

SOUTH AFRICAN CHAMBER OF COMMERCE AND INDUSTRY

Business Confidence Index

September 2016



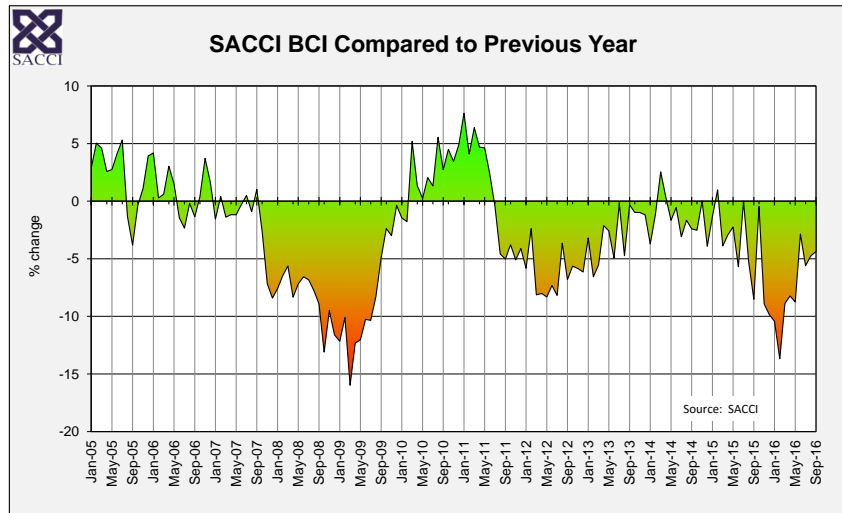
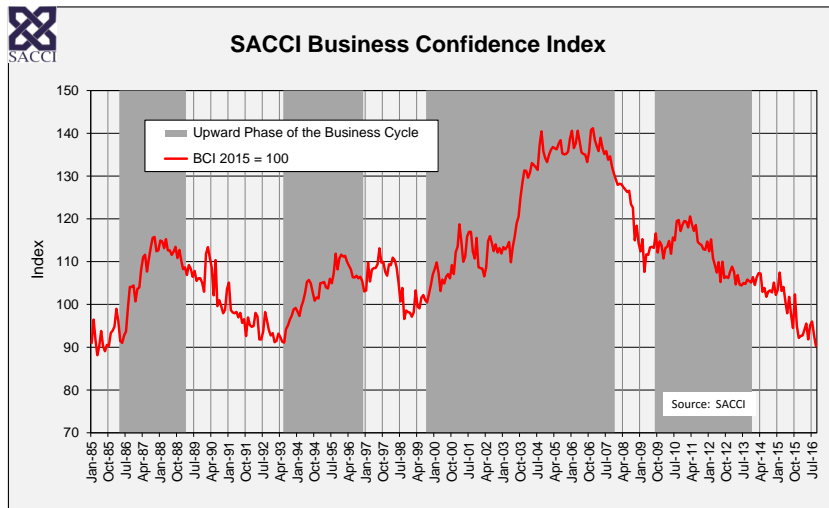
Content:

- **The SACCI Business Confidence Index (BCI)**
- **This Month's BCI Results**
- **Impact of Sub-indices on the SACCI BCI**
- **Economic Commentary**
- **General Economic Indicators**

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	92.9
September	116.6	119.8	113.9	106.2	105.8	103.3	94.5	90.3
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

The SACCI Business Confidence Index (BCI) lost 2.6 index points in September 2016 to measure 90.3 compared to 92.9 in August 2016. This figure for the BCI is 4.1 points below September 2015. So far, the 90.3 is the worst BCI number for 2016 and the lowest since July 1985 when the BCI stood at 90.2 with base year 2015=100 - see chart on previous page.

The BCI average of 93.1 in the 1st quarter of 2016 is 11.5 index points lower than the 104.6 average of the 1st quarter of 2015. In the 2nd quarter of 2016 the average BCI increased by one index point to 94.1 and then in the 3rd quarter of 2016, the BCI averaged a lower 93.1. The business climate had a notably uneven course towards and since the end of 2015. This unpredictable and turbulent period had a significant negative impact on business confidence and the business mood. The consequence is that the BCI averaged a lower 93.4 for the first three quarters of 2016 – down by 7.7 index points from the average of 101.1 for BCI in the first three quarters of 2015.

Additional domestic uncertainty beyond normal economic and business developments caused further interruption of an already unpredictable business climate. The more transparent and enlightened atmosphere that followed the local government elections in the beginning of August 2016, nevertheless still holds the promise of an improved business climate.

The real business environment improved somewhat in September 2016 compared to August 2016 when four of the seven sub-indices improved against only two in August. The month-on-month (m/m) financial climate, however, deteriorated as none of the six financial sub-indices improved on their August 2016 levels. Inflation and real financing cost, however, remained unchanged (m/m) in September 2016.

Overall, the BCI sub-indices were more negative in September 2016 than in August 2016. One more sub-index made a positive contribution than in August 2016, but there were more sub-indices turning negative. Four sub-indices contributed positively to the BCI in September 2016. Positive monthly contributions to the BCI mainly came from merchandise import and export volumes, energy and more new vehicles sold. The largest negative impact on the BCI came from the real value of building plans passed, the US dollar price of platinum and gold, manufacturing output, and share prices.

The annual BCI comparison between September 2016 and September 2015 implies a similar tight but weaker business climate as the majority of sub-indices (11 of 13), were having negative year-on-year (y/y) effects (see box on page 4). One of the seven real activity sub-indices and one of the six financial sub-indices made positive y/y impacts on the BCI.

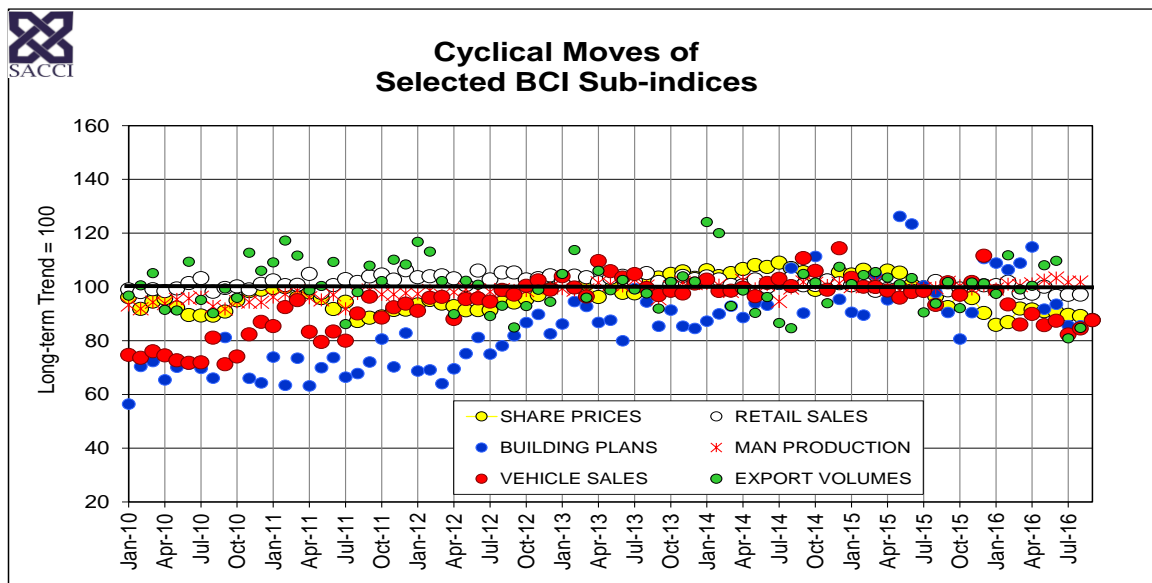
In September 2016, the largest negative y/y contributions to the BCI came from merchandise import and export volumes, real financing costs followed by new vehicles sold. Weak but positive y/y impacts on the business climate came from the US dollar prices of gold and platinum, and manufacturing output – similar sub-indices to last month. The financial environment continued to restrain the business climate – virtually the same as a year ago except for the US dollar precious metal prices that improved y/y.

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	-	-	-	-
Manufacturing	-	0	+	+
Exports	+	-	-	-
Imports	+	-	-	-
Vehicle sales	+	+	-	-
Retail sales	+	-	-	-
Construction - buildings	-	+	-	-
Inflation ¹	0	+	-	-
Share prices	-	0	-	-
Real private sector borrowing	-	0	-	-
Real financing cost	0	-	-	-
Precious metal prices	-	0	+	+
Rand exchange rate	-	0	-	-

* See notes on BCI on www.sacci.org.za

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

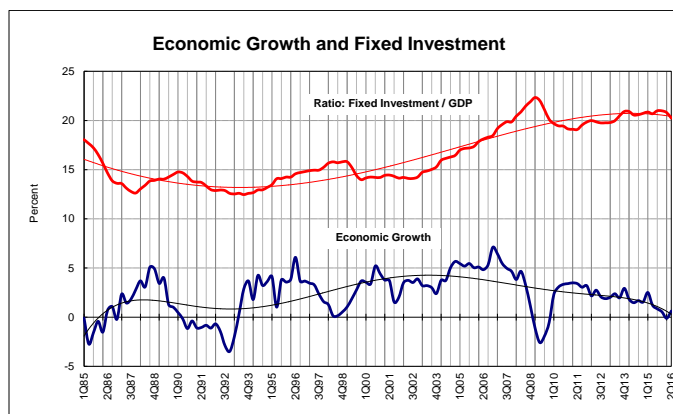


Economic Commentary

Turbulent Economic and Business Environment

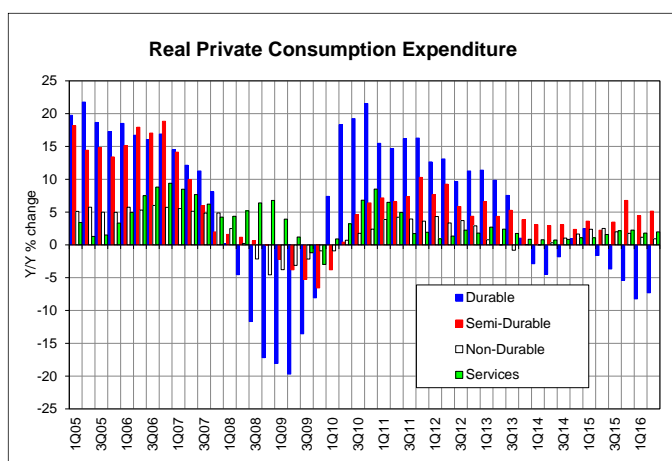
The economy and South Africa in general are faced by many challenges and uncertainties. There is a notable interaction and reiteration between aspects such as the performance of the domestic economy, climate, politics, weather, the world economy, etc. It is clear that the interaction between the abovementioned matters eventually merges and severely influences future economic prospects and performance of the economy.

Growth in real gross domestic product (GDP) that turned positive to 0.6% year-on-year (y/y) in the 2nd quarter of 2016 from a minus 0.1% in the 1st quarter of 2016, was accompanied by lacklustre real gross domestic expenditure that decreased in the 1st half 2016. After declining by 1.4% y/y in the 1st quarter of 2016, real gross domestic expenditure contracted by a further 1.1% y/y in the 2nd quarter of 2016. The decline mainly came from a reduction in real gross fixed capital formation and not extending real inventories. The volume of final consumption expenditure by households increased in the 2nd quarter of 2016 after tightening in the 1st quarter while growth in the real value of final consumption expenditure by general government increased slightly over this period.



Final consumption expenditure by households improves

Following a slow increase of 0.8% y/y in the 1st quarter of 2016, growth in real final consumption expenditure by households marginally improved to 1% in the 2nd quarter of 2016. This was observed in stronger real y/y expenditure on semi-durable goods and services. In contrast, real spending on durable goods declined by 7.3% y/y in the 2nd quarter 2016 while growth in spending on non-durable goods slowed from 1.2% y/y in the 1st quarter of 2016 to 0.9% y/y in the 2nd quarter 2016.



Real final consumption expenditure by households on durable goods contracted for the fifth consecutive quarter. The sharp decline in real durable spending was particularly reflected by expenditure on furniture and household appliances, personal transport equipment, and recreation and entertainment goods. Less real outlays on durable goods appeared to be the consequence of a gradual increase in household debt, exacerbated by higher interest rates and higher prices of imported durable goods due to the weaker rand. Growth accelerated on the volume of spending on semi-durable goods from an increase of 4.4% y/y in the 1st quarter of 2016 to 5.1% y/y in the second quarter of 2016.

Higher household debt servicing costs

The ratio of household debt to disposable income decreased from 75.7% in the 1st quarter of 2016 to 75.1% in the 2nd quarter. The cost of servicing debt rose in conjunction with the increases in the lending rates in the first half of 2016. Debt service costs rose from 9.2% of disposable household income in the 1st quarter of 2015 to 9.7% in the 1st quarter of 2016 and further to 9.8% in the 2nd quarter – the highest debt-service ratio since the 1st quarter of 2010 and putting a larger burden on household expenses.

Expenditure by general government edged higher

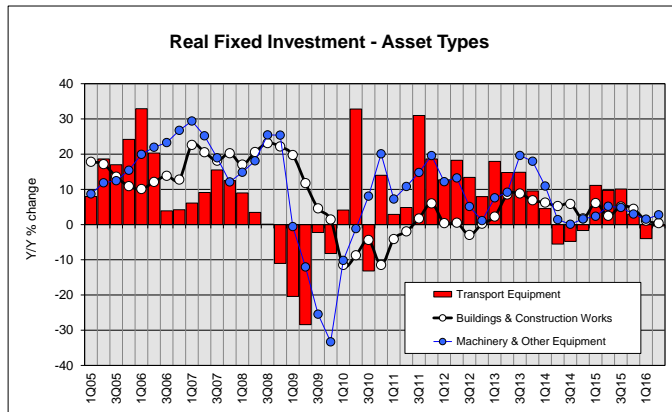
Having increased at a rate of 1.5% y/y in the 1st quarter of 2016, growth in real final consumption expenditure by general government edged higher at the same rate in the 2nd quarter. Real spending on both compensation of employees and non-wage goods and services increased marginally over the period, consistent with government's commitment to restrain current expenditure. The level of real spending by general government in the first six months of 2016 was 1.5% higher than in the corresponding period of 2015.

Inhibited fixed capital formation

After declining at rates of 0.1% and 2.1% y/y in the 4th quarter of 2015 and 1st quarter of 2016 respectively, real fixed capital investment slid further by 2.8% y/y in the 2nd quarter of 2016. Fixed investment by the private sector declined by about 5% y/y in the 1st half of 2016 while fixed capital formation by the public sector (general government and SOEs) increased at a slow pace of 1.2% y/y in the first six months of 2016. This caused the fixed investment/GDP ratio to be marginally above the 20% of GDP mark while a ratio of more than 25% is desired to accelerate growth and create employment.

Real fixed investment by the private sector continued to be affected by low business confidence

levels, local social turmoil, idle production capacity and subdued demand. Real fixed investment in transport equipment decelerated from an average 8.5% y/y increase in 2015 to decline by 2.2% y/y in the first half of 2016. Outlays on building and construction works slowed from a 4.6% y/y increase in 2015 to 0.7% y/y over the first half of 2016 and with growth in real fixed investment growth on machinery and equipment declining from 3.8% y/y in 2015 to 2.1% y/y in the first half of 2016.



Conclusion

The general overview of the demand side of the economy suggests a tight economic situation for all subjects of the economy, including consumers, investors and the public sector. The most pressing of the present situation is the lack of confidence by notably investors. Productive investment remains the panacea for future economic growth and job creation. It is therefore imperative that all facets of South Africa should aim to advance the wellbeing of the economic and business environment. Business confidence and trust remains key variables to improved economic performance.

General Economic Indicators

Indicator	Period	Direction	Latest	Previous	2015	2010
Consumer inflation headline urban (%)	Aug-16	▼	5.9	6.0	4.6	4.3
Consumer inflation urban - excl. food, bev. & fuel (%)	Aug-16	▶	5.8	5.8	5.7	4.6
Money supply M3 eop (% Δ Y-o-Y)	Aug-16	▲	5.5	4.4	10.5	6.9
Private sector credit eop (% Δ Y-o-Y)	Aug-16	▼	6.2	6.8	10.2	5.5
Real prime overdraft rate eop (%)*	Aug-16	▶	4.4	4.4	3.8	4.2
Liquidations number sa	Aug-16	▼	171	179	1962	3992
Bond yield 5-10y govt eop (%)	Sep-16	▼	8.31	8.63	8.82	7.41
R / US\$ average	Sep-16	▲	14.06	13.79	13.02	7.32
R / Euro average	Sep-16	▲	15.80	15.46	14.14	9.71
Prime overdraft rate eop (%)	Sep-16	▶	10.50	10.50	9.75	9.00
Indicator	Date	Direction	Latest	Previous	2015	2010
Income & wealth tax / GDP (%) saar	q2-16	▲	16.7	15.3	15.1	14.2
Total tax / GDP (%) saar	q2-16	▲	29.7	28.9	28.1	25.4
Public sector borrowing requirement / GDP (%)	q2-16	▲	4.8	3.1	5.0	5.0
Public sector expenditure / GDP (%)	q2-16	▼	28.3	28.7	28.3	27.1
Budget Balance / GDP (%)	q2-16	▼	-2.8	-3.2	-4.5	-4.6
Imports / GDE (%)	q2-16	▲	31.2	31.0	31.4	27.7
Exports / GDP (%)	q2-16	▲	31.7	30.2	30.7	28.6
Net foreign investment flows / GDP (%)	q2-16	▲	2.2	0.5	0.4	3.8
Current account balance / GDP (%)	q2-16	▼	-1.8	-5.8	-4.3	-1.5
Gross domestic saving / GDP (%) saar	q2-16	▲	16.5	14.9	16.4	18.0
Gross capital formation / GDP (%) saar	q2-16	▼	19.7	20.2	20.7	19.5
Net fixed capital formation / GDP (%)	q2-16	▲	-	-	6.6	6.1
GDP growth (% Δ Y-o-Y)	q2-16	▲	0.6	-0.1	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.