

SACCI Press Release

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Tight and Subdued Trade Conditions

After trade conditions pulled back into negative territory in June 2016, the monthly SACCI Trade Activity Index (TAI) survey contracted further into negative space. The TAI registered 44 in July 2016 while the seasonally adjusted TAI measured 47 – down from 51 in June 2016. The seasonally adjusted TAI was 1 point lower in July 2016 than the 48 of July 2015. Respondents cited the decline in economic activity, the predicament of notably small- and medium-sized businesses, the influence of trade unions, and a non-committal approach by government to pro-business policies. The strain led to muted return on assets, and sharp declines in profit margins as consequences of the tight trade environment.

The new orders sub-index slowed by 5 points to 44 in July from 49 in June while the sales volumes sub-index also fell by 5 points to 46. The inventories index decreased by 4 points to 45 in July and supplier deliveries deteriorated by 11 points to 36. The low backlog on orders declined by 5 index points to 33 and reflects on the ongoing uncertainty in trade conditions.

Price pressures eased further as the sub-indices of both sales prices and input price indices continued to decline in July 2016. The sales price index declined by 5 points to 54 while the input price index declined by 13 points to 56 from 69 in June. Price rise expectations also eased further as the sales price index declined by 8 points to 60 and expectations on input prices declined as the index dropped substantially from 78 to 64. Stable interest rates, the stronger and less volatile rand and a decline in the fuel price gave scope for lower inflationary expectations. However, rising energy costs (electricity), and higher wage and salary demands can be expected to put pressure on profit margins, lead to strain on job creation, and further constrain an already struggling trade sector.

Trade expectations nevertheless remained in positive terrain, but declined both seasonally adjusted and non-seasonally adjusted. The Trade Expectations Index (TEI) declined to 52 in July 2016 from 54 in June while expectations for sales volumes declined slightly. Expected new orders were more negative as the sub-index declined by 5 points. Inventory levels remained static, but expected supply delivery declined. The SA Reserve Bank's latest prediction for zero economic growth in 2016 implies that tight trade prospects will prevail for the rest of 2016.

As a sector that employs semi and low-skilled workers, the decline in the employment sub-index to 47 in July 2016 could imply more unemployment. Prospects for employment over the next six months also remained constrained with the sub-index declining to 47 in July 2016 from 48 in June.

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