SOUTH AFRICAN CHAMBER OF COMMERCE AND INDUSTRY

Business Confidence Index

December 2016

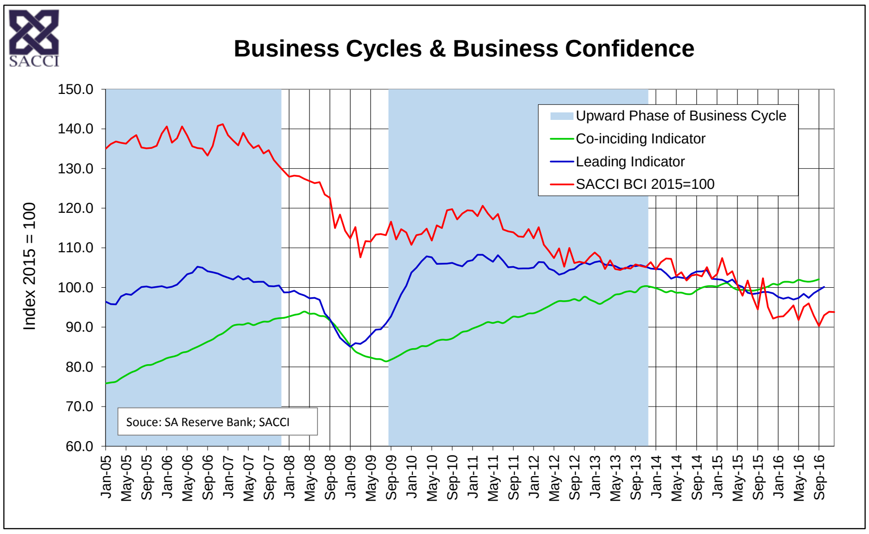
SACCI

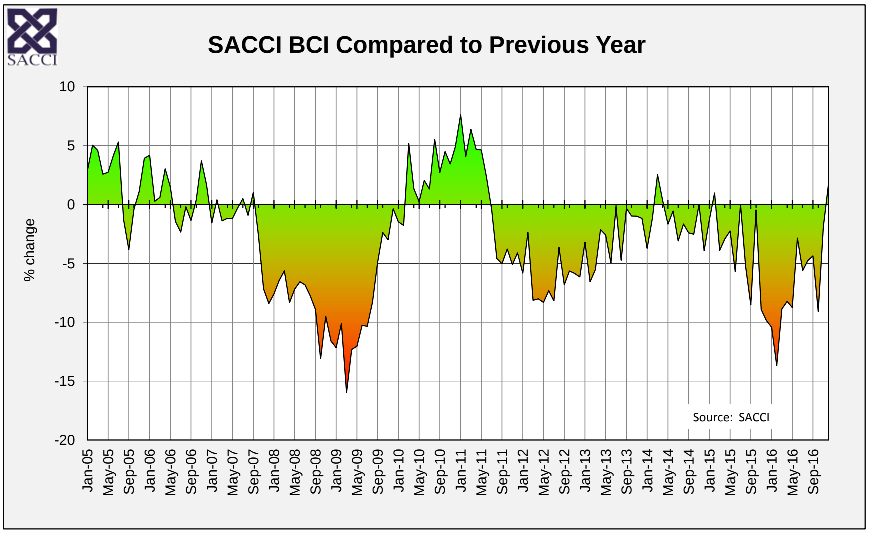
Content:

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	2010	2011	2012	2013	2014	2015	2016
January	110.8	119.4	112.4	108.8	104.5	103.4	92.6
February	113.2	118.0	115.2	107.7	106.4	107.4	92.7
March	113.5	120.6	110.8	104.7	107.3	103.2	94.0
April	114.8	118.7	109.2	106.9	107.2	104.1	95.5
May	111.8	117.2	107.4	104.7	102.9	100.6	91.8
June	115.7	118.5	109.9	104.4	103.8	97.9	95.1
July	115.0	114.6	105.2	105.0	101.8	101.8	96.0
August	119.5	114.2	110.0	104.8	103.0	97.6	92.9
September	119.8	113.9	106.2	105.8	103.3	94.5	90.3
October	117.2	112.9	106.5	105.5	102.8	102.3	93.0
November	118.7	112.8	106.2	105.1	105.1	95.1	93.9
December	119.5	114.7	107.7	106.4	102.2	92.2	**93.8**
Average	**115.8**	**116.3**	**108.9**	**105.8**	**104.2**	**100.0**	**93.5**





This Month's BCI Results

The SACCI Business Confidence Index (BCI) remained almost unmoved with a small decline of 0.1 index point between 93.9 in November 2016 and the 93.8 of December 2016. This compares favourably with December 2015 when the BCI declined by 3.6 index points month-on-month. The severe year-on-year decline of December 2015 of 10.1 index points was reversed with an annual year-on-year increase of 1.7 index points in December 2016. This is the first time since February 2015 that the SACCI BCI improved on a year earlier.

The annual average for the BCI in 2016 was 93.5 compared to 100 in 2015 (the base-year for the BCI) and 104.2 in 2014. During 2016, the BCI recovered reasonably well up to July 2016 when the BCI reached 96.0 after which it contracted to the low 90.3 in September 2016. Towards the end of 2016, the BCI improved slowly and gradually and remained stable.

The recovery of the BCI in October, November and December 2016 occurred despite uncertain local and global economic and political conditions. The holding position by the rating agencies on the investment status of South Africa helped to support business confidence although important performance preconditions will remain in place for maintaining the current rating. The more steady business climate could enhance the current weak upward momentum in the BCI.

Overall, a similar number of BCI sub-indices were positive in December as in November 2016 with five sub-indices making positive month-on-month (m/m) contributions to the BCI in December 2016. Six sub-indices weighed negatively on the BCI in December 2016 m/m while two remained unchanged. Positive monthly contributions to the BCI mainly came from merchandise export and import volumes, the rand exchange rate and the real value of building plans passed. The US-dollar price of precious metals, credit to the private sector, real retail sales and share prices made negative m/m impacts on the BCI in December 2016.

The year-on-year (y/y) comparison in December 2016 reflects a more restrained business climate with three of the thirteen sub-indices improving on a year ago. One real activity sub-index was positive (y/y) and two of the six financial sub-indices made positive y/y impacts on the BCI in December 2016. The rand exchange rate had a notable positive year-on-year effect on the BCI.

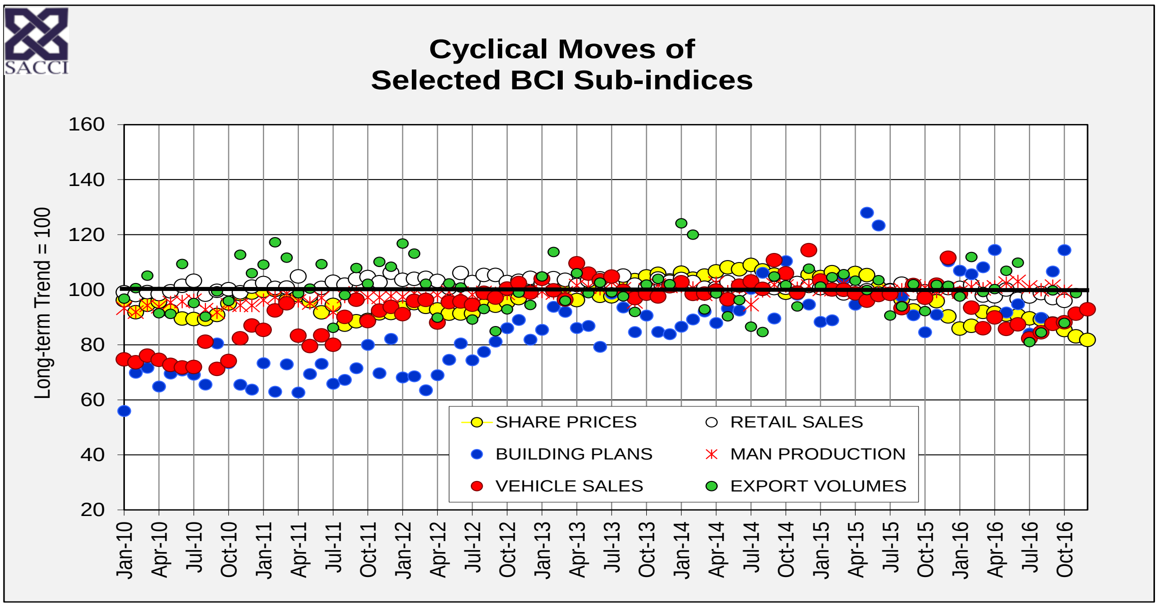
The largest negative real economic y/y contributors to the BCI in December 2016 were fewer new vehicle sales sold and lower merchandise export volumes. Financial conditions limited the business climate with notable negative y/y impacts on the business climate in December 2016 coming from lower share prices and higher real interest rates compared to December 2015.

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	-	+	-	o
Exports	+	-	-	-
Imports	+	o	-	-
Vehicle sales	+	+	-	-
Retail sales	-	-	-	-
Construction - buildings	+	+	+	+
Inflation[1]	o	-	-	-
Share prices	-	-	-	-
Real private sector borrowing	-	-	-	o
Real financing cost	o	+	-	-
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

Restoring Economic Performance

The major challenge for South Africa remains the about-turn of the economy to enhance economic growth and opportunities for investment and employment. The poor performance of the domestic economy in 2016 (GDP growth between 0% and 0.5%) has laid bare various fault lines in the economy that must be attended to.

The IMF, rating agencies, private sector entities and Treasury have identified areas in the economy that need adjustment. The leeway afforded South Africa in maintaining the investment status by the credible rating agencies in December 2016, provided an opportunity to address matters that seriously restrain the economy. Apart from not creating wealth and feeding unemployment, the consequences of these restraints for public sector and household debt, the erosion of savings, the degrading of capital stock and inappropriate investment levels will continue too seriously hamper future economic growth.

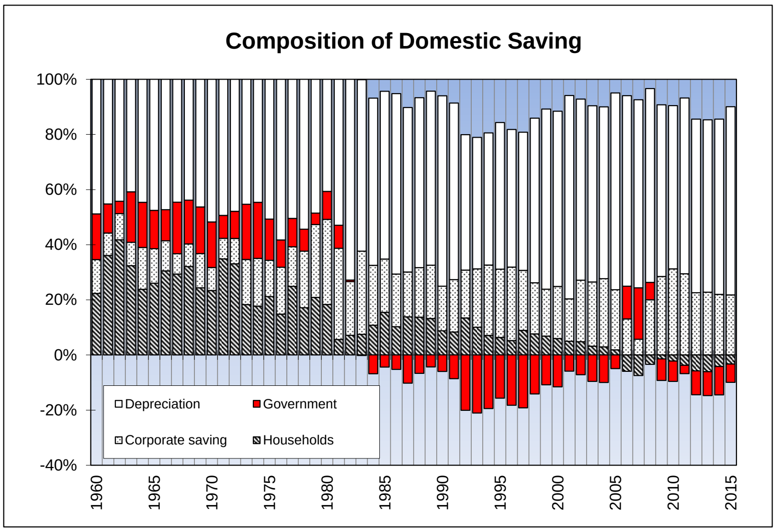
Reasons for Insufficient Domestic Savings

In the November 2016 BCI Review, the Economic Commentary emphasised the importance of investor confidence and the need for and sources of foreign investment in the South African economy. However, the inadequacy of domestic savings remains a serious restraint. Although the debate around capital sometimes tends to be tainted by ideological positions, capital and the need for it easily ignore the role of savings (locally or from abroad) and its mobilisation by proper functioning capital markets. It is imperative that Savings = Investment in an economy and in national accounts terms. It is in the savings context that South Africa is failing. The 3rd quarter 2016 savings to GDP ratio declined to 16.4% - down from a recent high of 18% in 2010. In the mid-80s the savings ratio stood at 26% of GDP.

Chart 1 clearly indicates that the general government and households are dis-saving. Government, since the sanctions period starting in 1984, borrowed from the capital markets to finance recurrent expenditure. It was only for a short period between 2006 and 2008 that government contributed to domestic savings. Households left it a little longer and started dis-saving in 2006. The result of dis-saving was that the cost of borrowing weighed on the return on capital and eventually economic growth.

Corporate saving and provision for depreciation are the largest and only sources of domestic saving at present. In 2015, savings by corporates and the provision for depreciation amounted to R739 billion while dis-saving by the general government (R54 billion) and households (R27 billion) totalled R81billion.

Chart 1

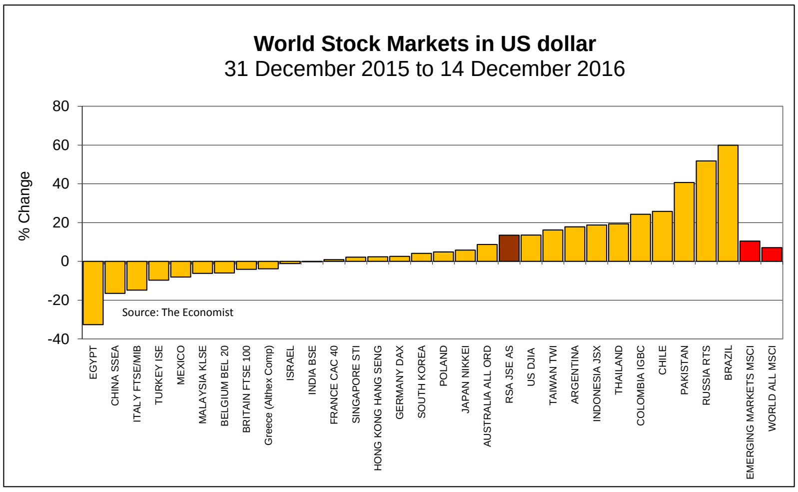


Source: SA Reserve Bank. Quarterly Bulletin, December 2016.

Reasonable Capital Market Performance

Despite South Africa's weak current economic performance, it appears that the formal capital market was performing relatively well in emerging market context in 2016. Being respected as efficient, the South African financial markets again proved to perform judicious - even for foreign investors. The US dollar value of the Johannesburg Securities Exchange (JSE) increased by 13.5% y/y in 2016 compared to Emerging Markets MSCI (Morgan Stanley Capital International) with an increase of 10.5%. See Chart 2.

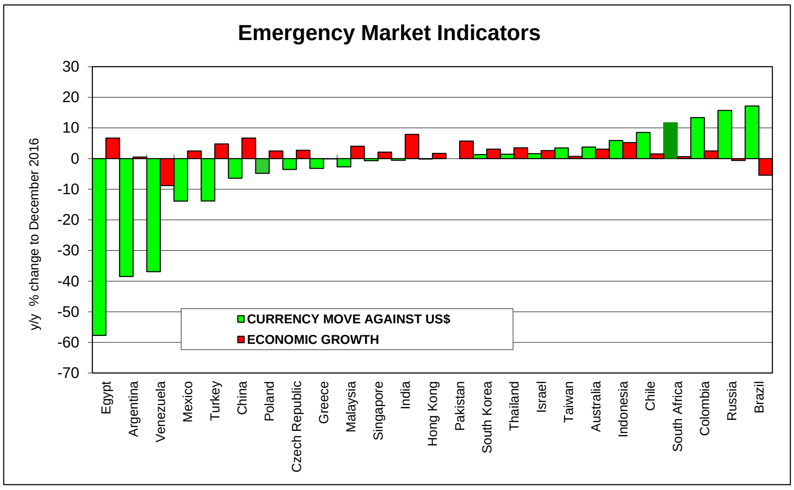
Chart 2



Source: SA Reserve Bank. Quarterly Bulletin, December 2016.

The JSE remained on the same level in rand terms in December 2016 as in December 2016, but it was the strengthening of the rand against the US dollar from a distorted base in December 2015, that caused the better US dollar performance of the JSE. The rand did relatively well against the US dollar if compared to other emerging market currencies. See Chart 3.

Chart 3



Source: The Economist. 17th December 2016.

Mixed Signals on the Business Climate

Mixed signals from the BCI sub-indices were prevalent during the course of 2016. The chart on page 4 of this Review indicates that the majority of the activity sub-indices performed below their medium to longer-term trend. Real value of building plans passed, merchandise export volumes and manufacturing output occasionally beat their trends during 2016. The financial sub-indices were more steady, but overall remained in negative territory. Commodity prices and the rand ended the year on a positive note.

Conclusion

Twenty sixteen was a difficult year and saw the SACCI BCI reached historic lows, but business confidence also showed some resilience despite adverse political and economic uncertainty. There are looming global and domestic uncertainties on political, economic and institutional arrangements. Challenges could provide new opportunities for economies and for countries. This could loosen up the momentum for improved business confidence.

General Economic Indicators

Indicator	Period	Direction	Latest	Previous	2015	2010
Consumer inflation headline urban (%)	Nov-16	▲	6.6	6.4	4.6	4.3
Consumer inflation urban - excl. food, bev. & fuel (%)	Nov-16	▷	5.8	5.8	5.7	4.6
Money supply M3 eop (% Δ Y-o-Y)	Nov-16	▽	4.8	6.6	10.5	6.9
Private sector credit eop (% Δ Y-o-Y)	Nov-16	▽	4.6	6.3	10.2	5.5
Real prime overdraft rate eop (%)*	Nov-16	▷	4.4	4.4	3.8	4.2
Prime overdraft rate eop (%)	Dec-16	▷	10.50	10.50	9.75	9.00
Liquidations number sa	Nov-16	▽	163	184	1962	3992
Bond yield 5-10y govt eop (%)	Dec-16	▽	8.65	8.71	8.82	7.41
R / US$ average	Dec-16	▽	13.82	13.94	13.02	7.32
R / Euro average	Dec-16	▽	14.59	15.03	14.14	9.71

Indicator	Date	Direction	Latest	Previous	2015	2010
Income & wealth tax / GDP (%) saar	q3-16	▽	14.2	16.7	15.1	14.2
Total tax / GDP (%) saar	q3-16	▽	27.1	29.7	28.1	25.4
Public sector borrowing requirement / GDP (%)	q3-16	▲	6.5	5.4	5.0	5.0
Public sector expenditure / GDP (%)	q3-16	▷	28.3	28.3	28.3	27.1
Budget Balance / GDP (%)	q3-16	▲	-8.7	-2.8	-4.5	-4.6
Imports / GDE (%)	q3-16	▽	30.0	31.4	31.4	27.7
Exports / GDP (%)	q3-16	▼	29.6	32.1	30.7	28.6
Net foreign investment flows / GDP (%)	q3-16	△	2.5	2.2	0.4	3.8
Current account balance / GDP (%)	q3-16	▲	-5.0	-1.8	-4.3	-1.5
Gross domestic saving / GDP (%) saar	q3-16	▼	16.4	16.7	16.4	18.0
Gross capital formation / GDP (%) saar	q3-16	△	20.5	19.6	20.7	19.5
Net fixed capital formation / GDP (%)	q3-16	△	-	-	6.6	6.1
GDP growth (% Δ Y-o-Y)	q3-16	▷	**0.7**	**0.7**	**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.