

Comment

BER business surveys highlight the downside risks to the outlook for investment and consumption

Confidence	Fixed investment and employment	Domestic demand and exports	Costs and prices	Implications
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Introduction

A cornerstone of the BER's work is its regular business surveys¹ in the trade, manufacturing and building industries. The surveys provide an early indication of likely developments in the real economy until official data becomes available.

Key results for 2017Q1, as well as the implications for the BER's macroeconomic forecast, are summarised below. Furthermore, a presentation describing the key results and implications in more detail can be **viewed [here](#)**. Detailed sectoral analyses are provided in the individual BER survey publications.

Please note that the information provided is under embargo until the respective survey publications are released on the BER website.

Business confidence increases marginally despite a worsening of activity indicators

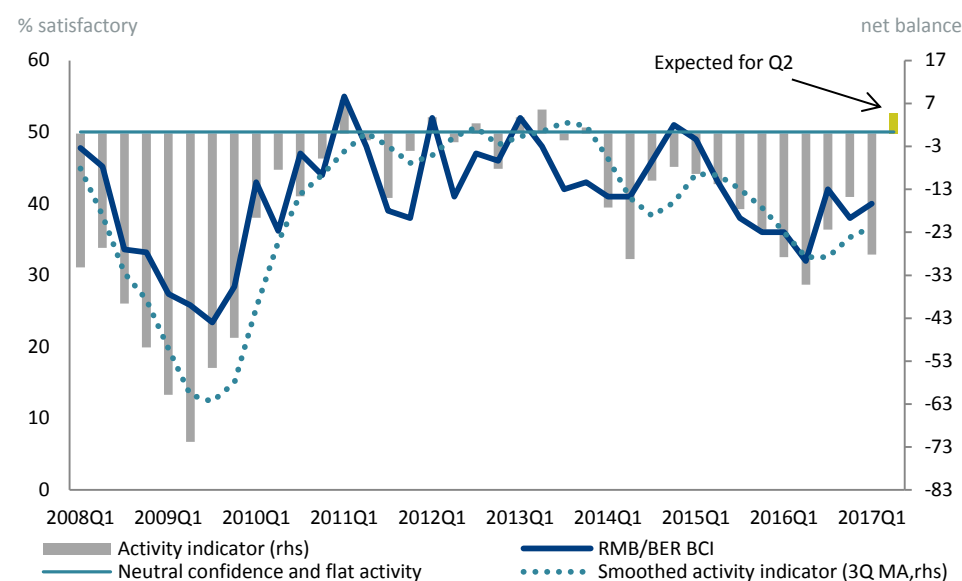
The RMB/BER Business Confidence Index (BCI)² increased marginally from 38 to 40 index points, remaining at a low level in Q1. The survey was conducted between 30 January and 7 March. During this period, global sentiment indicators improved and the rand exchange rate appreciated. Locally, crop estimates indicated a rebound in food commodity production. On the other hand, the February Budget was likely more constraining than expected and, in general, there has not been any improvement in policy uncertainty.

¹ The BER's survey method is modelled on those of the European Commission and Munich based IFO Institute. The survey data has a proven track record as exceptionally reliable – given the correspondence with the available formal statistics – and provides unique information such as confidence, rating of business conditions and respondents' expectations for the next quarter. Finally, the survey data has a publishing lead i.e. the results reveal the direction of production, sales, selling prices, employment etc. before the release of official data. **More information is available on the [BER website](#).**

² The BCI covers the building, manufacturing, retail, wholesale and new vehicle trade sectors and indicates the percentage of respondents that rated prevailing business conditions as satisfactory. It can vary between 0 and 100 and 50 is taken as the neutral level.

The slight increase in confidence is, however, not supported by the underlying survey indicators on business conditions. In fact, barring the new vehicle sector where sales volumes remained more or less at rock bottom, the other sectors covered in the BCI all reported a deterioration in activity. The average of the survey indicators for activity³ fell noticeably in Q1, after improving somewhat during the second half of last year – see Figure 1. However, across sectors, respondents expect a recovery in activity for Q2. This may be on the back of the expectation of lower selling prices boosting volumes (which might still imply relatively low turnover) as well as the perception that economic growth will improve slightly through 2017 after almost grinding to a halt during 2016. Unfortunately, the risk is that the recovery in growth during this year may be slightly more modest than expected. Indeed, expectations have in the recent past been more optimistic than realised outcomes.

Figure 1: RMB/BER BCI and the average of the survey indicators for activity



Source: BER

Mild recovery in private fixed investment might be too optimistic

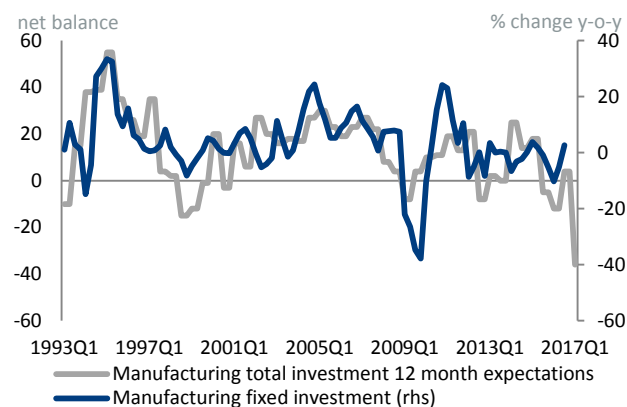
Building contractors in both the residential and non-residential sectors reported renewed weakness in building activity during Q1. While there might be a glimmer of hope in that there seems to be a slight improvement at the start of the building pipeline (with architects reporting increased work), it remains to be seen whether this is sustained and results in building activity over the next few months.

Manufacturers have, on net, indicated that their current level of fixed investment is lower than a year ago. Furthermore, they are extremely cautious regarding longer-term investment plans. The indicators on investment plans in 12 months' time deteriorated significantly between 2016Q3 (when these were last

³ The average activity indicator is constructed by taking the average of the net balance statistics reported for the growth in the volume of sales in the retail, wholesale and new vehicle trade sectors, for production volumes in the manufacturing sector, and for the growth in building activity as reported by building contractors. The survey results reflect trends and not actual magnitudes. The respondents indicate "up", "same" or "down" when comparing current activity with that of a corresponding quarter of a year ago. These responses are quantified by converting them into percentages and portraying them as net balances, i.e. the difference between percentages "up" and percentages "down". Thus, net balances can vary from -100 to 100.

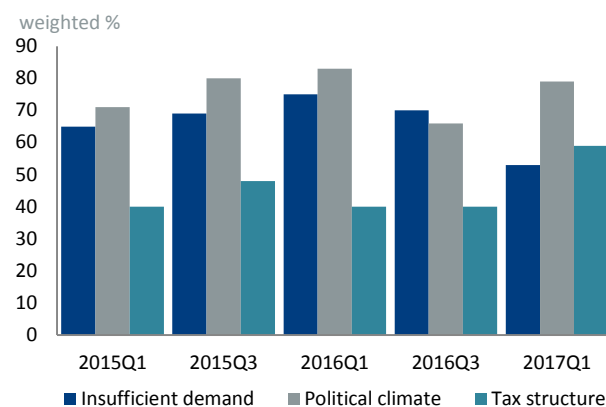
surveyed) and 2017Q1. Figure 2 plots the manufacturing total investment expectations over the next 12 months alongside official data on real manufacturing fixed investment. The current reading (which is at a historical low) does not bode well for manufacturing fixed investment growth into 2017.

Figure 2: Manufacturing investment



Source: BER, South African Reserve Bank (SARB)

Figure 3: Rating of constraints on investment

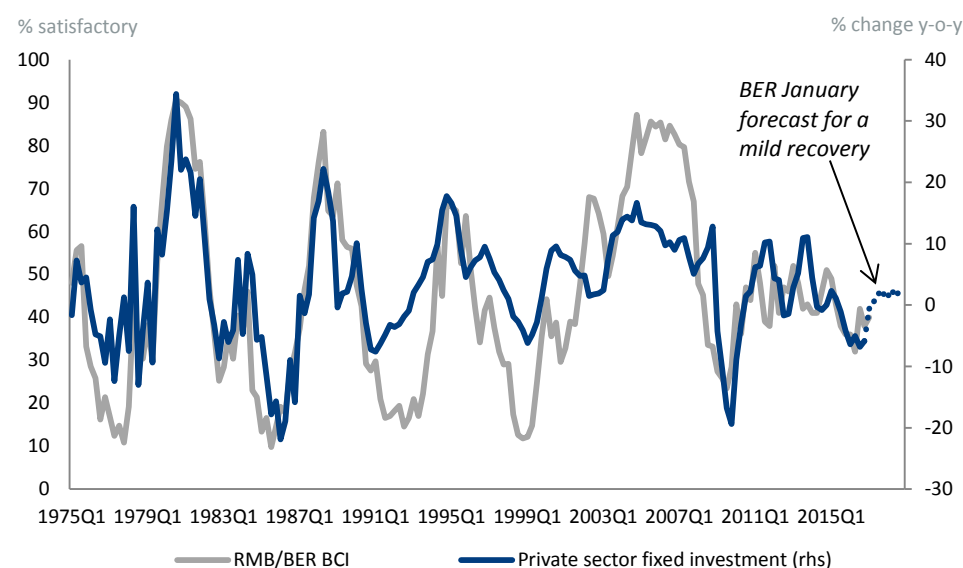


Source: BER

Capacity utilisation in the sector remains low (albeit that there was a seasonal increase in utilisation during 2016Q4). Furthermore, there is uncertainty with respect to both the political climate (and perhaps policy uncertainty in general) and the strength of domestic demand over the next 12 months. After the February Budget, there is the expectation that the tax structure will be more limiting to the ability to invest going forward – see Figure 3.

In all, the underlying survey results as well as the overall RMB/BER BCI do not support the case for a recovery in private sector fixed investment over the near term. The implication is that even the mild recovery as in the BER's January macroeconomic forecast might be too optimistic (Figure 4) and that a further delay of the recovery and/or an even milder recovery might be on the cards.

Figure 4: Private sector fixed investment and business confidence

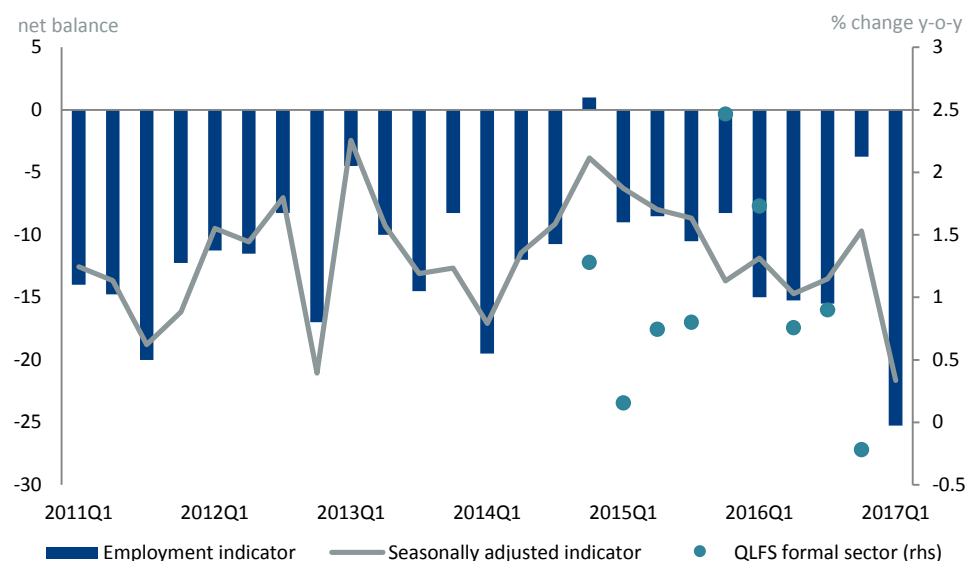


Source: BER, Stats SA, SARB

Employment indicator dips notably

While the survey indicators for employment tend to dip during the first quarter, the renewed deterioration in even the seasonally adjusted average employment indicator across the building, manufacturing and retail sectors further illustrates the continued pressure on firms in this weak economic growth environment. Figure 5 implies that the Quarterly Labour Force Survey (QLFS) is unlikely to show strong growth in formal sector employment over the near term.

Figure 5: Average employment indicator versus formal sector employment growth



Source: BER, Stats SA

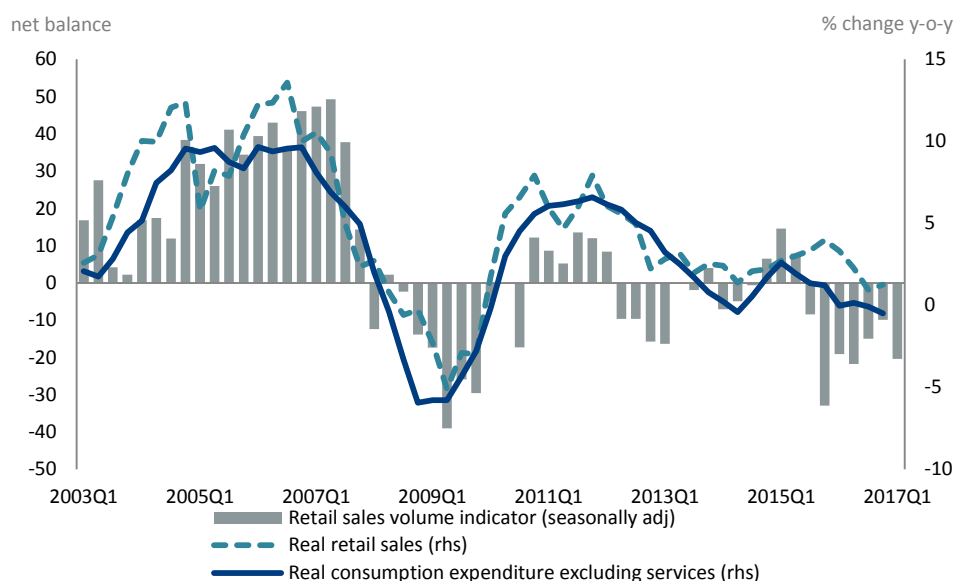
Furthermore, the weak outlook for employment growth highlights the downside risk to domestic demand given that it is unlikely to provide much support to household income growth.

Domestic demand indicators are weak

Manufacturers continue to report lower domestic sales and order volumes in Q1, after a disappointing performance during 2016. The expectation is that domestic demand will improve into Q2. While the recovery in agricultural production will likely be a supporting factor, and there is some evidence that import substitution (given the weaker rand exchange rate during 2016) might have been benefitting sales in certain subsectors, a sustained improvement will have to be accompanied by increased wholesale and retail sales volumes.

Wholesale sales volume growth decelerated in the non-consumer and consumer goods subsectors during Q1. The retail trade sector also saw a broad based deceleration in sales volume growth according to the survey indicators. While sales of non-durable (less discretionary) goods outperformed that of semi-durable and durable goods during most of last year, the growth in the sales volume indicator for non-durable goods also dipped into negative territory in Q1. Official real retail trade sales contracted by -1.2% month-on-month in January. Overall, real growth in official consumption expenditure excluding services is likely to remain under pressure in Q1 – see Figure 6. This is slightly more bearish than the BER's January forecast.

Figure 6: Retail sales volume indicator versus official data on household spending

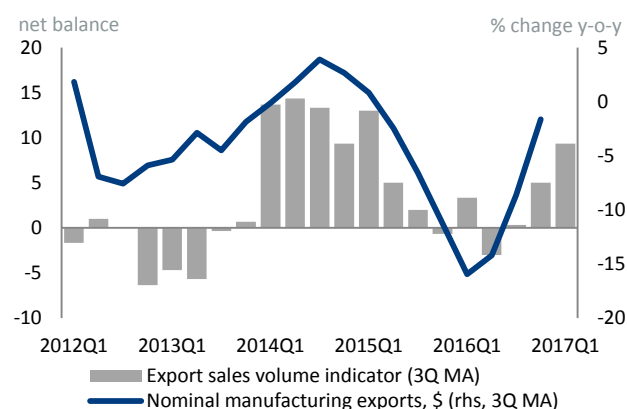


Source: BER, Stats SA

Export volumes are rising

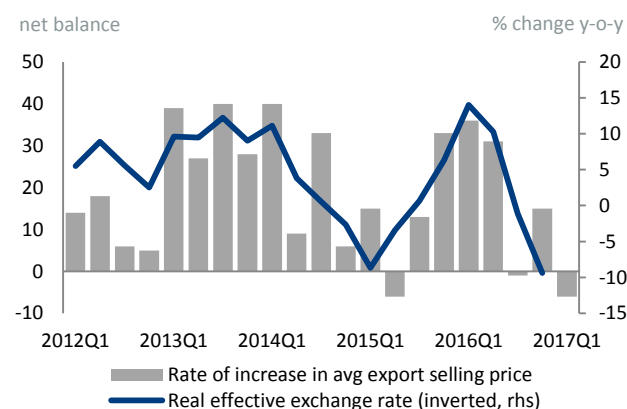
A positive trend, that was again a feature of the current survey round, is continued growth in manufacturing export sales volumes. External demand is improving and this is supportive of export volumes (Figure 7). Manufacturers also expect export volumes in 12 months' time to be higher.

Figure 7: Manufacturing exports



Source: BER, SARS

Figure 8: Export selling price inflation



Source: BER, SARB

However, manufacturers reported a sharp deceleration in the rate of increase in the average export selling price. This is in line with the strengthening of the real effective exchange rate of the rand which intensified during Q1 (Figure 8). Hence, while export volumes are supported, growth in the value of manufacturing exports is decelerating as is evident in the rand value of manufacturing exports as published by the South African Revenue Service (SARS).

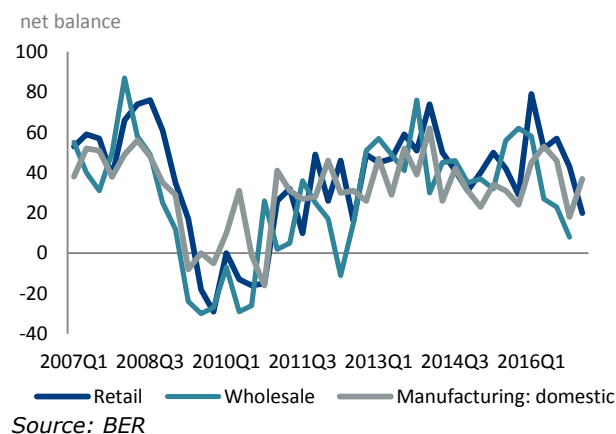
Average purchasing and selling price inflation decelerates further

The deceleration in purchasing price inflation intensified across the manufacturing, wholesale and retail sectors (Figure 9). The deceleration was most pronounced in the wholesale sector, while it was less marked in the manufacturing sector with the rate of increase in the average purchasing price per unit of raw material decelerating only slightly further.

Figure 9: Purchasing price inflation



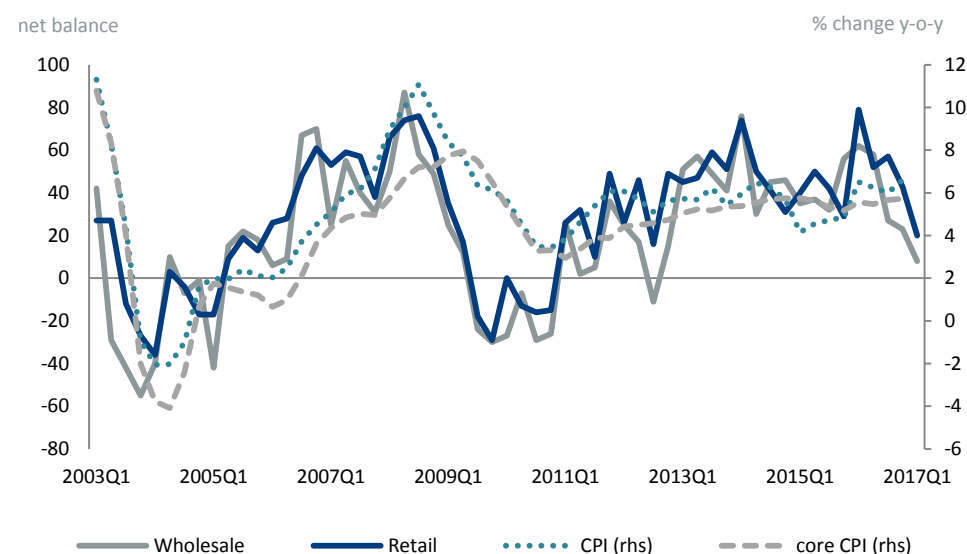
Figure 10: Selling price inflation



The deceleration in average purchasing price inflation led to a slower pace of increase in the average selling prices in the wholesale and retail sectors. On the other hand, the manufacturing sector reported an acceleration in the rate of increase in the average domestic selling price (Figure 10).

On balance, the survey results confirm that lower input cost inflation coupled with weak demand conditions are resulting in lower consumer inflation. The trade sector selling price inflation indicators are pointing towards a noticeable deceleration in CPI and core CPI inflation into 2017 – see Figure 11.

Figure 11: Trade selling price inflation indicators versus the CPI and core CPI inflation rates



Implications

Most of the key themes of the BER's macroeconomic forecast are confirmed by the latest survey results. These include relatively low business confidence, weak business investment and relatively feeble consumer demand. However, the survey results could be interpreted as being consistent with an even weaker forecast for private sector fixed investment. Furthermore, the results confirm intensifying pressure on consumer spending in Q1.

While the results corroborated a deceleration in consumer inflation and continued growth in export volumes, on balance, it highlights the downside risks to GDP growth in 2017. Furthermore, the boost to household real disposable income from lower inflation might be nullified when combined with the increase in personal income tax as announced in the February Budget. A revised BER baseline forecast will be available in early April.

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