



Business confidence: drops, IMF highlights risks

Wednesday 7 June 2023

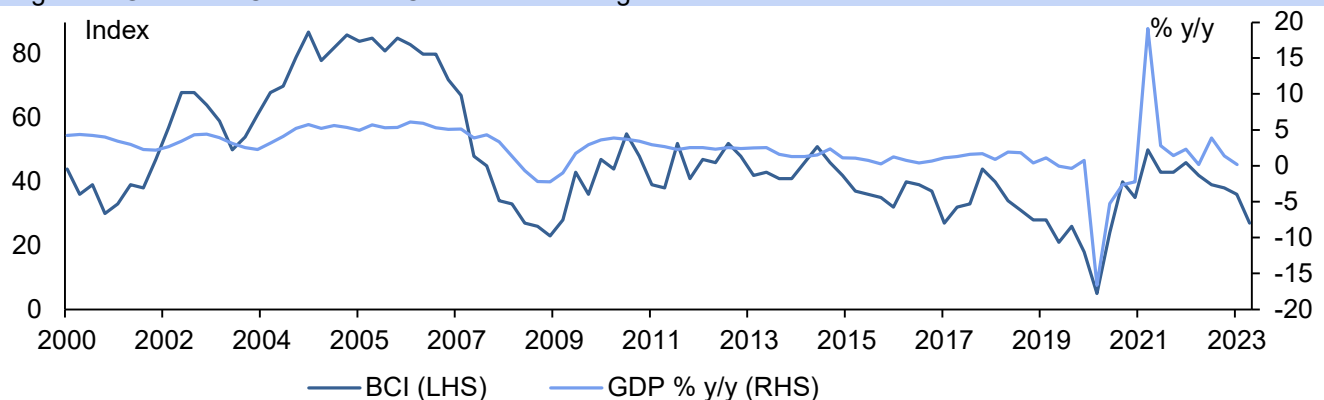
Figure 1: RMB/BER confidence index

	Q2.22	Q3.22	Q4.22	Q1.23	Q2.23	Change
Retail trade confidence index	49	51	42	34	20	-14
Wholesale trade confidence index	58	50	37	40	32	-8
New vehicle dealers' confidence index	29	40	41	44	23	-21
Manufacturers' confidence index	28	26	26	17	17	0
Building contractors index	46	29	46	43	43	0
RMB/BER BCI	42	39	38	36	27	-9

Source: BER

- The RMB/BER business confidence index (BCI) dropped yet again from 36 in Q1.23, to 27 in Q2.23, showing 73% of businesses are dissatisfied with prevailing business conditions, and so profitability. The reading was in very negative (depressed) territory, remaining below the neutral 50 level.
- The survey took place between 10th and 30th May and saw a massive 83% of the respondents in the manufacturing industry still disappointed by trading conditions in Q2.23, the same number as in Q1.23. Virtually all manufacturers in the survey experienced profitability issues, negative for job creation, continued staff employment and the ability of the operations themselves to survive – signalling increased risk of deindustrialisation. Employment has fallen into negative territory, at -12, indicating likely job shedding.
- The IMF's annual Article IV consultation (review) of South Africa, published yesterday, highlights that “real GDP growth is projected at 0.1 percent in 2023, reflecting a significant increase in the intensity of power outages, and weaker commodity prices and external environment. Annual growth is expected at about 1½ percent over the medium term, as long-standing structural impediments, such as product and labor market rigidities and human capital constraints offset expected improvements in energy supply, higher private spending on energy-related infrastructure, and a more supportive external environment. The growth level would be too low to create enough jobs to absorb the new labor market entrants.”
- The retail, wholesale and vehicle sales sectors showed sharp drops in business conditions, falling -14, -8 and -21 points each respectively. Building confidence remained flat, in depressed territory.
- The IMF recommends “(e)asing the heavy regulatory burden on corporates, leveling the playing field, and forcefully tackling corruption and governance weaknesses would promote private sector investment, particularly in the network industries that are dominated by inefficient state-owned enterprises (SOEs). Reforms to enhance labor market flexibility are also needed to bolster job creation.” It warns in particular that “(t)he outlook is subject to significant downside risks related to the pace of reform domestically and the challenging external backdrop”.

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

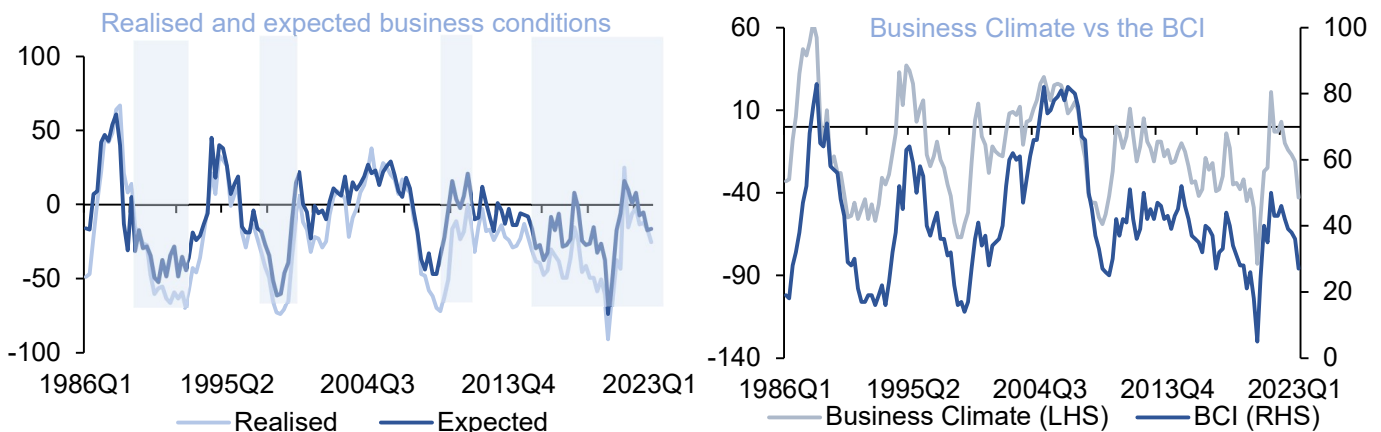
South Africa	Unit	21Q3	21Q4	22Q1	22Q2	22Q3	22Q4	23Q1	23Q2	Ch
RMB/BER business confidence¹	%	43	43	45	42	39	38	36	27	-9
Gauteng	%	41	40	44	32	31	34	31	23	-8
KwaZulu-Natal	%	25	57	48	47	61	54	56	39	-17
Western Cape	%	48	40	52	43	42	34	39	31	-8
Business conditions: realised ¹	Net %	-16	-7	-2	-13	-23	-16	-25	-49	-24
Business conditions: expected ¹	Net %	9	1	8	-7	-5	-17	-16	-37	-21
Business climate ^{#,1}	Net %	-4	-3	3	-10	-14	-17	-21	-43	-22
Activity ³	Net %	-14	-4	6	-5	-11	-8	-18	-28	
Employment ⁴	Net %	-22	-6	-5	2	-5	4	-7	-12	-5
Purchasing prices ⁵	Net %	66	80	77	86	82	84	75	75	0
Selling prices ⁶	Net %	22	41	51	57	50	53	46	42	-4
Inventories ⁷	Net %	-20	-26	-21	-21	-11	4	3	8	5

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

- Realised business conditions collapsed in Q1.23 by a massive -24 points, dropping to a reading of -49. The SA Reserve Bank has likely reached the end of its interest rate hike cycle, with the economy too weak to stomach any further increases this year. In any event, CPI inflation is likely to drop down sharply in the remainder of this year, regaining the 3-6% y/y target band this month, and reaching 5.0% y/y next month, from the most recent reading (which was for April) of 6.8% y/y.
- The next move from the SARB is likely to be an interest rate cut, and we expect a 50bp drop at the start of 2024, although a quicker deterioration on economic growth and faster fall off in inflation would hasten it.
- South Africa's growth issues are mainly structural however, with the IMF reporting that "(t)he SARB is of the view that loadshedding alone has shaved-off 0.7% from real output in 2022 and is expected to deduct approximately 2.0% in 2023 and 0.8% and 0.4% in 2024 and 2025, respectively. Higher and sustained growth depends on rapid progress in implementing (growth orientated economic) reforms and a capable state to provide public goods and services".

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



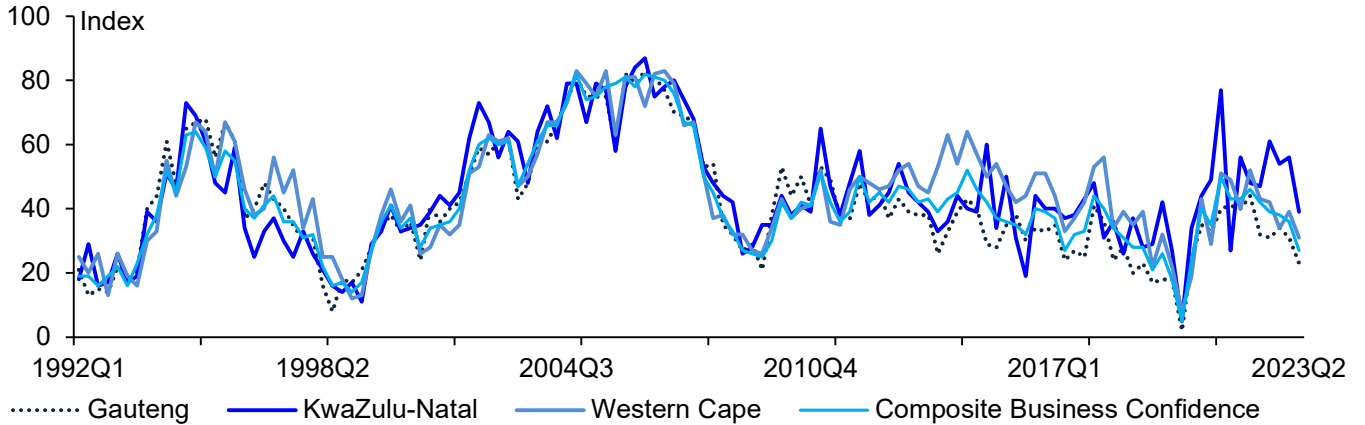
Source: BER



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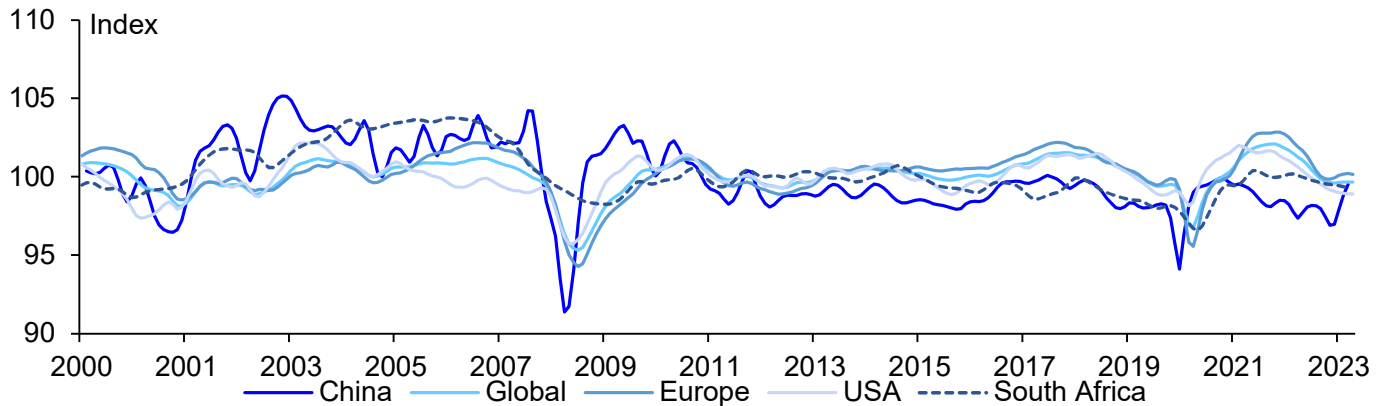
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Figure 5: Composite confidence per province



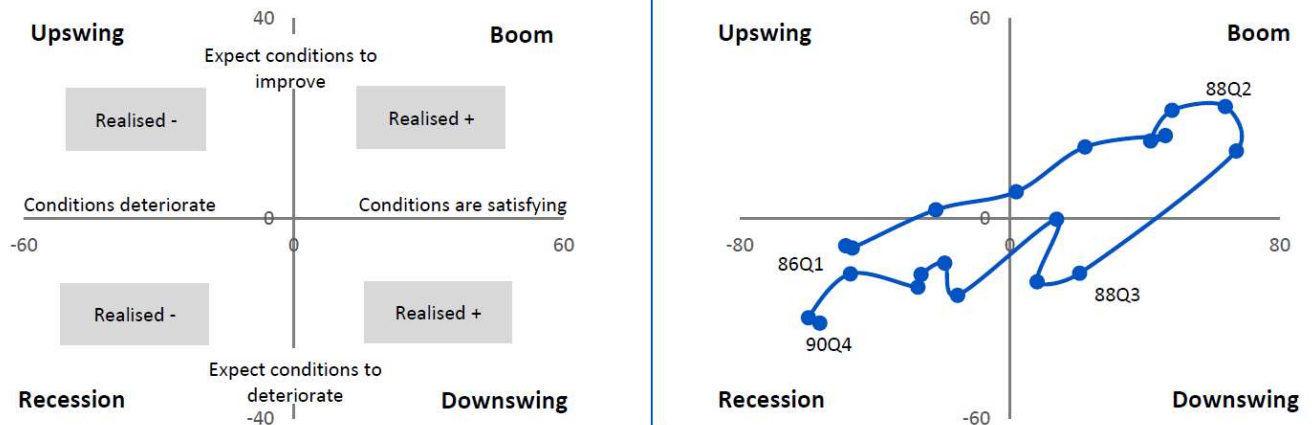
Source: BER

Figure 6: OECD BCI



Source: OECD

Figure 7: Business cycle clock



Source: BER



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