SOUTH AFRICAN CHAMBER OF COMMERCE AND INDUSTRY

Business Confidence Index

April 2017

SACCI

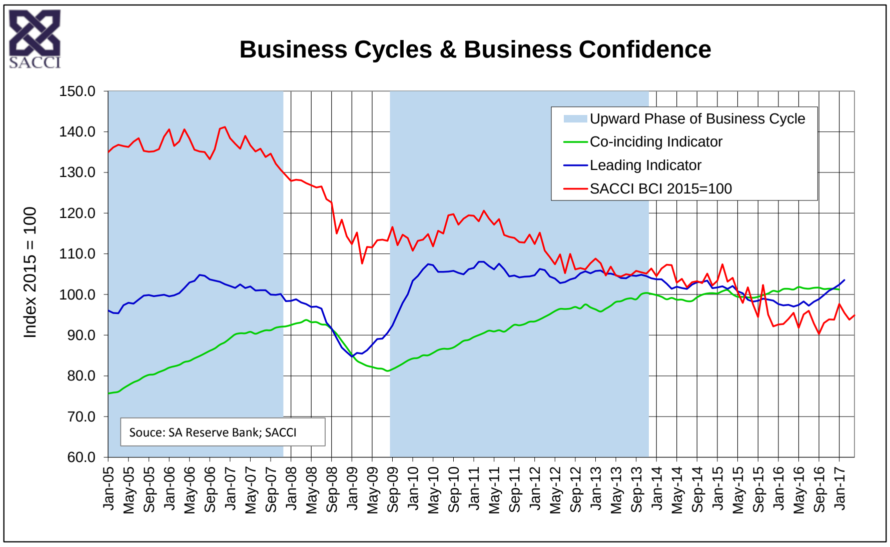
Content:

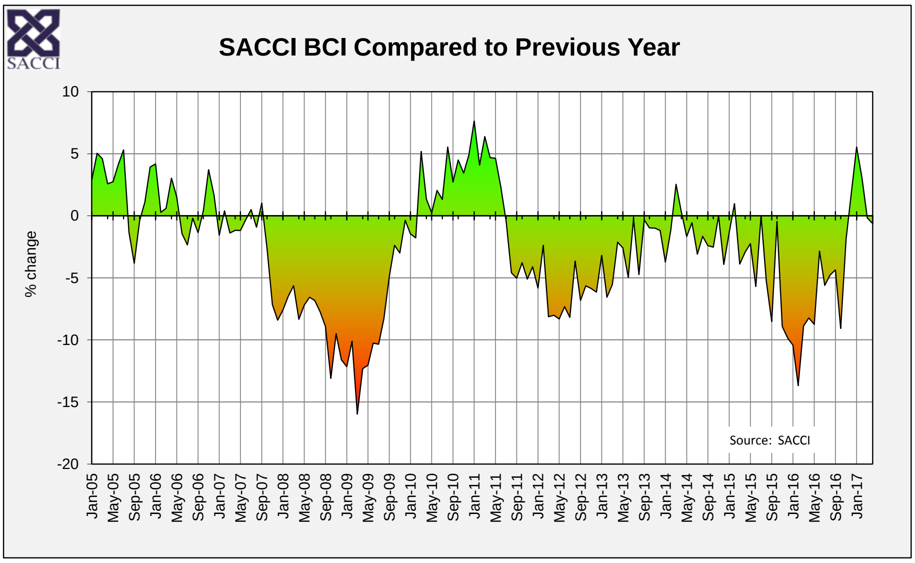
- **The SACCI Business Confidence Index (BCI)**
- **This Month's BCI Results**
- **Impact of Sub-indices on the SACCI BCI**
- **Economic Commentary**
- **General Economic Indicators**

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	
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

During April 2017, the business climate was informed by data for February, March and April 2017. Therefore, the April 2017 **SACCI** Business Confidence Index (BCI) contains data that instantly reacted to political developments, policy uncertainty and lower credit ratings while nine of the thirteen sub-indices were still informed by the business climate prior to the end of March/April events.

The **SACCI** Business Confidence Index (BCI) for April 2017 does not yet fully reflect the medium or longer-term effects of the developments of the end of March 2017 and during April 2017. Positive developments in the economy before the end of March 2017 were still strong enough to carry the business climate forward into April and thus improve the **SACCI** BCI by 1.1 index points to 94.9 in April 2017 from 93.8 in March 2017. The April 2017 BCI is 0.6 index points lower than in April 2016.

The positive month-on-month (m/m) change in five of the thirteen sub-indices of the BCI lifted the index in April 2017 but four of the five sub-indices reflected positive business conditions prior to April. Three sub-indices remained unchanged and five were negatively affected by the business climate. Three of the seven real activity sub-indices (all but new vehicle sales being prior April data) were positive. Four of the six financial sub-indices (three sub-indices prior April data) either improved or remained unchanged in April.

The bulk of positive monthly contributions in April mainly came from much higher merchandise import volumes, followed by lower inflation and building plans passed. The most negative monthly effect on business confidence came from particularly lower merchandise export volumes, notable less new vehicle sales and, to a lesser extent, new lower inflation sales.

The year-on-year (y/y) changes in the sub-indices show that the business climate deteriorated from April 2016 to April 2017. Six of the seven sub-indices on real activity declined over this period while three of the six financial sub-indices deteriorated over the year to April 2017.

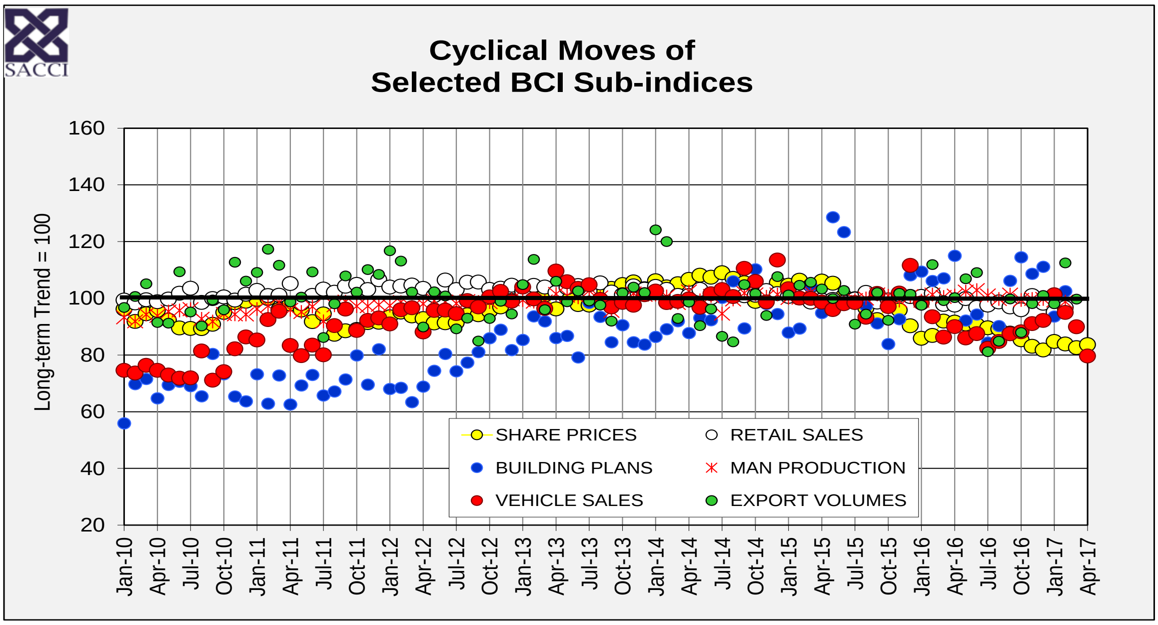
The stronger rand exchange rate and lower inflation made positive y/y contributions to the BCI in April 2017 compared to April 2016. Less merchandise import volumes, less new vehicle sales, higher energy costs and lower share prices than a year ago contributed the most to the less favourable business climate in April 2017 than in April 2016.

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

Elusive Economic State of Affairs

Apart from the lag effects on the business climate that are absent in the April 2017 **SACCI** BCI, the upward momentum of business confidence of the first three months of 2017 appears to have kept the BCI maintaining a relative strong performance in April. If not for the disruptions caused by the end of March developments and the junk status, the **SACCI** BCI could have improved on the elevated level of January 2017. Unfortunate events, however, spoilt the renewed aspirations for improved fixed investment, growth and employment – a situation now worse than the uncertain business climate of 2016 when South Africa could still evade a credit downgrade.

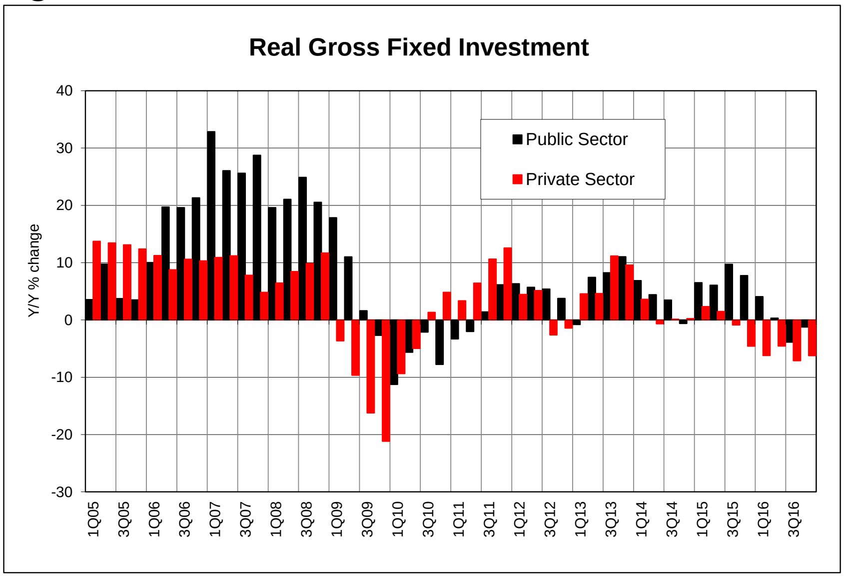
South Africa's biggest challenge is to enhance a business environment where a larger part of the economic active population could add value (more inclusive economic growth) and support more employment. Higher economic growth should not only provide a sustainable and improved revenue base for public finance and thus less government debt, but could also improve the safety net for socially vulnerable citizens. The challenge for growth starts with fixed investment and FDI (foreign direct investment). Therefore, business and investor confidence are essential to avert credit downgrades and lure foreign capital to augment South Africa's dismal savings rate. Up to the end of March 2017, that was apparently attainable, but more uncertainty entered the policy and governing arena since the end of March.

Re-establishing Investor Confidence

South Africa's fixed investment performance trended lower throughout 2016 and complicated the economic growth scenario of even 1% per annum. The shortage of domestic savings (17% of GDP) not meeting the need of 25% fixed direct investment of GDP must be met by FDI so that the growth momentum can gain traction. Figure 1 illustrates South Africa's fixed investment dilemma and the desperate situation that developed in 2016 and might continue into 2017 if remedies are not set in place. The down to sub-investment rating by two reputable rating agencies will could be detrimental to foreign investment.

However, South Africa has been re-entered into A.T. Kearney's FDI Confidence Index for 2017 and is placed 25th and the only African country listed. The other Brics countries are China (3rd), India (8th) and Brazil (16th). The rating is compiled from an annual survey of business leaders about the most likely countries they will invest in over the next three years. One should therefore take note that FDI is about comparing countries, and particularly with its peer group.

Figure 1



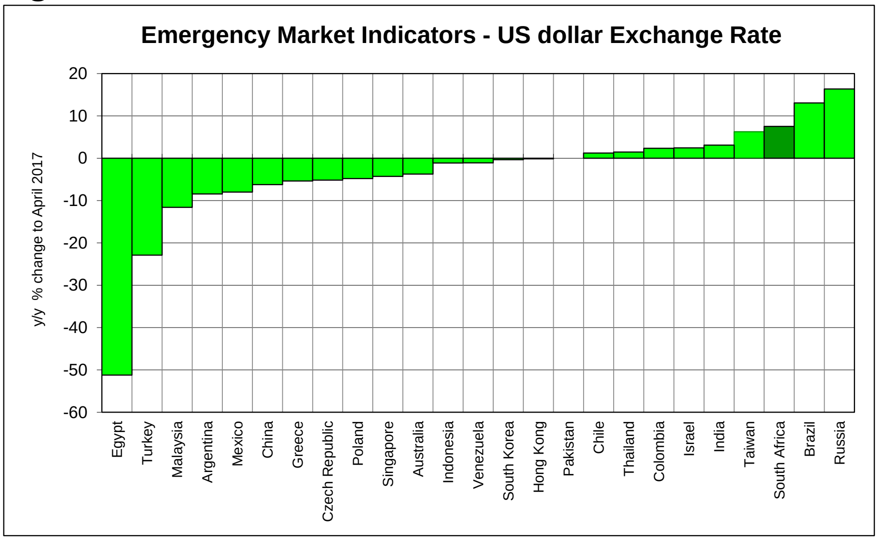
Source: March 2017 Quarterly Bulletin. SA Reserve Bank

Keeping the Economic Momentum

Before the events of the last week of March and beginning of April 2017 South Africa was in its way to improving its FDI image. There was change in sentiment towards emerging markets. Capital inflows strengthened the rand and amongst others, lowered the price of fuel. This spilled over to lower input prices, lower costs, lower inflation and the strong possibility of declining interest rates. This was altered by events causing great confusion amongst the business fraternity and investors. Comments on the future direction of economic policy increased uncertainty. However, it remains imperative to improve South Africa's relative economic profile with its peer group of emerging markets as starting point to obtain inclusive economic growth.

- The impact on the rand exchange rate was the first reaction to the events of the end of March and into April. The weighted rand (against US dollar, British pound and euro) depreciated by 9.9% between the 24th of March 2017 and the 10th of April 2017 before recovering by 1.2% at the end of April. Over the period April 2016 to April 2017 the rand was the third best performing currency against the US dollar – improving from a position of severe stress at the beginning of 2016 – see Figure 2.

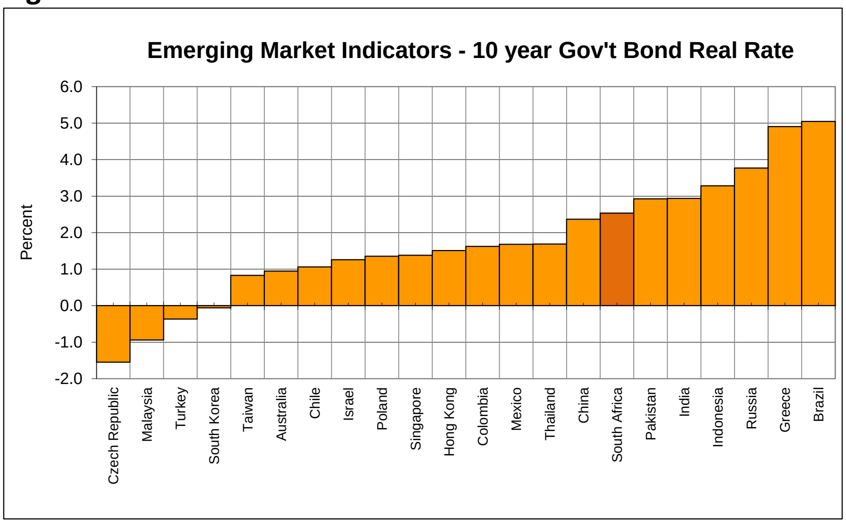
Figure 2



Source: The Economist. April 22, 2017.

- In order to attract investment real bond rates serve as indication of real rates of return. To some extent, South Africa is still attracting portfolio foreign investment due to relative high real returns on the bond market. Government bonds of emerging markets, after for a long time being less popular, also has again became more favourable. South African bonds deliver the 7th highest real yield of its peer group with higher risk emerging market economies (Pakistan, India, Indonesia, Russia, Greece and Brazil) rendering higher real yields. At present, these portfolio inflows benefit the rand.

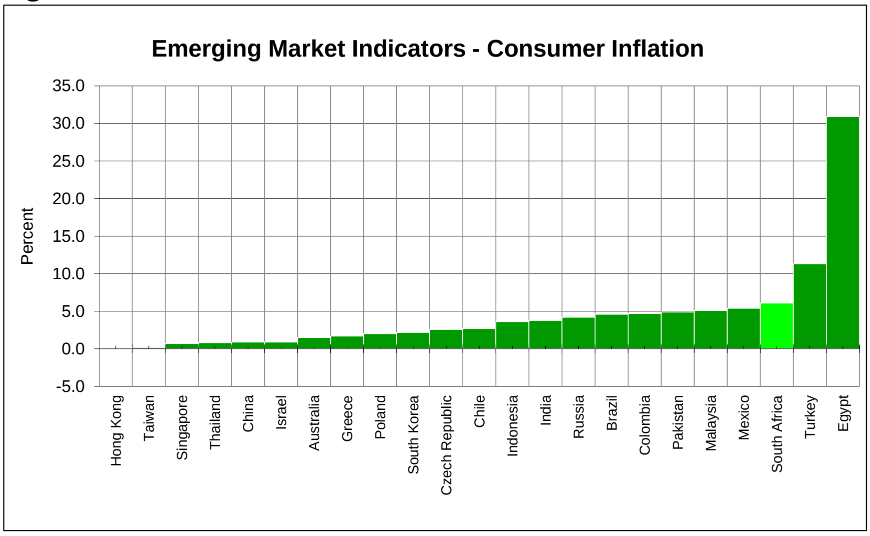
Figure 3



Source: The Economist. April 22, 2017.

- South Africa's inflation rate remains relatively high (third highest) compared to its peer group. Although the expectations for short-term inflation are favourable mainly due to lower food prices, the expectations for the longer-term are on the upside given the high import propensity (30% of GDE) and rand vulnerability. This could prevent the easing of monetary policy.

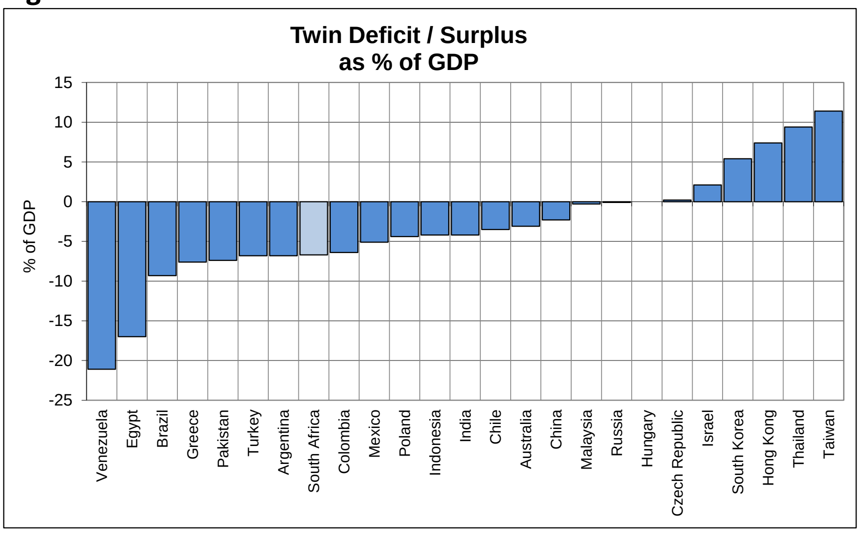
Figure 4



Source: The Economist. April 22, 2017.

- The current account of the BoP and the Budget deficit remain structural complex features of the South African economy that remain difficult to resolve under a low economic growth situation. The lack of domestic economic growth and substantial social demands and safety nets, have complicated the obligatory adjustments the economy has to make to enhance growth. It is in this context that investor and business confidence should not be disrupted. South Africa's twin deficits sit at the wrong end of the spectrum of emerging market economies – it is with economies that find it difficult to adjust for and achieve sufficient economic growth.

Figure 5



Conclusion

It appears that South African policymakers and advisors are trying to convince the investor and business community that financial prudence will be maintained in order to avoid further credit rating downgrades and negative knock-on effects on the economy. The management of investor and business sensitivities is of the utmost importance for it could adversely influence South Africa's risk profile in local and international financial markets and as a fixed investment destination.

General Economic Indicators

Indicator	Period	Direction	Latest	Previous	2016	2011
Consumer inflation headline urban (%)	Mar-17	▼	6.1	6.3	6.3	5.0
Consumer inflation urban - excl. food, bev. & fuel (%)	Mar-17	▼	5.2	5.4	5.8	4.0
Money supply M3 eop (% Δ Y-o-Y)	Mar-17	▼	5.6	6.6	6.1	8.3
Private sector credit eop (% Δ Y-o-Y)	Mar-17	▼	4.9	5.3	5.1	6.2
Real prime overdraft rate eop (%)*	Mar-17	▲	5.0	4.8	4.4	4.8
Prime overdraft rate eop (%)	Apr-17	▶	10.50	10.50	10.50	9.00
Liquidations number sa	Mar-17	▲	174	146	161	297
Bond yield 5-10y govt eop (%)	Apr-17	▼	8.13	8.24	8.65	8.01
R / US$ average	Apr-17	▲	13.48	12.94	14.70	7.25
R / Euro average	Apr-17	▲	14.44	13.82	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.