

SOUTH AFRICAN CHAMBER OF COMMERCE AND INDUSTRY

Business Confidence Index

July 2018



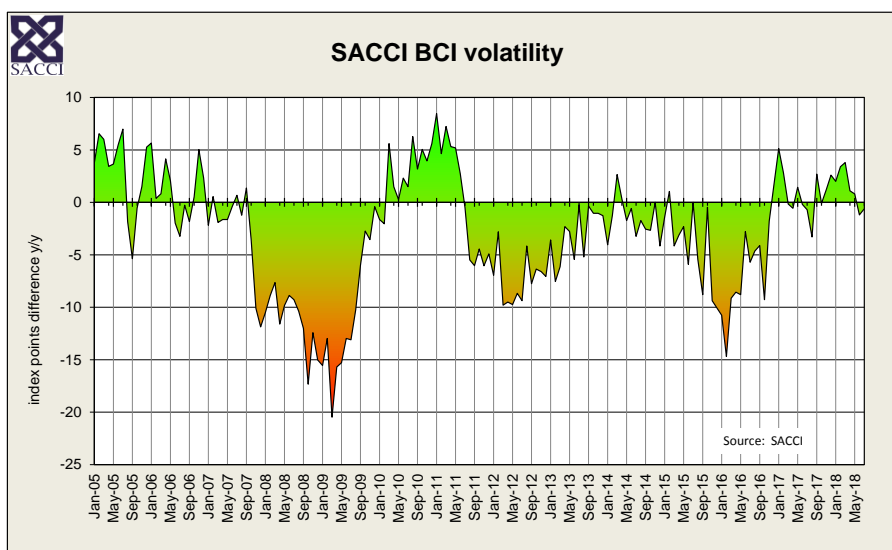
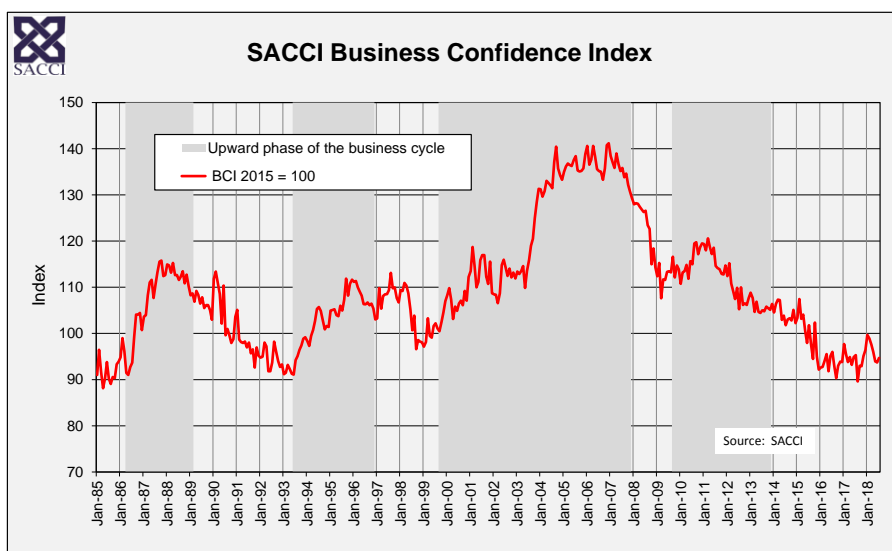
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Because of information lags and changes in expectations, the dynamics of the business mood, may, at times, be at variance with the economic environment. As a result, always read the BCI with other economic data and the accompanying economic commentary.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

The SACCI Business Confidence Index 2015=100

Month	2011	2012	2013	2014	2015	2016	2017	2018
January	119.4	112.4	108.8	104.5	103.4	92.6	97.7	99.7
February	118.0	115.2	107.7	106.4	107.4	92.7	95.5	98.9
March	120.6	110.8	104.7	107.3	103.2	94.0	93.8	97.6
April	118.7	109.2	106.9	107.2	104.1	95.5	94.9	96.0
May	117.2	107.4	104.7	102.9	100.6	91.8	93.2	94.0
June	118.5	109.9	104.4	103.8	97.9	95.1	94.9	93.7
July	114.6	105.2	105.0	101.8	101.8	96.0	95.3	94.7
August	114.2	110.0	104.8	103.0	97.6	92.9	89.6	
September	113.9	106.2	105.8	103.3	94.5	90.3	93.0	
October	112.9	106.5	105.5	102.8	102.3	93.0	92.9	
November	112.8	106.2	105.1	105.1	95.1	93.9	95.1	
December	114.7	107.7	106.4	102.2	92.2	93.8	96.4	
Average	116.3	108.9	105.8	104.2	100.0	93.5	94.4	



This month's BCI results

The SACCI Business Confidence Index (BCI) gained one index point in July 2018 and was 94.7 compared to 93.7 in June 2018. However, the BCI remained 0.6 index points below the 95.3 of July 2017. While the downward momentum of BCI slowed in June 2018, the BCI made a marginal upward turnaround in July 2018.

Six of the thirteen sub-indices of the composite BCI improved in July 2018 on their June readings and three were unchanged. In comparison, four sub-indices improved in June on their May readings and two remained unchanged. Only four sub-indices recorded negative readings in July on their June readings, compared to seven sub-indices that declined in June on their May levels.

The business climate benefited from sub-indices reflecting both real economic activity and the financial surroundings. Two of the seven real-activity sub-indices had negative month-on-month (m/m) influences and two of the six financial sub-indices had negative m/m effects on the BCI in July 2018.

The biggest positive m/m influences in July were merchandise export volumes, lower inflation and real retail sales. Merchandise import volumes, the decline in precious metal US-dollar prices and the number of new vehicle sales made the largest negative m/m impact on the BCI in July 2018.

The lower BCI in July 2018 compared to July 2017, was mainly the result of less merchandise import volumes, the weaker weighted rand and decreasing share prices on the Johannesburg Securities Exchange (JSE). Three of the seven real-activity indices made negative year-on-year (y/y) impacts on the BCI in July 2018, while four of the six financial sub-indices had negative y/y effects on the business climate.

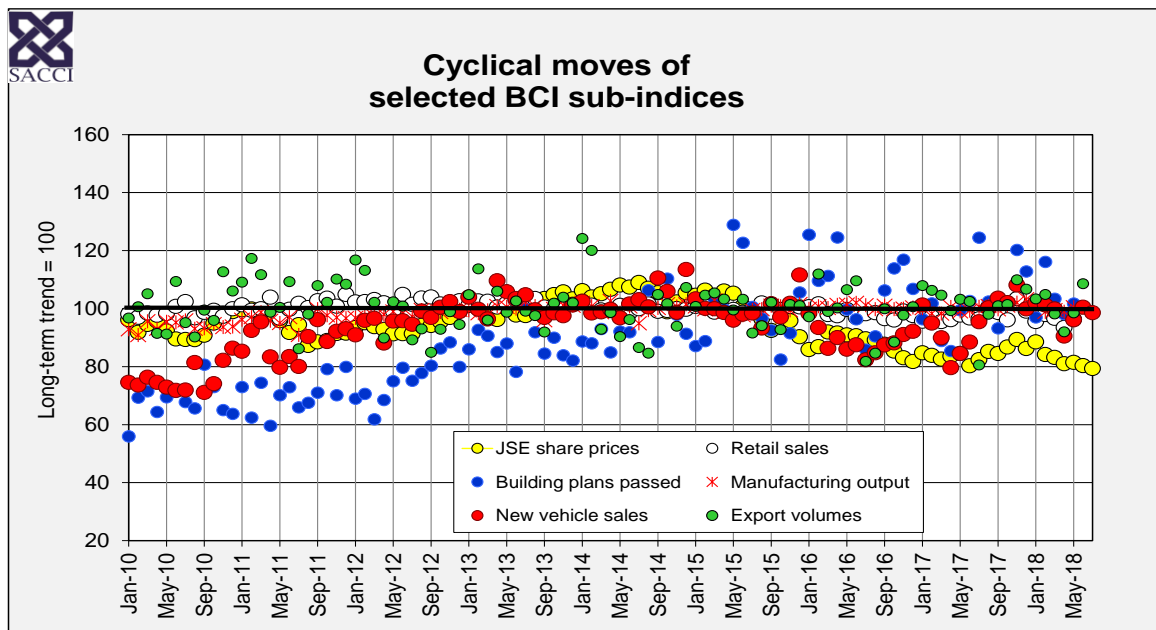
Increased new vehicle sales, lower inflation, increased merchandise import volumes and real retail sales were the sub-indices that contributed the most positively to the SACCI BCI y/y in July 2018.

Impact of BCI sub-indices on the BCI

Business climate indicators *	m/m move		y/y move	
	This month	Previous month	This month	Previous month
Energy supply	O	-	-	-
Manufacturing	+	-	+	-
Exports	+	+	+	-
Imports	-	+	-	-
Vehicle sales	-	+	+	+
Retail sales	+	-	-	-
Construction - buildings	O	-	O	+
Inflation ¹	+	+	+	+
Share prices	O	-	-	O
Real private sector borrowing	+	O	O	-
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

Economy in limbo

In the IMF's update of the World Economic Outlook (WEO) in July 2018, the IMF forecasts global economic growth in 2018 and 2019 to be 3.9 percent – unchanged from the projections of its April 2018 WEO. However, the IMF predicts that performance will become unevenly spread, with increasing risks. The rate of the present economic expansion appears to have peaked in some of the major economies, and the greater risks may have short-term effects.

Anticipated tariff increases by the USA and possible retaliatory actions by trading partners, raises the probability of international trade disruptions. Global financial markets remain accommodative, but could vary swiftly caused by trade tensions, geopolitical concerns, and rising political uncertainty. Potential portfolio adjustments, exchange rate volatility and less capital flows to emerging markets – notably those with structural weaknesses and political uncertainty, may exacerbate economic woes.

South African economic risks and prospects

Structural and geopolitical constraints became more prevalent in the South African Development Community (SADC) region. Apart from political instability, structural economic constraints are preventing the economies to reach their potential, and this renders countries vulnerable to spiralling challenges. In its Article IV report on South Africa, the IMF has raised several critical matters that should be noted:

- The debate on land reform can deter foreign investors and undermine government's efforts to attract investment.
- Land reform should be accompanied by sufficient planning.
- Non-compensation for land expropriation may worsen the uncertainty about property rights and raise concerns in respect of investment.
- A focus on agricultural productivity and improved land administration.
- South Africa's economic strengths and its integration in the world economy, its diversification and the sophisticated financial sector are highlighted.
- Continued, urgent action is needed against corruption.
- GDP growth is insufficient to raise per capita income, and therefore be inclusive.
- Unemployment rate remains unacceptably high.
- Ensure sustainability and good governance of state enterprises such as Eskom and SAA.
- Economic policy uncertainty was noted.
- Excessive interference in the economy by the state discourages private investment.
- A labour market that needs reform.

The matters raised by the IMF have already been noted by several role players in the economy. However, the execution of policy and removal of structural economic constraints need a longer-term approach. Political uncertainty and the implementation of a suitable economic policy framework, however, should be a short-term priority.

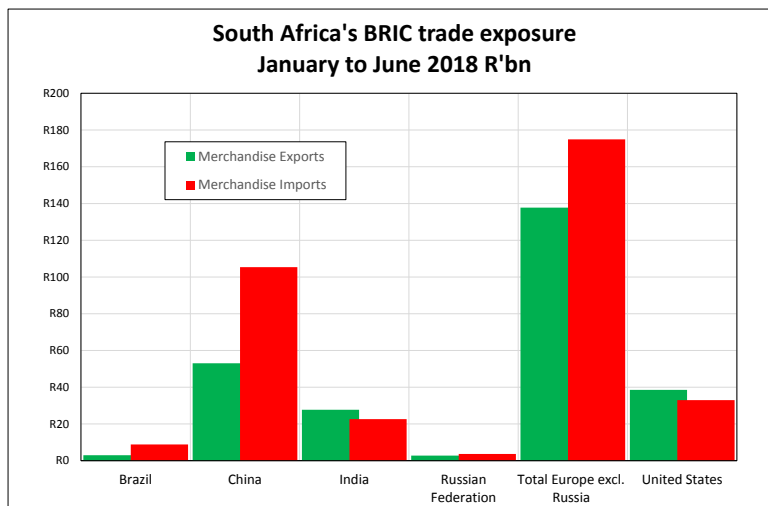
BRICS summit

The BRICS countries held their tenth summit in South Africa towards the end of July with President Cyril Ramaphosa as host. South Africa has taken over the chair from China. The summit held important prospects for South Africa. A few specific matters transpired:

- Chinese investment provides a needed economic injection.
- A loan from China to Eskom to finance its debt - but the specific detail on the terms and repayments are unknown.
- Leaders from various African countries, such as Rwanda, Angola, Senegal, Zimbabwe, Malawi and Uganda, also attended.
- Western governments and institutions, such as the IMF, are approaching the BRICS with caution, as the group has to prove it can deal with the economic interests of all member countries equally.
- The New Development Bank as an additional source of finance.
- Avenue for financing of infrastructural projects in future.
- BRICS trade relations could hedge against trade war effects.
- Prospects for non- US dollar trade transactions.

India and China are the two largest economies of the BRICS formation with total direct investment of R81.8 billion in South Africa at the end of 2016 (latest official data). This represents 4.4 percent of total foreign direct investment in South Africa, compared to 74.7 percent direct investment from Europe.

South Africa has trade deficits with Brazil (R5.8 billion), China (R52.3 billion), Russia (R0.9 billion) – BRIC total trade deficit of R53.9 billion for the first six months of 2018 (see chart below). It appears that the trade and investment benefits from BRIC to South Africa are still substantially less than with other global economic partners, if trade and investment are considered.



Source: SARS. Customs and Excise, July 2018.

Conclusion

Although there are still major economic challenges ahead for South Africa, it appears that the downward trend in the business climate since February 2018 has lost momentum and could turn more positive. This mainly depends on the removal of economic policy uncertainties, which need to be countered, and global economic relations that must be nurtured to the benefit of South Africa and all its people. Apart from the economic challenges, it is important to have a stable socio-political environment that enhances economic performance and business confidence.

General economic indicators

Indicator	Period	Direction	Latest	Previous	2017	2012
Consumer inflation headline urban (%)	Jun-18	▲	4.6	4.4	5.3	5.6
Consumer inflation urban - excl. food, bev. & fuel (%)	Jun-18	▼	4.1	4.3	4.8	4.9
Money supply M3 eop (% Δ Y-o-Y)	Jun-18	▲	5.8	5.7	6.4	5.2
Private sector credit eop (% Δ Y-o-Y)	Jun-18	▲	5.7	4.5	6.4	10.4
Real prime overdraft rate eop (%)*	Jun-18	▲	5.7	5.4	5.2	3.4
Prime overdraft rate eop (%)	Jul-18	▶	10.00	10.00	10.25	8.50
Liquidations number sa	Jun-18	▼	154	180	1868	2716
Bond yield 5-10y govt eop (%)	Jul-18	▼	8.04	8.31	7.88	6.50
R / US\$ average	Jul-18	▲	13.39	13.32	13.31	8.21
R / Euro average	Jul-18	▲	15.64	15.56	15.04	10.55
Indicator	Date	Direction	Latest	Previous	2017	2012
Income & wealth tax / GDP (%) saar	q1-18	▲	16.1	14.8	15.4	14.2
Total tax / GDP (%) saar	q1-18	▲	28.6	27.5	28.0	26.3
Public sector borrowing requirement / GDP (%)	q1-18	▼	0.4	3.5	4.4	6.0
Public sector expenditure / GDP (%)	q1-18	▲	27.5	27.4	27.5	27.2
Budget balance / GDP (%)	q1-18	▼	-2.4	-3.1	-4.4	-5.2
Imports / GDE (%)	q1-18	▼	28.4	29.5	28.8	30.7
Exports / GDP (%)	q1-18	▼	28.0	30.5	29.8	29.7
Net foreign investment flows / GDP (%)	q1-18	▼	4.8	5.9	2.9	4.3
Current account balance / GDP (%)	q1-18	▼	-6.3	-1.4	-2.5	-5.1
Gross domestic saving / GDP (%) saar	q1-18	▼	13.8	15.8	16.2	14.8
Gross capital formation / GDP (%) saar	q1-18	▼	18.6	18.7	18.6	20.0
Net fixed capital formation / GDP (%)	q1-18	▼	-	-	5.2	6.1
GDP growth (% Δ Y-o-Y)	q1-18	▼	0.8	1.5	1.3	2.2

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.