

Business Survey Results 2018Q1

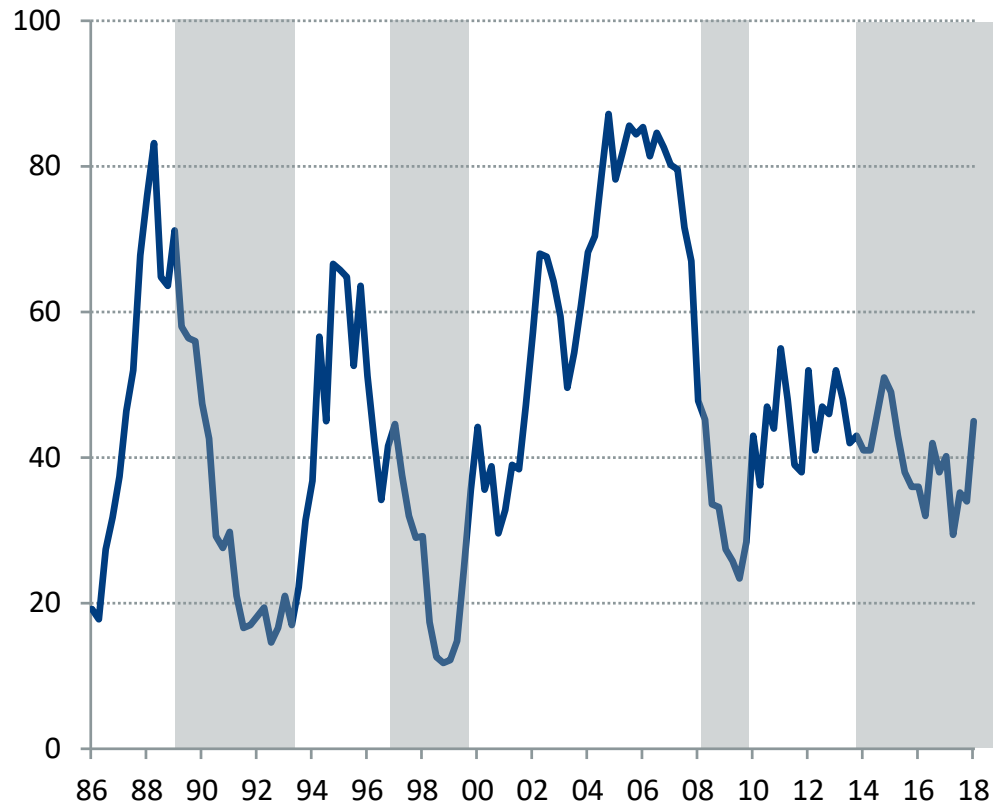
Main results and implications at a glance

16 March 2018

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

Notable increase in the RMB/BER Business Confidence Index (BCI)

% rating satisfactory



Business cycle downturns are shaded

The 2018Q1 survey was conducted between 29 January and 5 March

The Q1 survey is the first after the ANC's leadership election conference in December 2017 and the advent of Cyril Ramaphosa as President of the country

More than two-thirds of respondents completed their questionnaires online after the delivery of the National Budget on 21 February

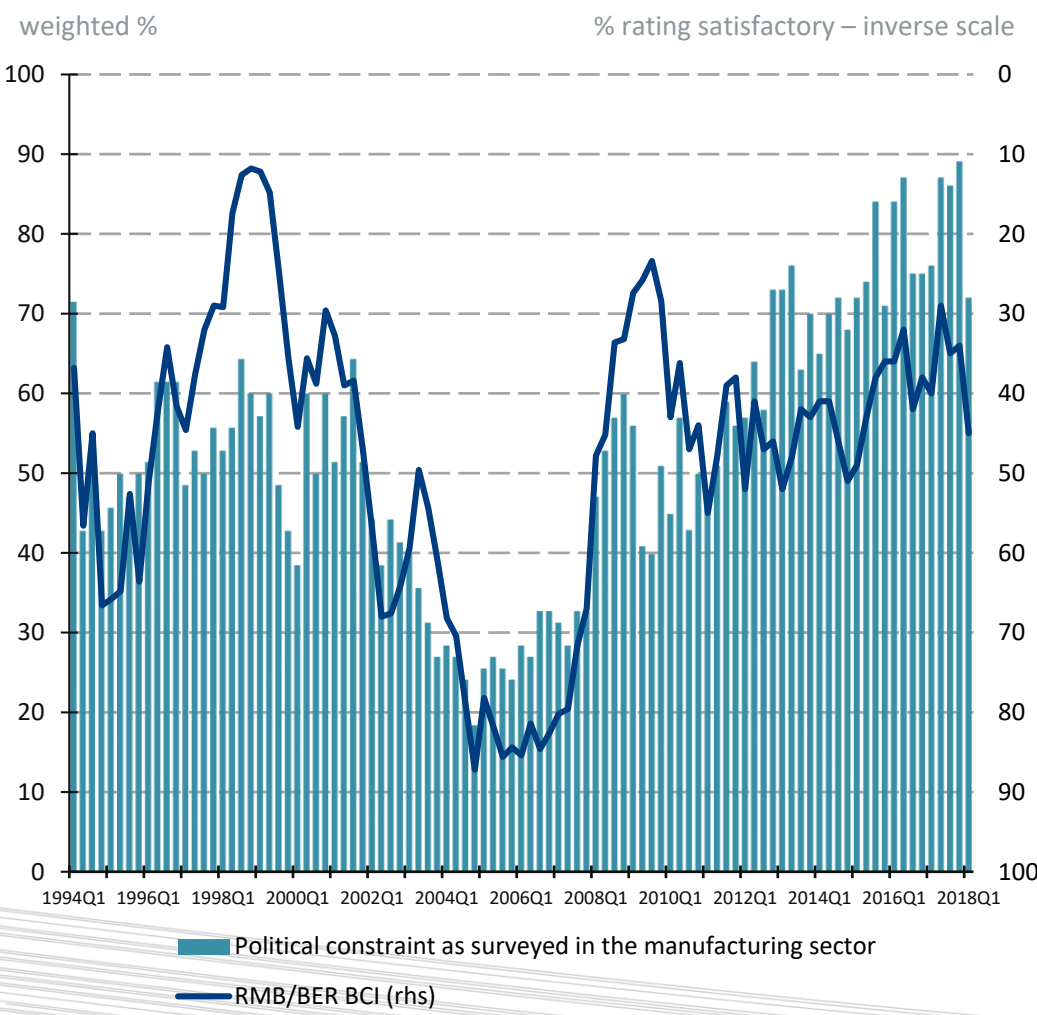
The RMB/BER BCI increased to 45 in 18Q1 (from 34 in 17Q4)

- Increases of 11 or more index points are relatively rare, having only happened 15 times since 1975
- All underlying sectoral confidence indices increased
 - Building contractors: 41 (from 34, increase of 7)
 - Manufacturing: 37 (from 24, increase of 13)
 - Wholesale: 53 (from 51, up only 2)
 - Retail: 42 (from 29, increase of 13)
 - New Vehicles: 52 (from 32, increase by 20)
- After remaining very low in 2017, confidence is now more in line with improvements in activity indicators in the second half of 2017
- The results foreshadow that we may already be in a cyclical upturn and bodes well for GDP growth from 2018 onwards
- But, 55% of respondents are still unsatisfied with current business conditions - there would have to be a further diffusion/acceleration in economic activity for confidence to sustain its upward momentum
- Countervailing forces which could stifle the upturn in confidence and the economy include tight fiscal policy, continued policy uncertainty (for example on the issue of land expropriation without compensation as well as in the mining and energy sectors) and potentially a deceleration in global growth as monetary policy normalises in key advanced economies/areas

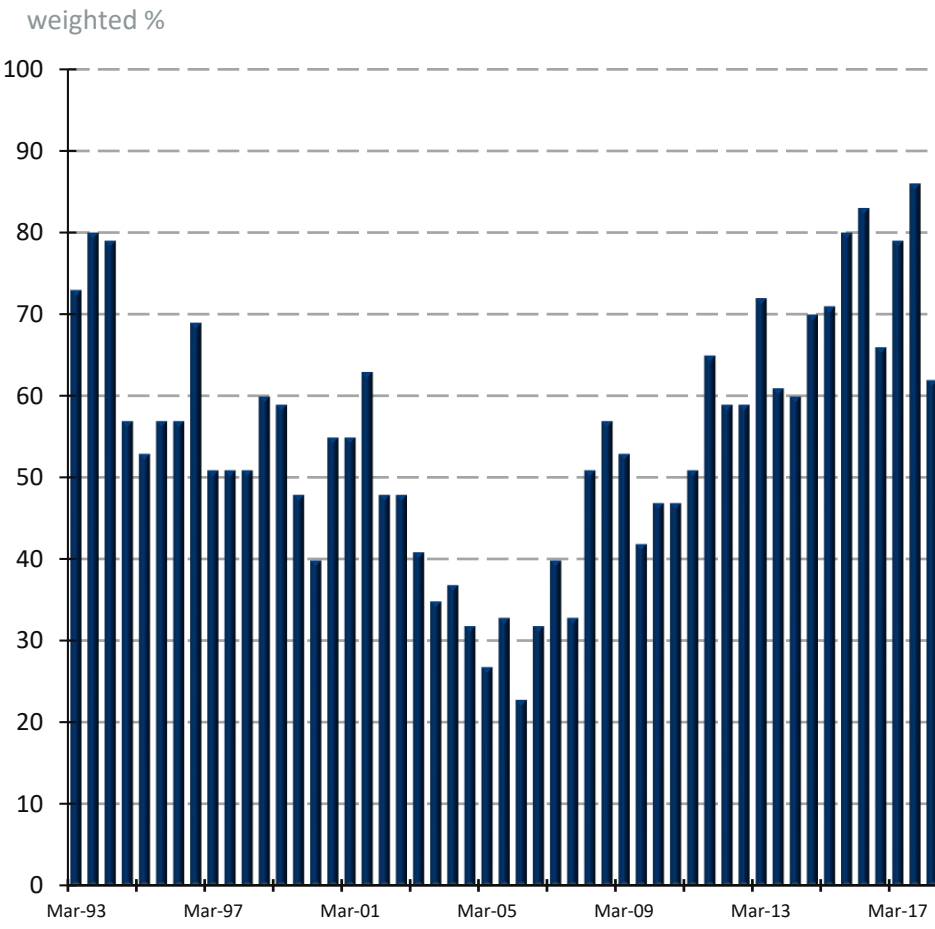
The political climate less of a constraint

Surveyed only in the manufacturing sector

Percentage rating the current political climate as a serious constraint on current business activity

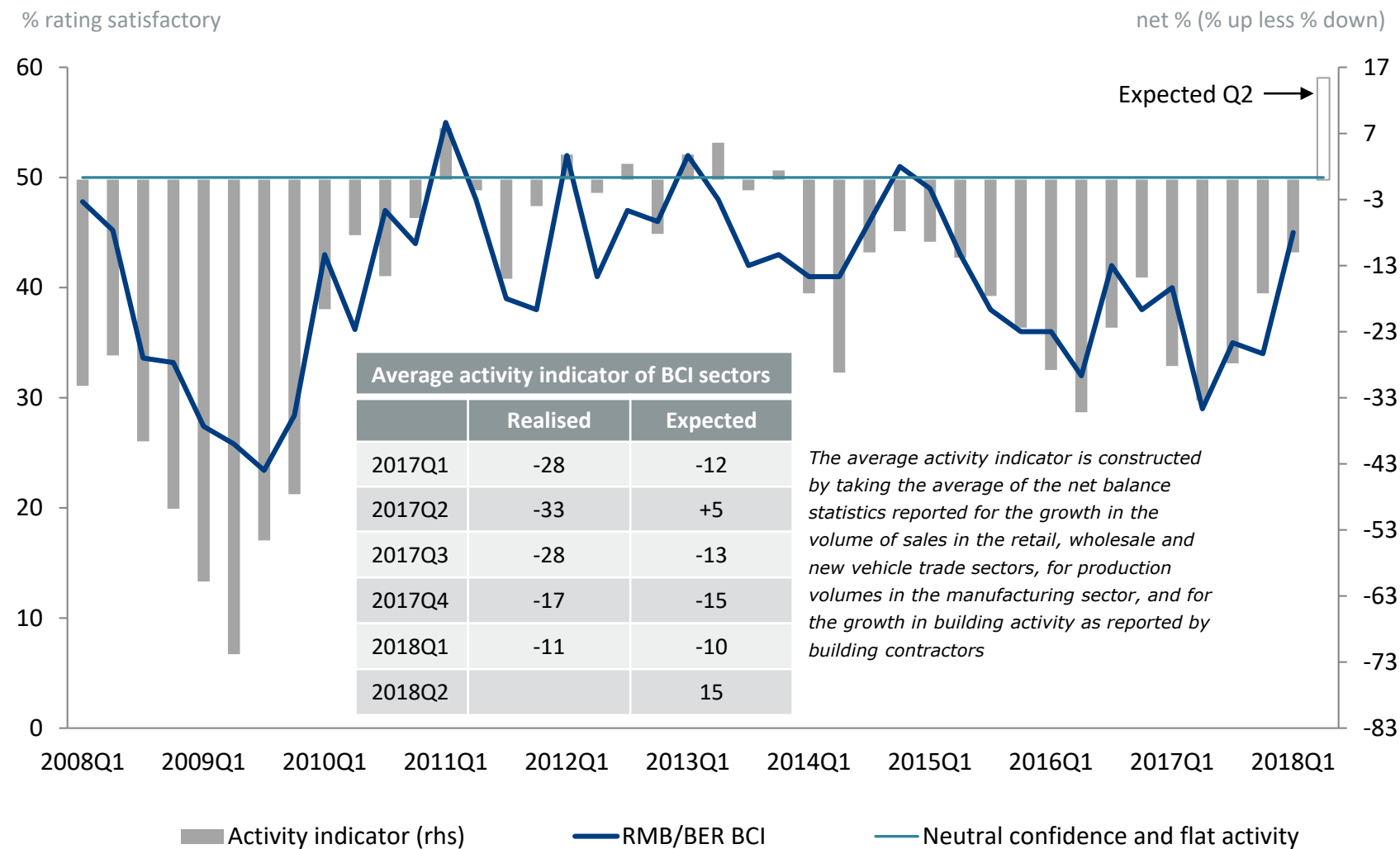


Percentage expecting the political climate to limit their ability to invest over next 12 months



- External positive developments boosted confidence in Q1
- Political changes translated into a decline in the percentages of manufacturers rating the political climate as a serious constraint on current activity and rating it as a limit on their ability to invest over the next 12 months
- The ratings of general business conditions also improved significantly across all sectors. In most, the improvements were more stark than the rise in confidence...

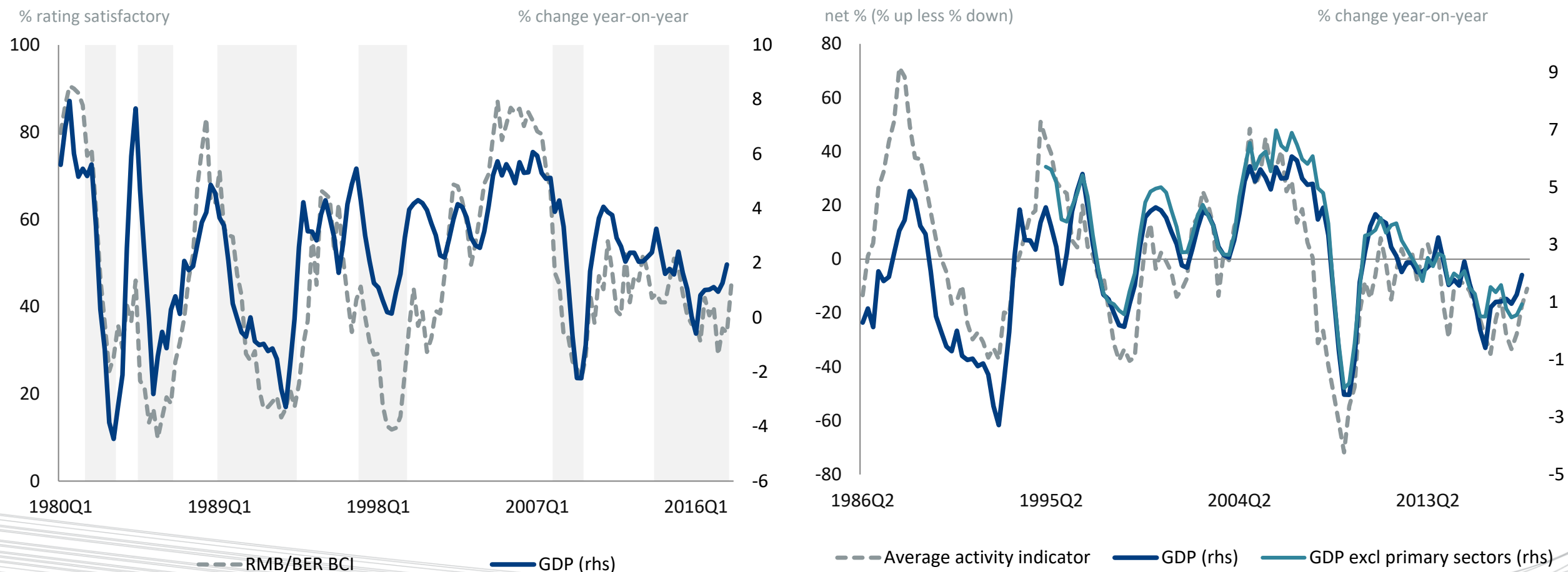
RMB/BER BCI versus average activity indicator



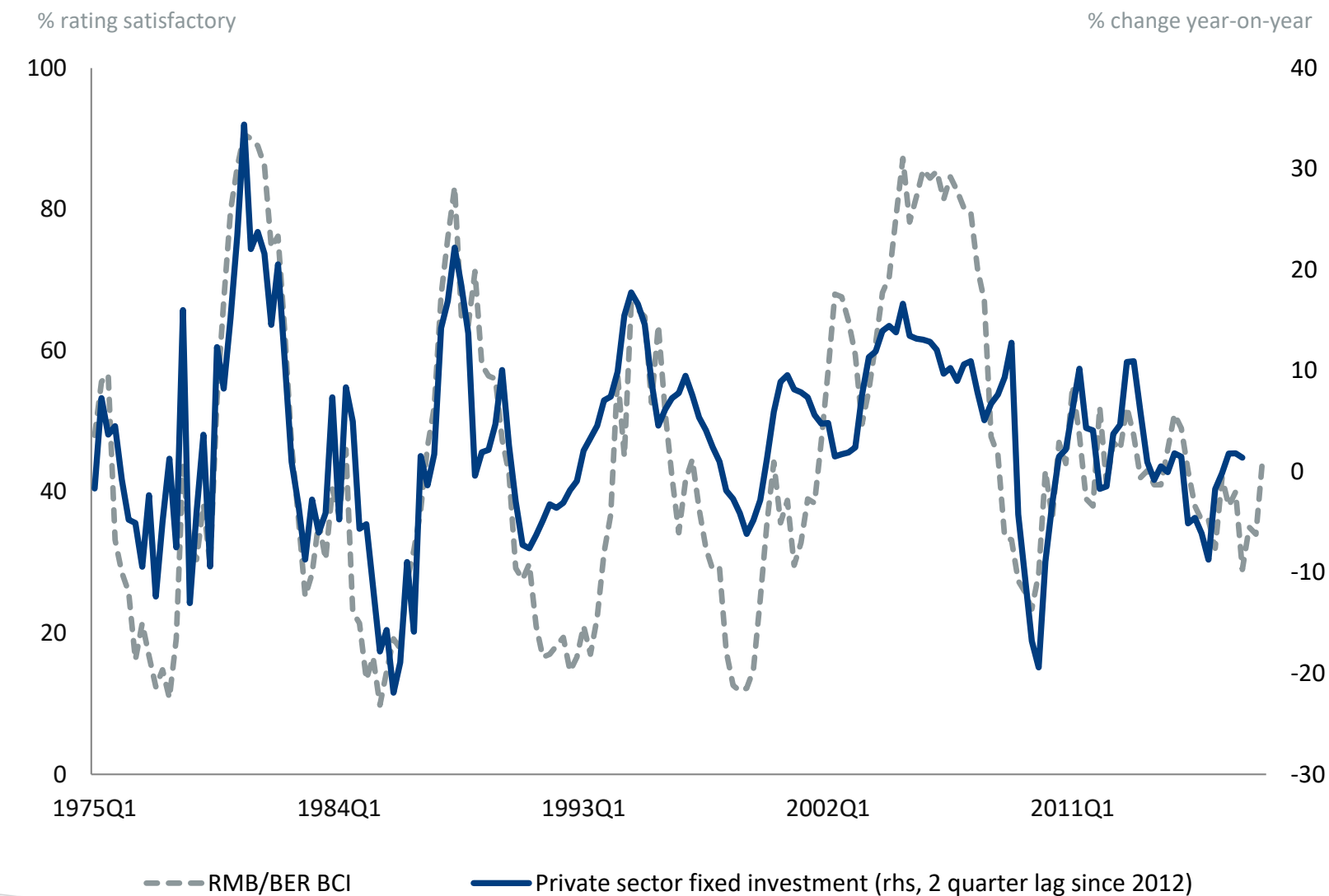
- After already improving in 17Q4, the average activity indicator rose further in Q1
- This was in line with what respondents had expected for the quarter
- Expectations for Q2 are rather bullish, with respondents forecasting significant accelerations in activity, these expectations are part and parcel of the increase in sentiment
- Given elevated expectations, there is the potential that respondents may be disappointed in Q2 if actual activity does not match these expectations
- Current momentum in global economic growth is benefitting SA, with manufacturers reporting continued growth in export volumes. They expect this to continue, even in the face of the strong rand exchange rate...

RMB/BER BCI and activity indicator versus GDP

- Overall GDP growth during 2017 was higher than suggested by the RMB/BER BCI, especially in 2017Q4
- Strong growth in the agricultural sector boosted overall GDP growth in 2017
- Growth in GDP excluding the primary sectors tracks the average activity indicator from the survey results quite well
- While overall GDP growth is likely to moderate in Q1, considering the survey results, this may not necessarily be the case for growth in GDP excluding the primary sector



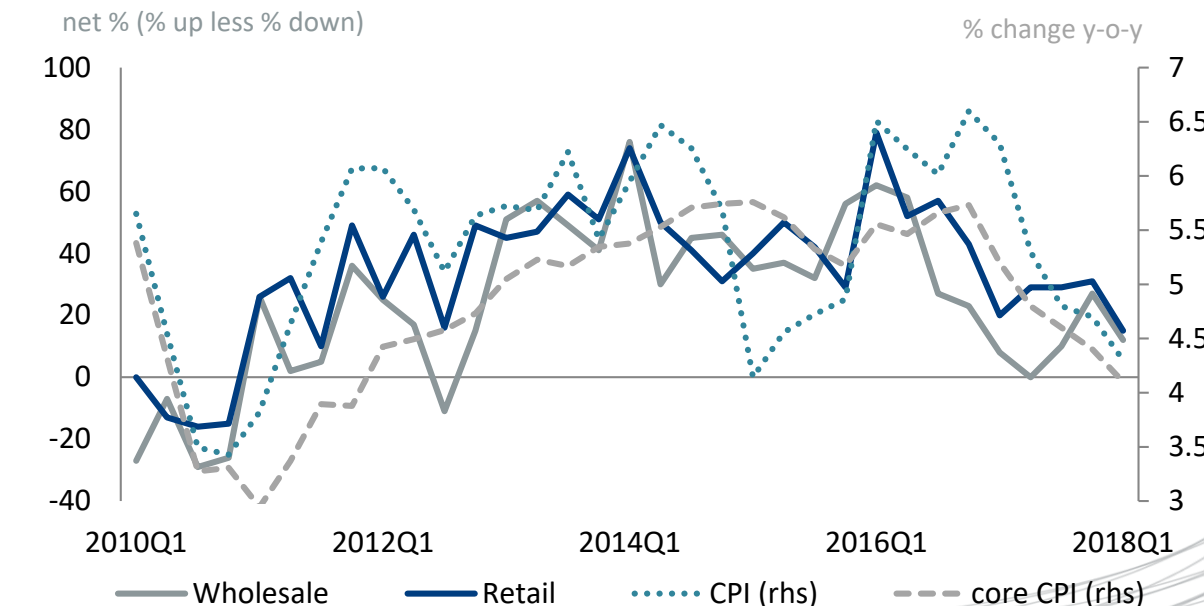
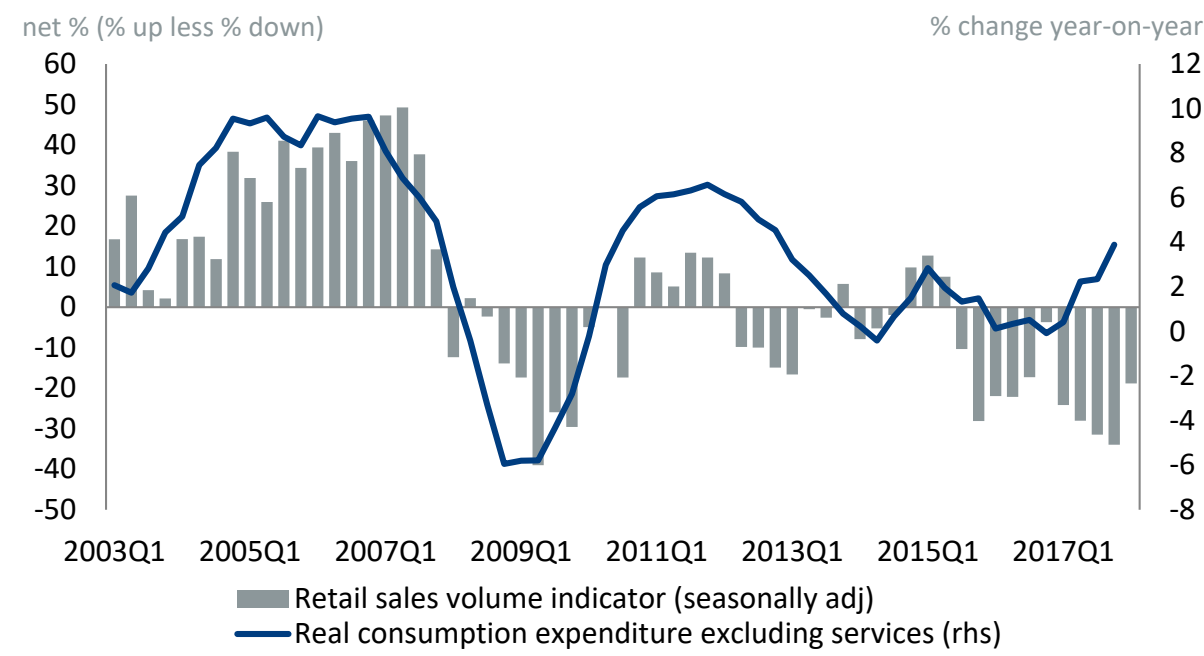
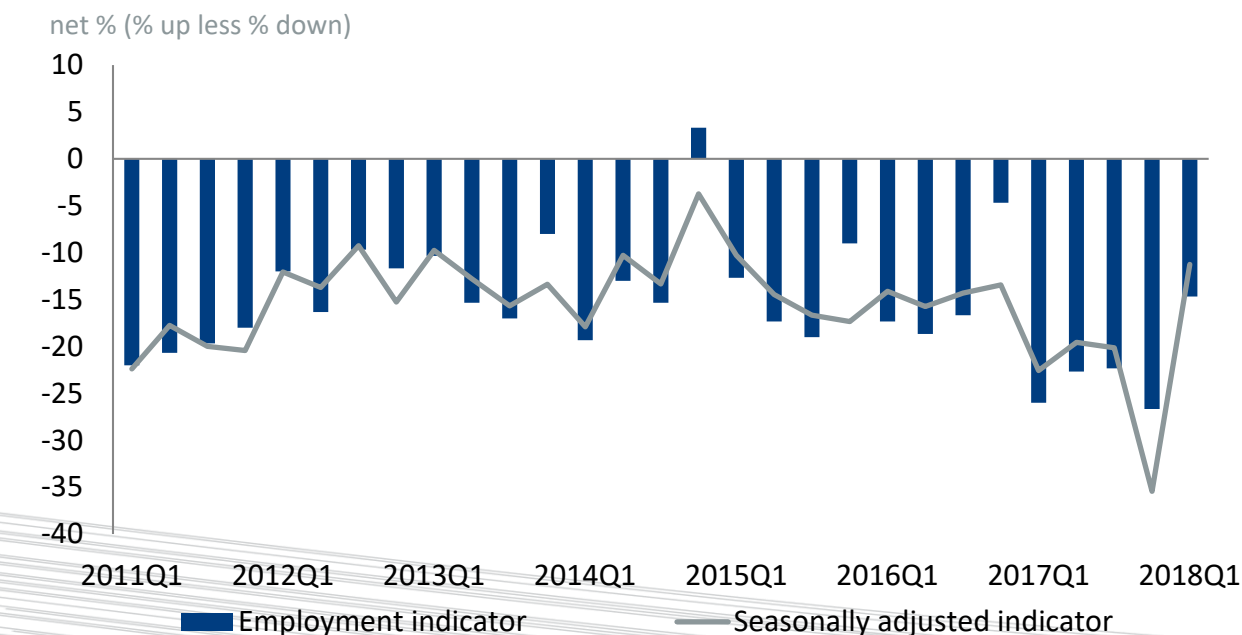
RMB/BER BCI and private sector fixed investment



- The increase in the RMB/BER BCI bodes well for private sector fixed investment
- Manufacturers reported a further acceleration of fixed investment in Q1 as well as intentions for investment in 12 months' time
- Economic activity would have to see capacity utilisation increase before investments will be aimed at additions instead of replacements
- Manufacturers' rating of the tax structure as constraint to investment in 12 months' time has increased sharply and is currently at a record high
- Clarity on key policy issues is needed to see strong upward momentum in private sector fixed investment
- Creating policy certainty in the mining sector and pushing through the signing of renewable energy projects have the potential to lift private fixed investment significantly

Implications for the consumer outlook

- The survey results for the new vehicle, retail and wholesale sectors underscore improvements in consumer spending during Q1
- However, official data on household consumption expenditure has registered stronger growth than implied by the survey indicators in the second half of 2017
- Selling price indicators in the Q1 results are consistent with low consumer inflation and this should support sales volumes this year. Expected price indicators for Q2 suggest contained VAT impact (at least initially)
- While the survey indicators for employment did improve, actual employment growth would have to start picking up for a more robust consumer outlook



Technical note

A cornerstone of the BER's work is its regular business surveys 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. Also, it provides unique information such as confidence, expectations and constraints on activity.

The BER's methodology is closely related to the European Commission and Munich based IFO Institute. Please refer to the [BER's website](#) for more background on the surveys.

Survey indicators:

Business confidence

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.

Most other survey indicators

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 and are referred to as net percentages (%)

Respondents are prompted about expectations for the next quarter as well

Constraints

Weighted percentage rating the factor as a serious or slight constraint on activity/investment

Economic information that works for you

Christelle Grobler
+27 (0)21 808 9781
cgrobler@sun.ac.za

This publication is confidential and only for the use of the intended recipient. Copyright for this publication is held by Stellenbosch University. Although reasonable professional skill, care and diligence are exercised to record and interpret all information correctly, Stellenbosch University, its division BER and the author(s)/editor do not accept any liability for any direct or indirect loss whatsoever that might result from unintentional inaccurate data and interpretations provided by the BER as well as any interpretations by third parties. Stellenbosch University further accepts no liability for the consequences of any decisions or actions taken by any third party on the basis of information provided in this publication. The views, conclusions or opinions contained in this publication are those of the BER and do not necessarily reflect those of Stellenbosch University.