SOUTH AFRICAN CHAMBER OF COMMERCE AND INDUSTRY

Business Confidence Index

March 2017

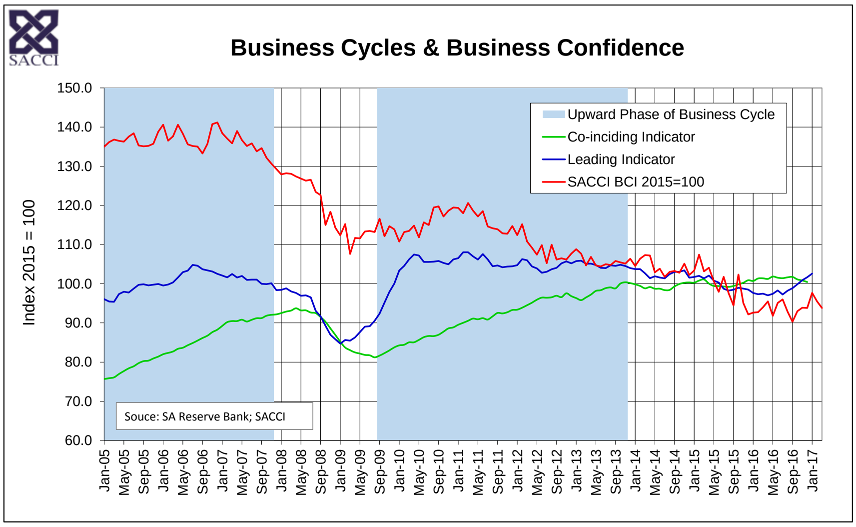
SACCI

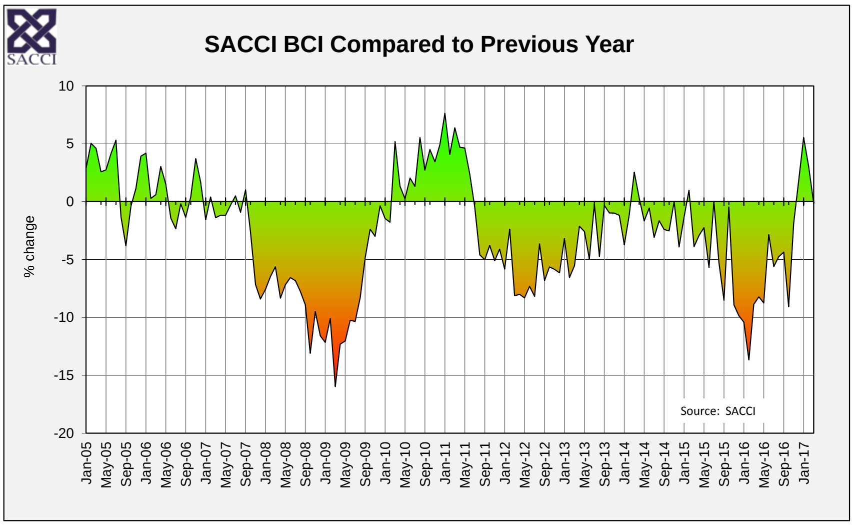
Content:

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	
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) pulled back by 1.7 index points to 93.8 in March 2017 from 95.5 in February 2017. The March 2017 BCI is 0.2 index points lower than in March 2016. This is the first month since November 2016 that the **SACCI** BCI declined year-on-year (y/y) after it improved y/y for three consecutive months in December 2016, January and February 2017. The BCI is nearly four index points lower than the high of 97.7 in January 2017.

The upward y/y momentum (although weak) in the BCI, that was entertained since October 2016, lost pace in February and was further disrupted in March 2017. Towards the end of March, developments extraneous to the economy abruptly upset the momentum of further improving business confidence. The March 2017 **SACCI** BCI, however, does not yet capture the full impact of uncertainty that was created as these developments only started on the 24th of March 2017 when the Minister of Finance was recalled from an overseas investment roadshow before relieved of responsibilities on the last day of March. These events dented the renewed positive motion of the BCI after the uncertain business climate in 2016. The low of 90.3 for the BCI reached in September 2016 suggests a lag that usually follows an overreach in the economic sphere.

The negative month-on-month (m/m) movement of six sub-indices of the BCI pulled the index down further in March 2017. Although four sub-indices remained unchanged and three turned positive, it was not sufficient to improve the business climate. Only one of the seven real activity sub-indices was positive while five of the six financial sub-indices either improved or remained unchanged in March.

The bulk of positive monthly contributions to the BCI came from merchandise export volumes and lower inflation. The negative effects on business confidence were random and came from notably building plans approved, new vehicle sales and real retail trade sales.

The year-on-year (y/y) changes in the sub-indices show that the business climate deteriorated from February 2017 to March 2017; however, the 1st quarter 2017 BCI was still 2.6 index points better than the 1st quarter of 2016. Five of the thirteen sub-indices helped to improve the business climate in March 2017 from a year ago while two sub-indices were unchanged. Six sub-indices were weaker than March 2016.

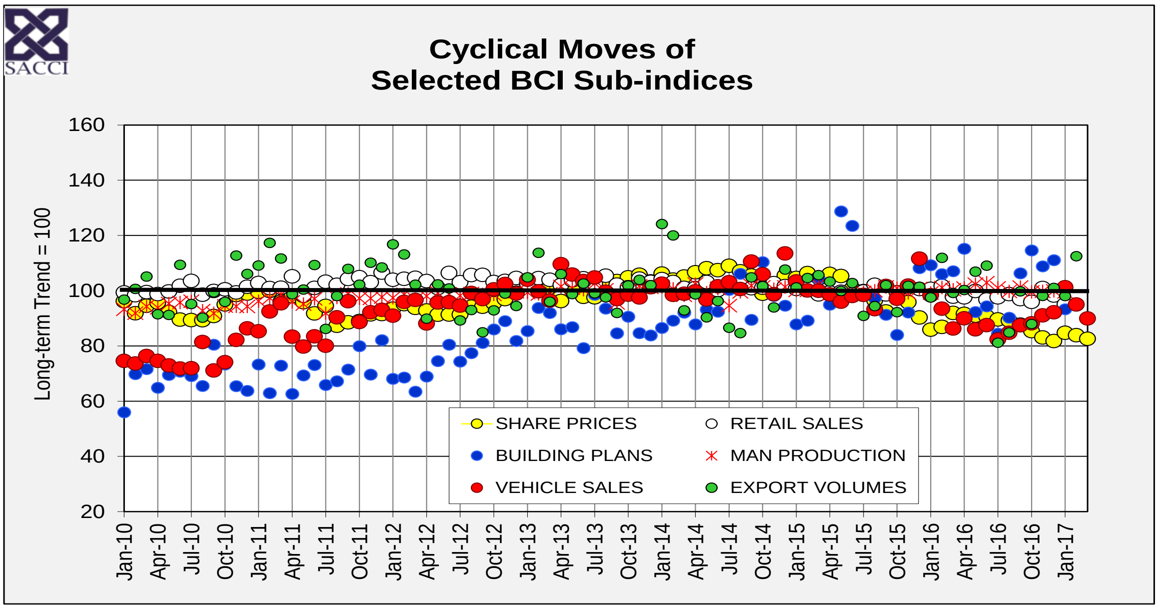
The stronger rand exchange rate made the largest positive y/y contribution to the BCI followed by lower inflation. Substantially less merchandise import volumes, higher real financing cost and lower share prices than a year ago made the largest negative y/y contributions to the business climate.

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

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

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



Economic Commentary

Economic Uncertainty

The former Minister of Finance succeeded in stabilizing the deteriorating South African economy and the business climate. Progress was made under difficult circumstances on a number of fronts amongst them a stronger currency, improving economic growth to above 0.5% towards the end of 2016, and prudent fiscal management.

Although not convincing, the major thrust for economic growth came from the tertiary sector – see table below. Finance, real estate and business services (1.9%), general government services (1.4%), wholesale trade, retail trade, hotels and restaurants (1.2%), and personal services (1.2%) made the largest y/y contributions. Throughout 2016, economic growth improved and after the GDP declined 0.6% y/y in the 1st quarter of 2016, growth gradually picked up to 0.7% y/y in the 4th quarter 2016.

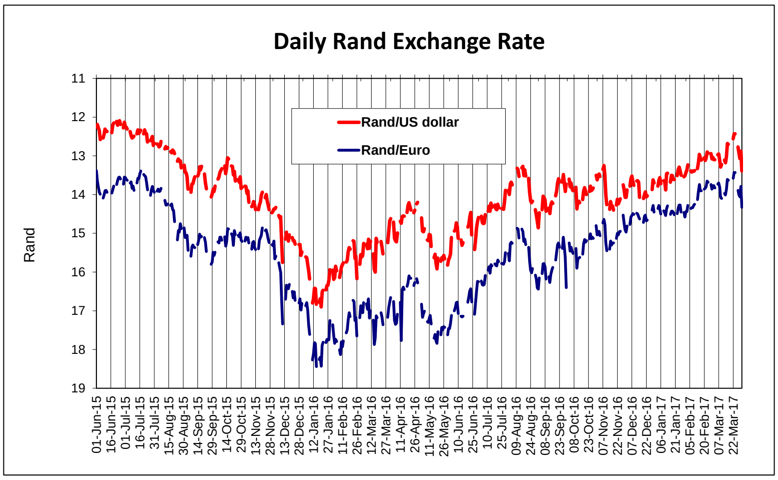
Economic Growth

SECTOR	2014	1Q 2015	2Q 2015	3Q 2015	4Q 2015	2015	1Q 2016	2Q 2016	3Q 2016	4Q 2016	¾ 2016
	Y-o-Y %Δ	Y-o-Y %Δ	Y-o-Y %Δ	Y-o-Y %Δ	Y-o-Y %Δ	Y-o-Y %Δ	Y-o-Y %Δ	Y-o-Y %Δ	Y-o-Y %Δ	Y-o-Y %Δ	Y-o-Y %Δ
Finance, real estate and business services	**2.2**	2.6	3.1	3.1	2.3	**2.8**	2.2	2.0	1.7	1.8	**1.9**
General government services	**2.9**	1.6	0.8	0.5	0.4	**0.8**	1.2	1.1	1.1	2.2	**1.4**
Wholesale and retail trade; hotels and restaurants	**1.6**	1.6	1.1	1.2	1.7	**1.4**	1.3	1.7	0.7	1.1	**1.2**
Personal services	**2.0**	1.1	1.4	1.1	0.7	**1.1**	1.0	1.1	1.5	1.1	**1.2**
Construction	**3.6**	2.1	2.0	1.6	1.3	**1.7**	1.6	0.1	1.0	0.2	**0.7**
Manufacturing	**0.2**	0.3	-1.7	1.5	-1.1	**-0.2**	-0.8	3.8	0.5	-0.7	**0.7**
Transport and communication	**3.1**	2.2	1.3	0.9	0.2	**1.2**	-0.9	0.3	0.4	1.7	**0.4**
Electricity and water	**-1.1**	1.6	-0.9	-3.2	-3.4	**-1.5**	-5.6	-3.1	-2.1	-3.2	**-3.5**
Mining and quarrying	**-1.4**	7.7	6.1	2.4	-0.1	**4.0**	-11.3	-4.4	-0.1	-3.1	**-4.7**
Agriculture, forestry and fishing	**6.4**	11.5	-6.9	-18.9	-5.3	**-4.9**	-4.8	-16.0	-5.2	2.4	**-5.9**
GDP excluding agriculture	**1.7**	**2.2**	**1.6**	**1.5**	**0.7**	**1.5**	**-0.3**	**1.1**	**0.8**	**0.7**	**0.6**
GDP at market prices	**1.7**	**2.6**	**1.3**	**0.9**	**0.6**	**1.3**	**-0.6**	**0.3**	**0.7**	**0.7**	**0.3**

Note: Y-o-Y %Δ = year-on-year % change

Domestically, political developments had an influence on the business climate towards the end of March 2017, of which the full implications on business confidence will emerge in time to come and notably on investment decisions in South Africa to impact on future economic growth and employment. The renewed political events started with the Minister of Finance and his delegation being recalled on the 24th of March 2017 from an overseas investment roadshow. The Minister was eventually relieved of his responsibilities on the last day of March 2017 in a Cabinet reshuffle. These developments in the closing days of March 2017 led to a depreciation of 7% of the rand against the investment and trade weighted US dollar, British pound and euro between the 24th and 31st of March 2017.

Although the business climate on average deteriorated in March 2017, it was further dampened by the political events that overtook and concerned economic role players and business in general. All indications are that economic growth will depend on whether fiscal consolidation will prevail while prudent public sector governance continues. It is important that there is adherence to the advice of the credit rating agencies to keep attending to serious structural economic constrains.



Source: Foreign exchange market

A number of salient points mark the business climate

Apart from longer-term economic constraints, the following contemporary matters are important:

- *Growth too slow*

Economic growth moderated further from real GDP expanding by 0.3% year-on-year (y/y) in 2016 compared to 1.3% in 2015. Apart from 2009, when real GDP shrunk by 1.5%, the 0.3% was the lowest annual growth rate since 1998.

- *Spending under pressure*

Real gross domestic expenditure declined by 0.8% in 2016 and it is the first annual decline in real gross domestic expenditure since 2009 when the impact of the global financial crisis was at its worst. Real final consumption expenditure by general government increased at a slower pace while the increase in real final consumption expenditure by households and gross fixed capital formation slowed in the 4th quarter of 2016.

- *Struggling with debt*

Though household debt increased marginally in the 4th quarter of 2016, the cost of servicing household debt as a percentage of disposable income of 9.5% in the 4th quarter of 2016 was marginally less than the 9.6% in the 3rd quarter of 2016. Forced by fiscal austerity and containing government debt, annual growth in general government consumption expenditure and government's wage bill was contained.

- *Reluctance to invest*

Real gross fixed capital formation declined by 3.9% in 2016 following an increase of 2.3% in 2015. Twenty sixteen was characterised by political ambiguity, contracting economic growth and improving but continuing low business confidence levels. The decline of real investment during 2016 was the first decline since 2010. As a percentage of GDP, gross fixed capital formation receded from 20.4% in 2015 to 19.6% in 2016 - far below the anticipated 30% of GDP necessary to accommodate growth of 5% per year over the longer-term. Real investment outlays by the private business sector declined by 0.5% in 2015 and further by 6.0% in 2016.

- *Lack of capital accumulation*

Gross saving as a percentage of GDP (national savings rate) improved slightly during 2016. Stronger saving largely came from corporate business enterprises. Household saving remained stable, while gross saving by general government decreased somewhat in 2016. The share of foreign capital inflows in the financing of gross capital formation contracted notably in 2016.

- *Undesirable unemployment and inflation*

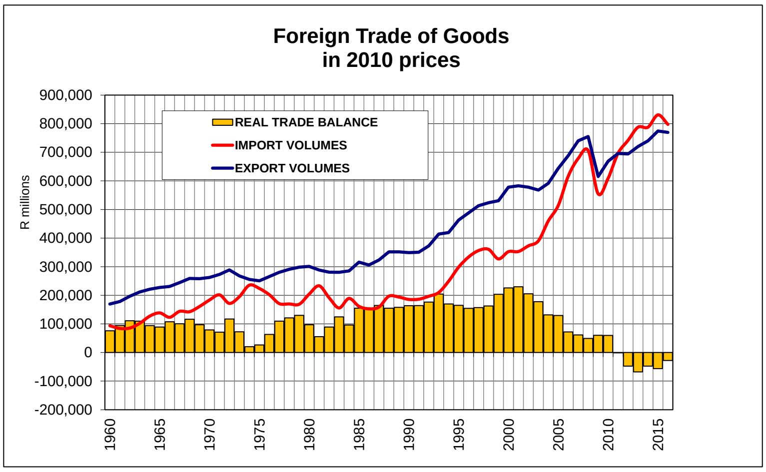
The South African economy remained unable to create significant employment opportunities. South Africa's consumer price inflation accelerated in 2016 – well above muted global CPI inflation. The higher consumer price inflation was largely due to international crude oil prices, exchange rate effects and food prices due to the drought. Farm-gate food prices eased considerably in recent months.

- *Strained global economy and rising commodity prices*

Growth of real global output weakened to some extent during 2016 in notably advanced economies due to a disappointing fourth quarter in the United States. However, real GDP growth in emerging market economies was higher during of 2016. Most commodity prices recovered from lows at the beginning of 2016 and maintained an upward trend at the start of 2017. The price of Brent crude oil increased by 33% from a low average of US$40 per barrel in March 2016 to an average of US$52 per barrel in March 2017. The stronger rand softened the crude oil rand price increase to about 12%.

- *Improved balance of payments (BoP)*

South Africa's terms of trade improved further in the 4th quarter of 2016 as the rand prices of merchandise exports increased, while that of merchandise imports decreased. The terms of trade also improved for 2016 as a whole. This factor changed the trade balance from a small deficit in the 3rd quarter of 2016 to a sizeable surplus in the last quarter.



Source: March 2017 Quarterly Bulletin, SA Reserve Bank.

Mining exports increased significantly in 2016, in particular iron ore and coal exports. The value of merchandise imports regressed as domestic demand remained constrained due to a severely subdued domestic economy. For 2016 as a whole, the deficit on the current account of the BoP narrowed to 3.3% of GDP in 2016 from 4.4% in 2015. The smaller current account deficit was financed through net portfolio inflows, while direct and other investment registered outflows in the 4th quarter of 2016.

- *Responsible monetary policy*

Growth in bank credit extended to the private sector declined steadily and averaged 6.8% in 2016 following four consecutive years of average extension of around 8%. The slowing in credit growth relatively mirrors passive domestic economic activity. In March 2017, the Monetary Policy Committee (MPC) kept the repurchase rate unchanged at 7.0% per annum. As a ratio of GDP, the non-financial public sector borrowing amounted to 4.2% in the first nine months of fiscal 2016/17, which was lower than the 5.6% of the same period of 2015/16 fiscal year.

Conclusion

The political developments towards the end of March 2017 again created uncertainty on economic policy and the business climate. Tenacity amongst business will prevail, but it is important while ….”we **(SACCI)** as business strongly believes that some measure of prudence is exercised to avoid the subsequent knock-on effect such decisions are likely to have on the economy of our country. On the political front it is our call as business formation that there be cooperative partnership in managing sensitivities that may adversely impact our risk profile in international markets.”[1]

“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 former Minister of Finance in his Budget speech.

[1] Media Release 31 March 2017. **SACCI**

General Economic Indicators

Indicator	Period	Direction	Latest	Previous	2016	2011
Consumer inflation headline urban (%)	Feb-17	▼	6.3	6.6	6.3	5.0
Consumer inflation urban - excl. food, bev. & fuel (%)	Feb-17	▼	5.4	5.7	5.8	4.0
Money supply M3 eop (% Δ Y-o-Y)	Feb-17	▼	6.6	7.9	6.1	8.3
Private sector credit eop (% Δ Y-o-Y)	Feb-17	▼	5.2	5.5	5.1	6.2
Real prime overdraft rate eop (%)*	Feb-17	▲	4.8	4.5	4.4	4.8
Prime overdraft rate eop (%)	Mar-17	▶	10.50	10.50	10.50	9.00
Liquidations number sa	Feb-17	▲	146	101	161	297
Bond yield 5-10y govt eop (%)	Mar-17	▼	8.24	8.30	8.65	8.01
R / US$ average	Mar-17	▼	12.94	13.19	14.70	7.25
R / Euro average	Mar-17	▼	13.82	14.04	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	▶	**0.7**	**0.7**	**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.