



Business confidence: lifts modestly, but is held back by economic growth and inflation fears stemming from the Russian/Ukraine war

Wednesday 9th March 2022

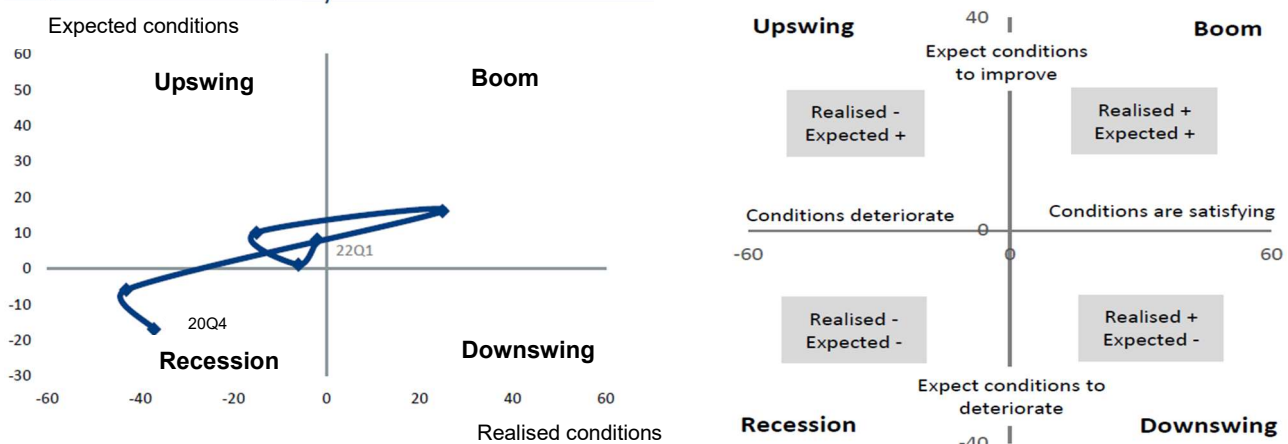
Figure 1: RMB/BER confidence index

	Q1.21	Q2.21	Q3.21	Q4.21	Q1.22	Change
Retail trade confidence index	37	54	56	52	49	-3
Wholesale trade confidence index	58	63	55	53	57	4
New vehicle dealers' confidence index	35	63	47	41	54	13
Manufacturers' confidence index	25	46	41	38	43	5
Building contractors index	20	22	18	30	25	-5
RMB/BER BCI	35	50	43	43	46	3

Source: BER

- The RMB/BER business confidence index (BCI) rose to 46 in Q1.22, from 43 in Q4.21, meaning 54% of businesses were dissatisfied with prevailing business conditions, and the reading in negative territory still, i.e. below the neutral 50 level. The outcome is in line with the long-term average of the index, which is also 46.
- With the Q1.22 BCI survey taking place between 9th to 28th February, it has been influenced by the advent of the Russian/Ukraine war on 24th February. Both upwards inflationary pressures and a negative economic growth impact are likely from the war, while stress has increased in global financial markets. Markets still anticipate substantially higher interest rates in SA this year and next, which is likely adding to the depressed nature of the business confidence reading in Q1.22 (below 50 signals a depressed confidence environment).
- Businesses consequently will worry about the ebbing purchasing power of consumers, and global growth forecasts will likely be revised down. Markets and policy makers have been viewing the Russian/Ukraine conflict as more of a temporary supply disruption than a severe threat to global growth, but (likely) downward adjustments in economic growth expectations could see more risk aversion in global financial markets.
- Uncertainty is high, and the Russia/Ukraine war has persisted for longer than markets initially expected, driving up commodity prices and seeing SA's value of economic transactions rise substantially on these high commodity prices, recording a consequent upswing in the domestic business cycle in Q1.22 on a rand basis.
- Manufacturing, wholesale and vehicle dealership activity increased in Q1.22, the latter impacted by improved stock levels with the global supply chain showing improvement in deliveries from Q4.21. Wholesale sales were driven by commercial demand for machinery and chemicals on the impact of strong commodity prices for the agricultural and mining sectors. Manufacturing benefited from improved exports and domestic demand.
- However, global growth is now at risk of weakening into, and over, Q2.22 and so have a future negative impact on SA's economic performance, which is heavily influenced by the performance of the global economy.

Figure 2: Business cycle clock



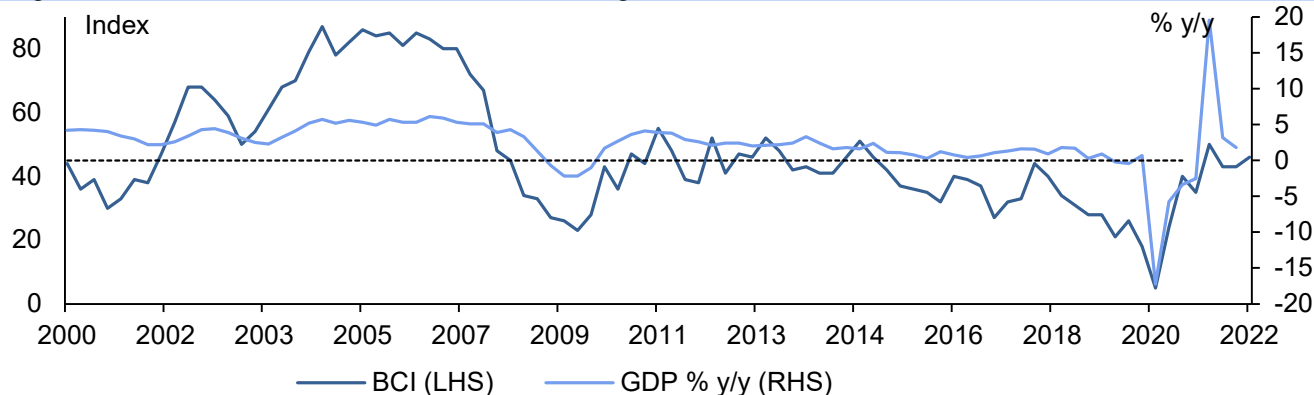
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Figure 3: GDP vs. BCI: Business Confidence leads growth



*seasonally adjusted. Source: BER, Stats SA

- While the economy recorded a record high in February's BankservAfrica Economic Transaction Index (or BETI), bolstered by the rapid escalation in commodity prices and resultant high rand value of transactions, Q1.22's business confidence (measured for the 9th to end February) was not far removed from Q4.21 and Q3.21's depressed readings of 43 respectively, with Q3.21 afflicted by July's riots.
- Q4.21's business confidence reading took place in a heavy slew of risk events (the municipal elections and uncertainty of post-election coalition formations, US FOMC (Federal Open Market Committee tapering of QE, worries ahead of the MTBPS and growth suppressive huge fuel price hikes in November,) which would have caused a wait and see approach adopted by many and so a static business confidence reading.
- The actual realised business conditions in Q1.22 were recorded before loadshedding began in March, and this will put a damper on activity for the rest of Q1.22 for as long as it persists.
- For businesses not benefitting from higher commodity prices, and particularly for retailers and building contractors, business conditions did not necessarily improve. Indeed, excess office supply and weak residential demand for new builds (not in security complexes) as well as some excess supply of commercial retail space, along with council delays in approvals, have seen a deteriorated environment for builders.

Figure 4: Business confidence and composite indicators

South Africa	Unit	20Q1	20Q2	20Q3	20Q4	21Q1	21Q2	21Q3	21Q4	Ch
RMB/BER business confidence¹	%	18	5	24	40	35	50	43	43	0
Composite confidence per province²										
Gauteng	%	18	2	25	35	33	40	41	40	-1
KwaZulu-Natal	%	27	5	34	44	49	77	27	56	29
Western Cape	%	22	8	19	43	29	51	49	40	-9
Composite Indicators										
Business conditions: realized ¹	Net %	-60	-91	-63	-37	-43	25	-15	-6	9
Business conditions: expected ¹	Net %	-37	-74	-47	-17	-6	16	10	1	-9
Business climate ^{#,1}	Net %	-49	-83	-55	-27	-25	21	-3	-3	0
Activity ³	Net %	-54	-83	-59	-36	-38	16	-14	-4	10
Employment ⁴	Net %	-33	-48	-51	-40	-35	-19	-22	-5	17
Purchasing prices ⁵	Net %	42	58	64	54	66	59	66	80	14
Selling prices ⁶	Net %	8	4	10	16	22	31	22	41	19
Inventories ⁷	Net %	18	31	3	-11	-13	-20	-20	-26	-6

Source: BER

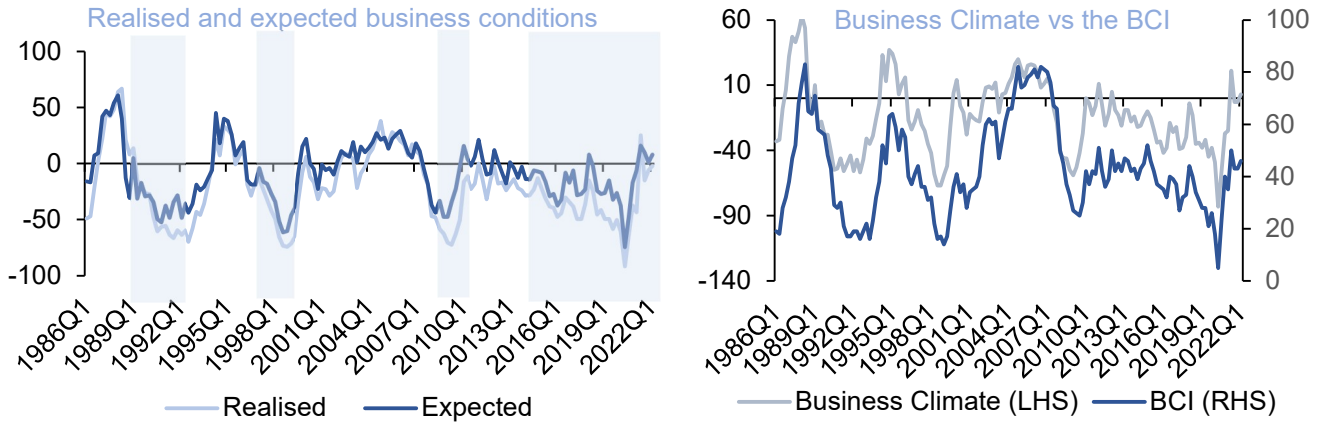
Average between realized and expected business conditions 1. Building (build) (contractors only), manufacturing (mnf), retail (ret) wholesale(whs) and new vehicles (mot); 2. Build, mnf, ret, whs & mot; 3. Build, mnf, ret, whs, mot & other services (serv); 4. Build, mnf, ret, whs & serv; 5. Mnf, ret & whs; 6. Mnf, ret, whs & serv; 7. Mnf, ret, whs & mot; stocks relative to expected demand



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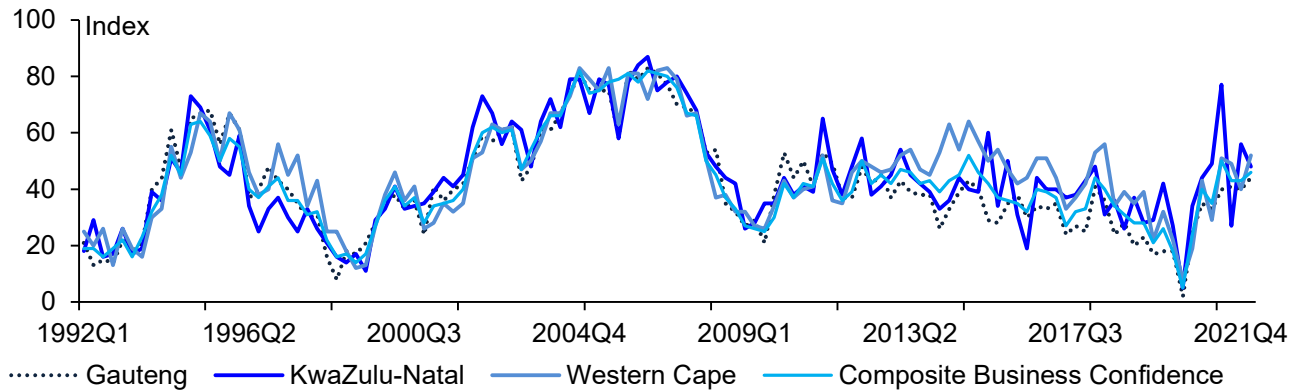
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Figure 5: Realised and expected business conditions and business climate vs the RMB/BER BCI



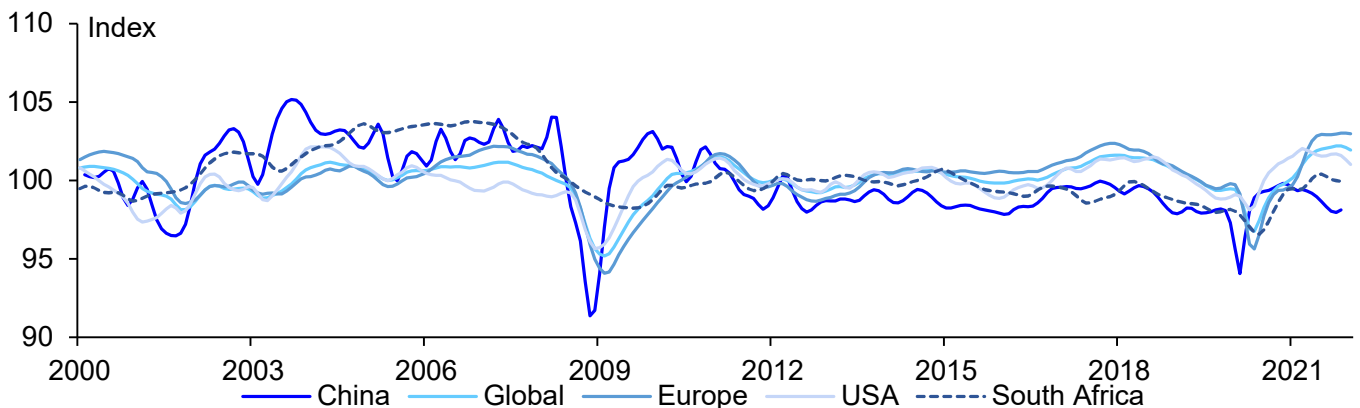
Source: BER

Figure 6: Composite confidence per province



Source: BER

Figure 7: OECD BCI



Source: OECD

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