

Survey Results 2018Q4

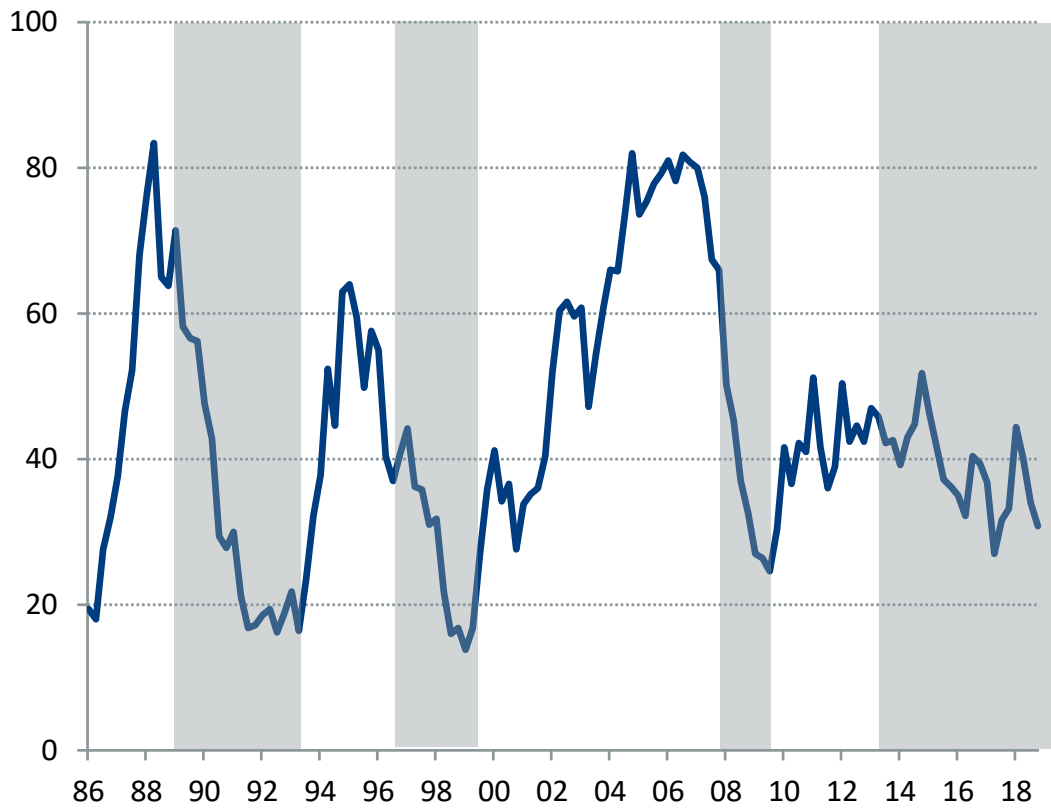
Main results and implications at a glance

29 November 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 slightly further

% rating satisfactory



Business cycle downturns are shaded

The fourth quarter survey was conducted between 31 October and 19 November. The fieldwork was therefore completed before the 25 basis point interest rate increase, cabinet change and “Black Friday” sales.

The survey covered 1 700 business people in the five cyclically most sensitive sectors of the economy, namely two in industry (the building and manufacturing sector) and three in services (namely the retail, wholesale and new vehicle trade).

The RMB/BER BCI declined slightly further to 31 in 18Q4

- Confidence remained below the neutral level of 50 in all sectors making up the RMB/BER BCI. However, the further retreat in confidence is driven specifically by a sharp drop in the confidence level of new vehicle dealers. Building contractor confidence also corrected to a lower level after a peculiar jump (driven by the residential sector) in Q3.
- Retail confidence increased noticeably, but remains rather low. Wholesale and manufacturing confidence also rose.

	17Q1	17Q2	17Q3	17Q4	18Q1	18Q2	18Q3	18Q4
RMB/BER BCI	37	27	32	33	44	40	34	31
Building contractors	40	35	45	34	41	37	44	32
Manufacturing	29	22	26	22	35	33	26	30
Retail trade	37	26	29	30	44	37	23	33
Wholesale trade	46	37	38	46	53	56	40	44
New vehicle dealer	32	15	20	34	49	37	37	15

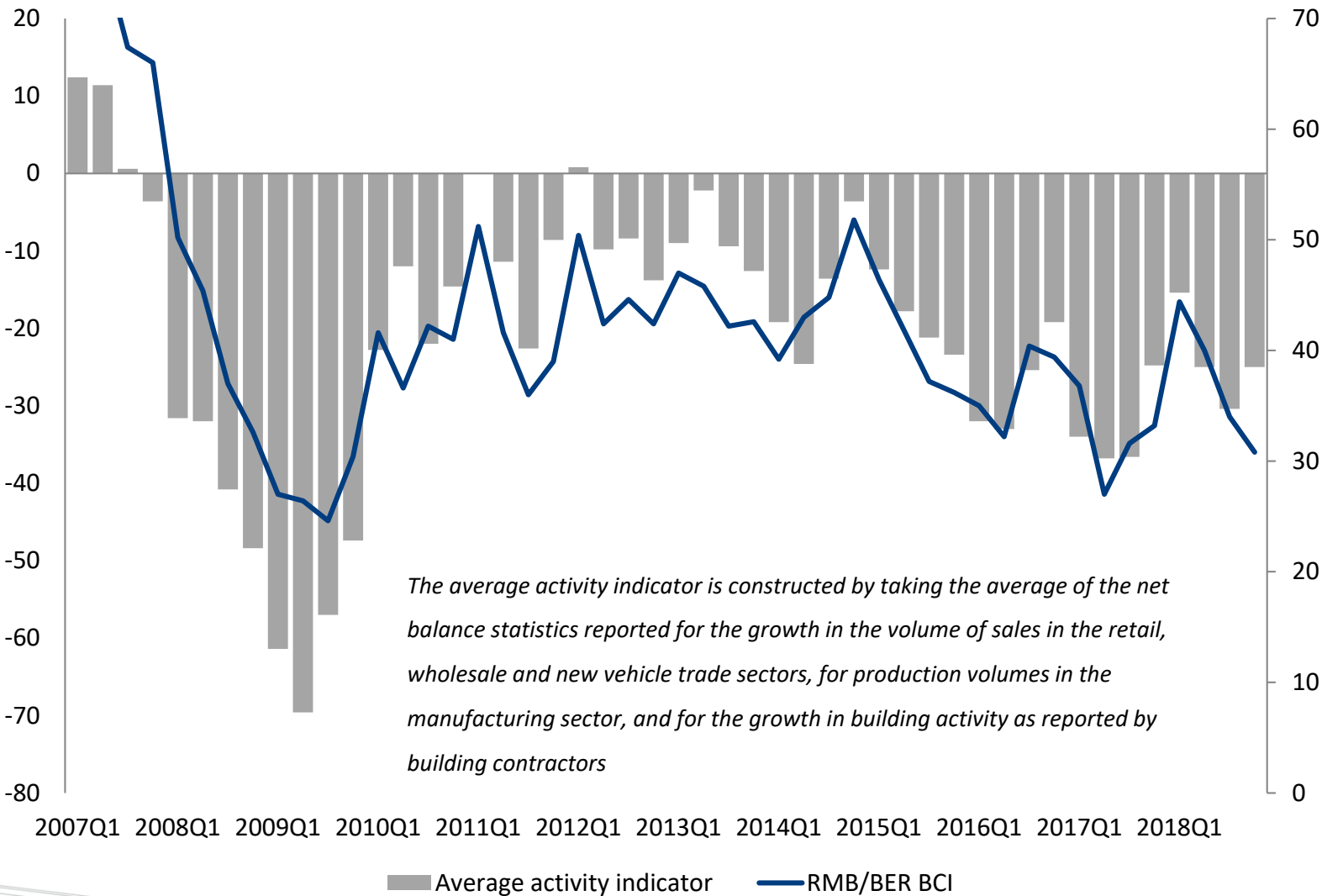
This release also incorporates the outcome of a revision of the surveys. Every few years the BER updates its surveys’ sector weights to reflect structural changes in the economy. To maintain a consistent time series, the historical data up to the third quarter of 2018 was also revised. Previously, the BCI had a reading of 39 in the second quarter and 38 in the third quarter of 2018.

For more information, please see the note “Business confidence changes 18Q4” and download the revised historical BCI data at www.ber.ac.za

Average activity indicator versus RMB/BER BCI

net % (% up less % down)

% rating satisfactory

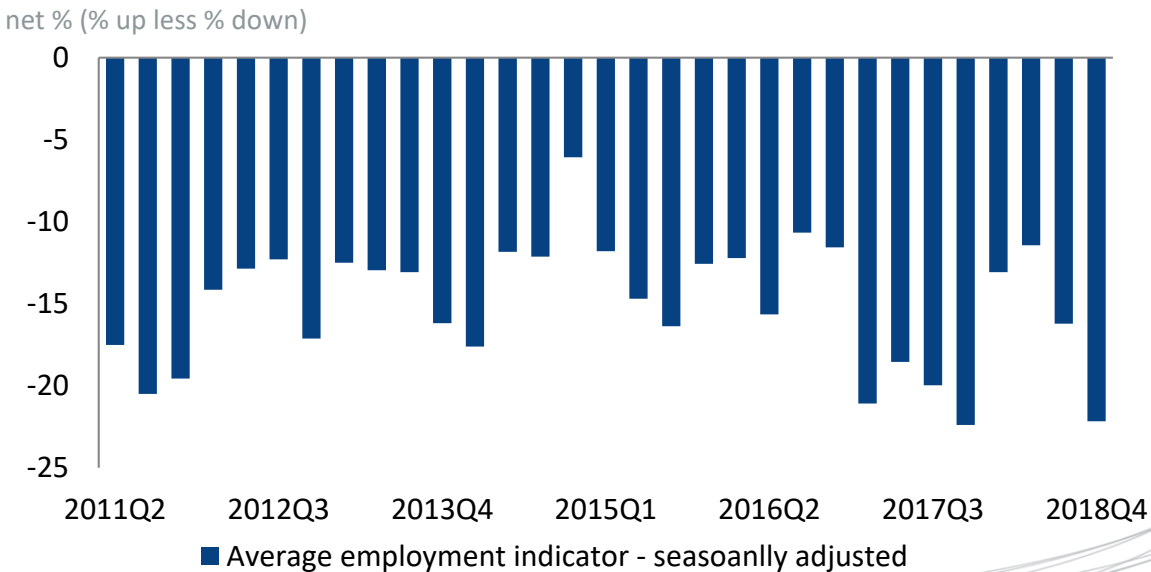
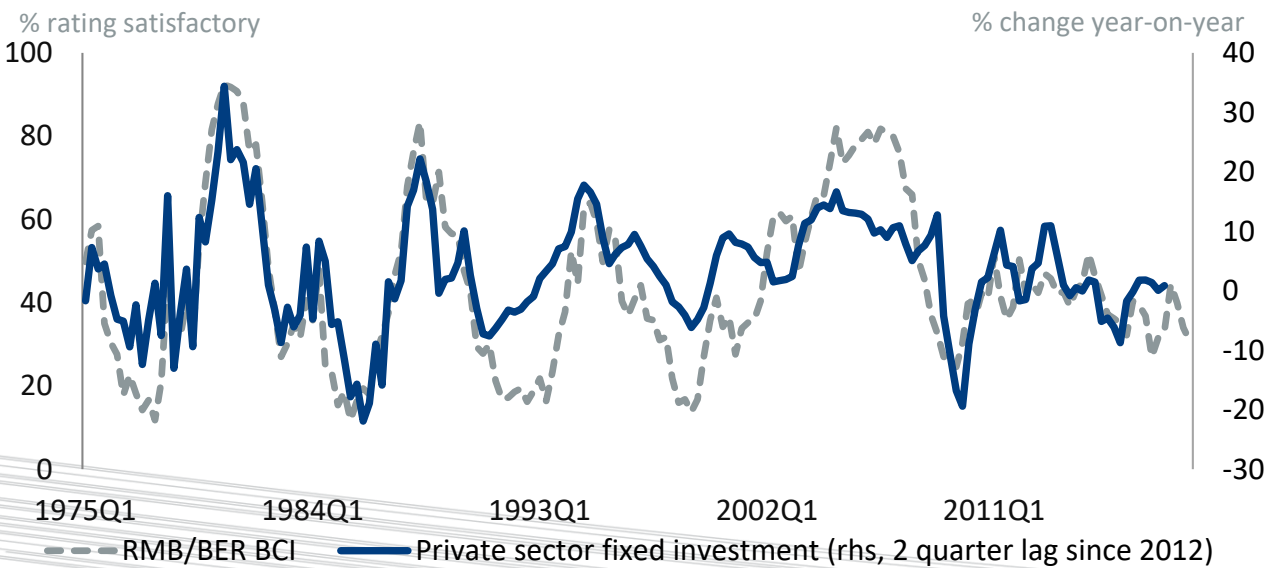
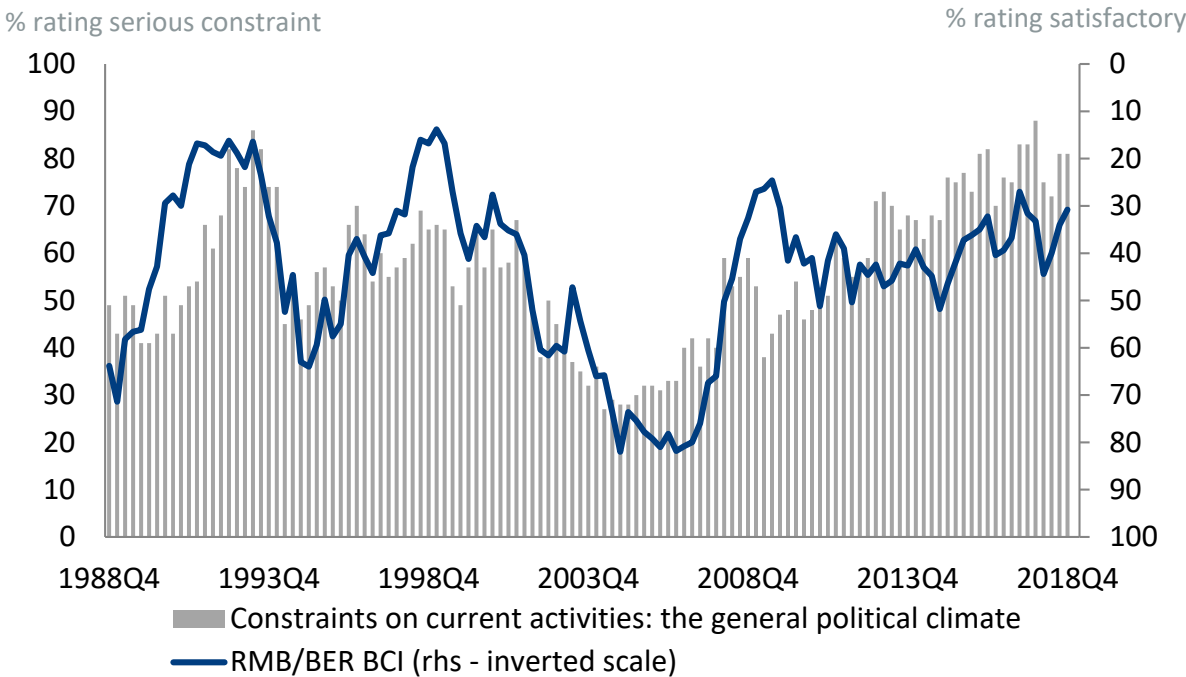


Average activity indicator of BCI sectors			
	Realised	Expected	Surprise
2017Q1	-34	-2	-32
2017Q2	-37	-18	-19
2017Q3	-37	-22	-14
2017Q4	-25	-16	-9
2018Q1	-15	6	-21
2018Q2	-25	-3	-22
2018Q3	-30	-16	-14
2018Q4	-25	-22	-3

- The average activity indicator improved to the Q2 level and was more or less in line with respondents' expectations for Q4.
- Business confidence moves usually track changes in the underlying activity index, especially if these changes were unexpected.
- Coupled with the sharp drop in new vehicle dealer confidence pulling down the overall RMB/BER BCI, the fact that the underlying activity indicator improved slightly in Q4 implies that one should soften the interpretation of the decline in business confidence somewhat...

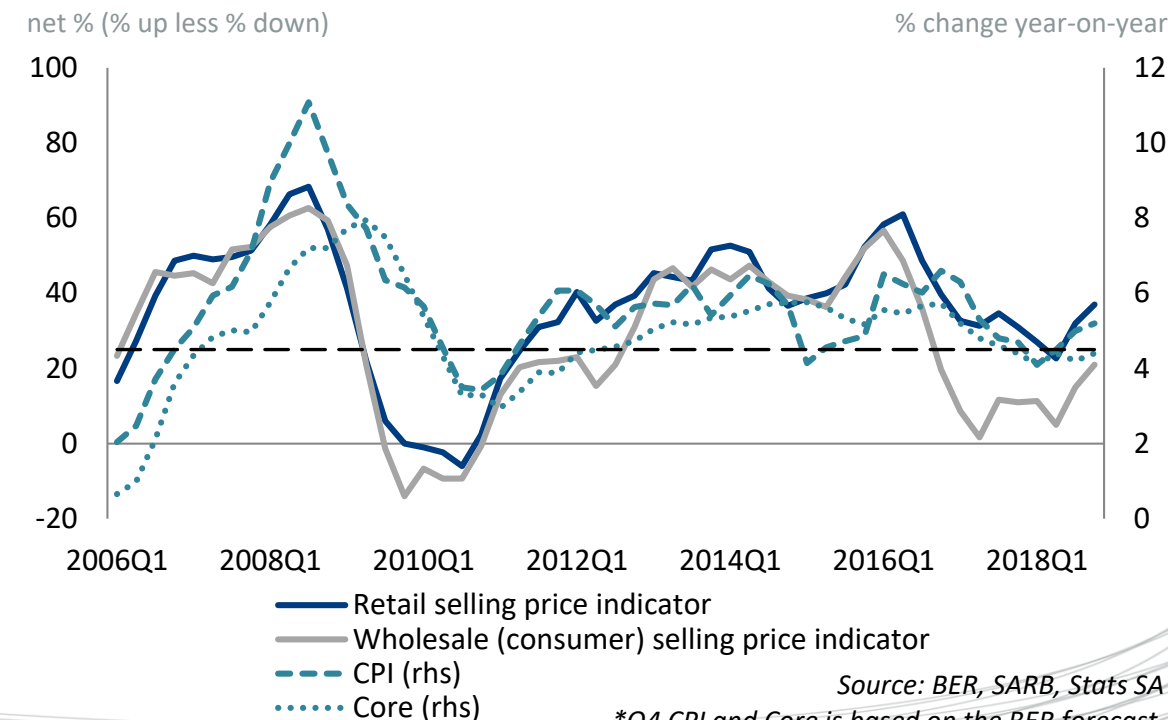
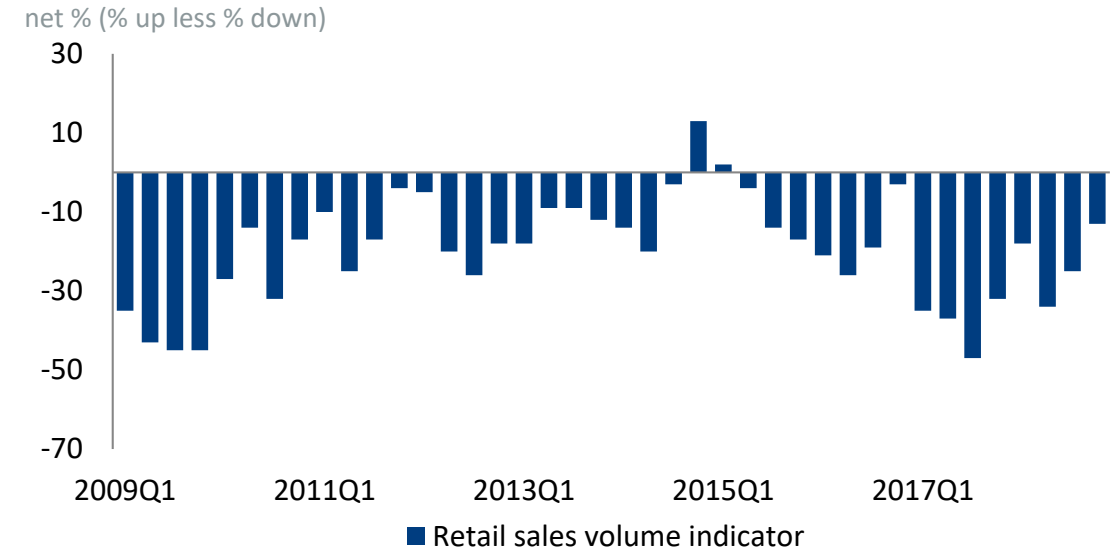
Results do not bode well for private sector investment and employment

- Although the decline in confidence is perhaps somewhat overstated, the fact that business confidence is below the neutral-50 mark across all sectors does not bode well for economic growth in general, or private fixed investment and employment in particular. While President Ramaphosa’s investment summit and other measures to partner with the private sector are steps in the right direction, we are unlikely to see a convincing rise in private sector fixed investment if we don’t see a sustained and broad-based increase in the BCI.
- The rating of the general political climate as a serious constraint on business activity (surveyed in the manufacturing sector) remained high. Political and policy factors, such as the government’s push for expropriation without compensation and the underperformance of key SOEs, are weighing down on confidence.



Demand indicators did show some improvements in the fourth quarter...

- An improvement in sales volume indicators was visible across the retail, wholesale and manufacturing sectors. However, new and used vehicle sales remain in the doldrums, which is usually not a positive signal for household spending going forward. It seems that some substitution effects are currently at play, where consumers may be replacing and acquiring lower priced durable goods (such as furniture, appliances and electronic goods) but not more expensive durable goods (such as a car).
- While consumer income remains under pressure due to rising unemployment, an increase in VAT and personal income taxes and soaring fuel prices, there seems to be some appetite for spending. The FNB/BER Consumer Confidence Index (CCI) remained relatively high (compared with levels recorded over the last three years) at +7 in Q3. The very elevated levels of the CCI during the first half of 2018 accurately foreshadowed the significant improvement in retail sales of furniture and household appliances witnessed so far in 2018.
- Spending on credit has increased, with household credit excluding mortgages and vehicle finance growing at 6.9% year-on-year in Q3. The latest data from the National Credit Regulator on store card credit facilities (for Q2) showed an increase of 35% year-on-year.
- Retailers have reported an acceleration in selling price inflation. While purchasing price inflation is still rising at a faster pace, this indicates that retailers have started to pass on at least some of the input cost pressures to consumers. This is in line with our projected increase in CPI and Core inflation.

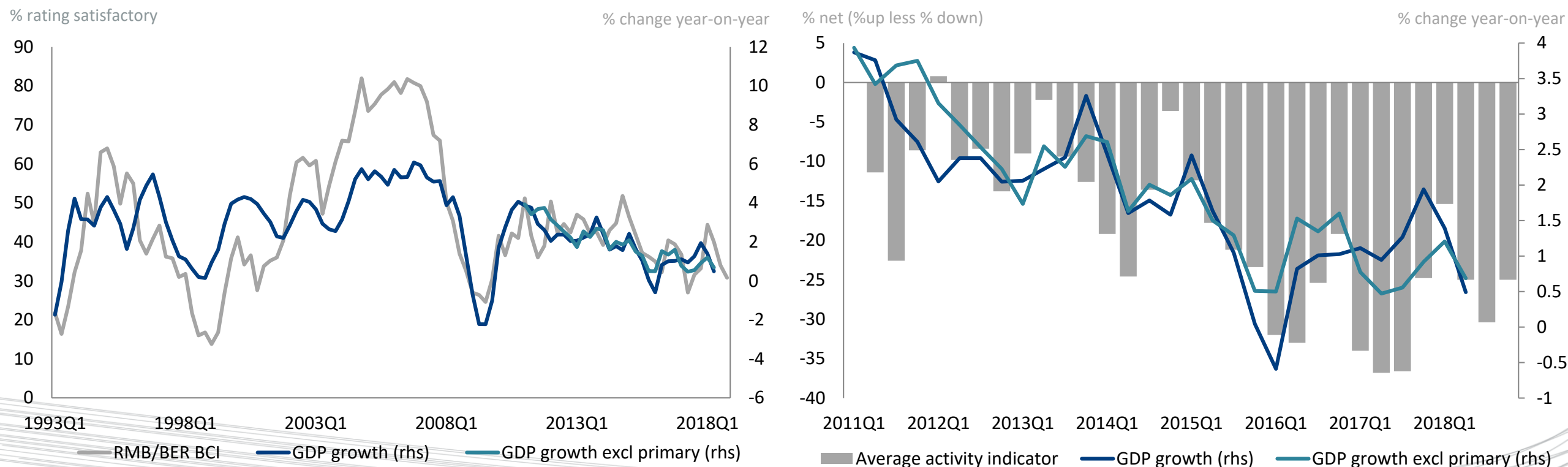


Source: BER, SARB, Stats SA

*Q4 CPI and Core is based on the BER forecast

GDP growth implications

- The underlying survey results are consistent with a mild improvement in growth during the fourth quarter, even with the slight decline in the overall RMB/BER BCI. The BER expects that Q3 GDP (released 4 December) will register a positive growth rate (on a quarter-on-quarter seasonally adjusted and annualised basis) of between 1 and 1.5%. According to the past relationship between the RMB/BER BCI or the average activity indicator and GDP growth, year-on-year growth is likely to be between 0.1 and 0.7% in the second half of 2018.
- We would need to see a sustained, broad-based increase in the BCI for economic growth to improve noticeably next year and beyond. While President Ramaphosa's initiatives to foster private-public partnerships etc. are positive, issues weighing down on confidence – such as the government's push for expropriation without compensation and continued underperformance of key SOEs – would need to be less of a concern to produce a more lasting increase in sentiment. This has become especially important considering that global conditions are likely to be less favourable into 2019.



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. The recent reclassification and reweighting of the survey results resulted in revised historical data. An overview of the changes is available ...

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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