The RMB/BER business confidence index (BCI) rose to 50 in Q2.21, the first time it has been at the neutral level in about seven years, showing that overall businesses are neither depressed nor optimistic about prevailing business conditions, although on a sector basis there is very marked differentiation.

The responses were surveyed between the 12th and 31st May and are indicative of the better economic conditions many businesses faced in the month, with the performance of new vehicle dealers boosted by the 7.6% m/m lift in sales, and their confidence reading rising to 63 from 35, a near doubling.

Compared to last year, higher reported consumer incomes are expected to have boosted spend in May, with retailer’s business confidence now at 54, from 37, also above the break-even mark and into positive territory, while wholesalers saw confidence remain relatively high, at 63. Profitability conditions would have improved, as realised business conditions did substantially, from -43 to 25, a 68 point jump.

In the provinces, businesses in KwaZulu Natal and the Western Cape showed the highest level of confidence, with KwaZulu Natal seeing a phenomenal leap to 77 from 49 and the Western Cape moving to 51 from 29. However, business confidence in Gauteng was still depressed - at 40 it is well under the neutral reading of 50, showing only a 7 point lift and dragging down the performance of the overall index.

The business climate overall has been deemed to have improved, to 21 from -25, again doubtless on the huge relief government is no longer pursuing crippling lockdown measures on economic activity in the second and third wave as it did before, and during, the first wave, while improving household incomes have played a major part, as has the ability of hospitality and entertainment sectors to function. Consumer savings are being deployed and access to credit improving for higher income earners.

However, building confidence is extremely depressed still, at 22 far from the neutral 50, although the construction industry typically lags up turns in the economy.

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**Figure 1: RMB/BER confidence index**

<table>
<thead>
<tr>
<th></th>
<th>Q2.20</th>
<th>Q3.20</th>
<th>Q4.20</th>
<th>Q1.21</th>
<th>Q2.21</th>
<th>Change</th>
</tr>
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<tbody>
<tr>
<td>Retail trade confidence index</td>
<td>11</td>
<td>36</td>
<td>50</td>
<td>37</td>
<td>54</td>
<td>17</td>
</tr>
<tr>
<td>Wholesale trade confidence index</td>
<td>4</td>
<td>33</td>
<td>59</td>
<td>58</td>
<td>63</td>
<td>5</td>
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<tr>
<td>New vehicle dealers’ confidence index</td>
<td>2</td>
<td>16</td>
<td>41</td>
<td>35</td>
<td>63</td>
<td>28</td>
</tr>
<tr>
<td>Manufacturers confidence index</td>
<td>6</td>
<td>22</td>
<td>31</td>
<td>25</td>
<td>46</td>
<td>21</td>
</tr>
<tr>
<td>Building contractors index</td>
<td>2</td>
<td>14</td>
<td>21</td>
<td>20</td>
<td>22</td>
<td>2</td>
</tr>
<tr>
<td>RMB/BER BCI</td>
<td>5</td>
<td>24</td>
<td>40</td>
<td>35</td>
<td>50</td>
<td>15</td>
</tr>
</tbody>
</table>

Source: BER

---

The business climate overall has been deemed to have improved, to 21 from -25, again doubtless on the huge relief government is no longer pursuing crippling lockdown measures on economic activity in the second and third wave as it did before, and during, the first wave, while improving household incomes have played a major part, as has the ability of hospitality and entertainment sectors to function. Consumer savings are being deployed and access to credit improving for higher income earners.

However, building confidence is extremely depressed still, at 22 far from the neutral 50, although the construction industry typically lags up turns in the economy.
The manufacturing industry, the last of the five sectors surveyed in the business confidence reading is still in depressed territory, at 46, but materially less so than in Q1.21 when it saw a reading of 25, and has benefited from increased local and foreign demand, with broad based production lifts across virtually every sub-sector in the manufacturing industry. However, raw material shortages were reported as key constraints, along with other supply chain bottlenecks and delays, similar to the international experience.

This shows the imperative of resolving domestic supply chain requirements before embarking on an increase in localisation, as virtually all sub sectors across the manufacturing industry are already reporting shortages of key inputs to their processes, while marked load shedding is also a key constraint on insufficient electricity supply to meet demand, and this likely continued into early June.

Indeed, load shedding is likely to get worse as demand escalates with the economy trying to recover quickly but being held back by slow or insufficient state provision of necessary services to the private business sector. Absent a resolution to SA’s insufficient supply of electricity to meet demand, the move to localisation will worsen the shortage of raw material inputs to process, including electricity and water shortages, with many areas evidencing insufficient water supply for their needs. Additionally, high water, electricity and other state administered price increases reduce the competitiveness of the domestic manufacturing industry, as would tariffs on key imports needed in South Africa’s supply chains.

The global shortage of semiconductors is negatively impacting the stock of new vehicle dealers and retailers of appliances, as sales of these durables and semi durables continue to outshine those of non-durables (such as food) on shifting consumer patterns to improving their work and play conditions in homes.

The poor business conditions in the building sector have also been impacted by the resultant collapse in demand for office space, while the residential sector continues to see refurbishment and additions to homes.
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Business confidence: improving incomes boost the new vehicle dealers, retailers and wholesalers’ confidence, lifting business confidence overall

Wednesday 9 June 2021

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