

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

Business Confidence Index

November 2016



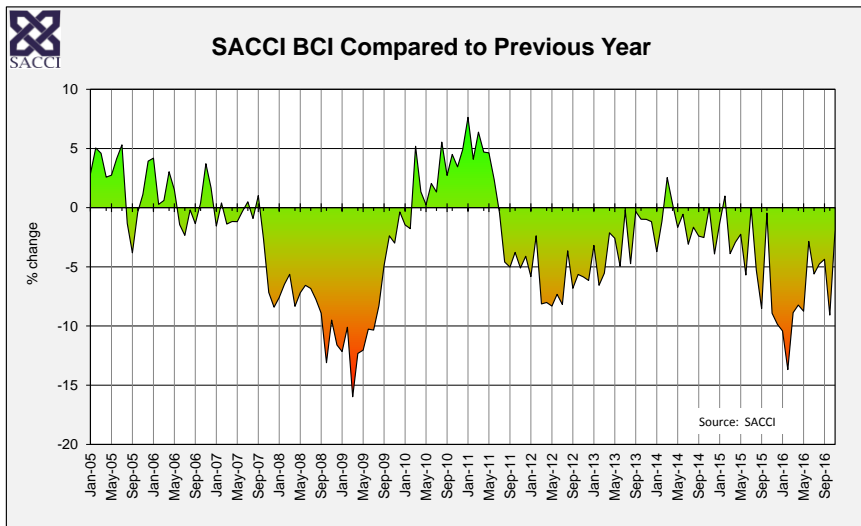
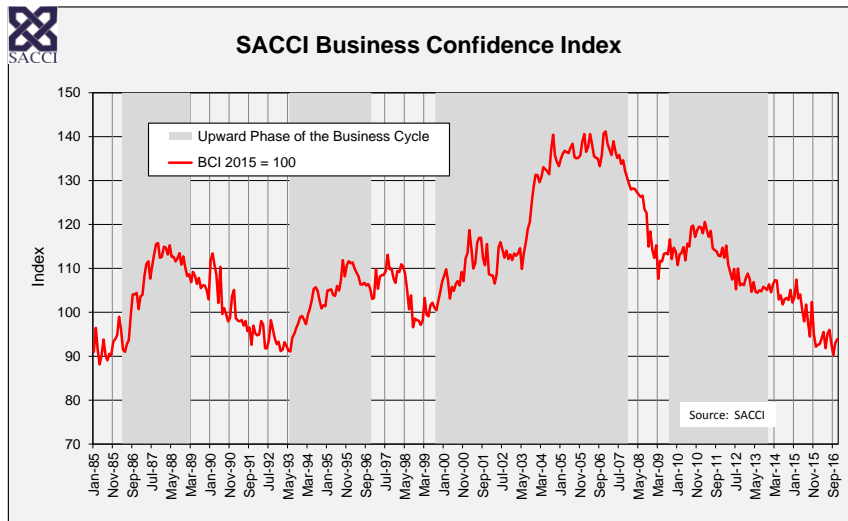
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*Because of information lags and changes in expectations, the dynamics of the business mood, at times, may be at variance with the economic environment. As a result, always read the BCI with other economic data and the accompanying economic commentary. For notes on the BCI, see the SACCI website at [www.sacci.org.za](http://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	93.0
November	114.7	118.7	112.8	106.2	105.1	105.1	95.1	<b>93.9</b>
December	113.9	119.5	114.7	107.7	106.4	102.2	92.2	
<b>Average</b>	<b>113.0</b>	<b>115.8</b>	<b>116.3</b>	<b>108.9</b>	<b>105.8</b>	<b>104.2</b>	<b>100.0</b>	



## This Month's BCI Results

The SACCI Business Confidence Index (BCI) improved by another 0.9 index point from October 2016 to 93.9 in November 2016. Although the November 2016 index is still 1.2 points below the November 2015 level, the BCI increased by 3.6 index points from the exceptionally low level of 90.3 registered in September 2016. During 2016 the BCI recovered relatively well up to July 2016 when the BCI reached 96.0 but then contracted to the 90.3 in September 2016.

The recovery of the BCI in October and November 2016 was achieved in a depressed domestic and global economy and further harmful local socio-political diversions that unfavourably influenced the business climate. Notwithstanding the volatility in the business climate, the present turnaround in the BCI could gather more momentum.

The Medium Term Budget Policy Statement (MTBPS) provided the framework of the intentions and outlook of government for the medium-term economic outlook. Apart from local and international political developments that could affect the global and South African economy, the business climate adjusted to unpredictability of current circumstances. Business flexibility partly contributed to the slightly improved business confidence of the last two months. Business continued to show determination and agility.

In general, the BCI sub-indices were marginally less positive in November than in October 2016. Two fewer sub-indices made positive month-on-month (m/m) contributions to the BCI in November 2016. Five sub-indices contributed positively m/m to the BCI in November 2016 while two remained unchanged. Positive monthly contributions to the BCI mainly came from real value of building plans passed, new vehicle sales (seasonally adjusted) and manufacturing output. Merchandise export volumes, retail sales volumes, share prices and energy supply and costs made the largest negative m/m impacts on the BCI in November.

The real business conditions were slightly better in November 2016 than in October 2015. One of the seven real business sub-indices improved and one remained unchanged. The year-on-year (y/y) financial climate remained positive with two of the six financial sub-indices that improved and one unchanged.

The y/y comparison in November 2016 reflects a marginal improvement in the constricted business climate as five of the thirteen sub-indices eased on a year ago compared to only three in October 2016. One real activity sub-index was positive (y/y) and one was neutral. However, two of the six financial sub-indices made positive y/y impacts on the BCI in November 2016 and one remained unchanged – similar to October.

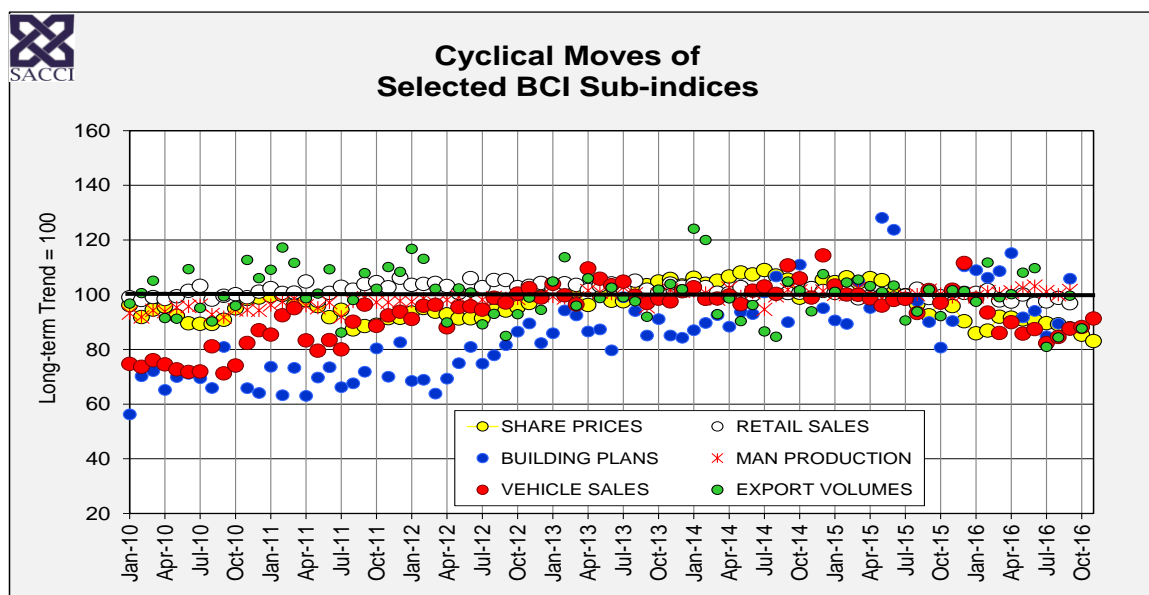
The largest negative y/y contributions to the BCI in November 2016 were from lower merchandise import volumes, lower share prices, real financing costs and new vehicle sales. Financial conditions were less restrictive on the business climate than a year ago with positive y/y impacts on the business climate coming from the exchange rate and the US dollar price of gold and platinum.

### 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	0	+	-	-
Vehicle sales	-	0	-	-
Retail sales	+	+	-	-
Construction - buildings	+	+	+	-
Inflation <sup>1</sup>	-	+	-	-
Share prices	-	-	-	-
Real private sector borrowing	-	+	0	0
Real financing cost	+	-	-	-
Precious metal prices	0	-	+	+
Rand exchange rate	+	+	+	+

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

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



## **Economic Commentary**

### ***Economy Delicately Poised***

It is a delicate process of repositioning the South African economy that was initiated by the Minister of Finance. It firstly has to deal with public finance difficulties in a depressed economy, and to pave the way for other policy and implementation measures to take shape. The Medium Term Budget Policy Statement (MTBPS) set the tone for the necessary adjustments and expectations for the medium-term (next 3 to 5 years). Higher economic growth and structural reform must adapt to promote faster, more sustainable and inclusive growth for the broader community in South Africa.

Public finance matters feature prominent on the schedule of the rating agencies as well as for South Africa's own economic progress. Some fiscal difficulties could be overcome by improved economic performance, but management problems at state institutions, high and rising debt levels and corruption appears to need urgent attention. With National Treasury enjoying credibility with the business community and local and global investors, and positive developments at some public sector institutions, the norm for responsible and accountable economic and public sector management is set.

### ***Rating South Africa for Investment***

Moody's Investors Service's decision not to issue South Africa's credit rating on 25 November 2016 was in itself a pronouncement that not necessary induce business confidence. However, although financial markets might already have priced in their rating expectations, any further unsavoury global and local political and/or economic developments can severely influence the rating and therefore future local and foreign investor decisions.

Moody's rating of South Africa's government debt during November 2016 was still two levels above junk status with a negative outlook. It is not clear when a decision will be made public and therefore Moody's announcement did not influence business confidence in November. The Treasury viewed Moody's decision as proof that South Africa does make progress with structural reform and fiscal prudence.

Fitch has issued its rating on Friday, 25 November 2016. The rating remained unaffected, but with negative prospects. Fitch's rating remained one position above junk status. The negative outlook from all three agencies suggests an insistence that South Africa has to change its economic and fiscal trajectory. South Africa will repeatedly be downgraded in the long-term if structural reform does not increase economic growth.

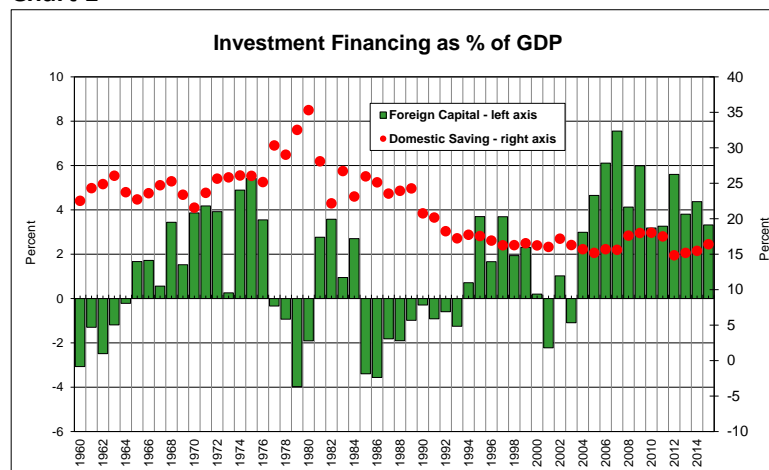
The final rating decision by Standard & Poor's Global Ratings (S&P) was only announced on the 2<sup>nd</sup> of December 2016. S&P standing rating of sovereign debt in foreign currencies was one notch above junk status, but public debt in rand was three levels above junk.

The consequences of lower ratings could lead to capital flight - additional to what the financial markets anticipated, a weaker rand, rising inflation and the Reserve Bank left with no choice but to further raise interest rates. The possibility of rising interest rates in the USA could add a further negatively affect to the struggling South African economy.

### ***Need for Foreign Capital***

The importance of a solid credit rating by reputable (that has a standing with local and foreign investors of note) rating agencies for foreign investors, is an imperative for South Africa’s economy. The need for foreign capital as percentage of GDP is shown in Chart 1. With domestic saving inappropriate at about 16% of GDP, the need for foreign capital becomes compelling. At some 3% of GDP, foreign capital inflows are not enough to bridge the need for capital if South Africa needs to invest 25% or more of GDP for the economy to grow by more than 3% per year on average on a continuous basis.

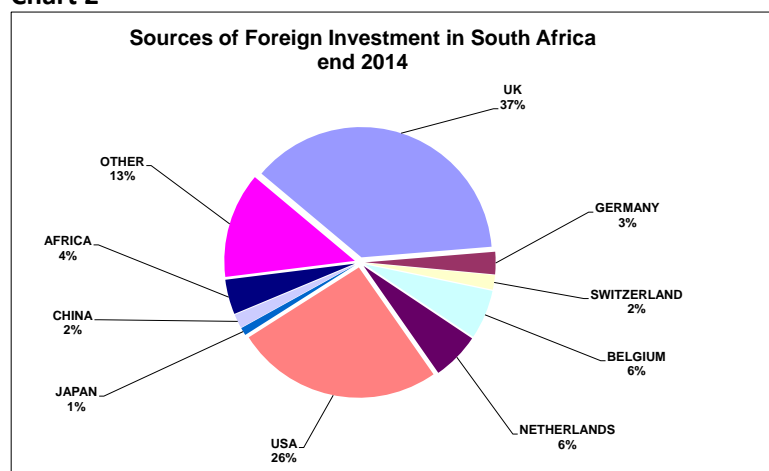
Chart 1



Source: SA Reserve Bank.

A good credit rating would obviously help to obtain investor confidence here and abroad. To obtain a credit rating from a reputable source that is in high regard with the investors that invest in South Africa is therefore critical. Chart 2 illustrates the countries where South African foreign capital originates. European countries and the USA accounted for 80% of the foreign investment in South Africa at the end of 2014.

Chart 2



Source: SA Reserve Bank.

### *Gestures of a Recovering Short-term Business Climate*

As implied by some sub-indices of the BCI, there were positive short-term (m/m) developments noted in October and November 2016. Six of the seven real economic sub-indices changed for the positive (m/m) in either October or November 2016. Real value of building plans passed and the rand exchange rate were positive (m/m) in both months. Of all thirteen sub-indices, only the

energy (price and supply) and share prices did not turn positive m/m in either month.

The US dollar price of gold and platinum, and the weighed rand exchange rate against the US dollar, British pound and the euro improved y/y in both October and November 2016. Real credit extension to the private sector, manufacturing output and the real value of building plans passed improved y/y in either October or November 2016.

### *Conclusion*

South Africa appears to have received reprieve from reputable rating agencies. The prospects for a more induced economic growth climate and attention being paid to notably public finance matters, counted in South Africa's favour. The progress that was made by Treasury to partially restore credibility to the economy as well as the participation of business and labour to recognize and assist to propel the economy forward, may contribute to the momentum gained in improving the prospects for business.

## General Economic Indicators

Indicator	Period	Direction	Latest	Previous	2015	2010
Consumer inflation headline urban (%)	Oct-16	▲	6.4	6.1	4.6	4.3
Consumer inflation urban - excl. food, bev. & fuel (%)	Oct-16	▲	5.8	5.7	5.7	4.6
Money supply M3 eop (% Δ Y-o-Y)	Oct-16	▲	6.6	5.6	10.5	6.9
Private sector credit eop (% Δ Y-o-Y)	Oct-16	▼	6.3	7.2	10.2	5.5
Real prime overdraft rate eop (%)*	Oct-16	▼	4.4	4.5	3.8	4.2
Prime overdraft rate eop (%)	Nov-16	▶	10.50	10.50	9.75	9.00
Liquidations number sa	Oct-16	▲	184	159	1962	3992
Bond yield 5-10y govt eop (%)	Nov-16	▲	8.71	8.40	8.82	7.41
R / US\$ average	Nov-16	▲	13.94	13.91	13.02	7.32
R / Euro average	Nov-16	▼	15.03	15.33	14.14	9.71

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	▲	<b>0.6</b>	<b>-0.1</b>	<b>1.3</b>	<b>3.0</b>

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.