

Business Survey Results 2018Q2

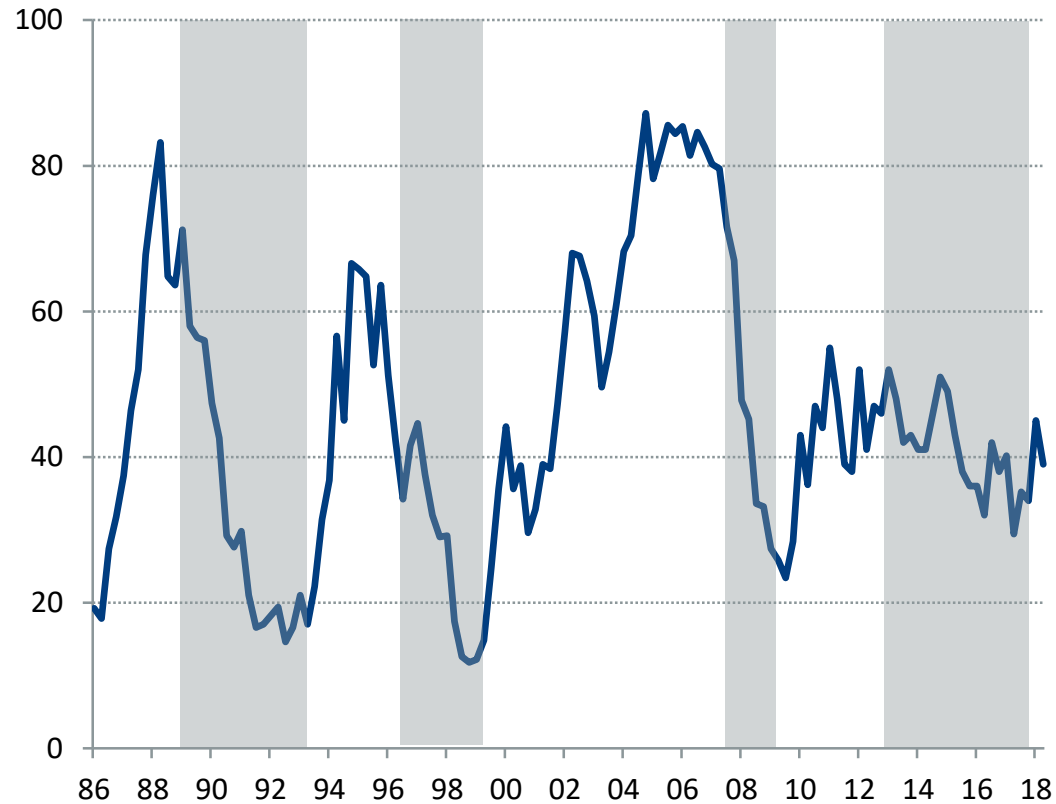
Main results and implications at a glance

14 June 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, we are currently assuming a lower turning point was reached somewhere around mid-2017

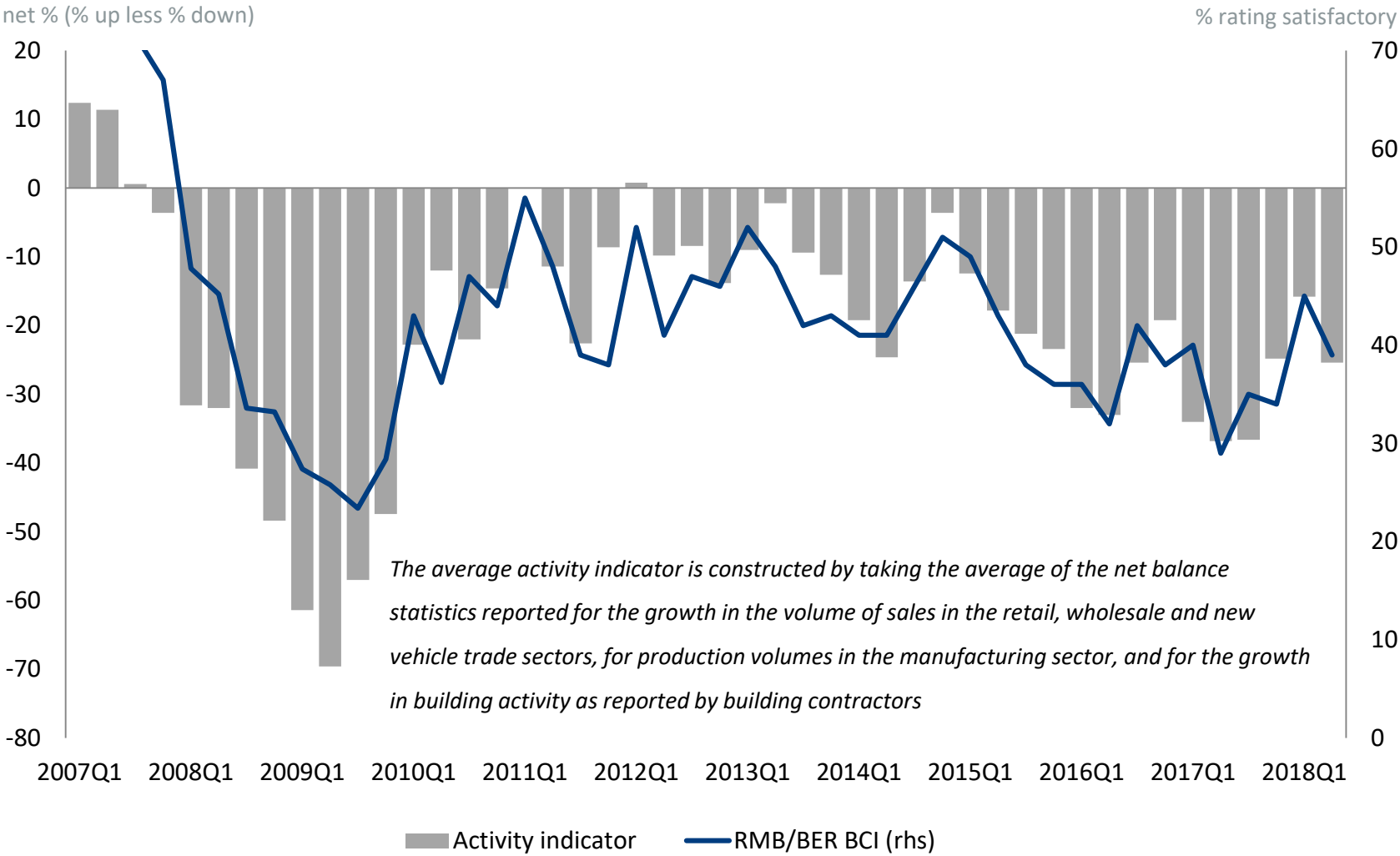
The 2018Q1 survey was conducted between 7 May and 5 June

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 retreated 6 points to 39 in 18Q2

- The dip in business confidence comes off the back of a surge to 45, from 34 in 17Q4, in the first quarter
- After the Q1 confidence surge, which was mostly the result of positive political developments but was also supported by an improvement in the activity indicators, we warned that there would have to be a further diffusion/acceleration in economic activity for confidence to sustain its upward momentum... this unfortunately was not the case in Q2
- Not only did activity disappoint, but the upturn in confidence was also stifled by continued policy uncertainty (for example on the issue of land expropriation without compensation as well as in the mining sectors), tight fiscal policy, steep fuel price increases and renewed volatility in global financial markets
- The percentage of manufacturers rating the political climate as a serious constraint on current business activity did, however, decline slightly further in Q2 (after dropping significantly in Q1)
- Barring wholesale, underlying sectoral confidence indices retreated:
 - Building contractors: 37 (from 41, and 34 in 17Q4)
 - Manufacturing: 27 (from 37, and 24 in 17Q4)
 - Wholesale: 62 (from 53, and 51 in 17Q4)
 - Retail: 33 (from 42, and 29 in 17Q4)
 - New Vehicles: 35 (from 52, and 32 in 17Q4)

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 third quarter release

Source: BER

- The average activity indicator dipped back to 17Q4 levels
- Activity deteriorated the most in the manufacturing, retail trade (specifically for durable goods) and new vehicle trade sectors
- 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)
- Expectations for Q2 were rather bullish, so there was a large negative surprise in realised activity, which reinforced the confidence dip

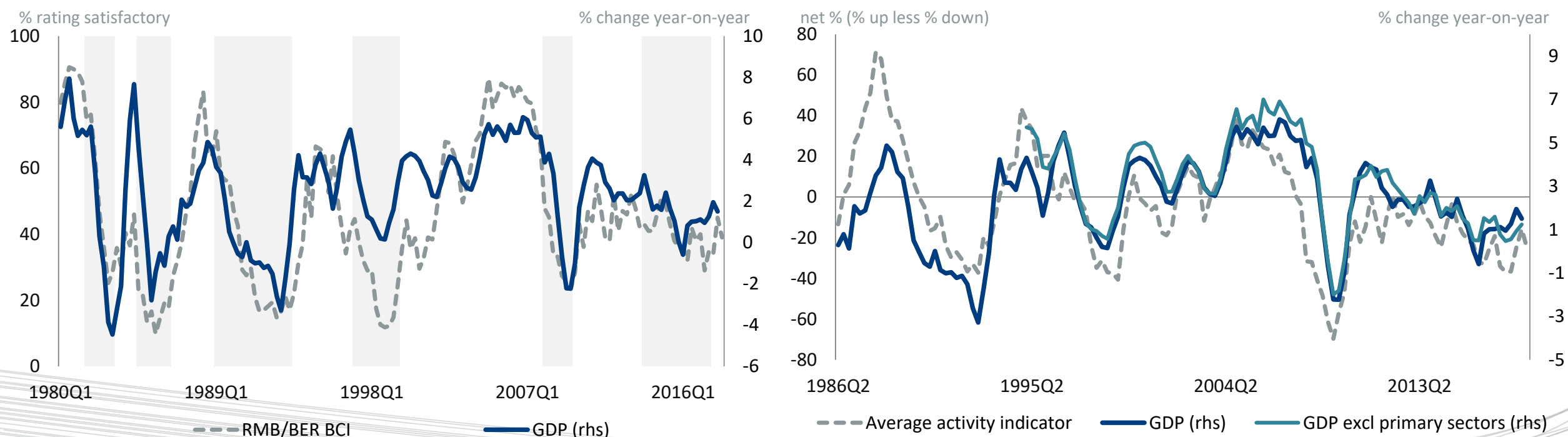
Average activity indicator of BCI sectors			
	Realised	Expected	Surprise
2017Q1	-34	-14	-20
2017Q2	-37	-2	-35
2017Q3	-37	-18	-19
2017Q4	-25	-22	-2
2018Q1	-16	-16	0
2018Q2	-25	6	-31
2018Q3		-3	

RMB/BER BCI and activity indicator versus GDP

- GDP growth came in lower than expected during Q1, even compared to the same quarter last year (the RMB/BER BCI is more closely related to year-on-year GDP growth)
- The average activity indicator tracks year-on-year growth in the GDP excluding the primary sector, which did show an improvement in Q1
- The dip in confidence and activity during the second quarter does not bode well for year-on-year GDP growth in Q2
- Data released for manufacturing production and trade sales for April (by Stats SA) also points towards a tough start to Q2:

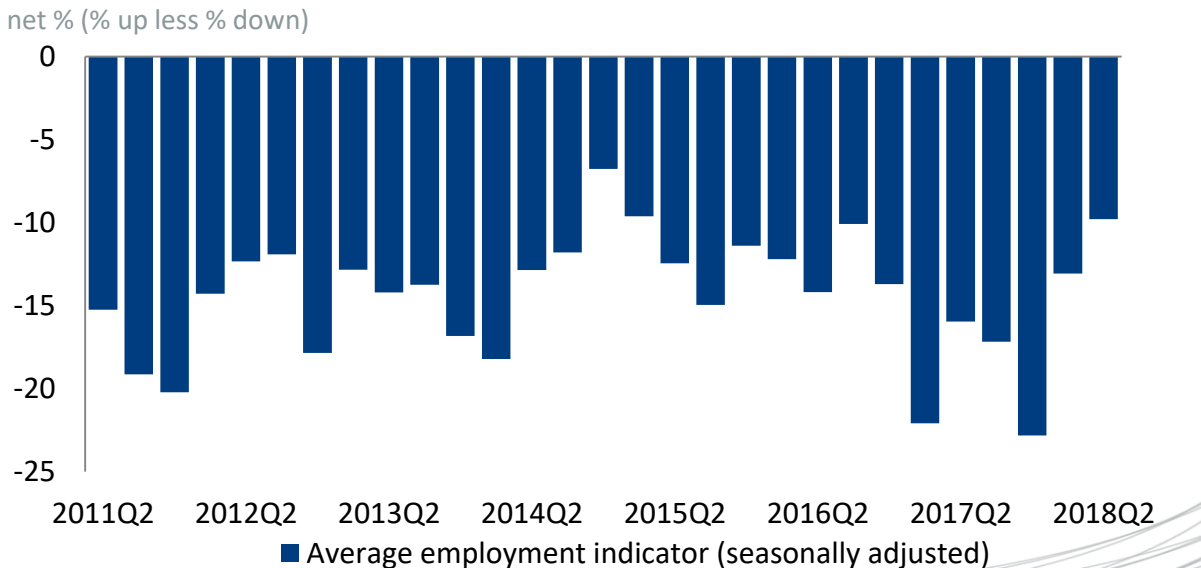
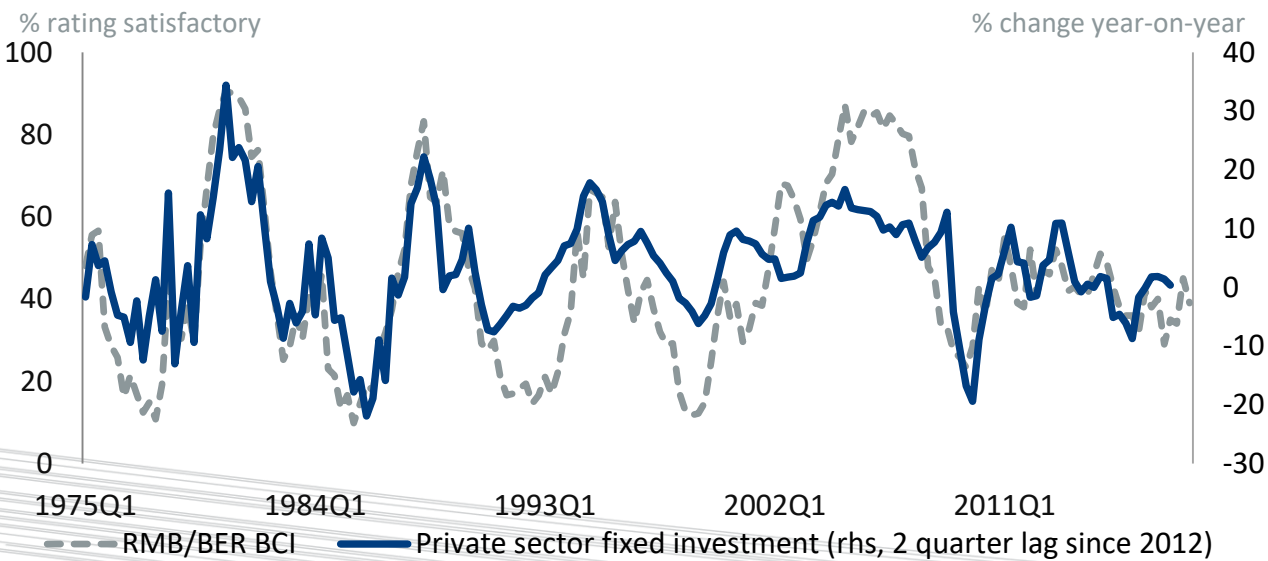
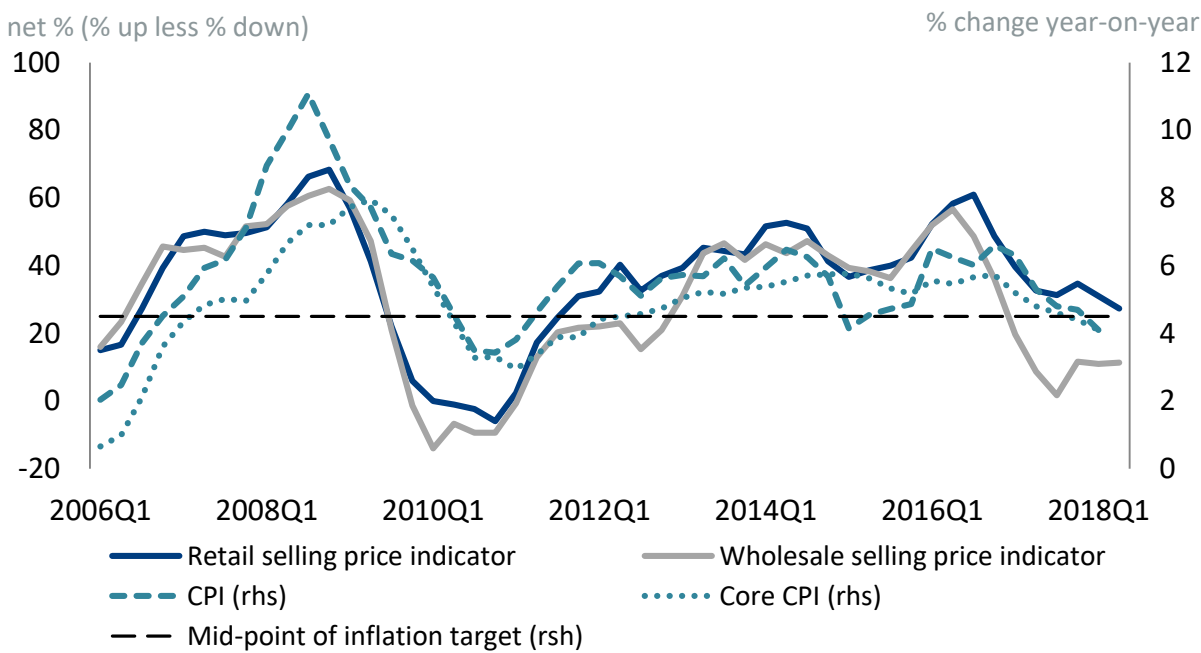
April	Year-on-year	Month-on-month (seasonally adjusted)
Manufacturing production	1.1%	-0.6%
Retail trade sales volumes	0.5%	-1.2%
Wholesale trade sales volumes	-2.6%	-3.2%

- While activity is expected to improve somewhat in Q3, expectations have been scaled back
- Overall, the survey results highlight the tight spot the economy is currently in and imply that GDP growth for 2018 as a whole might be closer to 1.5% than to 2%



Private sector fixed investment, employment and inflation

- To lift economic growth for the year as a whole and beyond, the political and policy factors currently weighing down on confidence will have to ease further (creating policy certainty in the mining sector and clarifying the land policy debate issues have the potential to lift private fixed investment significantly)
- Also, the momentum in activity will have to pick up more markedly before higher business confidence is likely to translate into higher private investment and employment creation to spur growth
- The average employment indicator did, however, continue to improve in Q2 (from low levels) in spite of renewed weakness in activity and lower confidence levels
- Another positive result from the business surveys is that selling price indicators are in line with a relatively benign inflation outlook (even after the VAT increase, weaker rand etc.), implying that the policy interest rate is likely to remain supportive of growth this year



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

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