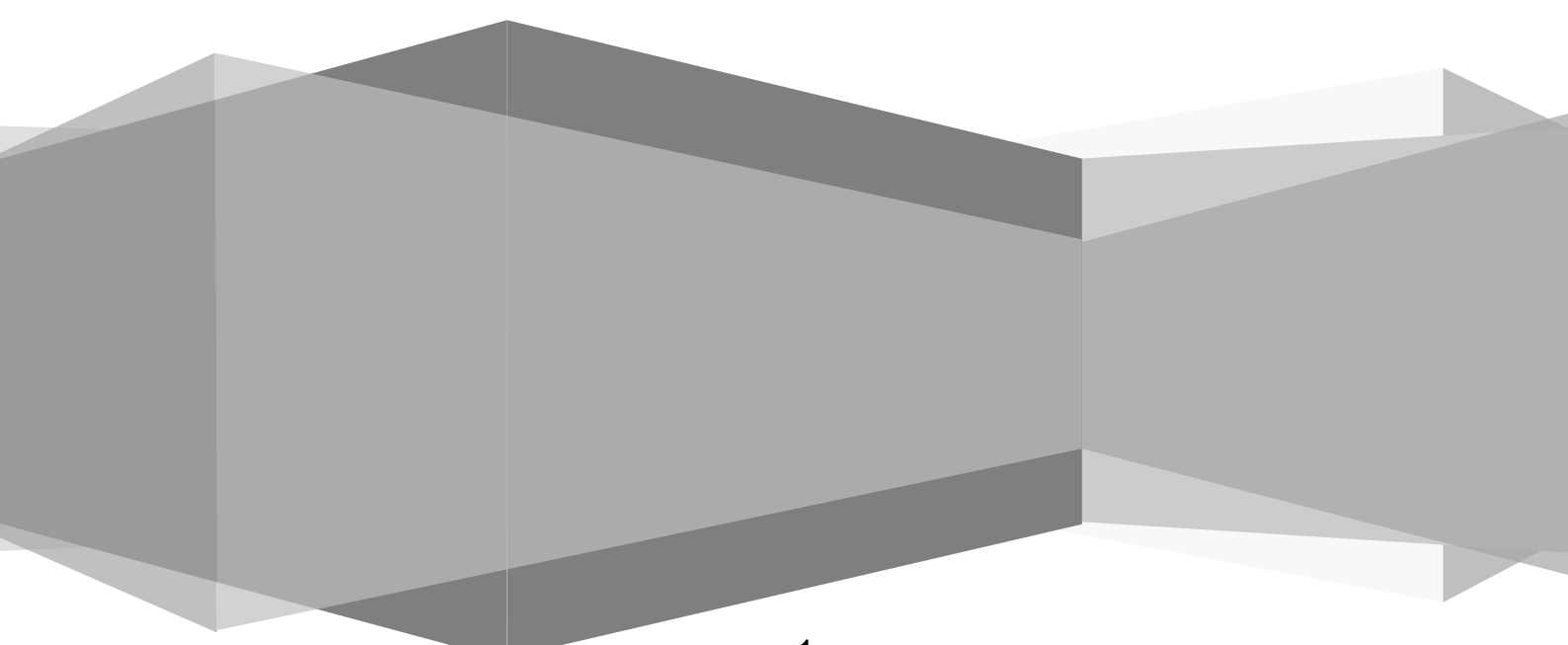




SOUTH AFRICAN CHAMBER OF COMMERCE AND INDUSTRY

**Business Confidence Index
February 2015**



South African Chamber of Commerce and Industry

Business Confidence Index

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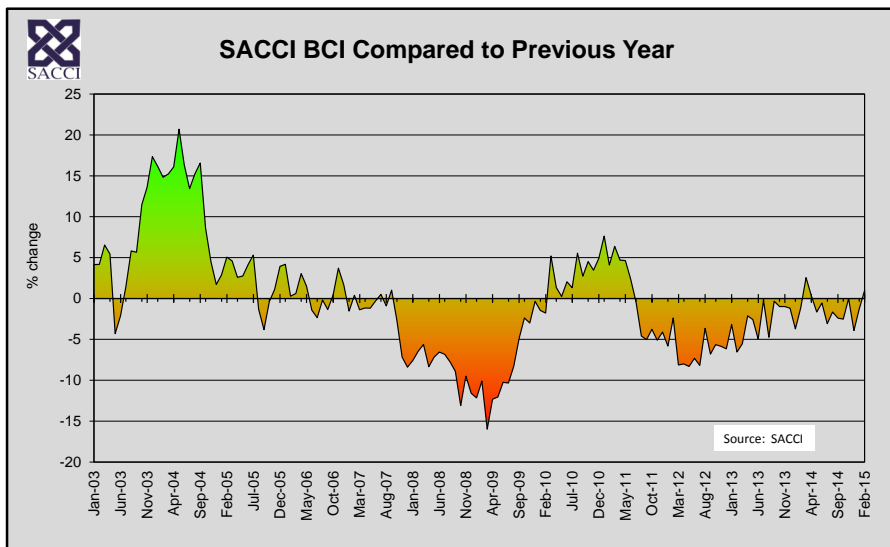
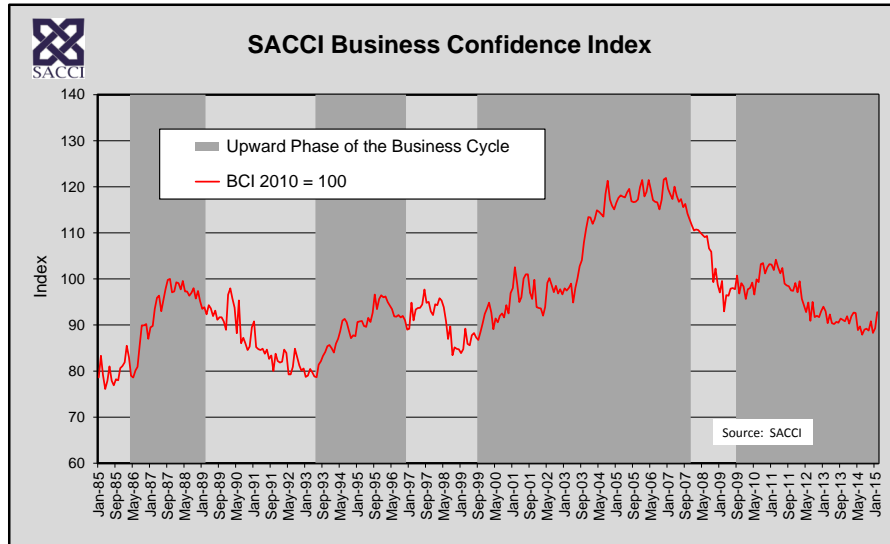
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Because of information lags and changes in expectations, the dynamics of the business mood, at times, may be at variance with the economic environment. As a result, always read the BCI with other economic data and the accompanying economic commentary.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

The SACCI Business Confidence Index 2010=100

Month	2008	2009	2010	2011	2012	2013	2014	2015
January	110.7	97.2	95.8	103.1	97.1	94.0	90.5	89.3
February	110.9	99.7	97.9	101.9	99.5	93.0	91.9	92.8
March	110.8	93.1	97.9	104.2	95.7	90.4	92.7	
April	110.2	96.6	97.9	102.5	94.3	92.3	92.6	
May	109.7	96.5	96.7	101.2	92.8	90.4	88.9	
June	109.2	98.0	100.0	102.4	94.9	90.2	89.7	
July	109.5	98.1	99.4	99.0	90.9	90.7	87.9	
August	106.8	97.9	103.3	98.6	95.0	90.5	89.0	
September	106.1	100.9	103.6	98.4	91.7	91.4	89.2	
October	99.3	97.0	101.3	97.5	92.0	91.1	88.8	
November	102.3	99.2	102.6	97.4	91.7	90.8	90.8	
December	98.9	98.5	103.3	99.1	93.0	91.9	88.3	
Average	107.0	97.7	100.0	100.4	94.1	91.4	90.0	



This Month's BCI Results

In February 2015, **SACCI's** Business Confidence Index (BCI) accelerated surprisingly by 3.5 index points to 92.8 from 89.3 in January 2015 and follows on the 1.0 index point increase in January 2015. The February 2015 BCI is also 0.9 index point higher than a year ago. In 2014, the BCI initially improved in the first four months before eventually following a downward trend for the rest of 2014. This month's breakaway to above 90 is the first since November 2014 and the highest since the 93 of February 2013.

Rather than broad based, the marked increase of the BCI can be ascribed to more specific developments. The BCI average for January and February in both 2015 and 2014 measured 91.2. Whether an increase in business confidence will generally be supported by economic and business developments in 2015 is still uncertain.

Higher import and export volumes were the main source for the latest overall rise of the BCI. Although the month-on-month (m/m) changes in export and import volumes were negative in February, it remained on relative high levels. Five of the thirteen sub-indices made negative m/m impacts in February. The real economic activity sub-indices were leaning towards negative with four of the seven sub-indices being negative m/m while the financial component of six sub-indices had only one negative m/m impact coming from precious metal prices.

The year-on-year (y/y) improvement in the BCI of one index point appears tentative given that eight of the thirteen sub-indices had negative impacts on the BCI. Four of the real activity indices and four financial sub-indices were negative y/y.

Four of the seven real activity sub-indices made a positive y/y contribution to the BCI in January 2015 compared to three in February 2015. Export volumes changed from positive y/y in January to negative in February. More financial sub-indices were negative in February 2015 compared to a year ago. The weighted exchange rate of the British pound, US dollar and euro and the volume of private sector borrowing made a positive y/y impact on the BCI in February 2015.

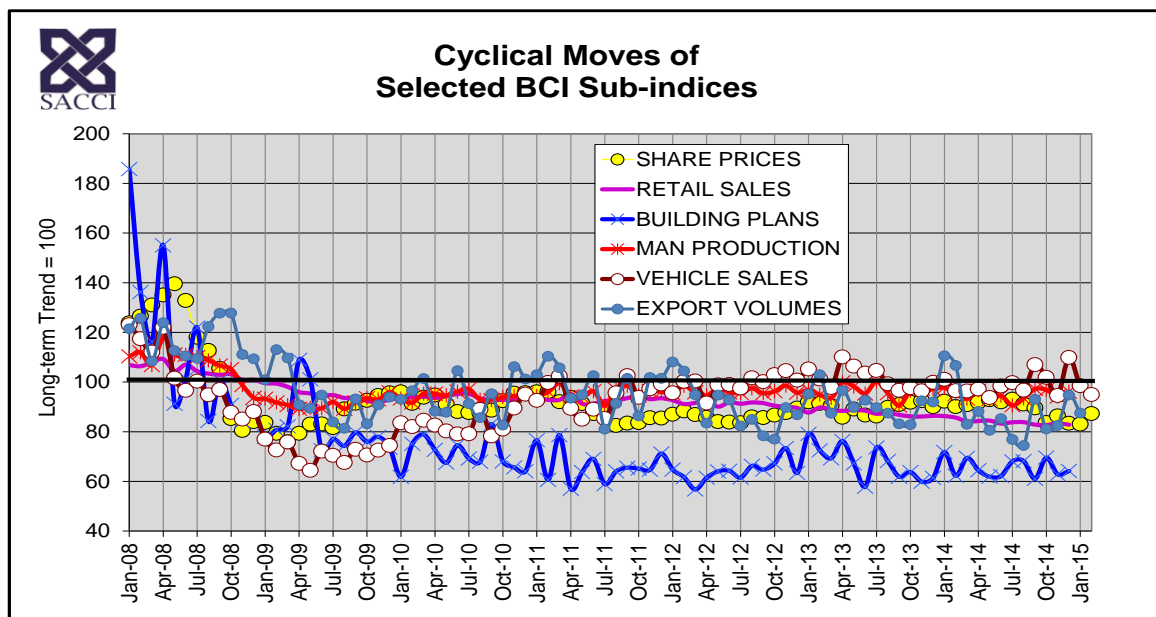
It appears that business will remain sceptical while awaiting some convincing policy direction. It must give credence to the role and contribution of the private sector facing the challenges of South Africa. An improved global economic situation could also augment the business mood.

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
Municipal Services	0	0	+	+
Manufacturing	+	-	-	-
Exports	-	+	-	+
Imports	-	+	+	+
Vehicle sales	-	-	-	-
Retail sales	-	+	-	-
Construction - buildings	+	-	+	+
Inflation ¹	0	0	-	-
Share prices	+	0	-	-
Real private sector borrowing	+	-	+	+
Real financing cost	0	-	-	-
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 at an Impasse

The Budget for 2015/16 was the most important event during February to give direction to a lacklustre economic performance. Serious structural deficiencies in service delivery by the public sector to households, businesses and the public in general are preventing the economy to perform near its potential.

It is disappointing that the Budget was rather approached as an accounting-balancing- the-books exercise than inspiring the economy. Prevailing weaker economic circumstances in South Africa's BRICK partners, except for India, place an impediment on an important part of the RSA's export market. With economic growth in Europe barely positive and with Europe's role as an important trade and investment partner of South Africa, foreign demand and investment appear to be an obstacle in the coming year. World commodity prices also remain depressed as China is shifting its economy from fixed investment dominated to producing consumer goods and services. The RSA economy domestically also remains under strain as both households and the general government are grappling with servicing high debt levels.

The Minister of Finance found it problematic to make an important shift in the Budget as his main difficulty was to contain the deficit and find the revenue to do so. Many structural matters in the public sector that need urgent attention were only addressed superficially without indicating a longer-term remedy. This was notably the case with some parastatals that do not only have financial difficulties, but also lack the structural and management capacity to deliver the goods or services for the economy to perform. It is apparent that government is shying away from a business-like approach for these state enterprises and rather burden them with the duty of development agencies.

Public Finances in a Logjam

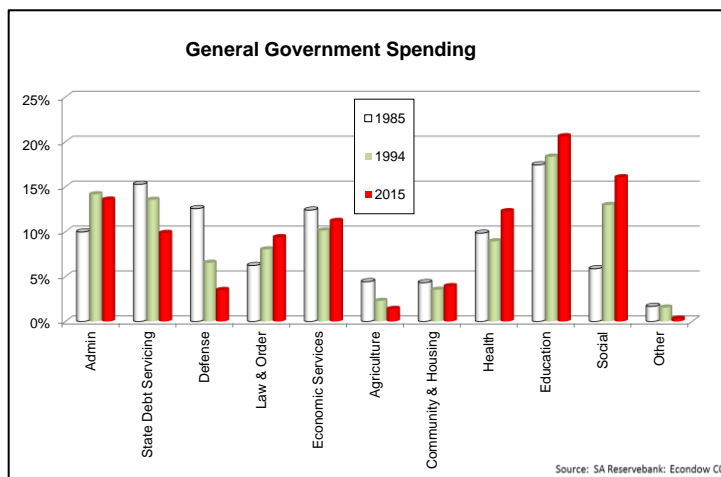
It is important to note a few notable changes between the Revised Budget Estimates for 2014/15 and the Budget for 2015/16.

- Debt-service costs to rise from 10.1% of total expenditure to 10.3%.
- Public debt is to rise from 42% of GDP to 43.3% in 2015/16. Government debt was at a low of 22% to GDP in 2008/09.
- The Main Budget deficit is to decline from 4.7% of GDP to 4.1% of GDP.
- Tax on persons and individuals to increase from 35.8% of total tax revenue to 36.4%.
- The general fuel levy to increase from 4.9% to 5.1% of total tax revenue – an escalation from R48.2 billion to R55.7 billion – a 15.5% increase.

- Compensation of employees to increase by 7.5% - with inflation estimated (by Treasury) at 4.3% - roughly providing for a 3% real increase.
- Social benefits to increase by 10.4%, and
- Housing and community amenities to increase by 10.6%.

From the information cited above it is clear that there is still a strong bias towards social spending. Social spending is an increasing priority notwithstanding that it already makes up 65% of total spending (excluding debt-service costs). The chart below reflects changing priorities. The social spending imperative is one of the reasons for an inflexible budget fearing subsequent social and political implications.

Public finance has been jolted into a problematic stalemate that will make it tough to alter if economic conditions should necessitate it. It is therefore a challenge to gather much positive out of Budget 2015/16 that should enhance business confidence. Following this uncertainty, much needed growth and job creation by the private sector may be sacrificed.



Inflation Slows

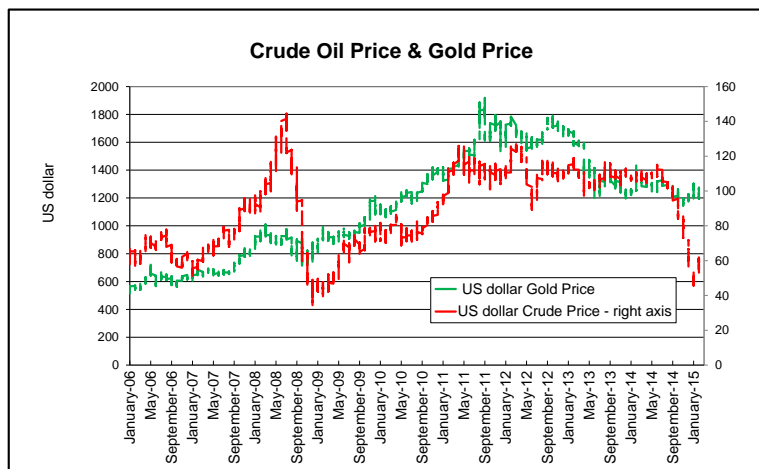
The decline in the crude oil price started in July 2014 from about 110 US dollar per barrel and continued to the middle of January 2015. This decline provided much and timely relief to the consumer and some parastatals like Eskom and SAA. Headline consumer inflation (CPI) and in producer inflation (PPI), reflected this decline. Unfortunately, the weaker rand prevented all the advantages accruing to the economy. Leeds and lags also prevented the benefits of the lower crude oil price showing up immediately.

Since middle January 2015 the crude price again started to increase from the low of some 46 US dollar per barrel to about 61 US dollar end of February. The inflation outlook for the short-term, however, still looks promising. Real household disposable income should also benefit from the lower fuel price over the medium term. Unfortunately, higher personal income tax could curtail

expenditure of higher income groups while the much higher fuel levy will affect all income groups from April 2015 onwards when it is introduced.

PPI and CPI Inflation Rates

Type	Consumer Inflation %		Type	Producer Inflation %	
	Jan 2014	Jan 2015		Jan 2014	Jan 2015
Headline	5.8	4.4	Manufactured	7.0	3.5
Excl. food, fuel & beverages	5.4	5.8	Electricity and Water	14.5	9.0
Services	6.0	5.8	Intermediate	9.3	3.4
Food	4.3	6.5	Agriculture, Forestry & Fishing	5.6	-1.8



Conclusion

The Budget did not do much to quell the concerns of business about the direction the economy is moving in. There is a sense that government still sees itself as the main vehicle to propel the economy to a better performance. Instead, government should redefine its role as supportive and enhancing and believe in the private individual's and business's attributes to achieve higher output and create employment. This could relieve the government of the burden to distribute dwindling wealth and unattainable social objectives. The standoff in business confidence will continue until the private sector sense a changing business milieu.

General Economic Indicators

Indicator	Period	Direction	Latest	Previous	2014	2009
Consumer inflation headline urban (%)	Jan-15	▼	4.4	5.3	5.8	11.5
Consumer inflation urban - excl. food, bev. & fuel (%)	Jan-15	▶	5.8	5.8	5.4	11.5
Money supply M3 (% Δ Y-o-Y)	Jan-15	▼	7.3	7.3	6.2	14.8
Private sector credit (% Δ Y-o-Y)	Jan-15	▶	8.5	8.5	6.1	14.7
Real prime overdraft rate eop (%)	Jan-15	▶	3.3	3.3	3.3	8.3
Liquidations number sa	Jan-15	▲	149	137	2064	4133
Bond yield 5-10y govt eop (%)	Feb-15	▲	7.05	6.65	6.65	8.39
R / US\$ average	Feb-15	▲	11.58	11.55	10.84	8.43
R / Euro average	Feb-15	▼	13.14	13.42	14.39	11.69
Prime overdraft rate eop (%)	Feb-15	▶	9.25	9.25	8.5	15.0

Indicator	Date	Direction	Latest	Previous	2013	2008
Income & wealth tax / GDP (%) saar	q3-14	▼	13.4	16.6	14.4	15.0
Total tax / GDP (%) saar	q3-14	▼	25.8	28.3	26.7	26.8
Public sector borrowing requirement / GDP (%)	q3-14	▲	6.9	4.2	5.9	2.0
Public sector expenditure / GDP (%)	q3-14	▲	28.1	28.0	27.6	26.0
Budget Balance / GDP (%)	q3-14	▲	-8.5	-3.8	-4.7	-0.3
Imports / GDE (%)	q3-14	▼	32.3	32.5	32.5	36.6
Exports / GDP (%)	q3-14	▶	30.7	30.7	31.0	35.6
Net foreign financial flows / GDP (%)	q3-14	▲	6.1	5.5	3.7	3.2
Current account balance / GDP (%)	q3-14	▼	-7.1	-5.6	-5.8	-5.5
Gross domestic saving / GDP (%) saar	q3-14	▲	14.4	14.1	14.4	17.5
Gross capital formation / GDP (%) saar	q3-14	▲	20.5	20.3	20.1	23.0
Net fixed capital formation / GDP (%)	q3-14	▼	-	-	7.0	10.2
GDP growth (% Δ Y-o-Y)	q4-14	▼	1.3	1.6	2.2	3.2

Notes: Δ=change; eop=end of period; Y-o-Y=year-on-year; q=quarter; saar=seasonal adjusted annual rate; GDP=Gross Domestic Product; GDE=Gross Domestic Expenditure; sa=seasonally adjusted.