

Business Survey Results 2018Q3

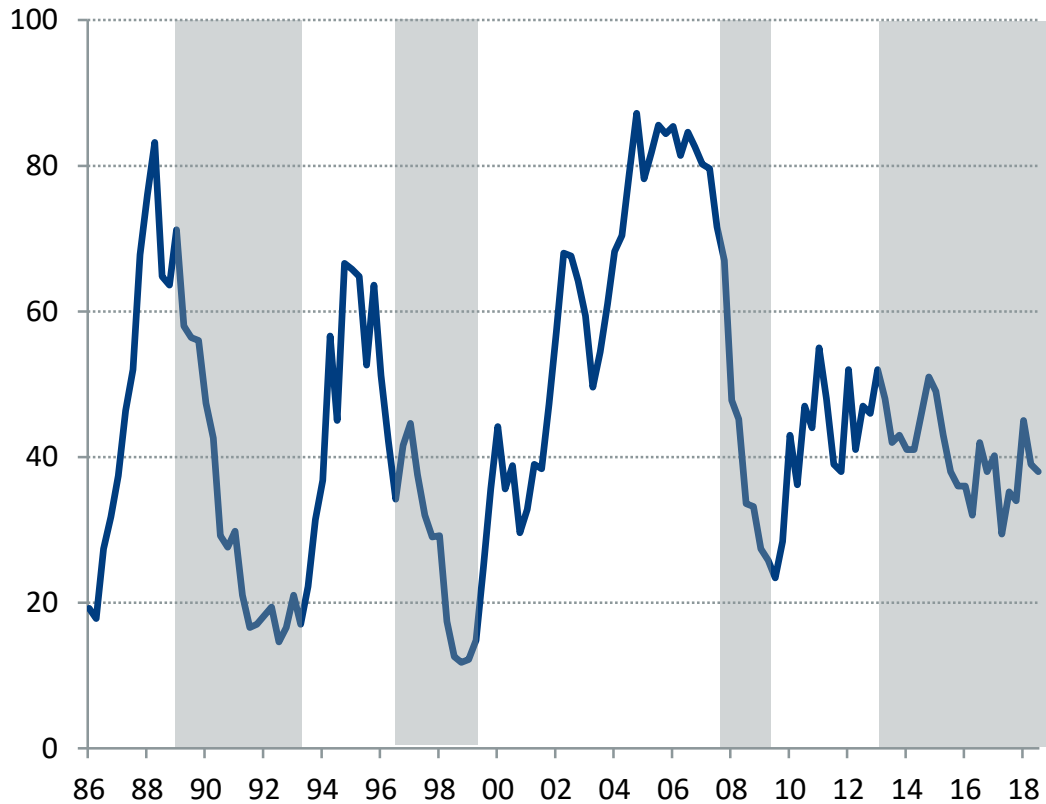
Main results and implications at a glance

12 September 2018

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

RMB/BER Business Confidence Index (BCI) retreats

% rating satisfactory



Business cycle downturns are shaded

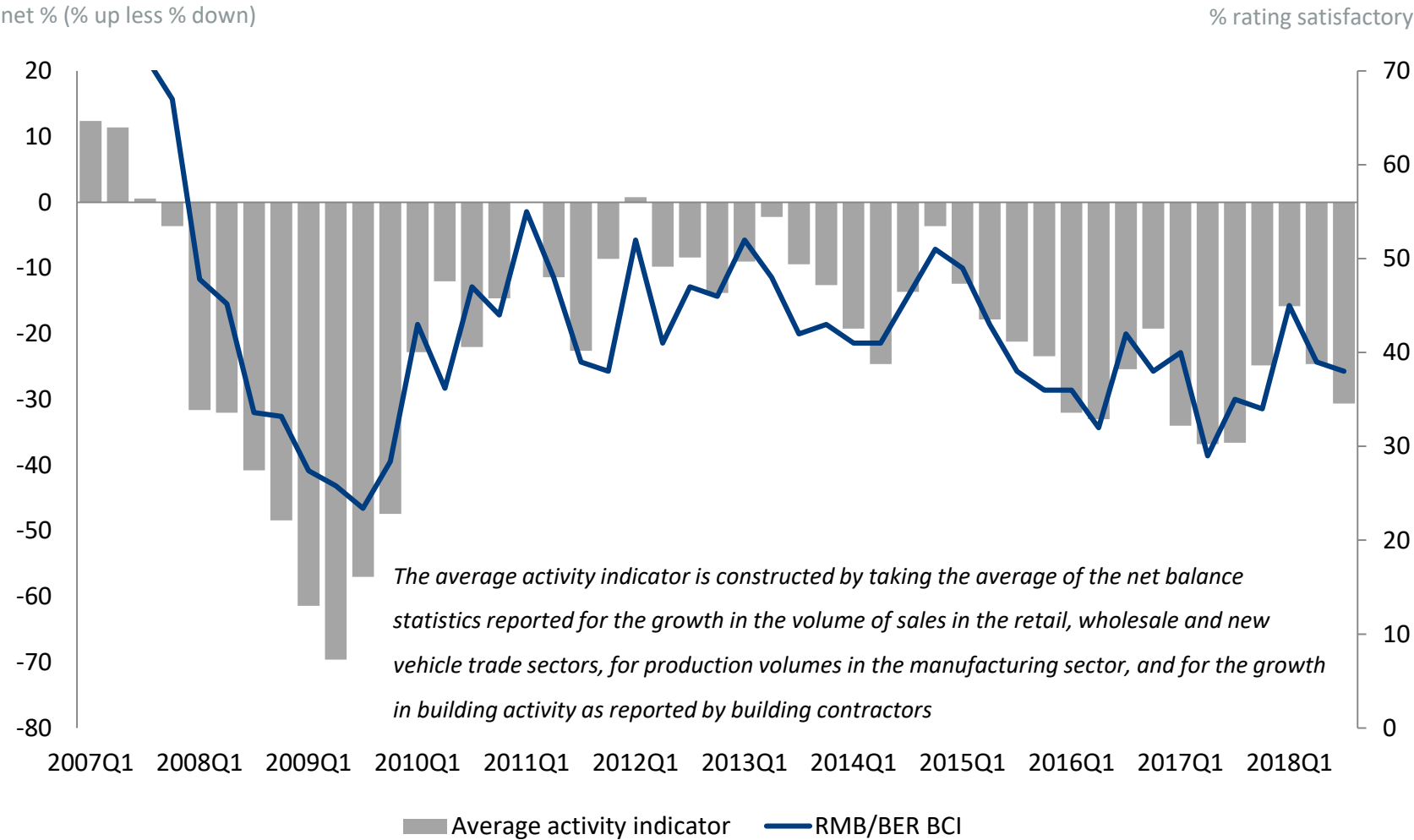
The 2018Q3 survey was conducted between 6 August and 6 September 2018

The survey covered 1 700 senior executives in the five cyclically most sensitive sectors of the economy, of which two cover industry (namely manufacturing and building) and three services (namely retail, wholesale and motor trade)

The RMB/BER BCI declines further to 38 in 18Q3

- The further retreat in confidence is in line with expectations, but could have been more significant given the headwinds we are facing. These include the renewed disillusionment due to domestic policy uncertainty and the recent global financial market volatility impacting severely on emerging economies.
- Underlying sectoral confidence indices:
 - Building contractors: 45 (from 37 in 18Q2, and 41 in 18Q1)
 - Manufacturing: 21 (from 27 in 18Q2, and 37 in 18Q1)
 - Wholesale: 49 (from 62 in 18Q2, and 53 in 18Q1)
 - Retail: 33 (from 33 in 18Q2, and 42 in 18Q1)
 - New Vehicles: 41 (from 35 in 18Q2, and 52 in 18Q1)
- It is the first time in a year that all sectors making up the RMB/BER BCI are below the neutral level of 50, although confidence rose marginally in two of the five sectors covered in the survey:
 - Building contractor confidence improvement isn't representative of the total building industry, with subcontractor confidence dropping noticeably in the third quarter. The increase in building contractor confidence was solely due to residential contractors expecting the fourth quarter to repeat its usual seasonal improvement in activity. By contrast, non-residential building confidence (and activity) fell back sharply in the third quarter.
 - As for new vehicle dealers, sentiment improved but this is not supported by underlying activity – with sales volumes remaining under pressure.

Average activity indicator versus RMB/BER BCI



Please note:

Underlying survey results were revised after a weight and sector classification update process, more details to follow in the fourth quarter release

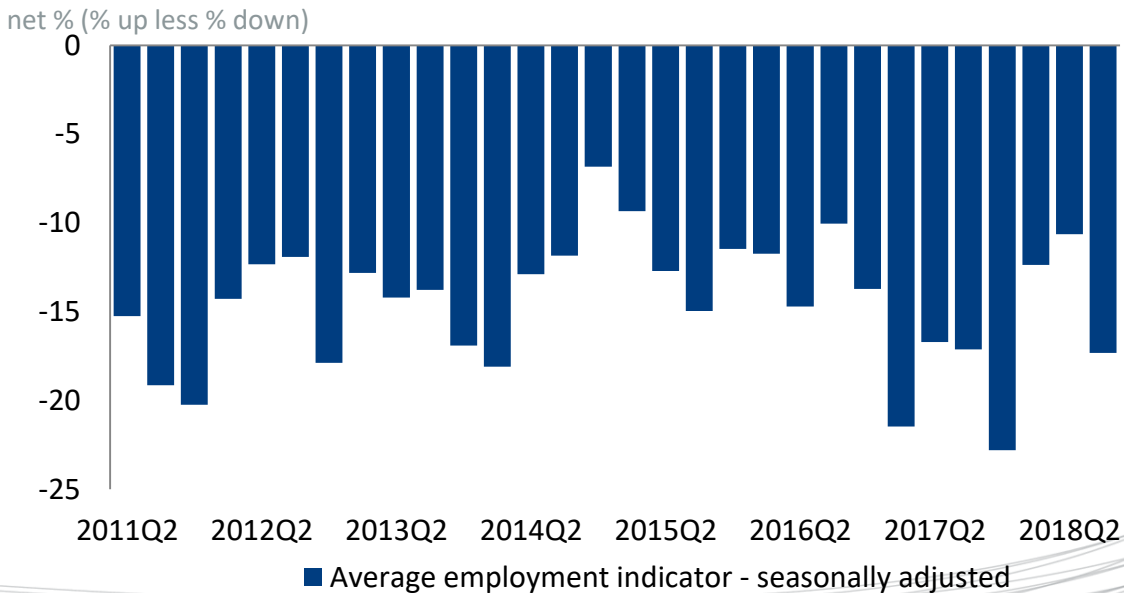
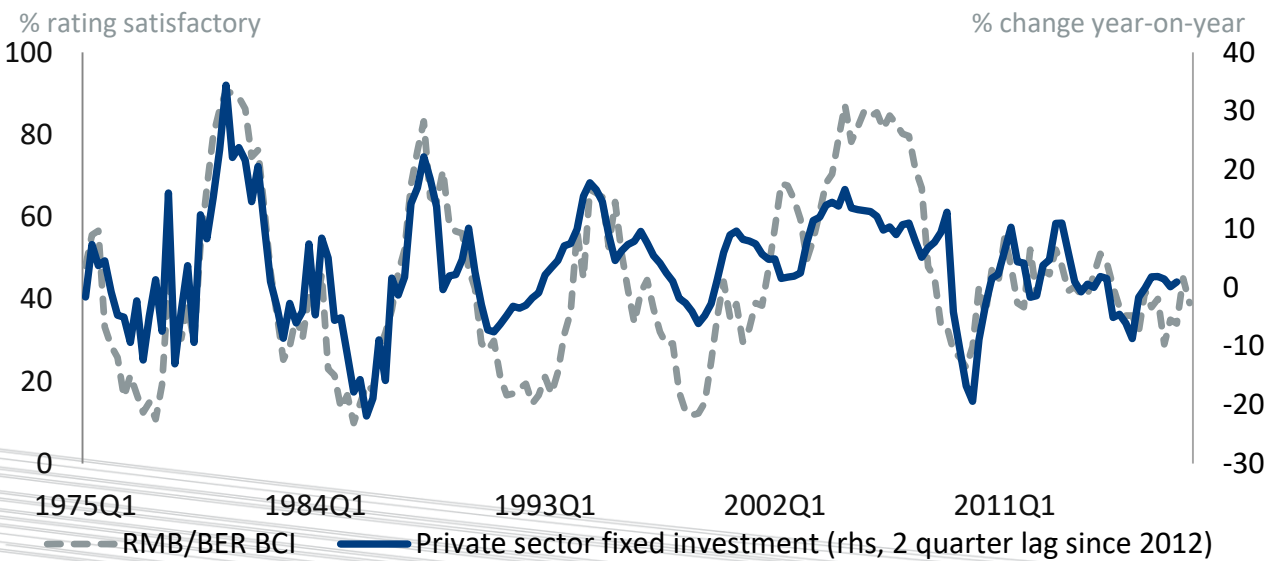
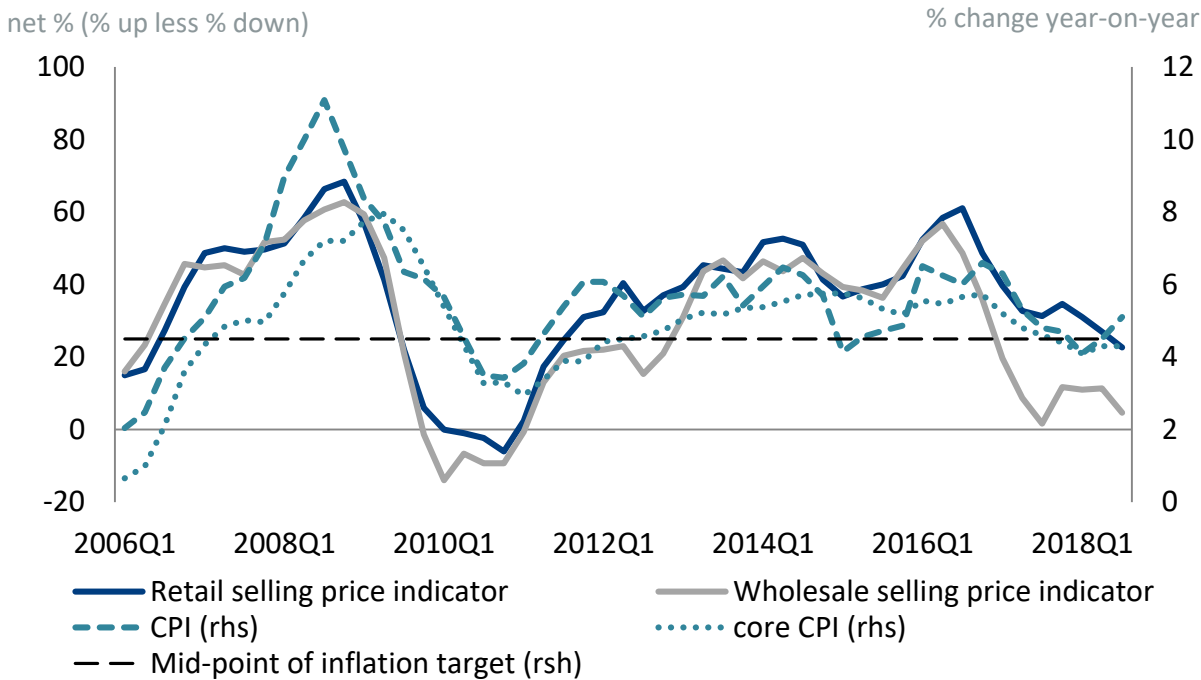
Source: BER

- The average activity indicator dipped further in 2018Q3
- Activity deteriorated the most in the building and wholesale sectors, while activity improved somewhat (from a low level) in the retail trade sector
- Confidence usually moves in line with the average activity indicator and is also positively correlated with the difference between expected and realised activity (the surprise)
- According to these relationships, confidence could actually have dropped more...

Average activity indicator of BCI sectors			
	Realised	Expected	Surprise
2017Q1	-34	-14	-20
2017Q2	-37	-2	-35
2017Q3	-37	-18	-19
2017Q4	-25	-22	-2
2018Q1	-16	-16	0
2018Q2	-25	6	-30
2018Q3	-31	-3	-28
2018Q4		-17	

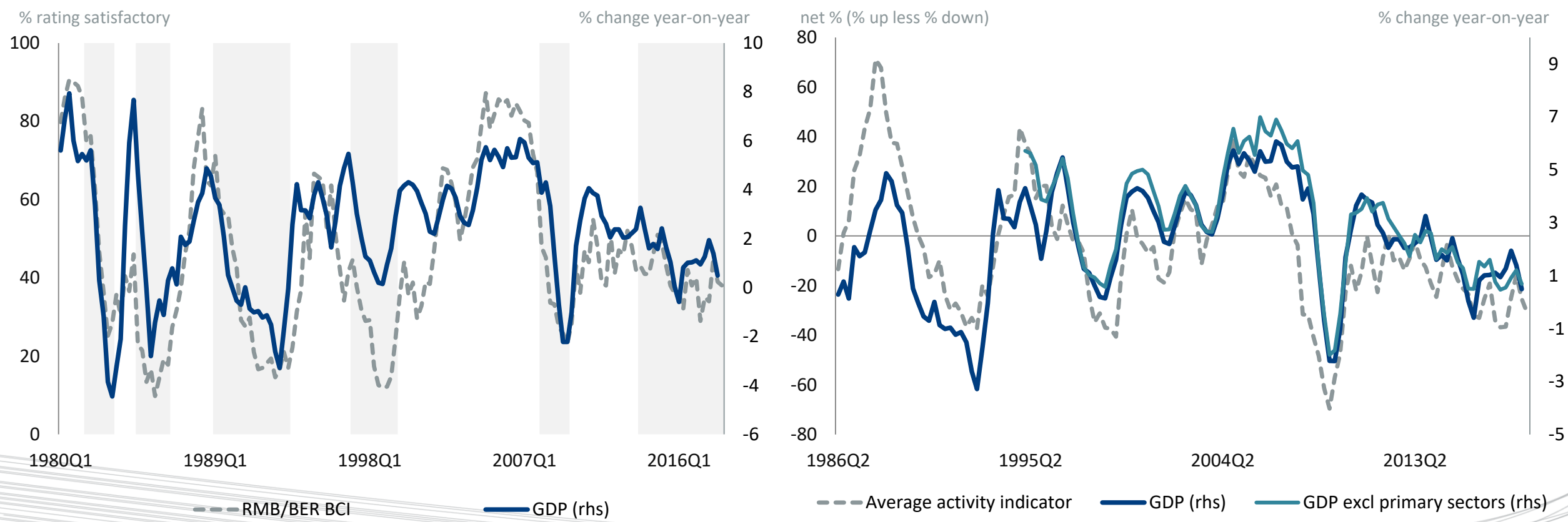
Price indicators, employment and private sector fixed investment

- Weak demand conditions are still preventing selling prices at retail level from accelerating noticeably, however, narrowing price margins (as pressure on input/purchasing prices continue to build) may force some acceleration in coming months
- The average employment indicator dipped in Q3, in line with renewed weakness in activity and lower confidence levels
- The political and policy factors currently weighing down on confidence will have to ease to lift private fixed investment significantly. This is especially the case now that global headwinds are mounting, domestic public finances are stretched and monetary policy is constrained by rising inflation risks.



RMB/BER BCI and activity indicator versus GDP

- The Q1 GDP contraction was followed by another shock contraction in Q2, implying that the SA economy has slipped into recession. In addition to domestic constraints, this is against the backdrop of continued financial market pressure on emerging markets spurred by the anticipation of further US interest rate increases, trade war fears and crises in Turkey and Argentina.
- The average activity indicator tracks year-on-year growth in the GDP excluding the primary sector, which slowed to 0.7% in Q2
- The further dip in confidence and activity during the third quarter does not bode well for year-on-year GDP growth (at least non-agricultural GDP) in Q3
- Overall, the survey results foreshadow continued underperformance of the economy in the second half of the year. This implies that it may be difficult to register even 1% GDP growth in 2018 – a far cry from earlier expectations after revisions to official data showing a much improved performance for the second half of 2017 and the confidence jump in Q1



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

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