SOUTH AFRICAN CHAMBER OF COMMERCE AND INDUSTRY

Business Confidence Index

February 2017

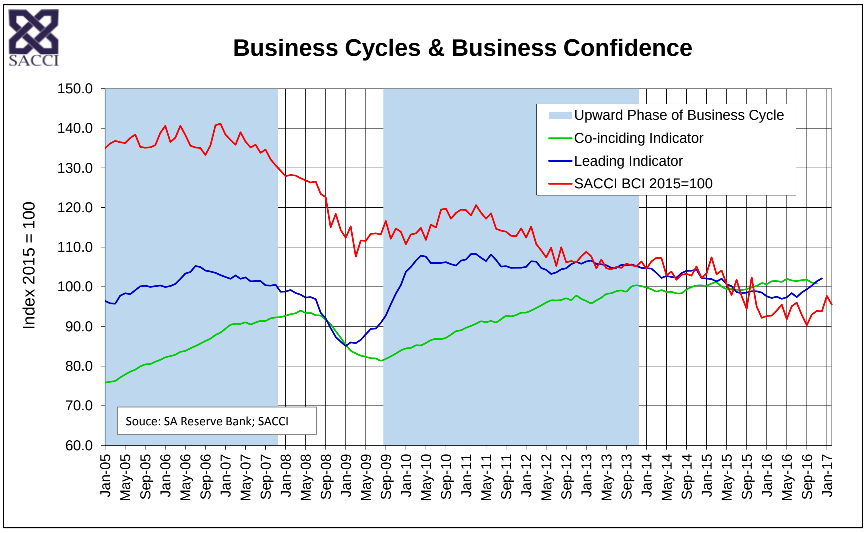
SACCI

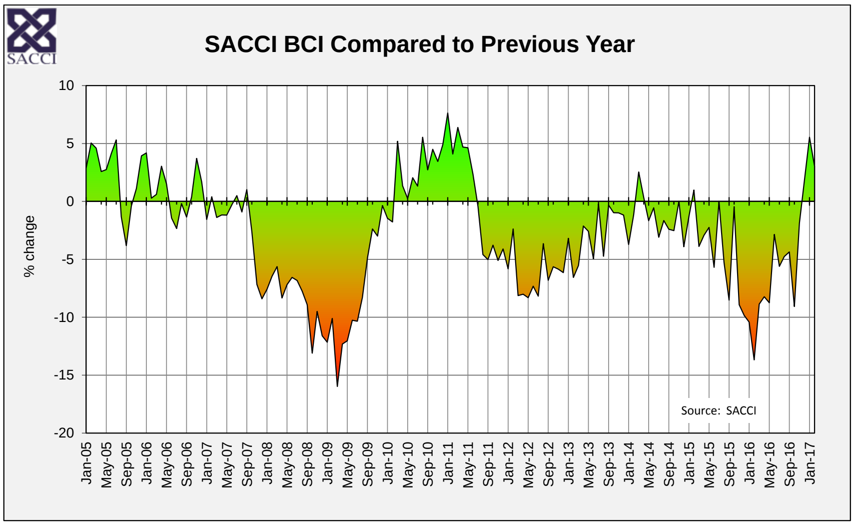
Content:

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	
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) declined by 2.2 index points from 97.7 in January 2017 to 95.5 in February 2017. Although the **SACCI** BCI declined month-on-month, it nevertheless improved by 2.8 points on the February 2016 level of 92.7. This is the third successive month that the BCI improved on the reading of a year ago.

Though the momentum slowed in February, it confirmed renewed motion in a positive direction for the BCI given the uncertainty about the business climate in 2016. After reaching a low of 90.3 in September 2016, the mid 90 level for the BCI within three months reflects the agility of business to react to positive prospects for the economy.

The recovery of the BCI over the last five months points towards the stabilisation of the business climate in South Africa caused by changing local and global economic and political approaches. Although no ideal growth enhancing Budget, the Minister of Finance succeeded, under difficult circumstances, to remain within the expected framework. More progress in the management of public finance matters in particularly, should enhance economic prospects and widen the present improved business mood.

The negative month-on-month (m/m) changes in six sub-indices of the BCI with only two sub-indices that were positive m/m pulled the index down. Five sub-indices remained unchanged. None of the seven real activity sub-indices was positive while only two of the six financial sub-indices improved on January.

Marginal positive monthly contributions to the BCI came from lower inflation, higher gold and platinum prices, and a slightly stronger rand exchange rate. The negative effects came from notable lower merchandise import and export volumes, and less new vehicle and real retail sales.

The year-on-year (y/y) movements in the sub-indices show that the business climate tightened slightly between January 2017 and February 2017, but was less troubled than before the fourth quarter of 2016. Four of the thirteen sub-indices helped to improve the business climate in February 2017 from a year ago while two sub-indices were unchanged. Seven sub-indices were weaker than February last year.

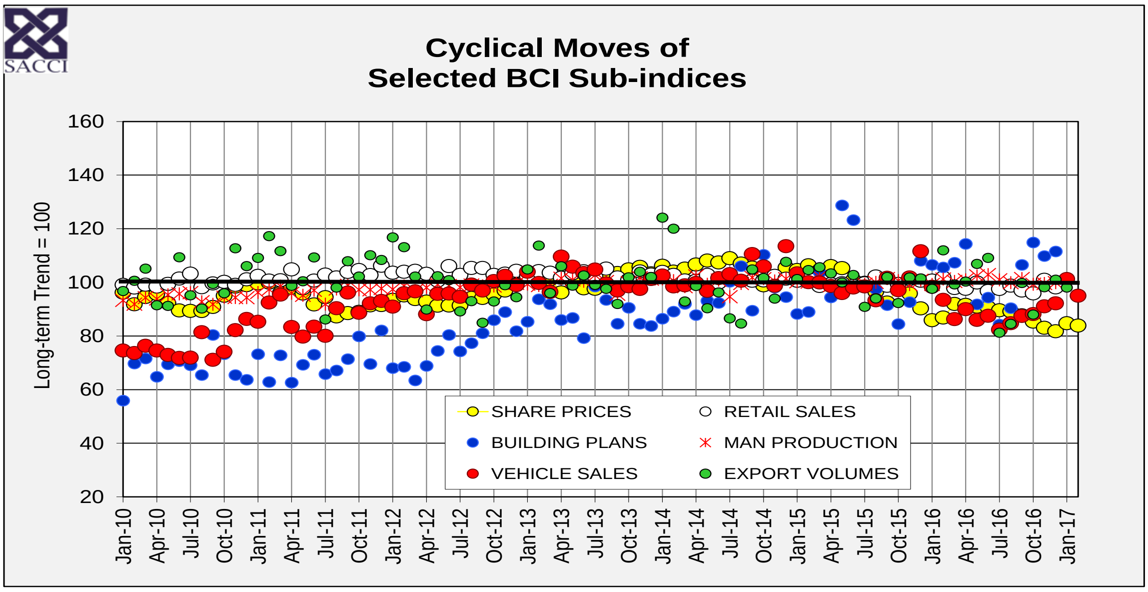
The stronger rand exchange rate again made the largest positive y/y contribution to the BCI followed by lower inflation and higher gold and platinum prices. Substantially less merchandise import volumes than a year ago made a particular negative contribution. Higher real finance costs, increased energy costs (crude oil and electricity), and lower share prices on the JSE, further weighed on business confidence.

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

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

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



Economic Commentary

In Anticipation of the Economy

Important incidents that occurred during the month of February 2017 could have a bearing on the economy over the medium and longer-term. Changing global economic relations might follow on political developments in the United States and Britain that could affect open economies such as South Africa and its world trading and investment relations. Domestically, political choices will also have an influence on the business climate, but notably on investment decisions in South Africa and future economic growth and employment.

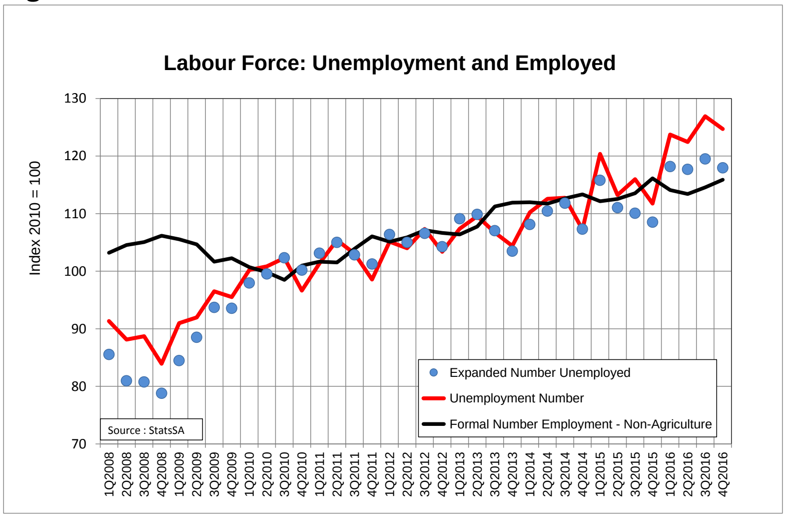
Amongst the important developments is the announcement of the national minimum wage, Budget 2017, increasing commodity prices including crude oil, a stronger rand exchange rate, and the persevering of an internationally acclaimed financial system.

The overall business climate remained in positive and resilient mode despite the monthly variations in the performance in sub-sectors of the economy. February 2017 was marked by mixed developments that affected the business climate both positively and negatively compared to the previous month. On an annual basis, the business climate has improved slightly in February 2017 in anticipation that the positive developments would eventually outpace negative incidences in the economy and business in general. All indications are that economic growth will pick up as the implementation and good governance takes hold.

Introducing a National Minimum Wage

The acceptance of a minimum wage has positively influence the labour market as those with formal employment found some comfort and certainty in minimum income levels. Because of different levels of remuneration that exist in sectors, the impact on employment and unemployment remain difficult to determine.

Figure 1

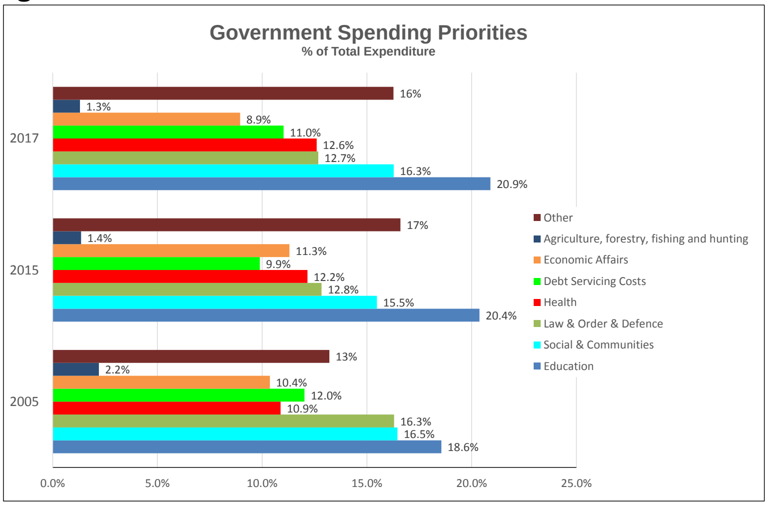


As Figure 1 indicates the unemployment level has been rising faster than formal employment in the non-agricultural sectors. The consequences for the formal labour market are difficult to anticipate depending on prevailing present wage levels in sectors and altering modernization and value added processes.

Budget 2017

Budget 2017 was viewed with due consideration given to the dire need for economic growth and the little space for manoeuvring by the Minister of Finance. According to Figure 2, social needs and financing difficulties were important matters to attend too.

Figure 2



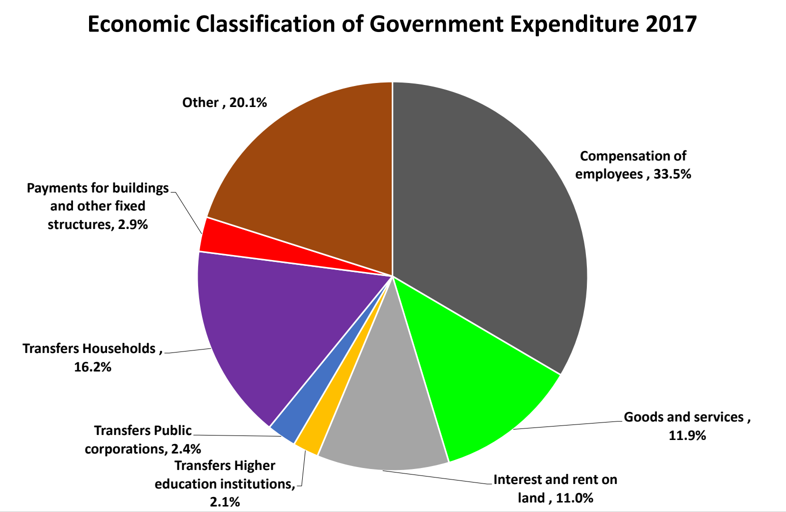
Source: Budgetary Reviews 2005 & 2017.

Budget 2017 was more important from an economic recovery perspective than to make ends meet. Sluggish economic growth, public debt and unemployment were critical issues to address. The Budget not only had to attend to matters identified by the credit rating agencies, but also to put the economy on the road to recovery and create sustainable jobs. Unfortunately, other considerations than public finance and economic issues limited the scope of the Minister of Finance to fully attend to the imperatives for economic recovery.

There are still issues related to the economic breakdown of spending that need attention. See Figure 3. Recurrent expenditure, remuneration of employees and transfers and grants to state owned entities and households will have to be managed prudently.

"Our past efforts have come short of delivering either adequate growth or the social transformation we need. We are at a crossroads now. We need to act urgently to build confidence and support investment. We need to bring all stakeholders onto an inclusive growth and transformation path"…. The Minister of Finance.

Figure 3

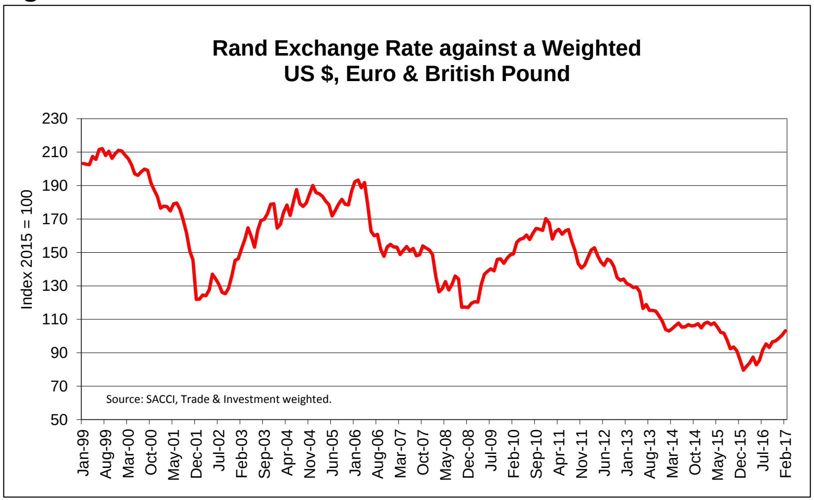


Source: Budget 2017 Review, Treasury.

Commodity Prices and a Stronger Rand

A large element of the present improved business climate is caused by the stronger exchange rate of the rand and commodity prices. Unfortunately, some positive contributions are met by negative uninvited consequences.

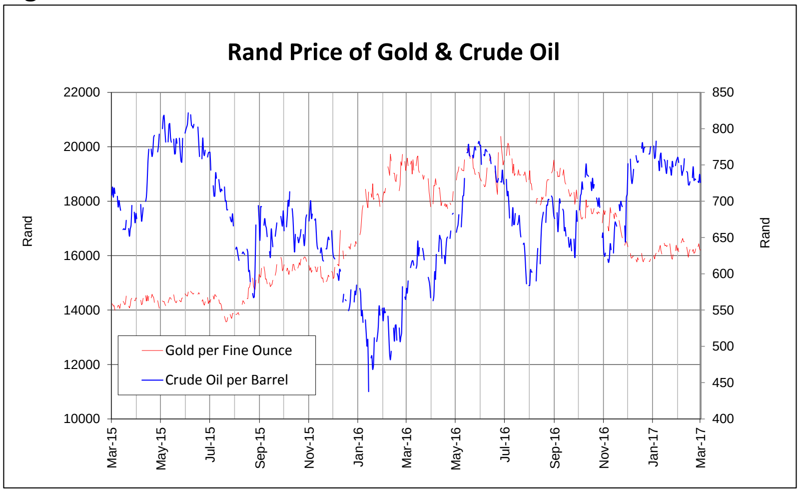
Figure 4



The stronger rand exchange rate is accompanied by the rise in commodity price - causing a net rand affect that discounts some of the rough implications of either a rand appreciation or just a commodity price increase. A stronger rand regrettably evens out the result of an increase in the US-dollar price of export commodities like precious metals. In terms of certain import commodities like crude oil, the stronger rand smooths the higher US-dollar price of crude oil – see Figure 5.

The much higher value of mineral imports (it includes crude oil) of R13.9 billion in January 2017 than the R10.9 billion value of imports of January 2016 results in 17 million barrels of crude oil imported compared to 10 million barrels of crude in January 2016. If the same rand price for crude prevailed in January 2017 than in January 2016, the volume of imports could have amounted to 26.9 million barrels of crude. The real effect of price moves and its effect on the trade account become obvious. The BoP effect will thus depend on the net effect of the rand/US-dollar commodity prices.

Figure 5



Conclusion

The business climate could further be improved if the constructive present economic developments could be augmented. Business and investor confidence depend on whether this window of opportunity will be seized and the positive sentiment be supported by responsible governance and accountability.

General Economic Indicators

Indicator	Period	Direction	Latest	Previous	2016	2011
Consumer inflation headline urban (%)	Jan-17	▼	6.6	6.7	6.3	5.0
Consumer inflation urban - excl. food, bev. & fuel (%)	Jan-17	▼	5.7	5.9	5.8	4.0
Money supply M3 eop (% Δ Y-o-Y)	Jan-17	▲	7.9	6.1	6.1	8.3
Private sector credit eop (% Δ Y-o-Y)	Jan-17	▲	5.5	5.0	5.1	6.2
Real prime overdraft rate eop (%)*	Jan-17	▲	4.5	4.4	4.4	4.8
Prime overdraft rate eop (%)	Feb-17	▶	10.50	10.50	10.50	9.00
Liquidations number sa	Jan-17	▼	101	138	161	297
Bond yield 5-10y govt eop (%)	Feb-17	▼	8.30	8.49	8.65	8.01
R / US$ average	Feb-17	▼	13.19	13.56	14.70	7.25
R / Euro average	Feb-17	▼	14.04	14.42	16.28	10.08

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	0.6	3.8
Current account balance / GDP (%)	q3-16	▲	-5.0	-1.9	-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**

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.