SOUTH AFRICAN CHAMBER OF COMMERCE AND INDUSTRY

Business Confidence Index

June 2017

SACCI

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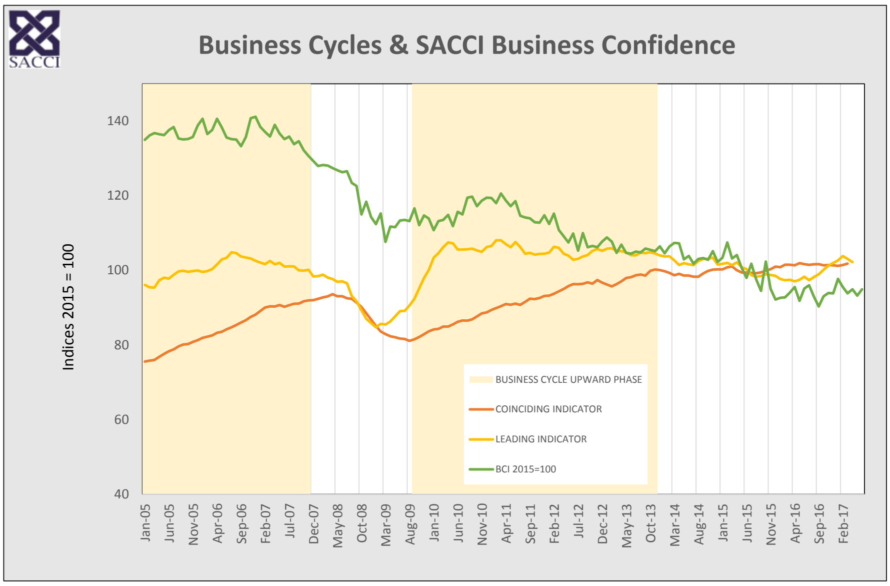
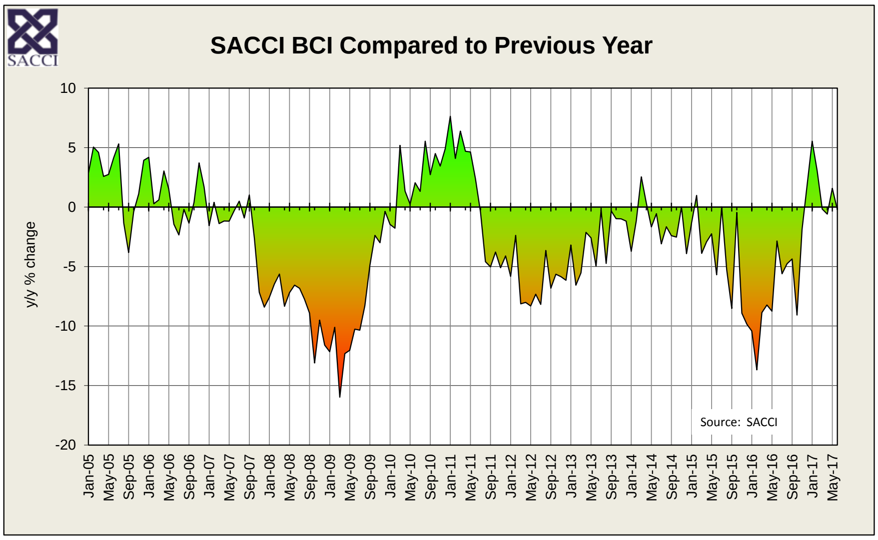
Because of information lags and changes in expectations, the dynamics of the business mood, at times, may be at variance with the economic environment. As a result, always read the BCI with other economic data and the accompanying economic commentary. For notes on the BCI, see the SACCI website at www.sacci.org.za.

The SACCI Business Confidence Index
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	93.2
June	115.7	118.5	109.9	104.4	103.8	97.9	95.1	**94.9**
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

SACCI's Business Confidence Index picked up by 1.7 index points to 94.9 in June 2017 from 93.2 in May 2017. Given an unpredictable economic and political situation, business apparently remained resilient and proved perseverance. In June 2017, the BCI was 0.2 index point below last year's June level of 95.1. The BCI averaged 95 in the first six months of 2017 compared to 93.6 in the first six months of 2016 and 93.3 in the second half of 2016. In general, the SACCI BCI moved sideways since the end of 2015 with an average of 94 reflecting a business environment and business climate that lacks direction.

The **SACCI's** Business Confidence Index (BCI) at present is informed by deliberations on economic policy that could adversely affect investor and business confidence. This could cause the economy to stutter further while battling recessionary conditions and could have lasting effects on unemployment, income distribution and rising poverty. A realistic approach that enhances the outlook for the private sector and its ability to mobilise capital could turn the economy away from faltering further.

Five sub-indices of the BCI influenced the BCI positively month-on-month (m/m) in June 2017, four remained unchanged and four effected the BCI negatively. The positive and unchanged m/m sub-indices caused the BCI to improve by 1.7 index point m/m. Two of the four negative sub-indices were on real activity and two were financial. One of the seven real activity sub-indices negatively affected business confidence m/m in June 2017 and three of the six financial sub-indices declined on May 2017.

The main contribution to the monthly improvement to the BCI in June 2017 was made by higher merchandise import and export volumes, the improved rand exchange rate weighted against the US dollar, British pound and the euro, and increased new vehicle sales. The largest negative monthly contribution to the BCI was by the decline in share prices on the JSE.

The BCI in June 2017 remained about the same as in June 2016 although seven of the thirteen sub-indices deteriorated year-on-year (y/y). Three of the seven real activity sub-indices declined over the year to June 2017 and four of the six financial sub-indices weakened.

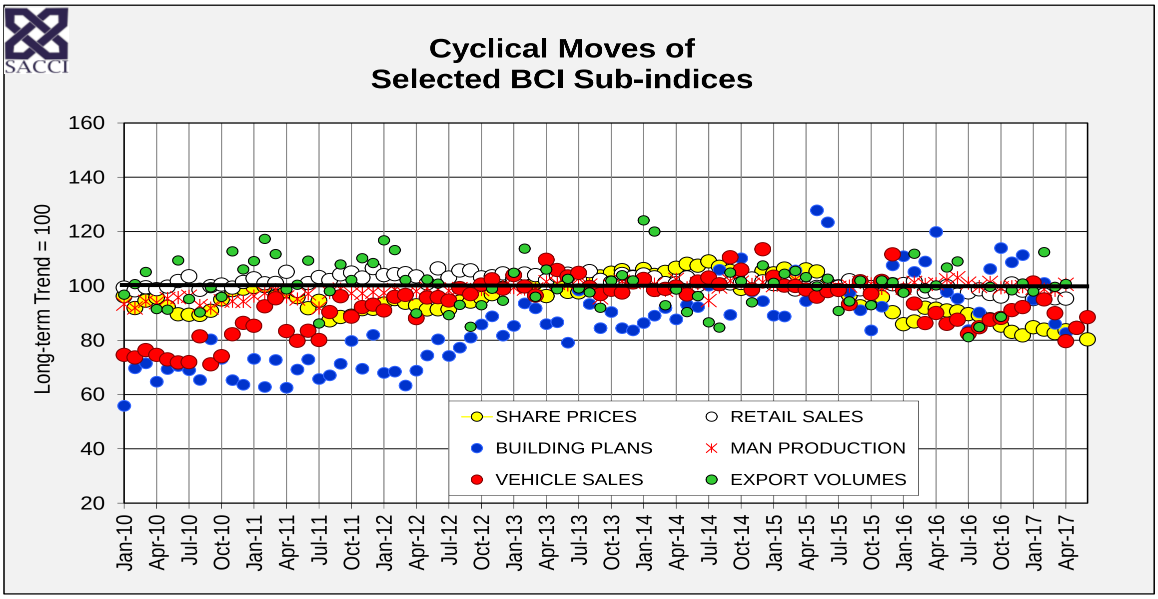
The stronger weighted rand exchange rate, increased merchandise import volumes and lower consumer inflation made the most notable positive y/y contributions to the BCI between June 2017 and June 2016. The reduced real value of building plans passed, a decline in share prices on the JSE, and the higher real cost of financing made the largest negative contributions to the business climate between June 2016 and June 2017.

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	+	+	+	-
Retail sales	o	-	-	-
Construction - buildings	-	-	-	-
Inflation[1]	-	+	+	+
Share prices	-	+	-	-
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

Recessionary Economic Conditions

There may still be a misinterpretation of what an economic recession, an economic contraction or the downward phase of the business cycle entails. It becomes even more complex by the "technically" explaining what a recession involves. When an economy that is in a recession gets the label of junk status, the stance of the economy becomes even more complicated. If structural economic deficiencies become part of the assessment, the challenges for recuperation become more multifaceted.

The South African economy is in the downward phase of the business cycle since December 2013 (43 months) - the longest downward phase since the March 1989 to May 1993 phase of 51 months. South Africa registered a decline in the gross domestic product in the 1st quarter of 2017 compared to the 4th quarter of 2016 and it implied that South Africa is in a technically recession – the second technical recession in less than eight years.

However, since 2015 through 2016, while the economy was in a downward phase of the business cycle, the performance mainly subdued while business confidence reached an historic low level in September 2016. The confirmation of the recession was accompanied by downgrades from all the reputable credit rating agencies.

Supply Constraints

Although global economic activity accelerated in the 1st quarter of 2017 and was supported by higher growth in emerging markets, South Africa could not take advantage of the improving world economy. Commodity prices also improved in the 1st quarter of 2017, but have since slowed down - especially the price of crude oil.

The decline in the real GDP in the 1st quarter of 2017 was broad-based except for the primary sector improving from a low 1st quarter 2016. See Table below. Real activity was tapered down in the tertiary subsectors with value added by the trade sector decreasing notably as wholesale and retail trade activity declined on account of weak demand. Growth in the transport sector and the financial sector also slowed down but were still positive y/y.

GDP GROWTH

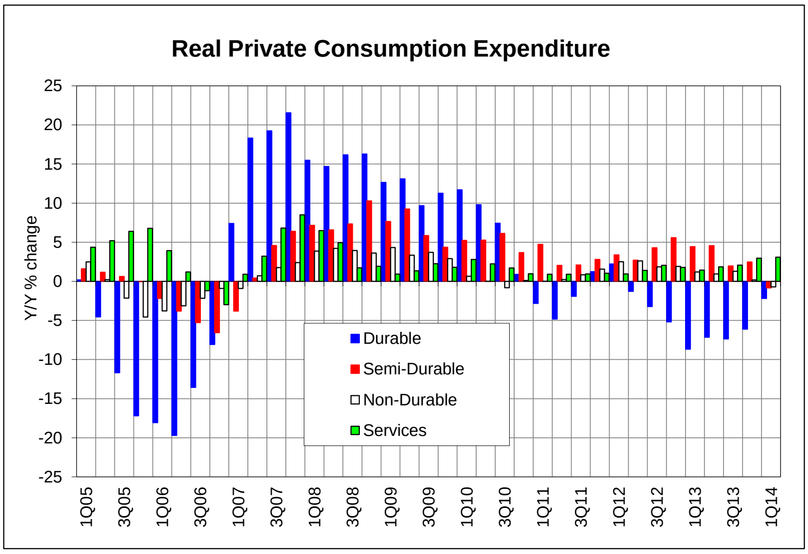
SECTOR	2015	1Q 2016	2Q 2016	3Q 2016	4Q 2016	2016	1Q 2017
	Y-o-Y %Δ	Y-o-Y %Δ	Y-o-Y %Δ	Y-o-Y %Δ	Y-o-Y %Δ	Y-o-Y %Δ	Y-o-Y %Δ
Agriculture, forestry and fishing	**-4.9**	-4.8	-16.0	-5.2	2.4	**-5.9**	10.3
Mining and quarrying	**4.0**	-11.3	-4.4	-0.1	-3.1	**-4.7**	6.9
Transport and communication	**1.2**	-0.9	0.3	0.4	1.7	**0.4**	1.5
Finance, real estate and business services	**2.8**	2.2	2.0	1.7	1.8	**1.9**	0.9
General government services	**0.8**	1.2	1.1	1.1	2.2	**1.4**	0.8
Personal services	**1.1**	1.0	1.1	1.5	1.1	**1.2**	0.8
Construction	**1.7**	1.6	0.1	1.0	0.2	**0.7**	-0.4
Manufacturing	**-0.2**	-0.8	3.8	0.5	-0.7	**0.7**	-0.9
Wholesale and retail trade; hotels and restaurants	**1.4**	1.3	1.7	0.7	1.1	**1.2**	-1.0
Electricity and water	**-1.5**	-5.6	-3.1	-2.1	-3.2	**-3.5**	-1.6
GDP excluding agriculture	**1.5**	**-0.3**	**1.1**	**0.8**	**0.7**	**0.6**	**0.7**
GDP at market prices	**1.3**	**-0.6**	**0.3**	**0.7**	**0.7**	**0.3**	**1.0**

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

Demand Limitations

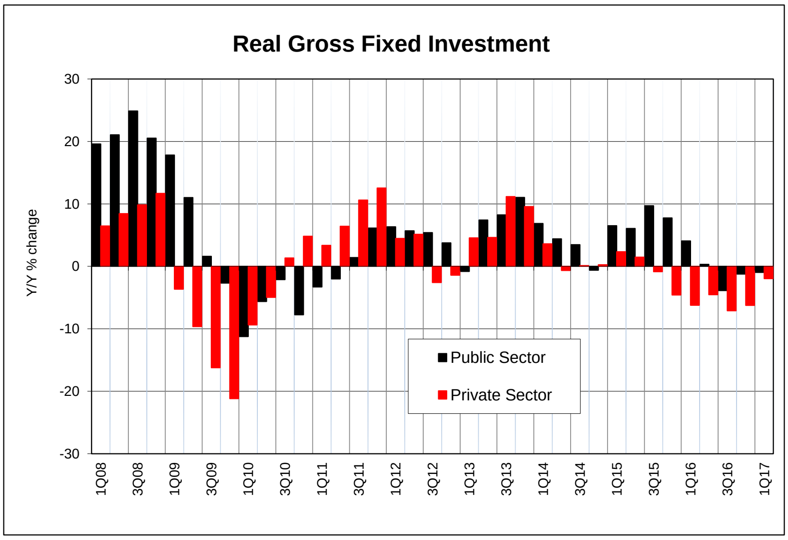
Real final consumption expenditure by consumers declined in the 1st quarter of 2017. Real spending on durable and semi-durable goods in particular contracted sharply. The decline in households' real disposable income in the 1st quarter of 2017 and servicing debt, limited spending ability.

Chart 1



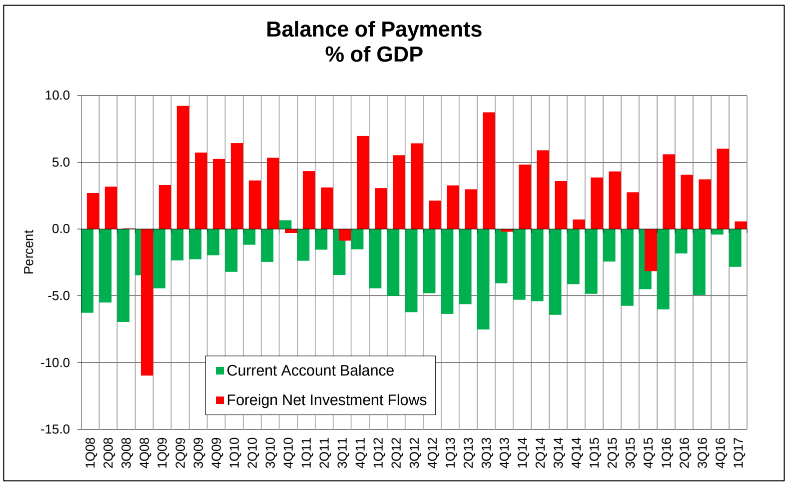
Real gross fixed capital expenditure slowed in the in 1st quarter of 2017. After five quarters of decline, real capital spending by the private sector was positive, mainly due to investment on residential buildings and machinery and equipment. Investment spending by general government slowed. Real fixed investment by public corporations declined in the 1st quarter of 2017.

Chart 2



The deficit on the services account of the balance of payments (BoP) increased in the 1st quarter of 2017 and accompanied by a stable trade surplus led to a larger the deficit on the current account of the BoP from 1.7% of GDP in the 4th quarter of 2016 to 2.1% of GDP in the 1st quarter of 2017.

Chart 3



Ad Hoc Events

A number of events took place during June 2017 that did not only increased uncertainty in the economic policy environment and business confidence, but also effected short-term economic variables and financial markets such as the volatility of the rand.

The following events had and could have a profound impact on business and investor confidence:

- South Africa's rand fell more than 1.5 % on Monday 19 June, after the Public Protector recommended constitutional changes to be made to the role of the Reserve Bank.

- The announcement of the minimum threshold for black ownership of mining companies to be raised to 30 percent. The details of the much-contested revised mining charter increased the threshold from 26 percent. The South Africa's mining industry will challenge the new charter indicating that it has not been consulted enough.

- The credit rating agency Moody's Investor Services has lowered the rating of South Africa's government debt in both foreign currencies and in rand. According to Moody's, the main reasons for the downgrade was – weakening institutional framework; low growth prospects and policy uncertainty; slow progress on structural reforms; erosion of fiscal resilience.

- Introduction of FICA (Financial Intelligence Centre Act 38 OF 2001) in order to combat illegal financial transactions and fraud - including money laundering, corruption, terrorist financing and tax evasion.

Conclusion

Working a country's way out of a downward phase of the business cycle under normal economic circumstances can be achieved by anti-cyclical policy options that are well known in successful countries. However, to find a way out of a recession (more complex) given a less fortunate credit rating makes it a matter of urgency. Responsible discussions on the economic way forward will have to take place before unintended consequences of economic regression; unemployment and increased poverty are set in motion that could lead the economy into a long-term structural trap. In this context, business and households will have to be convinced of the road ahead before confidence will recover.

General Economic Indicators

Indicator	Period	Direction	Latest	Previous	2016	2011
Consumer inflation headline urban (%)	May-17	▲	5.4	5.3	6.3	5.0
Consumer inflation urban - excl. food, bev. & fuel (%)	May-17	▲	5.0	4.9	5.8	4.0
Money supply M3 eop (% Δ Y-o-Y)	May-17	▲	6.0	5.3	6.1	8.3
Private sector credit eop (% Δ Y-o-Y)	May-17	▲	6.7	5.9	5.1	6.2
Real prime overdraft rate eop (%)*	May-17	▼	5.2	5.3	4.4	4.8
Prime overdraft rate eop (%)	Jun-17	▶	10.50	10.50	10.50	9.00
Liquidations number sa	May-17	▼	128	152	161	297
Bond yield 5-10y govt eop (%)	Jun-17	▼	8.13	8.01	8.65	8.01
R / US$ average	Jun-17	▼	12.90	13.25	14.70	7.25
R / Euro average	Jun-17	▼	14.50	14.65	16.28	10.08

Indicator	Date	Direction	Latest	Previous	2016	2011
Income & wealth tax / GDP (%) saar	q1-17	▲	16.3	14.6	15.1	14.1
Total tax / GDP (%) saar	q1-17	▲	29.0	27.7	28.3	26.0
Public sector borrowing requirement / GDP (%)	q1-17	▼	0.2	1.7	3.9	4.2
Public sector expenditure / GDP (%)	q1-17	▶	28.3	28.3	28.2	27.1
Budget Balance / GDP (%)	q1-17	▼	-2.0	-2.2	-4.2	-4.0
Imports / GDE (%)	q1-17	▼	29.1	29.4	30.2	29.9
Exports / GDP (%)	q1-17	▼	29.9	30.0	30.3	30.4
Net foreign investment flows / GDP (%)	q1-17	▼	0.6	7.3	5.2	3.4
Current account balance / GDP (%)	q1-17	▲	-2.8	-0.4	-3.3	-2.2
Gross domestic saving / GDP (%) saar	q1-17	▲	17.3	16.9	16.1	17.5
Gross capital formation / GDP (%) saar	q1-17	▲	19.4	18.7	19.4	19.7
Net fixed capital formation / GDP (%)	q1-17	▼	-	-	5.4	6.2
GDP growth (% Δ Y-o-Y)	q1-17	▲	**1.0**	**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, beverage & fuel.