

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

Business Confidence Index

May 2017



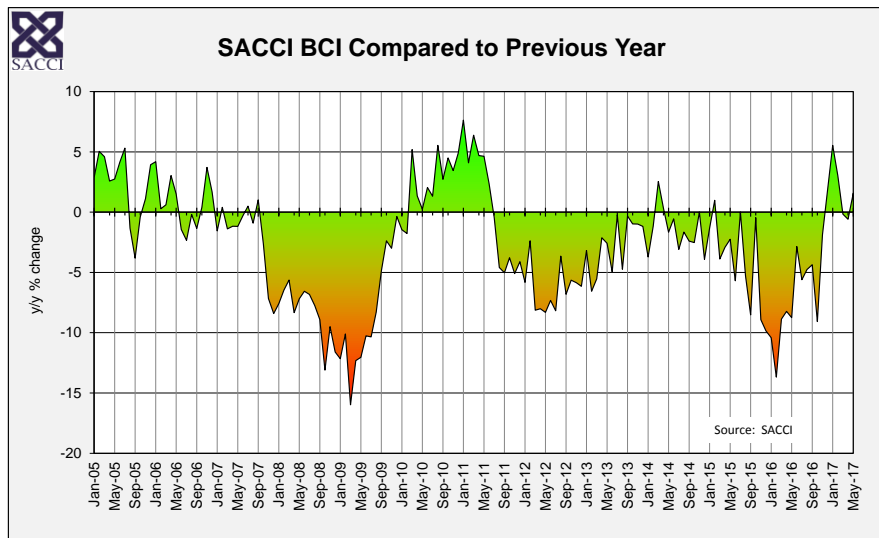
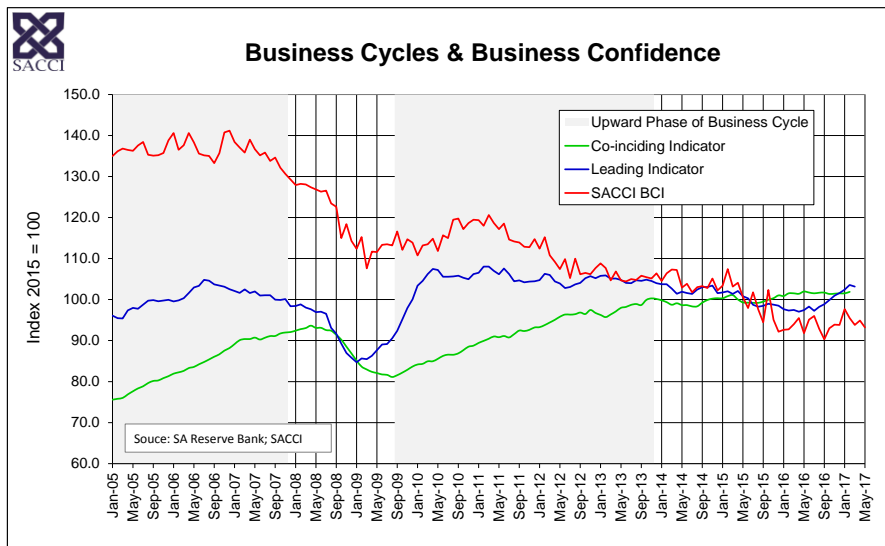
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*Because of information lags and changes in expectations, the dynamics of the business mood, at times, may be at variance with the economic environment. As a result, always read the BCI with other economic data and the accompanying economic commentary. 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	2010	2011	2012	2013	2014	2015	2016	2017
January	110.8	119.4	112.4	108.8	104.5	103.4	92.6	97.7
February	113.2	118.0	115.2	107.7	106.4	107.4	92.7	95.5
March	113.5	120.6	110.8	104.7	107.3	103.2	94.0	93.8
April	114.8	118.7	109.2	106.9	107.2	104.1	95.5	94.9
May	111.8	117.2	107.4	104.7	102.9	100.6	91.8	<b>93.2</b>
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	
<b>Average</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>	<b>93.5</b>	



## This Month's BCI Results

Heightened political tensions, additional economic policy uncertainty and lower credit ratings by rating agencies that converged towards the end of March 2017, continued to effect the business climate negatively in May 2017. The May 2017 **SACCI** Business Confidence Index (BCI) consequently declined to the lowest level of 93.2 so far in 2017. The BCI declined by 1.7 index point from 94.9 in April 2017. However, the May 2017 BCI is 1.4 index points higher than the exceptional low 91.8 of May 2016.

The **SACCI** Business Confidence Index (BCI) for May 2017 is reflecting further negative effects of the developments since the end of March 2017 as more sub-indices now capture the negative impacts. The economic setting prior to the end of March 2017 were still prevalent in real retail sales, the real value of building plans approved and manufacturing output.

Six sub-indices in May 2017 moved positive on April 2017 levels. However, the positive month-on-month (m/m) movements in the six sub-indices of the BCI were not enough to improve the overall business climate. One sub-index remained unchanged and six were negatively affecting the business climate. Three of the seven real activity sub-indices negatively affected business confidence and one remained unchanged m/m. Three of the six financial sub-indices improved on April 2017.

The main share of the small positive monthly contributions to the BCI in May 2017 came from lower than expected consumer inflation, new vehicle sales (was exceptionally low in April), improved merchandise export volumes and lower energy costs. The largest negative monthly effect on business confidence came from notably lower merchandise import volumes, lower real value of building plans passed and higher real financing costs.

The business climate deteriorated year-on-year (y/y) as eight of the thirteen sub-indices declined between May 2016 and May 2017. Five of the seven real activity sub-indices declined over this period while three of the six financial sub-indices also weakened.

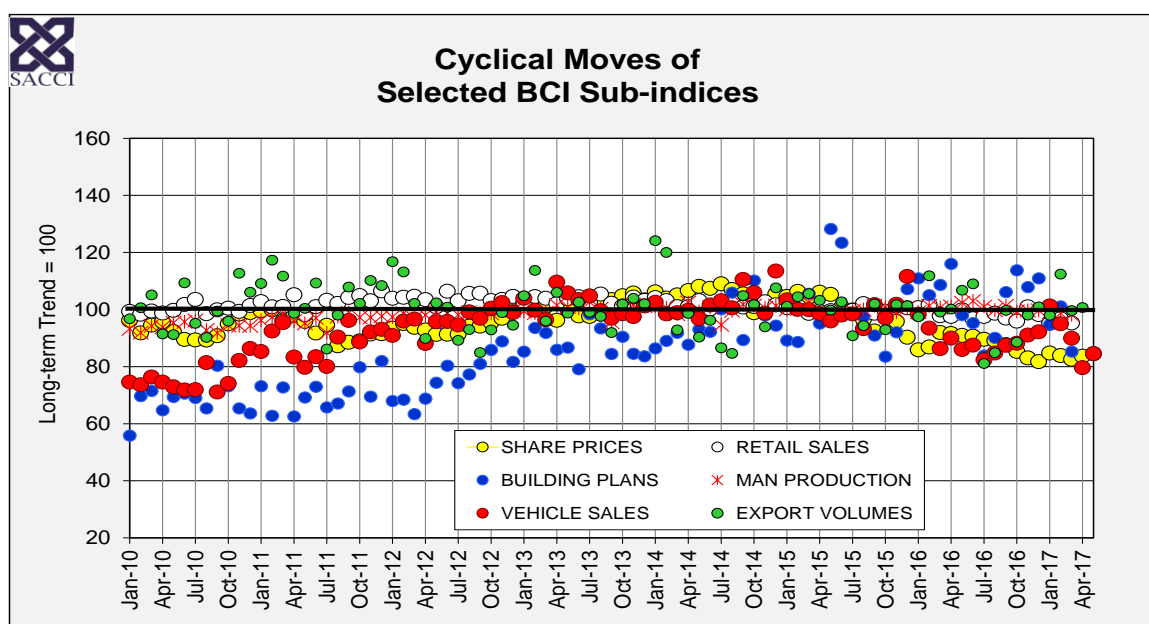
The stronger rand exchange rate and lower consumer inflation made the most notable positive y/y contributions to the BCI between May 2017 and May 2016. Less merchandise import volumes, higher real financing costs and lower real value of building plans passed made the biggest negative contributions to the business climate between May 2017 and May 2016.

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

### *Stable but Constrained Economy*

The South African economy was relatively stable during May 2017, but severe constraints on performance remain. Treasury, however, remains committed to fiscal consolidation and improving economic growth despite that Fitch ratings agency lately affirmed its sub-investment grade rating. The ratings agency kept South Africa's sub-investment grade with a stable outlook with a warning that weak economic growth remains a key risk. Fitch, however, expressed concern that South Africa's economic and political situation did not improve while there is a lack of state enterprise reform.

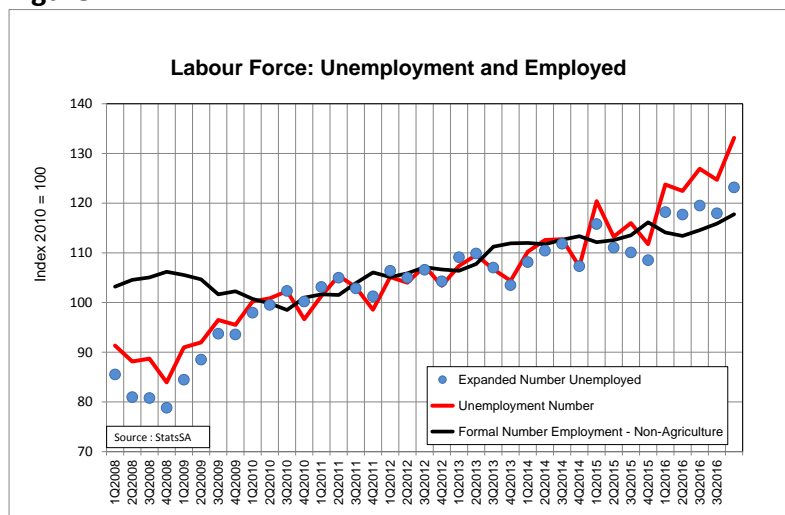
Accordingly, a number of important matters in the economy require urgent attention and include:

- Fiscal restructuring to ensure public sector debt is lowered to below 40% of GDP over the next five to ten years.
- Flexibility in the labour market.
- The business climate must improve while reducing the regulatory burden and promote foreign direct fixed investment.
- Utilize improved education as pivotal to reduce inequality, and
- Ensure an economic viable approach regarding wealth redistribution. The current envisaged radical approach will undermine South Africa's ability to attract foreign fixed investment.

### *High Unemployment*

The increase in the expanded number of unemployment to 9.29 million people in the 1<sup>st</sup> quarter of 2017 confirms the present constrained economic performance. The expanded unemployment rate of 36.4 in the 1<sup>st</sup> quarter of 2017 is an indication of the significance of the subdued economic performance and inappropriate skill levels. Technological advancement and greater capital-intensive production processes are additional complications.

Figure 1



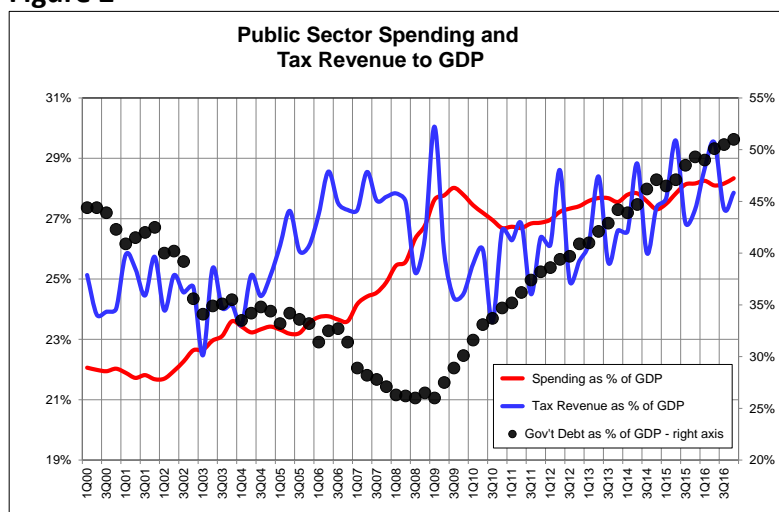
Source: StatsSA

Notwithstanding the excessive unemployment rate of 27.7% of the labour force – a fourteen-year high - South Africa concurrently experiences a skills shortage in advanced skilled jobs. Therefor the employment absorption rate in the economy is only 43.7% (employed as percentage of population). The number of long-term (1 year and more) unemployed people stands at 4.09 million. Economic growth and skills enhancement therefore have become imperative in addressing employment expectations.

### Increasing Public Sector Economic Involvement

Figure 2 shows how the public sector (institutions that the state controls) has increased its share of the economy. It is clear that the present economic performance cannot meet all the short-term undertakings and expectations – a gap the public sector is trying to fill. Public debt levels have been identified as one of the major impediments to fiscal prudence and suppleness. Prosperity and longer-term expectations can only be met by sustainable higher economic growth and broad participation in the creation and expanding of wealth (inclusive growth). It has become important to assess a normative approach to economic goals to address socio-economic challenges.

Figure 2



Source: SA Reserve Bank

The role of the public sector should be within the limits of economic performance to define rational goals and expectations. Such an approach to public finance could enhance fixed investment, higher economic growth, create jobs, narrow the income gap and provide some longer-term remedy to public finances. Developmental needs should be identified within a longer-term timeframe.

### *Conclusion*

The difficult circumstances in which business have to operate at present is not only evident in unemployment, low fixed investment and uncertainty, but also effects future prospects for the South African economy. It has become essential that a viable economic platform be found that serves the South African population in the medium to longer-term. The challenges are known, but rational sustainable economic remedies should be sought. Business and investor confidence have become critical to prevent permanent damage to the economy.

## General Economic Indicators

Indicator	Period	Direction	Latest	Previous	2016	2011
Consumer inflation headline urban (%)	Apr-17	▼	5.3	6.1	6.3	5.0
Consumer inflation urban - excl. food, bev. & fuel (%)	Apr-17	▼	4.9	5.2	5.8	4.0
Money supply M3 eop (% Δ Y-o-Y)	Apr-17	▼	5.3	5.6	6.1	8.3
Private sector credit eop (% Δ Y-o-Y)	Apr-17	▲	5.9	5.0	5.1	6.2
Real prime overdraft rate eop (%)*	Apr-17	▲	5.3	5.0	4.4	4.8
Prime overdraft rate eop (%)	May-17	▶	10.50	10.50	10.50	9.00
Liquidations number sa	Apr-17	▼	152	174	161	297
Bond yield 5-10y govt eop (%)	May-17	▼	8.01	8.13	8.65	8.01
R / US\$ average	May-17	▼	13.25	13.48	14.70	7.25
R / Euro average	May-17	▲	14.65	14.44	16.28	10.08

Indicator	Date	Direction	Latest	Previous	2016	2011
Income & wealth tax / GDP (%) saar	q4-16	▲	14.6	14.1	15.2	14.1
Total tax / GDP (%) saar	q4-16	▲	27.9	27.3	28.3	26.0
Public sector borrowing requirement / GDP (%)	q4-16	▼	2.1	5.2	4.0	4.2
Public sector expenditure / GDP (%)	q4-16	▲	28.3	28.2	28.2	27.1
Budget Balance / GDP (%)	q4-16	▼	-2.2	-8.7	-4.2	-4.0
Imports / GDE (%)	q4-16	▼	29.4	29.8	30.2	29.9
Exports / GDP (%)	q4-16	▲	30.0	29.4	30.3	30.4
Net foreign investment flows / GDP (%)	q4-16	▲	7.3	3.7	5.2	3.4
Current account balance / GDP (%)	q4-16	▼	-0.4	-4.9	-3.3	-2.2
Gross domestic saving / GDP (%) saar	q4-16	▲	17.0	16.2	16.1	17.5
Gross capital formation / GDP (%) saar	q4-16	▼	18.7	20.0	19.4	19.7
Net fixed capital formation / GDP (%)	q4-16	▼	-	-	5.4	6.2
GDP growth (% Δ Y-o-Y)	q4-16	▶	<b>0.7</b>	<b>0.7</b>	<b>0.3</b>	<b>3.3</b>

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