SOUTH AFRICAN CHAMBER OF COMMERCE AND INDUSTRY

Business Confidence Index
January 2014

South African Chamber of Commerce and Industry

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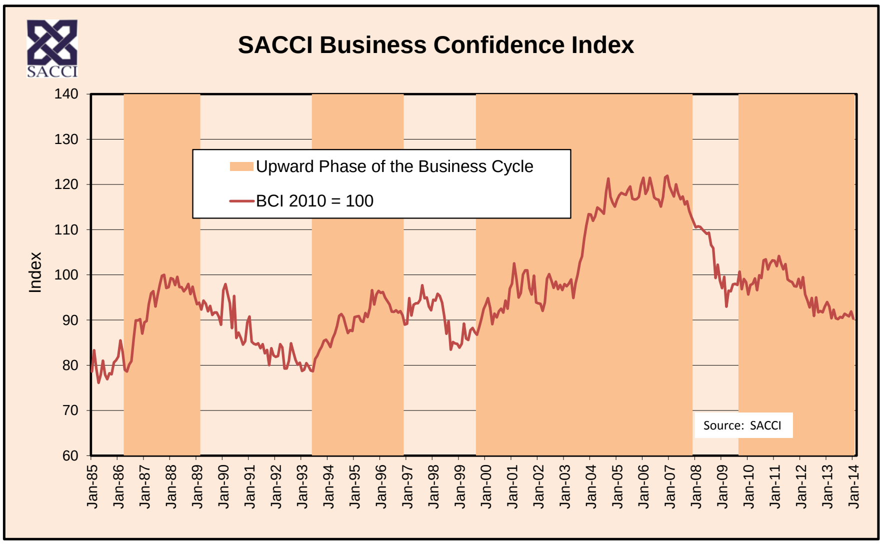
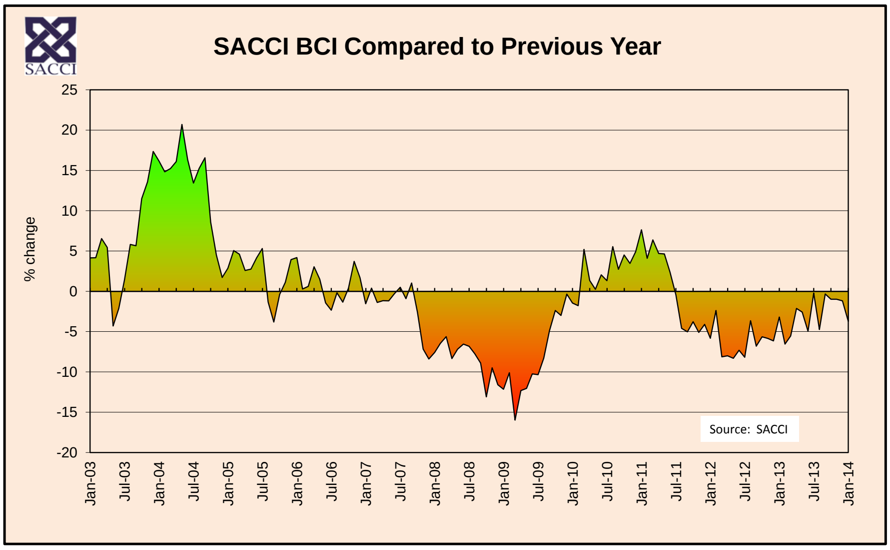
Because of information lags and changes in expectations, the dynamics of the business mood, at times, may be at variance with the economic environment. As a result, always read the BCI with other economic data and the accompanying economic commentary. For notes on the BCI, see the SACCI website at www.sacci.org.za.

The SACCI Business Confidence Index
2010=100

Month	2007	2008	2009	2010	2011	2012	2013	2014
January	119.7	110.7	97.2	95.8	103.1	97.1	94.0	90.5
February	118.6	110.9	99.7	97.9	101.9	99.5	93.0	
March	117.4	110.8	93.1	97.9	104.2	95.7	90.4	
April	120.2	110.2	96.6	97.9	102.5	94.3	92.3	
May	118.2	109.7	96.5	96.7	101.2	92.8	90.4	
June	116.9	109.2	98.0	100.0	102.4	94.9	90.2	
July	117.5	109.5	98.1	99.4	99.0	90.9	90.7	
August	115.7	106.8	97.9	103.3	98.6	95.0	90.5	
September	116.4	106.1	100.9	103.6	98.4	91.7	91.4	
October	114.3	99.3	97.0	101.3	97.5	92.0	91.1	
November	113.0	102.3	99.2	102.6	97.4	91.7	90.8	
December	111.8	98.9	98.5	103.3	99.1	93.0	91.9	
Average	**116.7**	**107.0**	**97.7**	**100.0**	**100.4**	**94.1**	**91.4**	





This Month's BCI Results

The **SACCI** Business Confidence Index (BCI) receded to 90.5 in January 2014 from 91.9 in December 2013. Between December 2013 and January 2014, five sub-indices turned positive, three remained roughly unchanged, and five were negative. However, the BCI was negatively biased given the extent of adverse performance in some of the indices. This is the lowest reading for the BCI since August 2013 and compares poorly to the level of 100 for the 2010 base year and the 100.7 for the BCI at the trough of the current business cycle in September 2009.

The BCI was 3.5 index points below the January 2013 level. If the BCI could build on the level of 91.9 in December 2013, it would have been a positive start to business confidence in 2014. January saw a conversion of economic ills in some important sub-indices reflecting the business climate. It is therefore important to try to remedy issues that are disturbing the business mood.

The weak domestic economic situation that holds risks for South Africa's credit and sovereign ratings in connection with developments in the global financial markets, created an environment of uncertainty for business. The reaction of the SA Reserve Bank at its latest MPC meeting stands as a cautionary note in the wake of these developments.

Although five sub-indices pushed up the BCI in January 2014 and three sub-indices of the BCI did not change meaningfully between December 2013 and January 2014, the extent of the negative impact of five sub-indices caused the BCI to decline in January 2014. Three of the seven sub-indices on real activity were positive on a month-on-month (m/m) basis and two of the six financial sub-indices were positive and one neutral.

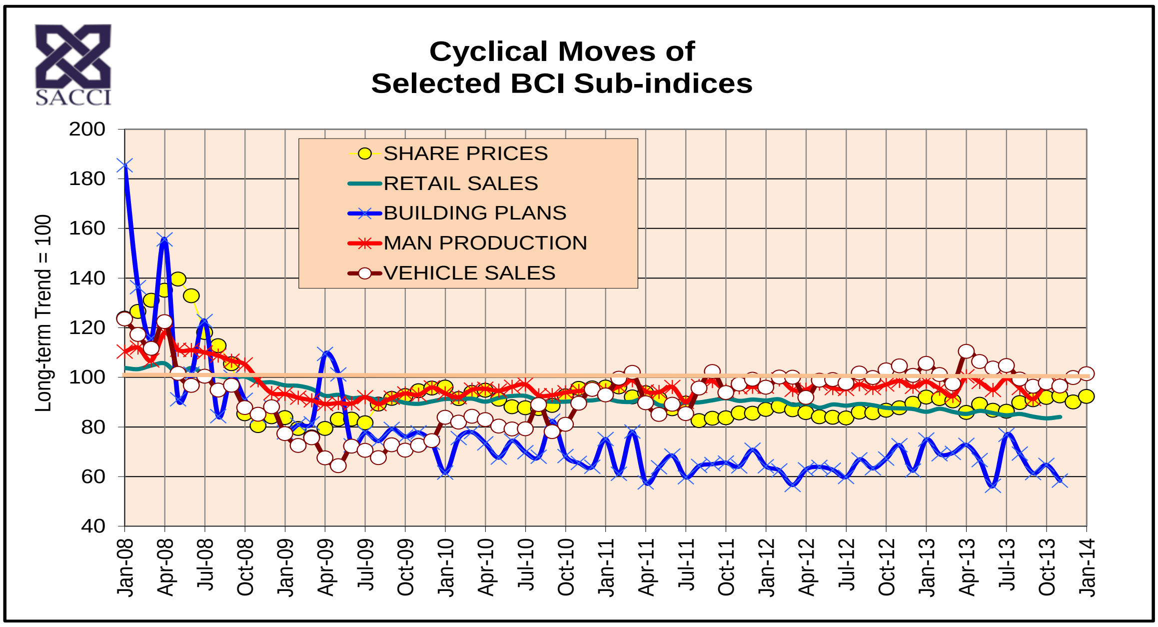
It is concerning that on a year-on-year (y/y) basis, only two sub-indices made positive contributions to the BCI, ten had a negative impact and one was neutral. A major activity like exports continued to improve on a y/y basis, while municipal services made a minor contribution to the January 2014 BCI.

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

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

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



Economic Commentary

January 2014 was characterized by important developments in the global and domestic financial sphere. The worst selloff in emerging-market currencies in five years is beginning to reveal the extent of the fallout from the Federal Reserve's tapering of monetary stimulus, compounded by political and financial instability.

The tapering off the monetary stimulus in the USA has notably sent ripples through the global financial markets and the international flow of funds. This had a serious effect on the exchange rate of particularly emerging markets. Policy makers need to prepare on how to respond to a significant tightening of global financing conditions.

Commodity prices could remain restrained or decline during 2014 according to futures markets with the exception of some food products. Oil prices are also expected to decline due to possible increased supplies. To some extent, the weaker rand will ensure higher rand prices for commodities in South Africa. Slowing growth in developing Asia is the main cause of declining commodity prices. Sub-Saharan Africa is largely indifferent to rising global interest rates but very exposed to commodity price declines and domestic risks related to the weather, food prices and political strife.

The World Economic Forum (WEF), based in Davos, Switzerland, recently issued its "Global Risks 2014" Report. According to the Forum, the five most harmful risks are fiscal crises, followed by climate change, water crises, unemployment and under-employment, and critical information infrastructure breakdown. The 2014 report also highlights the critical issue of global interdependency and suggests that "the numerous and complex interconnections (risks) can create consequences that are disproportionate and difficult to predict."

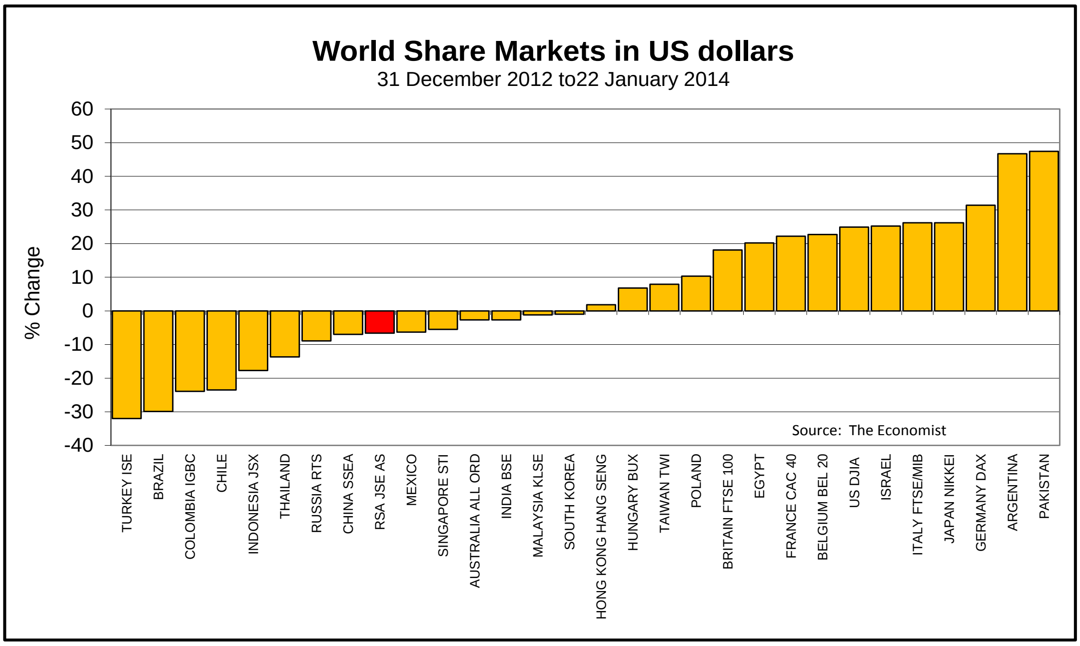
Reaction of Emerging Markets

The disproportionate impact of global developments on emerging markets is dependent on the size of the emerging market economy as well as its sophistication/development stage. It also depends on how well an economy is managed to weather economic and financial storms.

South Africa's main immediate vulnerabilities lay with its balance of payments situation, namely, the deficit on the current account and the quality of capital inflows (mostly portfolio) that could leave the rand under severe pressure once global developments creates reasons for action. The size of budget deficits in the public sector and the likelihood of growing deficits caused by continuous social demands or necessities/needs, are further risk elements. Increasing inflationary expectations and its effect on the cost of financing is an additional aspect that enters the risk assessment. Although other structural issues may be critically important to remedy, it only holds longer-term risks. South Africa's peer position amongst other emerging markets on various counts is not favourable as indicated below.

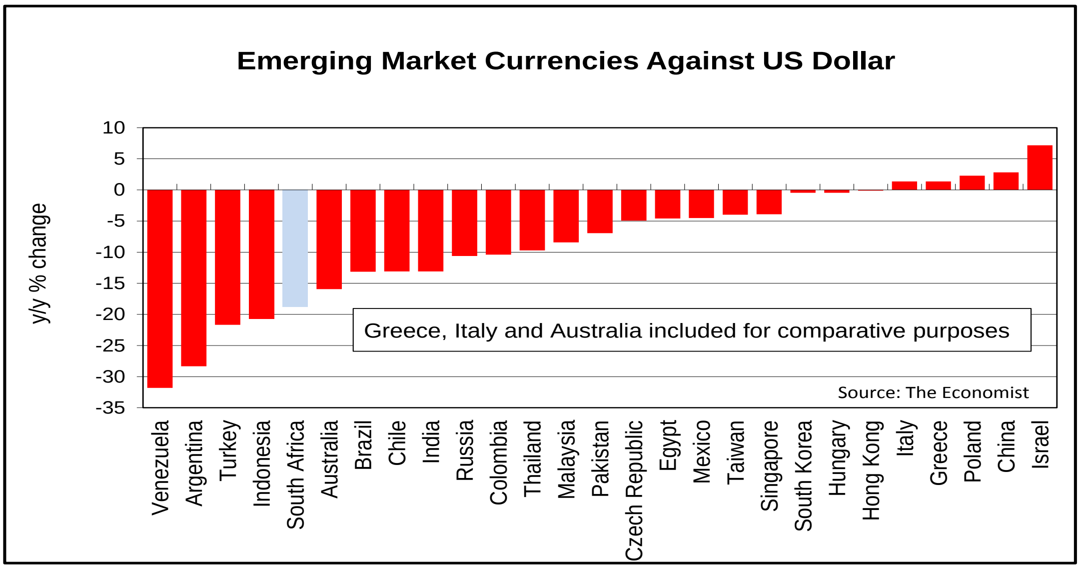
- *Share Markets*

South Africa's position is relatively weak given the composition of its capital inflows. The flow of capital to advanced economies as a result of tapering of the US monetary stimulus had different effects on emerging economies capital markets. The chart below also indicates the change of flows on for instance the JSE all-share index and the effect of the depreciation of the currency against the US dollar.



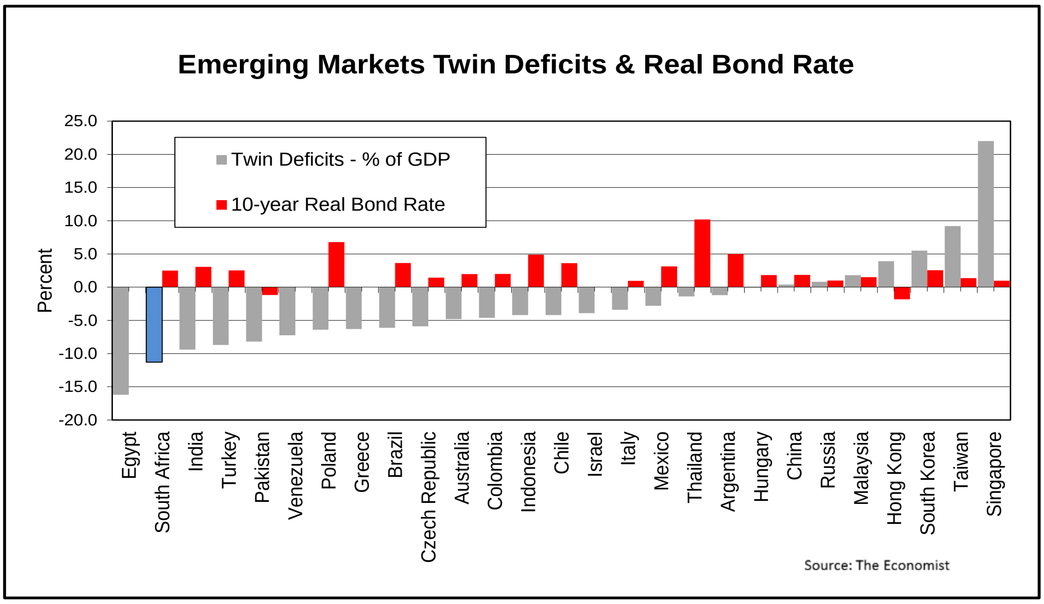
- *Depreciation of Currencies*

A country's economic vulnerability eventually determines a currency's weakness or strength and it reacts accordingly. It is clear that South Africa's rand is regarded as quite vulnerable amongst other emerging market currencies and ranks at the lower end of its peer group.



- *Twin Deficits*

South Africa's budget and current account deficits (twin deficit) as percentage of GDP are the second highest - 11.3% compared to the high of 16.2% of Egypt. As a result of South Africa's risk profile, it has a real 10 year government bond rate of 2.5% and a market rate of 8.15%. The SA Reserve Bank raised interest rates in January 2014, keeping in step with attempts by Turkey and other emerging market economies to shore up their currencies and counter inflationary expectations. .



Conclusion

Volatility and developments in global financial markets had marked effects on the financial position of emerging markets. South Africa did not escape these developments and was particularly hard hit on the basis of its relative economic risk profile. Despite weak economic performance, the SA Reserve Bank increased the repo rate. Business confidence may suffer over the short-term, but disciplined policy responses could bear positive results over the medium to long-term.

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General Economic Indicators

Indicator	Period	Direction	Latest	Previous	2013	2008
Consumer inflation headline urban (%)	Dec-13	▲	5.4	5.3	5.8	11.5
Consumer inflation urban - excl. food, bev. & fuel (%)	Dec-13	►	5.4	5.4	5.4	11.5
Money supply M3 (% Δ Y-o-Y)	Dec-13	▼	6.2	6.3	6.2	14.8
Private sector credit (% Δ Y-o-Y)	Dec-13	▼	6.1	7.0	6.1	14.7
Real prime overdraft rate eop (%)	Dec-13	▲	3.4	2.9	3.3	8.3
Liquidations number sa	Dec-13	▲	159	128	2374	3300
Bond yield 5-10y govt eop (%)	Jan-14	▲	8.50	7.64	8.50	7.81
R / US$ average	Jan-14	▲	10.89	10.38	9.65	8.25
R / Euro average	Jan-14	▲	14.82	14.23	12.82	12.05
Prime overdraft rate eop (%)	Jan-14	▲	9.0	8.5	8.5	15.0

Indicator	Date	Direction	Latest	Previous	2012	2007
Income & wealth tax / GDP (%) saar	q3-13	▼	14.2	17.3	14.8	15.0
Total tax / GDP (%) saar	q3-13	▼	27.2	29.6	27.2	28.2
Public sector borrowing requirement / GDP (%)	q3-13	▲	7.7	5.0	5.9	0.7
Public sector expenditure / GDP (%)	q3-13	▲	28.6	28.5	28.9	24.8
Budget Balance / GDP (%)	q3-13	▲	-8.0	-4.3	-5.2	0.7
Imports / GDE (%)	q3-13	▲	34.4	32.9	30.4	33.3
Exports / GDP (%)	q3-13	▲	31.9	30.9	28.3	31.5
Net foreign financial flows / GDP (%)	q3-13	▲	9.5	4.7	6.4	9.3
Current account balance / GDP (%)	q3-13	▲	-7.3	-6.5	-6.1	-6.9
Gross domestic saving / GDP (%) saar	q3-13	▼	12.7	13.6	13.2	14.3
Gross capital formation / GDP (%) saar	q3-13	►	19.5	19.5	19.4	21.2
Net fixed capital formation / GDP (%)	q3-13	▼	-	-	6.3	7.6
GDP growth (% Δ Y-o-Y)	q3-13	▼	1.8	2.3	2.5	5.6

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.