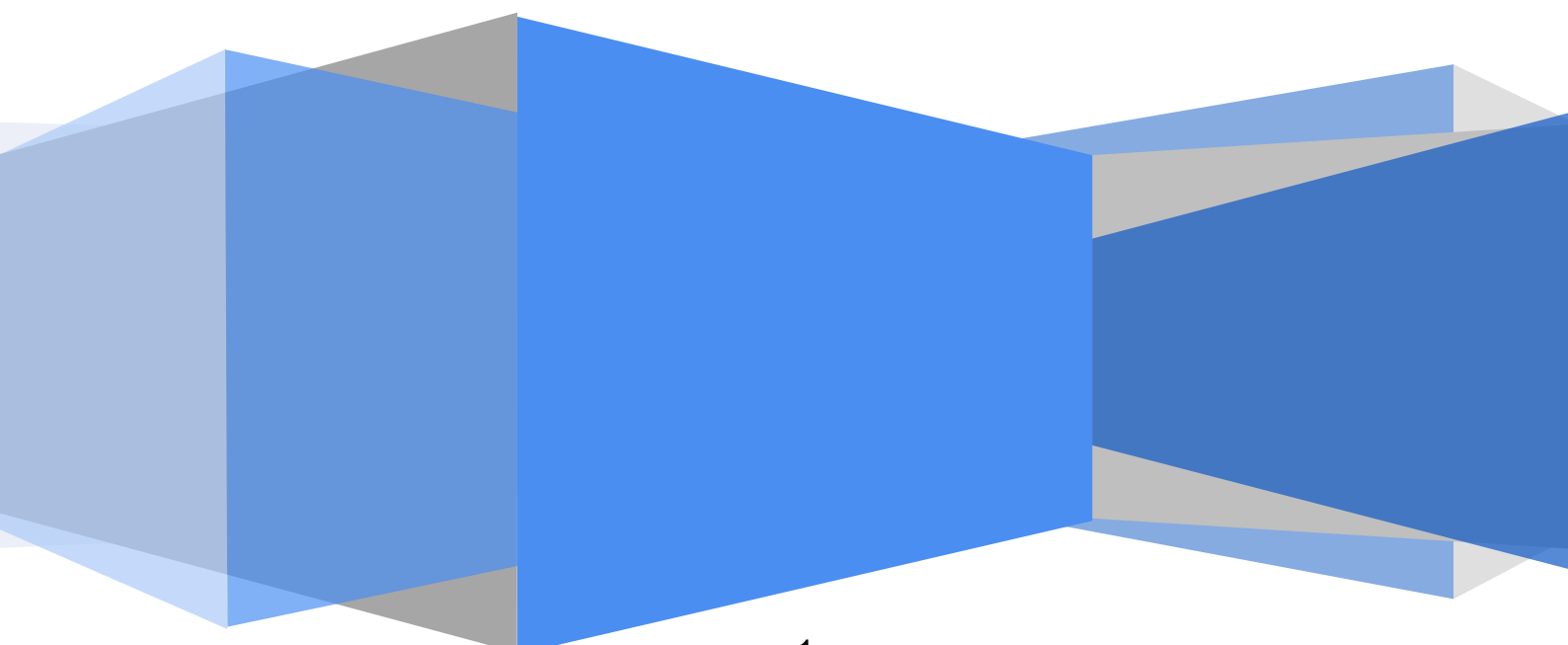




# **SOUTH AFRICAN CHAMBER OF COMMERCE AND INDUSTRY**

**Business Confidence Index  
December 2015**



**South African Chamber of Commerce and Industry  
Business Confidence Index  
December 2015**

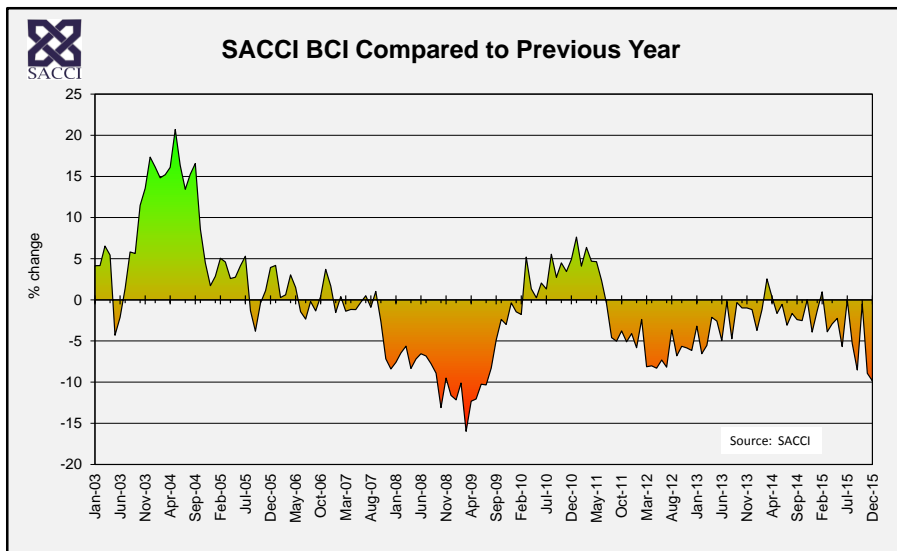
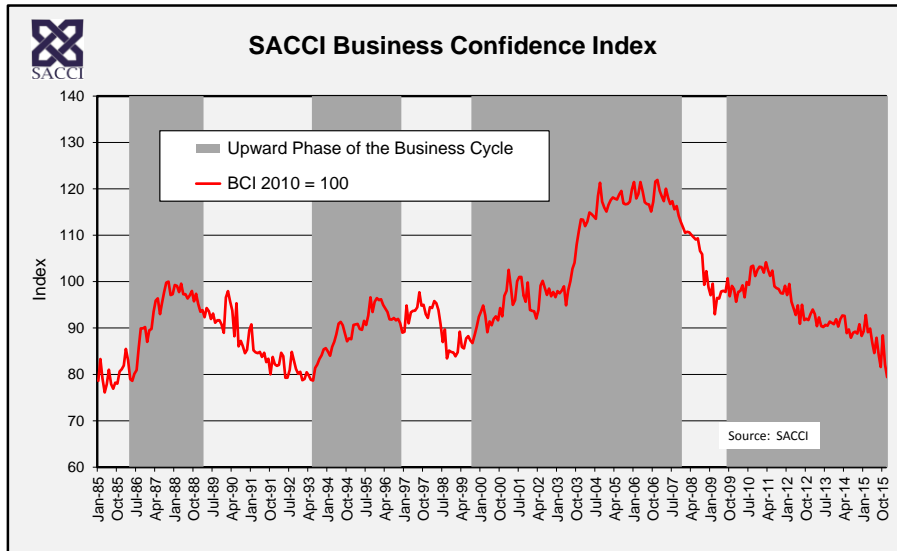
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*Because of information lags and changes in expectations, the dynamics of the business mood, at times, may be at variance with the economic environment. As a result, always read the BCI with other economic data and the accompanying economic commentary. For notes on the BCI, see the SACCI website at [www.sacci.org.za](http://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	89.1
April	110.2	96.6	97.9	102.5	94.3	92.3	92.6	89.9
May	109.7	96.5	96.7	101.2	92.8	90.4	88.9	86.9
June	109.2	98.0	100.0	102.4	94.9	90.2	89.7	84.6
July	109.5	98.1	99.4	99.0	90.9	90.7	87.9	87.9
August	106.8	97.9	103.3	98.6	95.0	90.5	89.0	84.3
September	106.1	100.9	103.6	98.4	91.7	91.4	89.2	81.6
October	99.3	97.0	101.3	97.5	92.0	91.1	88.8	88.4
November	102.3	99.2	102.6	97.4	91.7	90.8	90.8	82.7
December	98.9	98.5	103.3	99.1	93.0	91.9	88.3	<b>79.6</b>
<b>Average</b>	<b>107.0</b>	<b>97.7</b>	<b>100.0</b>	<b>100.4</b>	<b>94.1</b>	<b>91.4</b>	<b>90.0</b>	<b>86.4</b>



## This Month's BCI Results

Matters ranging from changing the guard at Treasury to financial risk assessments in addition to tentative global and domestic economic developments, impacted negatively on the business climate in December 2015. Some expected, but also unpredictable decisions, contributed to uncertainty with strong responses from notable financial markets. As a result, the **SACCI** Business Confidence Index (BCI) slipped back further to 79.6 in December - the lowest level for the BCI in 2015. The BCI declined by 3.1 index points from 82.7 in November 2015 and by 8.7 between December 2014 and December 2015. The annual average of 86.4 for the BCI for 2015 is the lowest annual average since the average of 81.3 in 1993.

Although physical economic activities that are represented by BCI sub-indices did not materially decline between November 2015 and December 2015, the negative affect on the BCI mainly came from financial market sub-indices like share prices and the rand exchange rate. However, a slowdown in building plans passed is a matter of concern. Merchandise export volumes had a notable positive impact on the BCI.

The month-on-month (m/m) changes in the **SACCI** BCI sub-indices in December 2015 were discouraging as only export volumes made a positive contribution (see box on next page). Five sub-indices were negative and seven unchanged. In November, four sub-indices were positive, five unchanged and four negative.

The year-on-year (y/y) business climate indicators mainly compared negatively with December 2014. Only inflation and merchandise export volumes were in a positive y/y terrain in December 2015. While merchandise import volumes, municipal services and private sector borrowing did not change y/y. All the other sub-indices made negative y/y contributions to the BCI in December 2015.

The main year-on-year contribution to the deterioration of the **SACCI** BCI from December 2014 to December 2015 came from the weighted rand exchange rate followed by building activity, share prices and retail trade. Real financing costs, manufacturing output, and municipal services also contributed to the decline in business confidence but to a lesser degree.

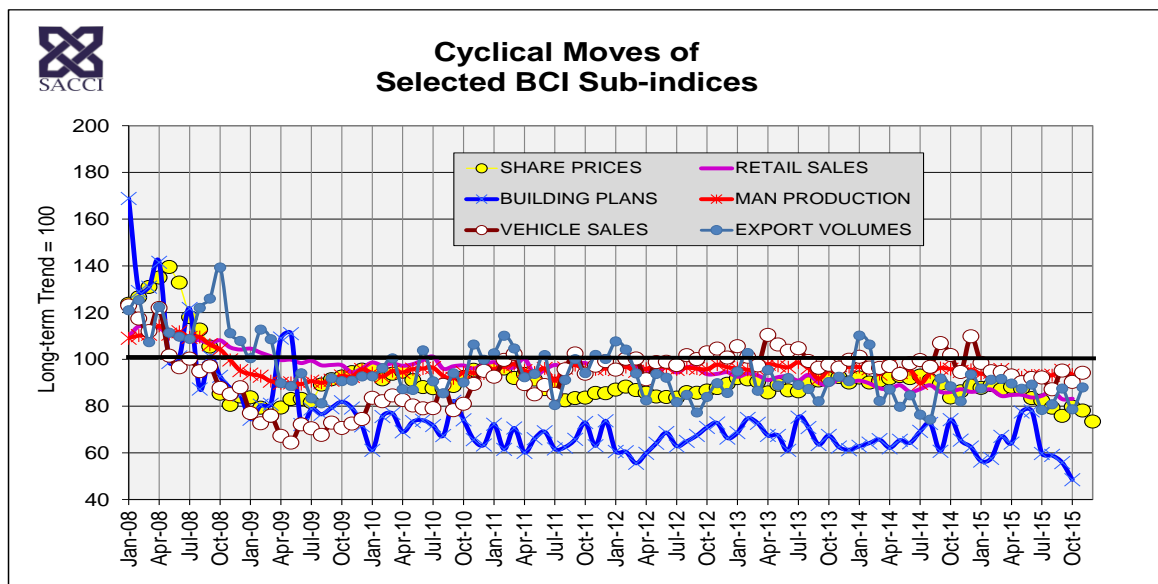
The financial business climate remains tight with international capital flows being affected by the recent interest rate hike by the Fed in the United States. International commodity and precious metal prices remain under pressure. The domestic as well as global financial markets continue to experience hesitancy and uncertainty.

### 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	0	0
Manufacturing	-	+	-	-
Exports	+	-	+	-
Imports	0	+	0	-
Vehicle sales	0	+	-	-
Retail sales	0	-	-	-
Construction - buildings	-	-	-	-
Inflation <sup>1</sup>	0	0	+	+
Share prices	-	0	-	-
Real private sector borrowing	0	+	0	0
Real financing cost	-	0	-	-
Precious metal prices	0	-	-	-
Rand exchange rate	-	0	-	-

\* See notes on BCI on [www.sacci.org.za](http://www.sacci.org.za)

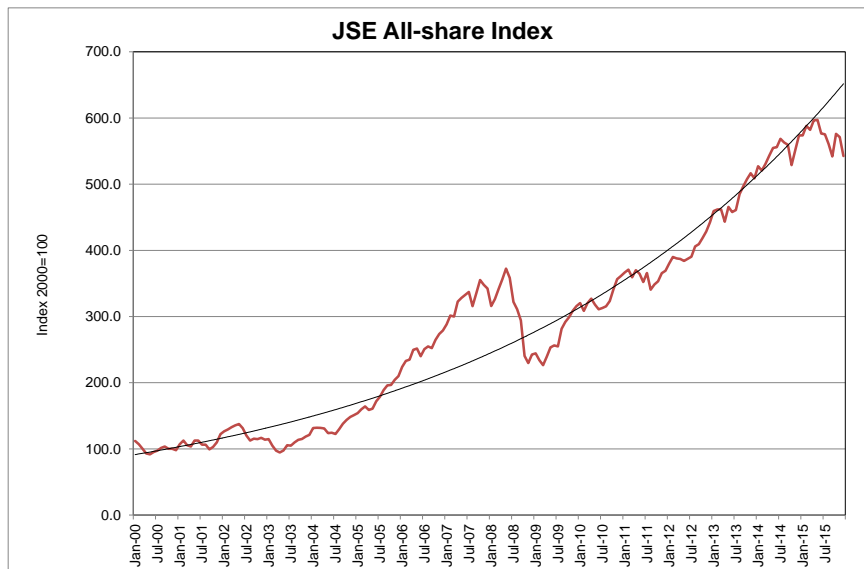
1. Excludes petrol, food and non-alcoholic beverages.



## Economic Commentary

### *Subdued Economy Marred by Unpredictability*

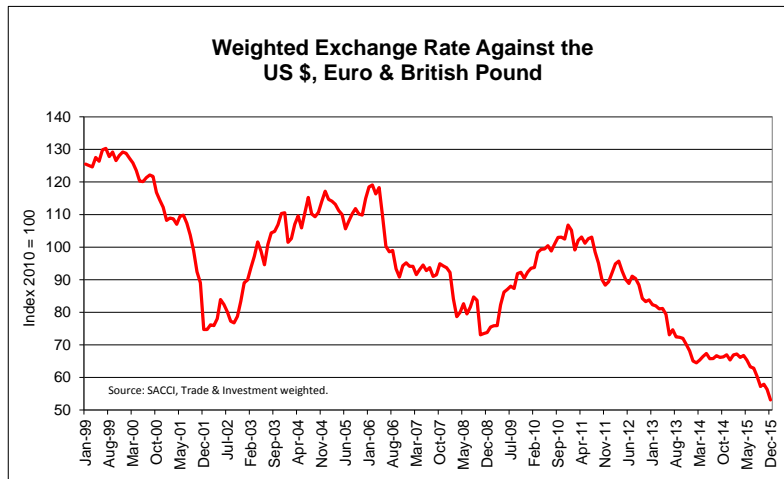
The global and domestic economic outlook did not differ much between November and December 2015. More negative outcomes from the credit rating agencies became reality when the expected hike in US interest rates was announced with the predictable rational reaction from the financial markets and economic commentators. The rand came under further pressure while international capital flows were affected accordingly with notably emerging market currencies coming under pressure. South Africa experiences devastating drought conditions and though the effects have not been evidence during December, the lagged effects will be serious. As part of the intermediate and final supply chain, the drought impact will add to the economic woes and performance.



In addition to the economic and financial difficulties, there was a change of guard at Treasury when the Minister of Finance was replaced. A few days after the appointment of Minister David van Rooyen and following the negative reaction by the markets to this appointment, the President reversed his decision and appointed former Minister of Finance Mr Pravin Gordhan to take over the Finance Ministry. This decision reassured the markets to some extent not withstanding concerns, which still remain.

The unpredictable and perplexing decision drew considerable financial market reaction with the rand and the share market coming under renewed pressure. The weighted rand exchange rate lost 9.8% between the 4<sup>th</sup> and the 11<sup>th</sup> of December 2015 while the JSE all-share index declined by 3.6% between the 7<sup>th</sup> and the 11<sup>th</sup> of December 2015. Although the weighted rand recovered 3.7% from the 11<sup>th</sup> to the end of December 2015, the rand remains volatile to the detriment of businesses conducting foreign transactions. The JSE all-share index recovered by

5.5% from the 11<sup>th</sup> to year-end.



The consequence of the initial replacement of the Minister of Finance called into question the policy decision-making processes in South Africa. The pronouncement to go ahead with nuclear power generation and the financing and procurement processes thereof will have to exhibit transparency. This transparency should address matters such as the public sector financing issues recently highlighted by the credit rating agencies.

Apart from an uncertain economic outlook for the world economy and particularly those of China and the USA, geo-political issues have mounted and brought further uncertainty to economic performance. Migration matters possible terrorist attacks in Europe and the Mid-East have complicated the geo-political environment and possible economic consequences and uncertainty.

### *Economic Implications for Businesses*

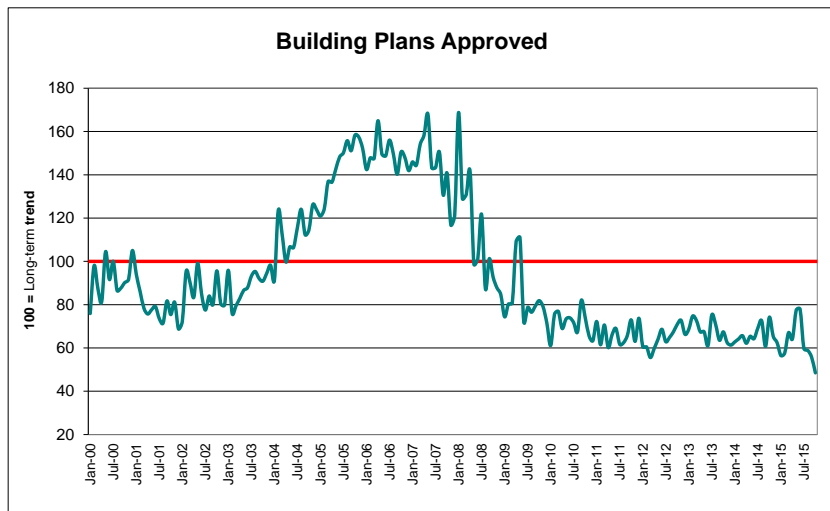
A number of important matters have emerged during 2015, they gained momentum in December 2015 and stand to complicate challenges in the medium-term and 2016. During 2015 major global issues were:

- Economic growth was lower than anticipated.
- The USA normalised monetary policy by increasing rates by 25 basis points.
- Notable inconsistencies in global financial markets.
- US-dollar commodity prices weakened considerable and hold severe negative economic consequences for natural resource based economies.
- Geo-political tensions have increased globally.

Certain concerns remain with regard to the South African economy and the business environment:

- The prospects of rising inflation and interest rates.
- The cost of capital to increase due to South Africa's risk profile and credit ratings.

- Fears for RSA junk bond status if public sector finances are not contained.
- The effect of lower commodity prices on the mining sector.
- The rand to remain vulnerable given the deficit on the current account of the BoP and foreign capital flows.
- Share prices to be driven by external and international exposure than local performance.
- The effect of the serious drought to have broad economic and social implications.
- 



## Conclusion

The difficulties and challenges as highlighted by the deteriorating rand and the more negative credit ratings by credible rating agencies have once again drew the attention to matters that are of concern. The passive performance of the South African economy and its effect on the business mood was complicated by changing of the guard at the Treasury when it was least desirable. However, the partly restored market situation provides an opportunity to do a turnaround and ensure policy consistency in a difficult global and domestic economic environment. Business confidence is in dire need of affirmative economic policy action.

## General Economic Indicators

Indicator	Period	Direction	Latest	Previous	2014	2009
Consumer inflation headline urban (%)	Nov-15	▲	4.8	4.7	6.1	7.2
Consumer inflation urban - excl. food, bev. & fuel (%)	Nov-15	▼	5.5	5.6	5.7	7.9
Money supply M3 (% Δ Y-o-Y)	Nov-15	▼	9.3	9.7	7.2	6.7
Private sector credit (% Δ Y-o-Y)	Nov-15	▲	9.5	8.9	8.7	4.8
Real prime overdraft rate eop (%)*	Nov-15	▲	4.0	3.9	3.4	2.0
Liquidations number sa	Nov-15	▼	140	194	2064	4133
Bond yield 5-10y govt eop (%)	Dec-15	▲	9.25	8.13	6.65	8.39
R / US\$ average	Dec-15	▲	15.00	14.15	10.84	8.44
R / Euro average	Dec-15	▲	16.33	15.17	14.40	11.70
Prime overdraft rate eop (%)	Dec-15	▶	9.75	9.75	9.25	10.5

Indicator	Date	Direction	Latest	Previous	2014	2009
Income & wealth tax / GDP (%) saar	q3-15	▼	14.2	16.9	14.7	15.1
Total tax / GDP (%) saar	q3-15	▼	27.0	29.5	27.2	26.2
Public sector borrowing requirement / GDP (%)	q3-15	▼	5.4	7.6	5.6	8.3
Public sector expenditure / GDP (%)	q3-15	▲	28.0	27.9	28.0	27.8
Budget Balance / GDP (%)	q3-15	▲	-8.7	-3.7	-4.7	-4.6
Imports / GDE (%)	q3-15	▲	32.0	31.6	32.5	27.6
Exports / GDP (%)	q3-15	▼	31.6	31.7	31.3	27.9
Net foreign financial flows / GDP (%)	q3-15	▲	4.1	0.2	4.5	5.9
Current account balance / GDP (%)	q3-15	▲	-5.5	-2.3	-5.4	-2.8
Gross domestic saving / GDP (%) saar	q3-15	▼	15.2	16.0	14.9	18.0
Gross capital formation / GDP (%) saar	q3-15	▲	19.3	19.1	20.4	20.7
Net fixed capital formation / GDP (%)	q3-15	▼	-	-	6.5	7.8
GDP growth (% Δ Y-o-Y)	q3-15	▼	1.0	1.3	1.6	-1.5

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. \*Deflated by inflation excluding .food, beverages and fuel.