



Business confidence: business confidence drops in Q2.22 as manufacturing production is reported to have slowed

Wednesday 8th June 2022

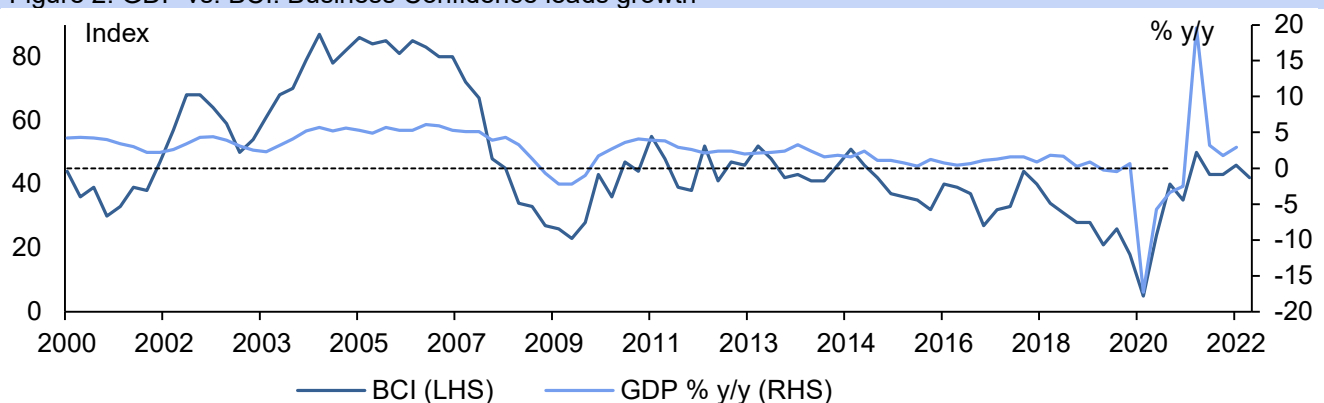
Figure 1: RMB/BER confidence index

	Q2.21	Q3.21	Q4.21	Q1.22	Q2.22	Change
Retail trade confidence index	54	56	52	49	49	0
Wholesale trade confidence index	63	55	53	57	58	1
New vehicle dealers' confidence index	63	47	41	54	29	-25
Manufacturers' confidence index	46	41	38	43	29	-14
Building contractors index	22	18	30	25	46	21
RMB/BER BCI	50	43	43	46	42	-4

Source: BER

- The RMB/BER business confidence index (BCI) dropped to 42 in Q2.22, from 46 in Q1.22, meaning 58% of businesses were dissatisfied with prevailing business conditions, with the reading in negative territory, i.e. below the neutral 50 level. The outcome indicates a weaker quarter of economic growth for Q2.22 than Q1.22.
- With the Q2.22 BCI survey taking place between 11th and 30th May it has been influenced by the KZN floods, higher costs, the drop in global financial market sentiment over April, as many key institutions revised down their global growth forecasts, and higher domestic and global interest rate expectations.
- SA's inflation rate is not yet at a peak, with higher cost pressure to come for businesses. While we currently expect a peak of 6.8% y/y in June, there is around another R2.00/litre hike building for the petrol price in July, and around a R1/litre for diesel (R1.33/litre for illumination paraffin), which will add significantly to living costs. Businesses will continue to worry about the ebbing purchasing power of consumers, coupled with the impact of higher interest rates, which will also negatively impact business sentiment in Q3.22.
- Yesterday's better than expected GDP print for Q1.22 will add to the pressure for higher interest rates in SA, and a 50bp hike at the SARB's July MPC meeting seems more likely now than a 25bp lift. The persistence of the Russia/Ukraine war is elevating food and energy commodity prices in particular, with sanctions increasing against Russia, which further bolsters energy costs, and adds to global supply chain costs, as does the blockading of key transport routes in the Black Sea.
- Manufacturers and new vehicle dealers' activity saw a sharp deterioration in Q2.22, with vehicle dealers experiencing stock and parts shortages for the manufacture and repair of vehicles, as the global supply chain saw a deterioration in deliveries in Q2.22. The closure of the Toyota plant in KZN due to food damage exacerbated the situation, and new vehicle dealers' confidence dropped to an extremely weak 29.
- Manufacturer's confidence also plunged to 29 on the KZN floods impact, as 71% of manufacturers and new vehicle dealers were dissatisfied with business conditions in Q2.22, from around 50% in Q1.22, while production was reported to have weakened in the manufacturing sector in Q2.22 overall.

Figure 2: GDP vs. BCI: Business Confidence leads growth



*seasonally adjusted. Source: BER, Stats SA



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Figure 3: Business confidence and composite indicators

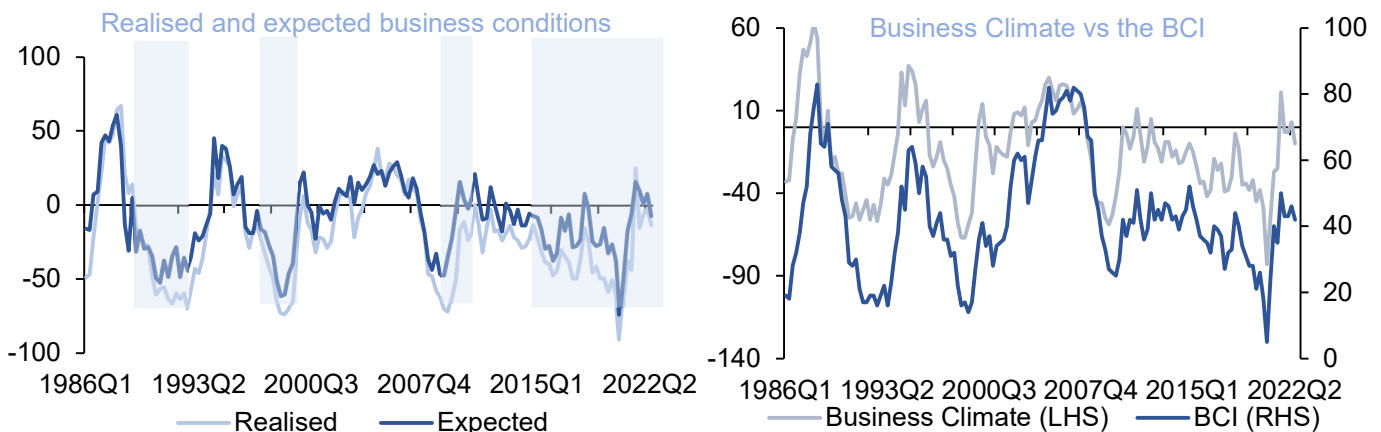
South Africa	Unit	20Q3	20Q4	21Q1	21Q2	21Q3	21Q4	22Q1	22Q2	Ch
RMB/BER business confidence¹	%	24	40	35	50	43	43	46	42	-4
Gauteng	%	25	35	33	40	41	40	44	32	-12
KwaZulu-Natal	%	34	44	49	77	27	56	48	47	-1
Western Cape	%	19	43	29	51	49	40	52	44	-8
Business conditions: realized ¹	Net %	-63	-37	-43	25	-15	-6	-2	-13	-11
Business conditions: expected ¹	Net %	-47	-17	-6	16	10	1	8	-7	-15
Business climate ^{#.1}	Net %	-55	-27	-25	21	-3	-3	3	-10	-13
Activity ³	Net %	-59	-36	-38	16	-14	-4	5	-5	-10
Employment ⁴	Net %	-51	-40	-35	-19	-22	-5	-5	2	7
Purchasing prices ⁵	Net %	64	54	66	59	66	80	76	86	10
Selling prices ⁶	Net %	10	16	22	31	22	41	51	57	6
Inventories ⁷	Net %	3	-11	-13	-20	-20	-26	-20	-20	0

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

- The reading for retail trade remained unchanged at a marginally depressed 49, while wholesale traders reported a lift in confidence to 58, from 57 with this the only sector where more businesses were confident, instead of depressed, about business conditions. Retailers of durable goods (appliances, furniture etc) saw sales volumes weaken in the Q2.22 survey, with the business confidence reading capturing both current conditions (deteriorated by -13 points overall for the BCI) and the expected future environment (-7).
- Retailers have also been impacted by higher interest rates; we now expect the MPC to hike the repo rate by 100bp in H2.22 in total as the FOMC does at its next two meetings. Marked pressure would be placed on the rand if the SARB allows the differential between SA and US interest rates to narrow significantly.
- The last sector surveyed, building contractors saw a lessening of depressed sentiment, rising to 46 from a very depressed 25. Overall, the business climate was reported to have deteriorated severely over Q2.22, dropping to a reading of -10 from a positive 3 in Q1.22, heralding a marked slowing of GDP growth in the second quarter of 2022.

Figure 4: Realised and expected business conditions and business climate vs the RMB/BER BCI



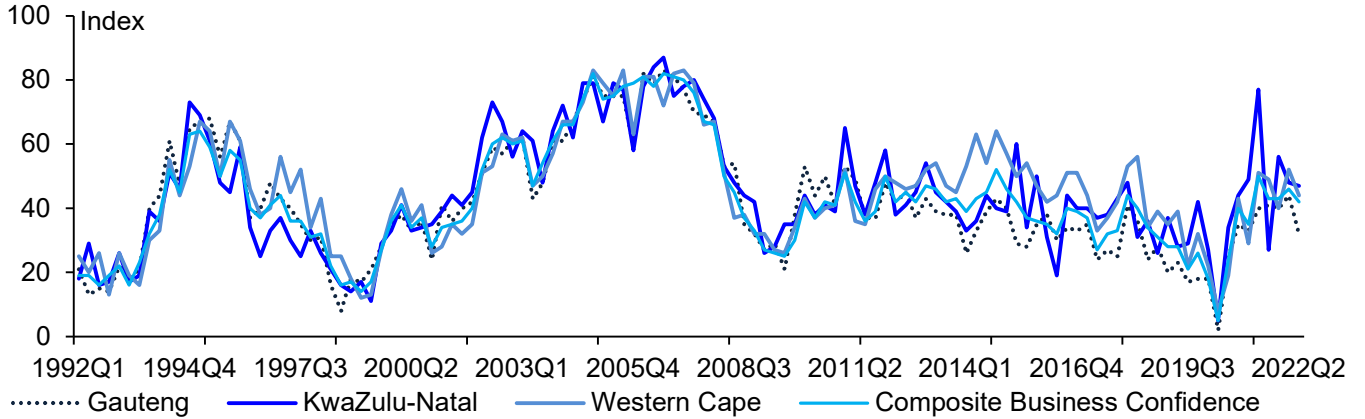
Source: BER



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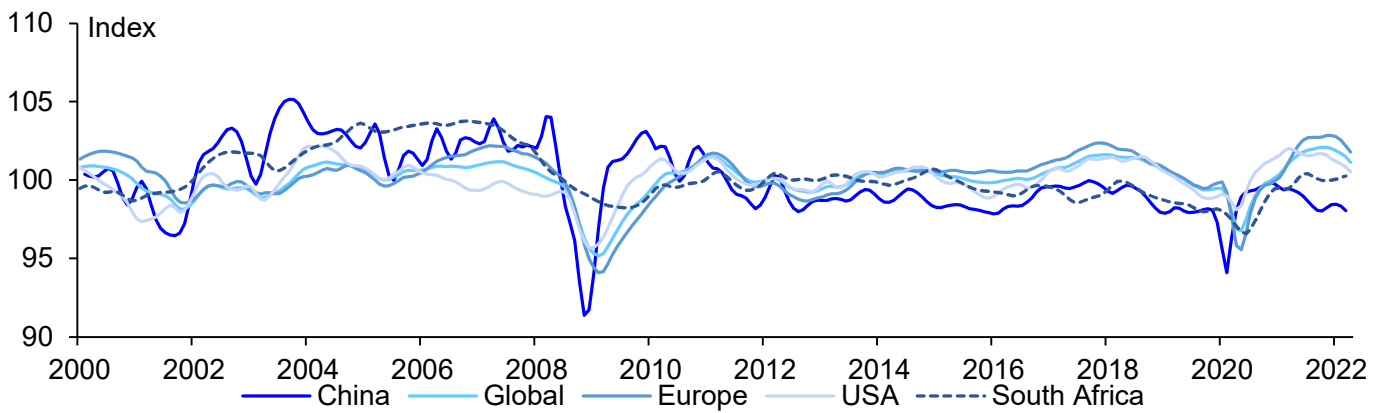
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Figure 5: Composite confidence per province



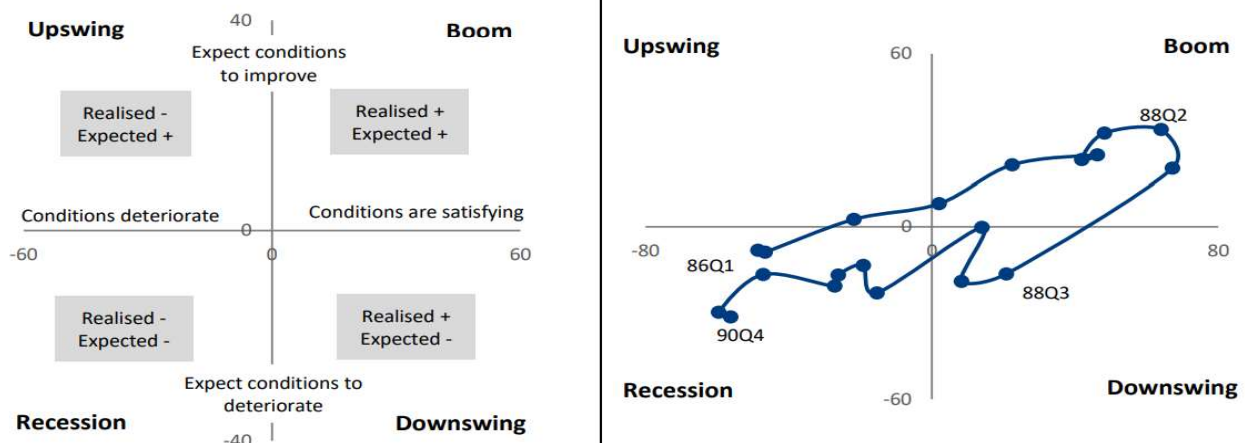
Source: BER

Figure 6: OECD BCI



Source: OECD

Figure 7: Business cycle clock



Source: BER

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