numbers for eight years ago. With the public sector experiencing constraints to act as employer in last resort, the only avenue available is higher economic growth. To achieve this investor confidence becomes essential.

Figure 5



Source: StatsSA.

Conclusion

Apart from a stronger exchange rate and improved merchandise export volumes, investor and business confidence have to improve in order to propel other activities in the economy to higher levels. This could provide the public sector with the necessary resource base to alleviate the pressure on public finances and unemployment.

General Economic Indicators

Indicator	Period	Direction	Latest	Previous	2015	2010
Consumer inflation headline urban (%)	**Jun-16**	▲	6.3	6.1	4.6	4.3
Consumer inflation urban - excl. food, bev. & fuel (%)	**Jun-16**	▲	5.9	5.7	5.7	4.6
Money supply M3 eop (% Δ Y-o-Y)	**Jun-16**	▼	5.9	6.4	10.5	6.9
Private sector credit eop (% Δ Y-o-Y)	**Jun-16**	▲	7.3	6.6	10.2	5.5
Real prime overdraft rate eop (%)*	**Jun-16**	▼	4.3	4.5	3.8	4.2
Liquidations number sa	**Jun-16**	▲	186	183	1962	3992
Bond yield 5-10y govt eop (%)	**Jul-16**	▲	8.64	8.50	8.82	7.41
R / US$ average	**Jul-16**	▼	14.40	15.02	13.02	7.32
R / Euro average	**Jul-16**	▼	15.93	16.89	14.14	9.71
Prime overdraft rate eop (%)	**Jul-16**	▶	10.50	10.50	9.75	9.00

Indicator	Date	Direction	Latest	Previous	2015	2010
Income & wealth tax / GDP (%) saar	**q1-16**	▲	15.3	14.4	15.1	14.2
Total tax / GDP (%) saar	**q1-16**	▲	29.1	27.4	28.1	25.4
Public sector borrowing requirement / GDP (%)	**q1-16**	▲	4.4	3.6	5.0	5.0
Public sector expenditure / GDP (%)	**q1-16**	▶	28.6	28.6	28.3	27.1
Budget Balance / GDP (%)	**q1-16**	▲	-3.2	-1.7	-4.5	-4.6
Imports / GDE (%)	**q1-16**	▼	31.2	31.5	31.4	27.7
Exports / GDP (%)	**q1-16**	▼	30.6	30.8	30.7	28.6
Net foreign financial flows / GDP (%)	**q1-16**	▲	0.5	-3.3	0.4	3.8
Current account balance / GDP (%)	**q1-16**	▼	-5.8	-4.4	-4.3	-1.5
Gross domestic saving / GDP (%) saar	**q1-16**	▼	15.0	15.4	16.4	18.0
Gross capital formation / GDP (%) saar	**q1-16**	▶	20.0	20.0	20.7	19.5
Net fixed capital formation / GDP (%)	**q1-16**	▲	-	-	6.6	6.1
GDP growth (% Δ Y-o-Y)	**q1-16**	▼	**-0.2**	**0.6**	**1.3**	**3.0**

Notes: Δ=change; eop=end of period; Y-o-Y=year-on-year; q=quarter; saar=seasonal adjusted annual rate; GDP=Gross Domestic Product; GDE=Gross Domestic Expenditure; sa=seasonally adjusted. *Deflated by inflation excluding .food, beverages and fuel.