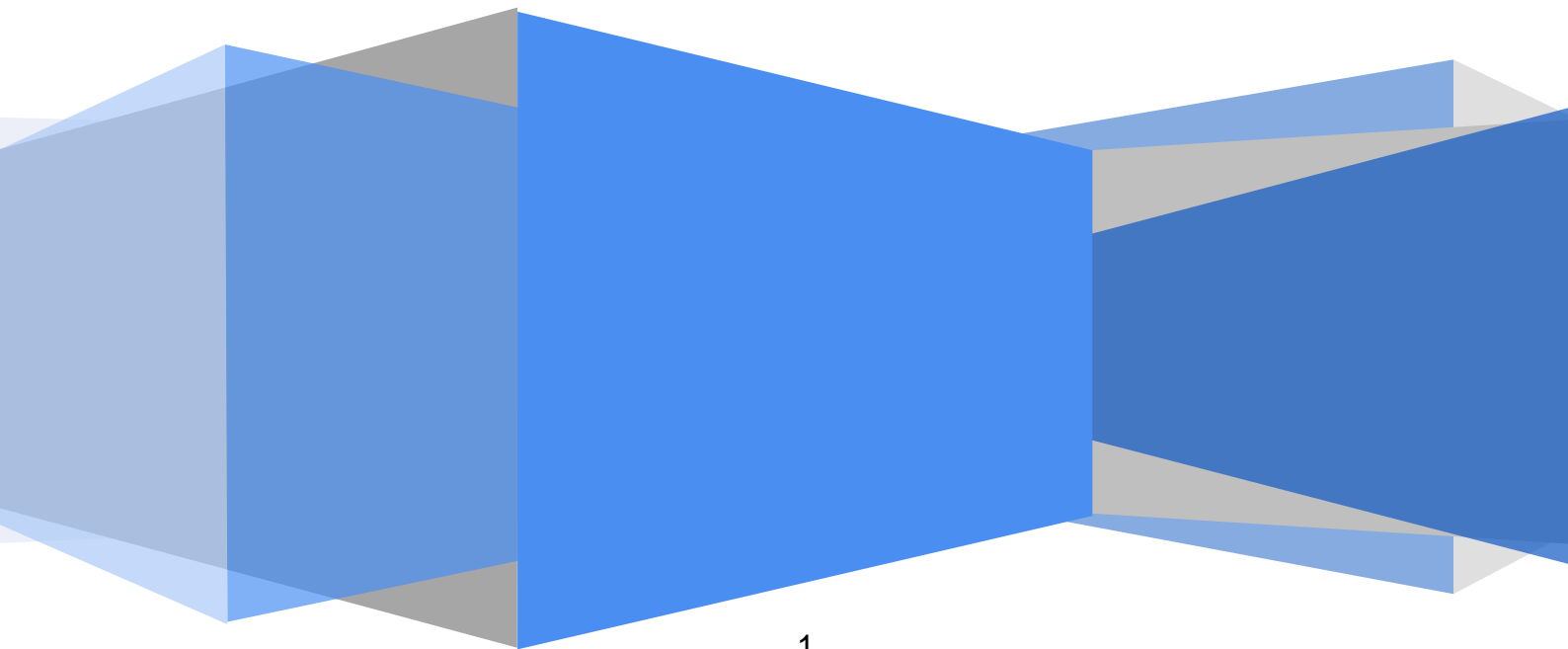




SOUTH AFRICAN CHAMBER OF COMMERCE AND INDUSTRY

**Business Confidence Index
July 2015**



South African Chamber of Commerce and Industry

Business Confidence Index

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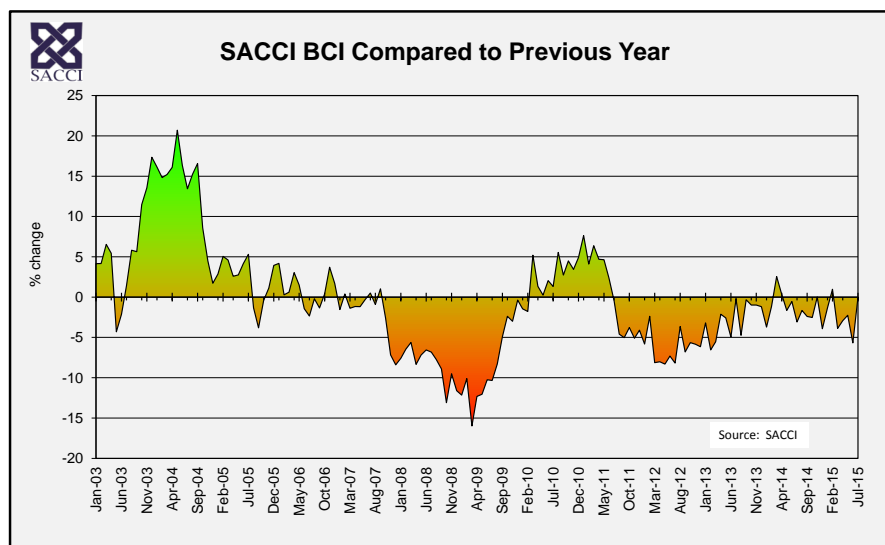
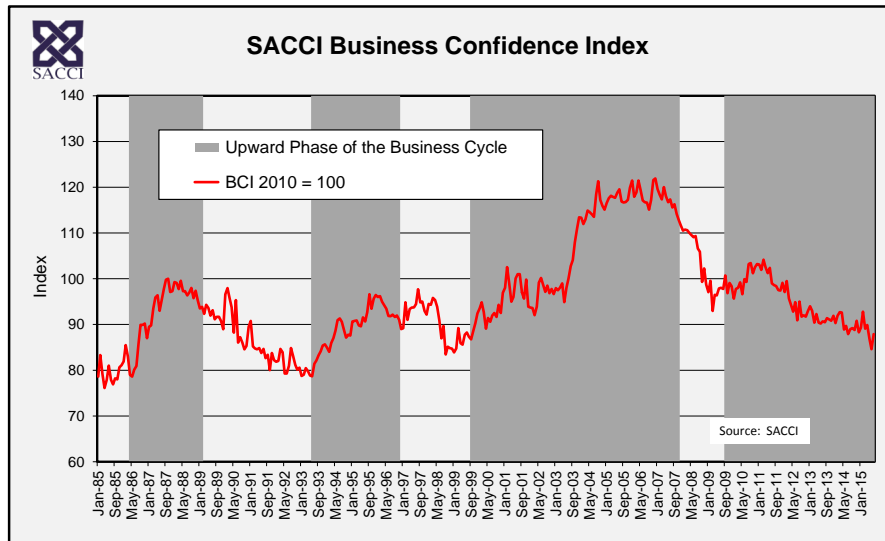
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Because of information lags and changes in expectations, the dynamics of the business mood, at times, may be at variance with the economic environment. As a result, always read the BCI with other economic data and the accompanying economic commentary.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

The SACCI Business Confidence Index 2010=100

Month	2008	2009	2010	2011	2012	2013	2014	2015
January	110.7	97.2	95.8	103.1	97.1	94.0	90.5	89.3
February	110.9	99.7	97.9	101.9	99.5	93.0	91.9	92.8
March	110.8	93.1	97.9	104.2	95.7	90.4	92.7	89.1
April	110.2	96.6	97.9	102.5	94.3	92.3	92.6	89.9
May	109.7	96.5	96.7	101.2	92.8	90.4	88.9	86.9
June	109.2	98.0	100.0	102.4	94.9	90.2	89.7	84.6
July	109.5	98.1	99.4	99.0	90.9	90.7	87.9	87.9
August	106.8	97.9	103.3	98.6	95.0	90.5	89.0	
September	106.1	100.9	103.6	98.4	91.7	91.4	89.2	
October	99.3	97.0	101.3	97.5	92.0	91.1	88.8	
November	102.3	99.2	102.6	97.4	91.7	90.8	90.8	
December	98.9	98.5	103.3	99.1	93.0	91.9	88.3	
Average	107.0	97.7	100.0	100.4	94.1	91.4	90.0	



This Month's BCI Results

The **SACCI** Business Confidence Index (BCI), picked up by 3.3 index points to 87.9 in July 2015 after shedding 2.3 index points in June 2015. The July 2015 BCI level is the same as in July 2014. However, the BCI is still 34 index points below the high level of 121.9 recorded in December 2006 and about 12 points lower than the average of 100 for 2010 that serves as base year for the BCI.

Although the BCI bounced up in July, it did not recover to above the medium-term downward trend of business confidence. The BCI was affected by insulated occurrences in July 2015 as reflected by two separate sub-indices rather than by the business climate in general. The erratic behaviour by some indicators in the economy should be judged in macro-economic context before reaching a general conclusion. Continuous positive behaviour by a number of indicators would represent changing business circumstances. In this sense, medium term financial market conduct should provide a better picture of the business climate and sentiment.

Month-on-month (m/m) changes in the sub-indices of the **SACCI** BCI were more positive in July 2015 than in June 2015. In June only one the thirteen sub-indices were positive m/m; nine were negative and three remained unchanged. A notable positive m/m impact came from building plans passed in July while export volumes improved well on the previous month. Retail sales volumes made a marginal positive m/m impact on the BCI in July 2015.

The uninspiring comparative year-on-year (y/y) business mood did not change for the better in July 2015. The changes in the sub-indices in July 2015 indicate a similar situation than in May and June 2015. Year-on-year declines in nine of the thirteen sub-indices occurred in May, June and July 2015 and with one sub-index unchanged.

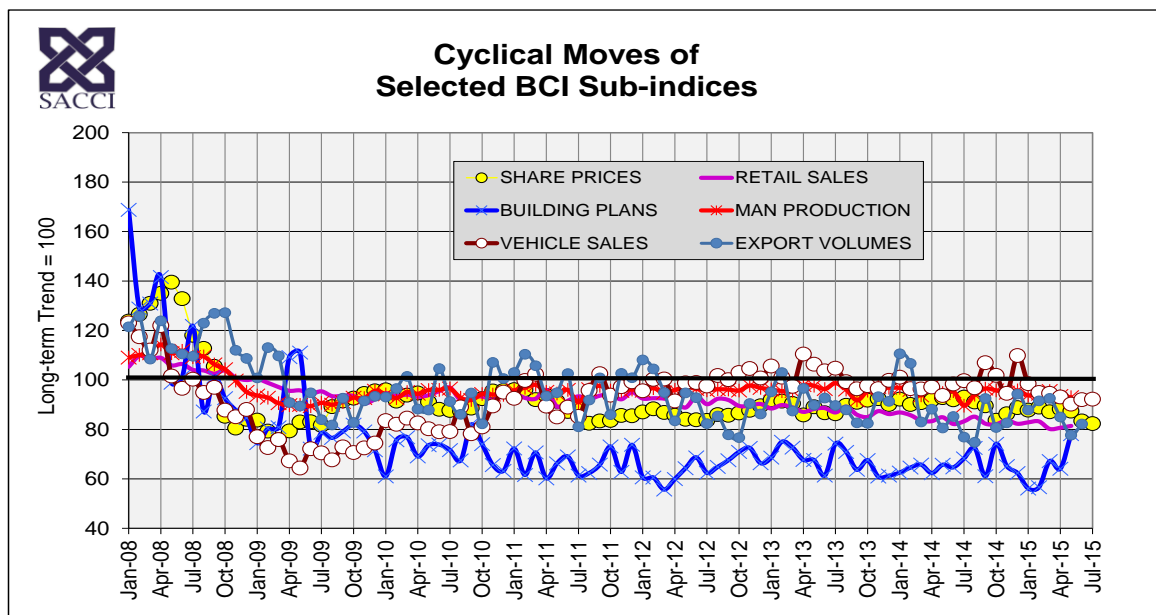
Four of the six financial sub-indices were negative, one unchanged and one positive y/y in July. Lower inflation (excluding petrol, food and non-alcoholic beverages) had a positive y/y effect on the BCI in July 2015. Five of the real activity sub-indices were negative and two were positive y/y in July 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
Municipal Services	-	-	-	-
Manufacturing	-	-	-	-
Exports	+	-	-	-
Imports	-	-	+	+
Vehicle sales	0	-	-	-
Retail sales	+	-	-	-
Construction - buildings	+	-	+	+
Inflation ¹	0	0	+	0
Share prices	-	-	-	-
Real private sector borrowing	-	+	0	+
Real financing cost	-	0	-	-
Precious metal prices	-	0	-	-
Rand exchange rate	0	-	-	-

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

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



Economic Commentary

Back to Reality

South Africa is becoming more and more aware of the stark economic realities individual countries faces notwithstanding economic ties and relationships with the world economy, Africa, the Brics formation or other countries. Globalization implies that countries cannot escape from developments in the world economy – directly or even indirectly through impacts on second tier countries.

Little can be done by a relatively small economy like South Africa to discharge the global effect. It is rather matters that have local origins that allow countries to reconsider on policy directions and coordination that becomes important. It has become essential to reconsider the economic direction and its inevitable outcome in a normative economic context.

The GEAR (Growth Employment and Redistribution) policy framework, when first adopted had a normative basis as point of departure. It was deviations from these norms that led to the present economic disarray and physical mismatches that cannot be associated with a business climate conducive to much needed continuous higher economic growth. It becomes apparent that even the NDP (National Development Plan) and certain aspects thereof need revisiting given the current stance of the world and domestic economy.

The present low domestic economic growth rate is not merely the consequence of cyclical or other short-term factors, but has deeper underlying problems. Productive fixed investment, higher value added export volumes, productivity and work ethics hold the key to the current economic stalemate. This emphasizes the need of persistent higher economic growth without which South Africa's economic problems cannot be alleviated.

The Impact of Global Economic Developments

The global economy faces a more difficult challenge than that of 2007/08 when world financial markets had to undergo stringent readjustment with the consequential effects on real economic activity and employment. South Africa did not escape that economic episode. The slower growth that is experienced by China at present, erratic financial market behaviour in China, the impact on commodity prices and the indirect impact through trading partners and capital flows have alerted the world to China's economic role.

The Greece financial challenge, although not of global proportions, could hold implications for Europe and the European Union. Financial disruptions in Europe could filter through to the real economy by impacting trading partners and investment destinations like South Africa.

The total effect of slowing growth in China (due to the relative size of its economy) and the Greece financial crisis have not yet completed its full course and the impact on the world and South African economy will become apparent towards the 4th quarter of 2015. In its July 2015 World Economic Update, the IMF adjusted global growth downwards by 0.2 %-point to 3.3% and did not take into account the current slowing growth in China. Sub-Saharan growth was lowered by 0.1 %-point to 4.4% in 2015.

Diverging Financial Developments

Financial circumstances are in the process of adjustment that creates uncertain economic and business surroundings. July has notably been a month of adjustments. These changes were not necessary in the same direction and thus contributed to uncertainty and in some instances relief. The table below gives an indication of some diverging fluctuations.

Table: Movements in Financial Measures

Financial Measure	Previous	Most recent	Direction
Crude oil price US\$	begin July 2015 - 62.65	end July 2015 – 52.56	
Crude oil price rand	begin July 2015 – 767.46	end July 2015 – 665.94	
Gold Price US\$	begin July 2015 – 1171	end July 2015 – 1095	
Gold Price rand	begin July 2015 – 14344	end July 2015 – 13874	
Platinum US\$	begin July 2015 – 1085	end July 2015 – 982	
Platinum rand	begin July 2015 – 13291	end July 2015 – 12442	
Prime rate %	begin July 2015 – 9.25	end July 2015 – 9.50	
5-10y gov't bond rate	begin July 2015 – 8.02	end July 2015 – 7.92	
Consumer inflation %	May 2015 - 4.6	June 2015 – 4.7	
Producer inflation %	May 2015 – 3.6	June 2015 – 3.7	
Rand/US\$	begin July 2015 – 12.25	end July 2015 – 12.67	
Rand/£	begin July 2015 – 19.09	end July 2015 – 19.77	
Rand/€	begin July 2015 – 13.56	end July 2015 – 13.94	

The changes that occurred in financial indicators were mainly negative. The exchange rate especially that against the US dollar, was not enough to counter declining commodity prices. It was only the US dollar price of oil that could counter the weaker rand, but this may only be a short-term gain. Although the prime interest rate increased by 0.25 % it appears that markets factored in such an increase given relative stable bond rates. In general financial conditions will tend to become tighter towards year-end.

Conclusion

The economic and financial situations have deteriorated since June 2015 and it will become more difficult to maintain financial and price stability. This is going to have a detrimental impact on the real economy. It, however, provides an

opportunity to change direction towards a more normative acceptable policy approach leading to longer-term growth imperatives. In accommodating such change, business confidence could turn for the better.

General Economic Indicators

Indicator	Period	Direction	Latest	Previous	2014	2009
Consumer inflation headline urban (%)	Jun-15	▲	4.7	4.6	6.1	7.2
Consumer inflation urban - excl. food, bev. & fuel (%)	Jun-15	▼	5.6	5.7	5.7	7.9
Money supply M3 (% Δ Y-o-Y)	Jun-15	▲	8.9	8.4	7.2	6.7
Private sector credit (% Δ Y-o-Y)	Jun-15	▼	8.1	9.5	8.7	4.8
Real prime overdraft rate eop (%)	Jun-15	▲	3.7	3.4	3.4	2.0
Liquidations number sa	Jun-15	▼	157	185	2064	4133
Bond yield 5-10y govt eop (%)	Jul-15	▼	7.92	8.02	6.65	8.39
R / US\$ average	Jul-15	▲	12.45	12.28	10.84	8.44
R / Euro average	Jul-15	▼	13.70	13.79	14.40	11.70
Prime overdraft rate eop (%)	Jul-15	▲	9.50	9.25	9.25	10.5
Indicator	Date	Direction	Latest	Previous	2014	2009
Income & wealth tax / GDP (%) saar	q1-15	▲	15.0	14.6	14.7	15.1
Total tax / GDP (%) saar	q1-15	▲	28.9	27.7	27.2	26.2
Public sector borrowing requirement / GDP (%)	q1-15	▼	3.9	5.9	5.8	8.3
Public sector expenditure / GDP (%)	q1-15	▼	27.8	27.9	28.0	27.8
Budget Balance / GDP (%)	q1-15	▲	-3.2	-2.7	-4.7	-4.6
Imports / GDE (%)	q1-15	▼	31.3	31.6	32.5	27.6
Exports / GDP (%)	q1-15	▼	30.0	31.1	31.3	27.9
Net foreign financial flows / GDP (%)	q1-15	▼	2.2	3.2	4.5	5.9
Current account balance / GDP (%)	q1-15	▼	-5.1	-4.2	-5.4	-2.8
Gross domestic saving / GDP (%) saar	q1-15	▲	16.2	15.3	14.9	18.0
Gross capital formation / GDP (%) saar	q1-15	▲	21.0	20.4	20.4	20.7
Net fixed capital formation / GDP (%)	q1-15	▼	-	-	6.5	7.8
GDP growth (% Δ Y-o-Y)	q1-15	▲	2.1	1.3	1.5	-1.5

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.