SOUTH AFRICAN CHAMBER OF COMMERCE AND INDUSTRY

Business Confidence Index

November 2017

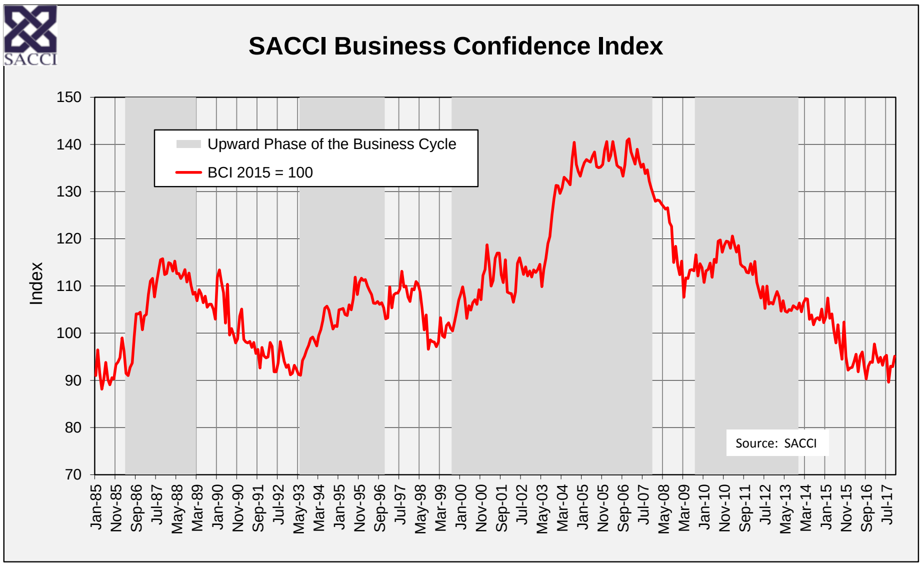
SACCI

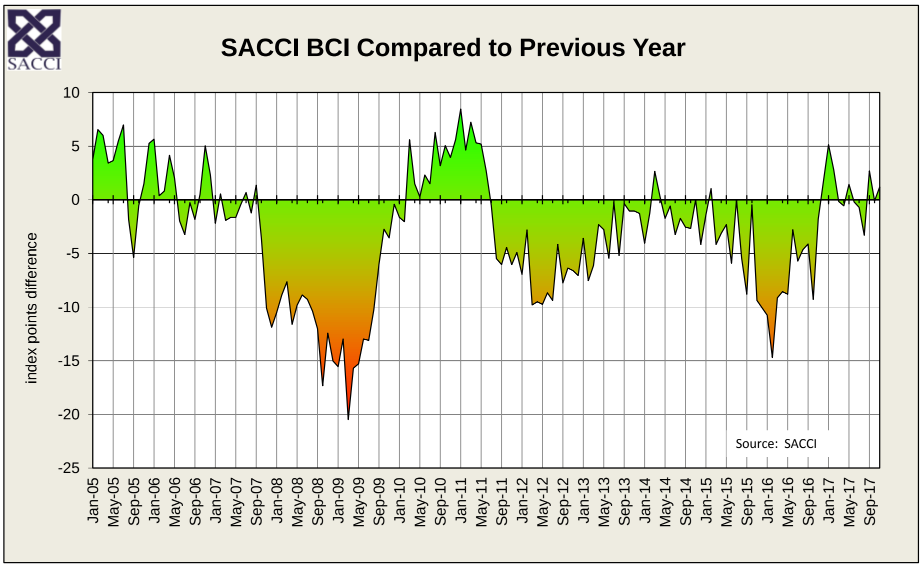
Content:

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	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	93.2
June	115.7	118.5	109.9	104.4	103.8	97.9	95.1	94.9
July	115.0	114.6	105.2	105.0	101.8	101.8	96.0	95.3
August	119.5	114.2	110.0	104.8	103.0	97.6	92.9	89.6
September	119.8	113.9	106.2	105.8	103.3	94.5	90.3	93.0
October	117.2	112.9	106.5	105.5	102.8	102.3	93.0	92.9
November	118.7	112.8	106.2	105.1	105.1	95.1	93.9	**95.1**
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) supplement the more positive business mood in November 2017 after increasing from 92.9 in October 2017 to 95.1 in November 2017 – an increase of 2.2 index points. Although the BCI also is 1.2 index points higher than the 93.9 of November 2016, the business mood improved in anticipation of more conducive business and economic circumstances. The **SACCI** BCI recovered by 5.5 index points from the low reading of 89.6 in August 2017. Starting at 97.7 in January 2017, the BCI took a dip towards 90 the middle of 2017, but since improved to the level of about 95.

The current improvement in the Business Confidence Index is explained by the extent of the positive changes in some sub-indices that make up the composite **SACCI** BCI. However, the anticipation of changes in domestic economic policy, the performance of the global economy and a probable fresh approach towards business and investor expectations in Southern Africa further enhance the business mood. However, public finance matters and economic growth prospects are important phenomena that have to be attended to urgently.

Four of the thirteen sub-indices had a positive month-on-month (m/m) impact on the BCI in November 2017; seven sub-indices were negative and two was unchanged. The positive moves, however, exceeded the negative impacts and caused the BCI to improve on the October 2017 level. Two positive sub-indices from the financial group of sub-indices and two from the seven real economic sub-indices had positive m/m impacts on the business confidence index in November 2017.

Higher merchandise export volumes, followed by lower consumer inflation and improved new vehicle sales had the largest positive influence on the BCI. The lower real value of building plans passed, the weaker weighted rand exchange rate and less merchandise import volumes were the sub-indices that made the biggest negative monthly impacts on the BCI in November 2017.

The improved year-on-year (y/y) BCI in November 2017 was brought about by six sub-indices that improved on a year ago, four sub-indices that declined, and three that was unchanged. Higher merchandise export volumes, lower consumer inflation and more new vehicle sold had the largest positive y/y impact on the BCI in November 2017.

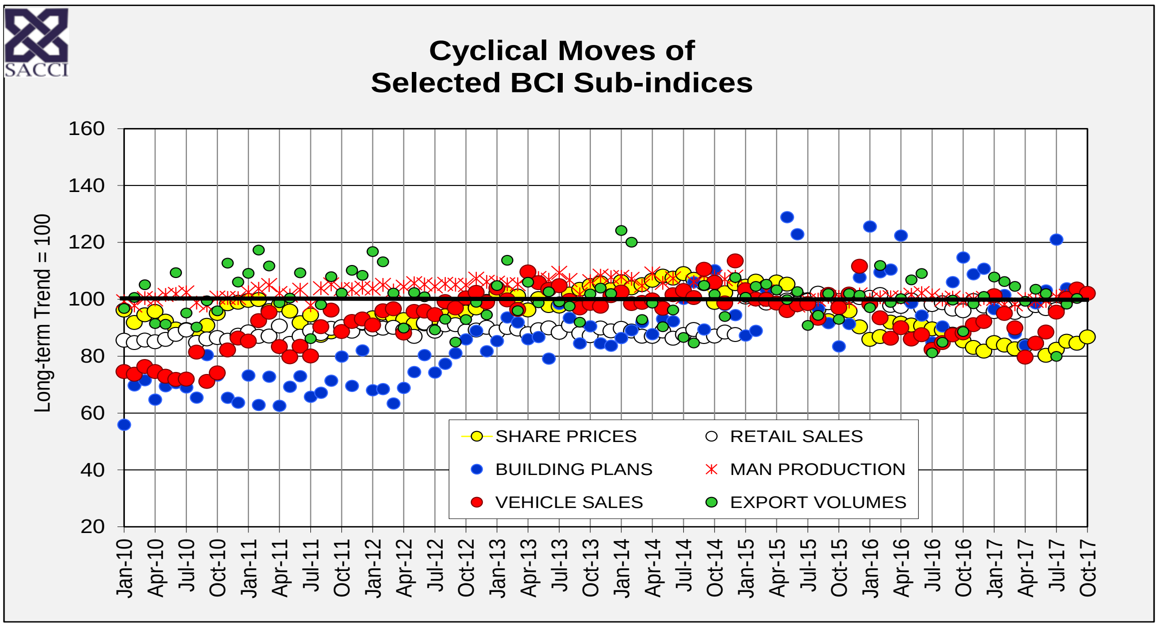
Real economic activity sub-indices on balance improved on November 2016 (five of the seven sub-indices were either positive or unchanged) while financial conditions was easier than a year ago with four of the six sub-indices either positive or unchanged.

Impact of 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	-	o	o	+
Manufacturing	-	o	o	+
Exports	+	+	+	+
Imports	-	+	-	-
Vehicle sales	+	-	+	+
Retail sales	-	+	+	+
Construction - buildings	-	-	-	+
Inflation¹	+	-	+	+
Share prices	+	+	+	-
Real private sector borrowing	o	o	+	o
Real financing cost	-	+	-	-
Precious metal prices	o	-	o	o
Rand exchange rate	-	-	-	-

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

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



Economic Commentary

Wavering Economic Prospects

There is an unescapable need from business for altered attitudes that would appreciate and encourage larger private sector participation in the economy in order to address the dire need for economic growth (wealth and income generation) that would promote an environment for employment, entrepreneurship and create resources to address social needs.

This prerequisite is not only evident from the business and investor community, but recent developments in Southern Africa suggest that the broader population is also eager to experience change that would part ways with economic approaches that did not deliver on expectations and opportunities. Positive developments and prospects for the world economy, recent specific geo-political developments in Southern Africa and promising changes to the economic approach that stalled the South African economy, are all experienced as positive and could unlock the economic potential of Southern Africa that has been wavering due to uncertainty and outdated economic directions.

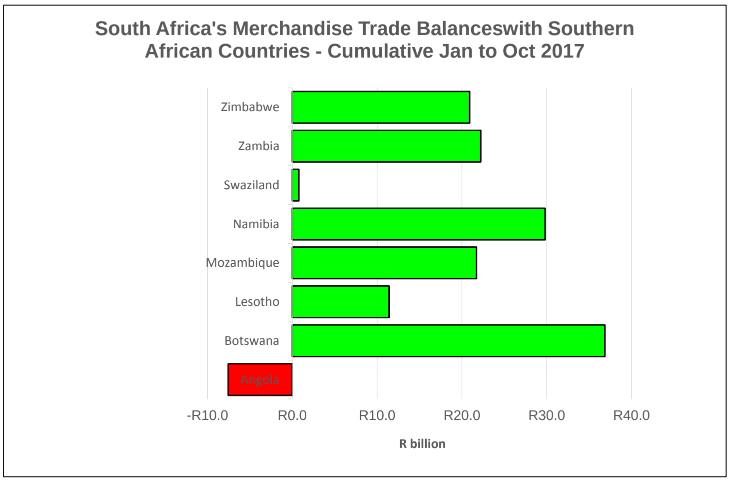
The breather afforded South Africa by the Moody's credit rating agency by leaving the rating for both government debt issued in rand and foreign currencies in investment grade though at the lowest level, leave time for implementing measures (political and policy wise) that would alleviate fiscal pressures and enhance economic performance. The Budget of 2018/19 in February 2018 will have to bear this out.

Economic Dynamics in Southern Africa

Geo-political developments in Southern Africa in November 2017 have untied the predicament some economies in Southern Africa find themselves. Marked by fiscal cul-de-sac's, inadequate fixed investment, low domestic saving accompanied by a shrinking economy with low growth prospects and abject poverty, the recent awareness and need for change have again brought hope for renewed vitality.

Merchandise exports from South Africa to the Southern African states of Angola, Botswana, Lesotho, Mozambique, Namibia, Swaziland, Zambia and Zimbabwe amounted to R195 billion or about 20% of total exports for the period January 2017 to October 2017. Merchandise imports to South Africa from these Southern African states amounted to R59 billion or 6.5% of total imports. The chart below indicates the trade balances for the period in favour of South Africa except for Angola where South Africa has a trade deficit mainly due to substantial mineral product imports.

Improved economic performance and extending the economic output base of countries in Southern Africa to the secondary and tertiary sectors could be to the mutual benefit of all the countries if a more amiable private sector driven economy could be enhanced. It appears that the populations of the Southern African states have come to embrace a new approach.



The following matters remain relevant for enhancing the economic prospects for the Southern African region:

- Governance restructuring – a need for prudent accountable governance provides the imperative base from where recovery can start.
- An integrated broad economic policy framework to include agriculture, industries, manufacturing, and services.
- Assistance to the agricultural sector and reconstruction of the rural areas. The agricultural sector to aim at proactive production and supply market needs beyond the domestic market.
- The establishment of a private sector enhancing economic atmosphere:
- Promote foreign investment by a stimulating environment.

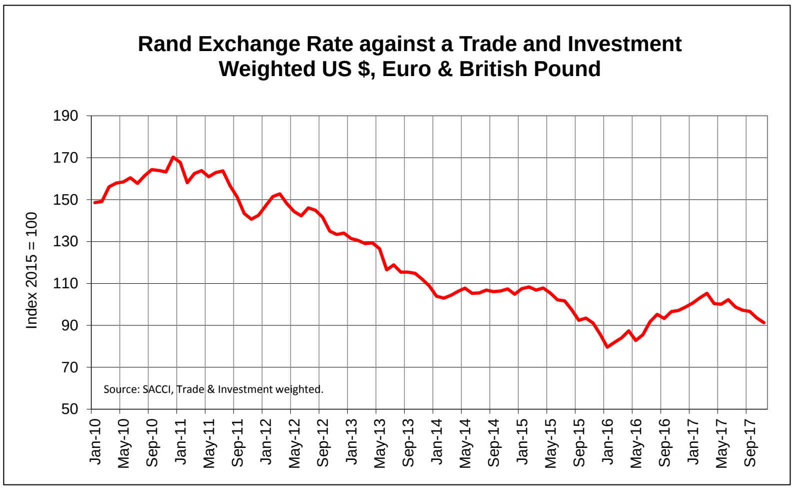
Credit Ratings on the Edge

The latest credit ratings by the three most reputable agencies stopped short where South Africa's government debt was degraded to below investment grade by all three agencies. Moody's kept South Africa's local and foreign currency debt at Baa3 in both cases – the lowest but still investment grade. Fitch Ratings left the rating of local and foreign currency debt unchanged at the first notch (BB+) below investment grade. Standard & Poor's however, downgraded foreign currency debt to the second notch (BB) below investment grade, and local currency debt (BB+) to the first notch below investment grade.

The respite by notably Moody's, kept government debt from being regarded as junk with investment managers still allowed to keep South African government debt instruments. This development was regarded by the markets as a window of opportunity for South Africa to rectify the situation over the next few months up to the February 2018 Budget. The present view by the markets was positive to the extent that the weighted rand against the three major currencies improved during the last two weeks of November 2017 by about 4%. The chart below nevertheless shows that the weighted exchange rate of the rand on average has depreciated by about 13% since March 2017.

A further positive factor is the positive trade balance in support of the rand. The cumulative trade deficit (excluding the BLNS countries) declined from some R99 billion in the first ten months of 2016 to about R26 billion for the corresponding period in 2017. If the BLNS countries are included as trading partners of South Africa, the cumulative deficit of R10 billion of South Africa in the first ten months of 2016 switched to a surplus of about R51.5

billion in 2017 for the first ten months. Merchandise export volumes as sub-index also contributed positively to **SACCI's** BCI more recently.



Conclusion

There appears to be optimism beyond the improvement in **SACCI's** Business Confidence Index. Economic dynamics in Southern Africa have set in motion the realisation that economic circumstances could improve to serve the broader population. This opportunity should be grasped to augment Southern Africa as a solid investment destination fuelling business and investor confidence.

General Economic Indicators

Indicator	Period	Direction	Latest	Previous	2016	2011
Consumer inflation headline urban (%)	Oct-17		4.8	5.1	6.3	5.0
Consumer inflation urban - excl. food, bev. & fuel (%)	Oct-17		4.3	4.5	5.8	4.0
Money supply M3 eop (% Δ Y-o-Y)	Oct-17		5.0	7.1	6.1	8.3
Private sector credit eop (% Δ Y-o-Y)	Oct-17		5.4	5.5	5.1	6.2
Real prime overdraft rate eop (%)*	Oct-17		5.7	5.5	4.4	4.8
Prime overdraft rate eop (%)	Nov-17		10.25	10.25	10.50	9.00
Liquidations number sa	Oct-17		194.0	149.0	161	297
Bond yield 5-10y govt eop (%)	Nov-17		8.6	8.39	8.65	8.01
R / US$ average	Nov-17		14.05	13.71	14.70	7.25
R / Euro average	Nov-17		16.50	16.11	16.28	10.08

Indicator	Date	Direction	Latest	Previous	2016	2011
Income & wealth tax / GDP (%) saar	q2-17		16.4	16.2	15.1	14.1
Total tax / GDP (%) saar	q2-17		29.1	28.6	28.2	26.0
Public sector borrowing requirement / GDP (%)	q2-17		6.3	0.7	3.7	4.2
Public sector expenditure / GDP (%)	q2-17		28.4	28.5	28.4	27.1
Budget Balance / GDP (%)	q2-17		-3.2	-2.0	-4.2	-4.0
Imports / GDE (%)	q2-17		29.2	28.9	30.2	29.9
Exports / GDP (%)	q2-17		30.1	29.7	30.3	30.4
Net foreign investment flows / GDP (%)	q2-17		3.3	0.6	4.8	3.4
Current account balance / GDP (%)	q2-17		-1.6	-2.8	-3.3	-2.2
Gross domestic saving / GDP (%) saar	q2-17		16.3	17.2	16.1	17.5
Gross capital formation / GDP (%) saar	q2-17		18.7	19.3	19.4	19.7
Net fixed capital formation / GDP (%)	q2-17		-	-	5.4	6.2
GDP growth (% Δ Y-o-Y)	q2-17		1.1	1.0	0.3	3.3

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.