

Business confidence declined in 2011Q2

Executive Summary

- The RMB/BER BCI declined by 7 index points to 48 in 2011Q2.
- Business confidence declined in the retail, wholesale and motor trade, remained unchanged in the manufacturing sector and increased slightly in the building sector.
- The decline in confidence in the trade sectors can mainly be attributed to the weakening of households' ability to spend.
- For the first time since 2007, the level of confidence in the manufacturing sector is above that of the retail sector.
- The small increase in building confidence masks a more positive underlying development, namely for the first time in more than a year actual building activity increased compared to the previous quarter.
- The decline in the RMB/BER BCI signals that the strong growth in GDP recorded in the first quarter did not continue in 2011Q2.

Results

The RMB/BER business confidence index (BCI) declined by 7 index points – from 55 in the first quarter to 48 in the second quarter of 2011.

This brings business confidence down to just below the neutral 50 level, which indicates that about half of respondents were satisfied and half dissatisfied with prevailing business conditions. To put the latest number in perspective, business confidence was 47 in 2010Q3 and 44 in 2010Q4.

During the second quarter business confidence declined in three of the five sectors making up the RMB/BER BCI. All three sectors that declined form part of the domestic trade sector, namely the retail, wholesale and motor trade. Confidence remained unchanged in the manufacturing sector and increased slightly in the building sector.

Retail confidence declined from 58 to 47, wholesale confidence from 65 to 47 and new vehicle

dealer confidence from 84 to 76 in 2011Q2. The decline in confidence in the trade sectors can mainly be attributed to the deterioration in the sector's performance, which was in turn largely caused by the weakening of households' ability to spend. Employment fell sharply during the recession, but household income continued to increase in 2010, because those that held on to their jobs got above inflation wage increases. However, higher rates of increase in the prices of basic necessities (such as food, electricity and petrol), decline in consumer confidence and the gratification of the most pressing pent-up needs dampened consumer spending since the beginning of 2011. Unlike the past, this time spending levels could not be maintained by way of increased bank credit, but had to be adjusted downwards to match income.

An analysis of the details reveals that the non-durable (food and beverages) and durable goods (furniture, appliances, electronics and jewellery) retail trade, as well as the consumer goods wholesale trade implemented high price increases, which dampened sales volumes and intensified the fall in profitability. Retailers of semi-durable goods (clothing and footwear) followed the opposite strategy.

It also needs to be pointed out that some other exceptional factors adversely affected the confidence and sales of new vehicle dealers during 2011Q2. These factors are the fewer trading days (due to the many public holidays) and reduced supply of Japanese brands (due to disruptions in the manufacturing supply chain following the earthquake) in the second quarter.

Given these developments in the trade sectors, it is heartening that manufacturing confidence remained unchanged at the neutral level of 51. For the first time since 2007, the level of confidence in the manufacturing sector is above that of the retail sector. Whereas manufacturing confidence were less than 20 and 30 in 2009 and 2010 respectively, it stayed at close to or above 50 in the retail trade over this period.

However, it is also not merely a case of plain sailing in the manufacturing sector. Production only held up well thanks to better domestic sales. As a matter of fact, foreign sales fell faster. Profitability came under renewed pressure, as manufacturers could not, to the same extent as in 2011Q1, pass on certain higher costs (such as electricity) as higher selling price increases. Total cost increases would have been even higher were it not for the welcome lower rates of increase in the cost of labour and raw materials.

Although building confidence increased by 3 index points in 2011Q2, at 21 it remained at the

same low level as at the end of 2010. However, this small increase in and low level of confidence masks a more positive underlying development. For the first time in more than a year actual building activity increased compared to the previous quarter. Hopefully this ushers in the beginning of a sustainable recovery and does not turn out a blip on the screen. Although building activity picked up compared to 2011Q1, work is still scarce and tendering competition extremely fierce. Profitability and with it confidence therefore remained severely impaired.

Bottom line

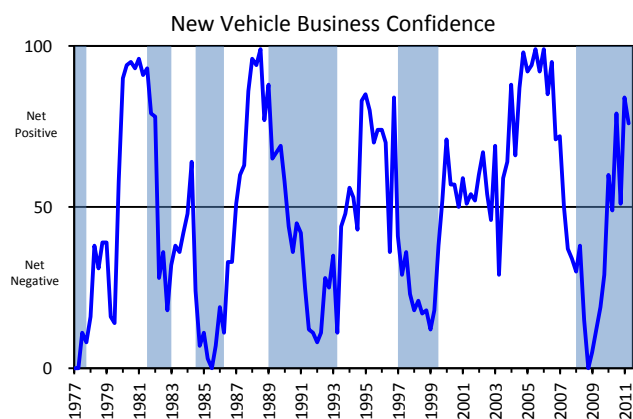
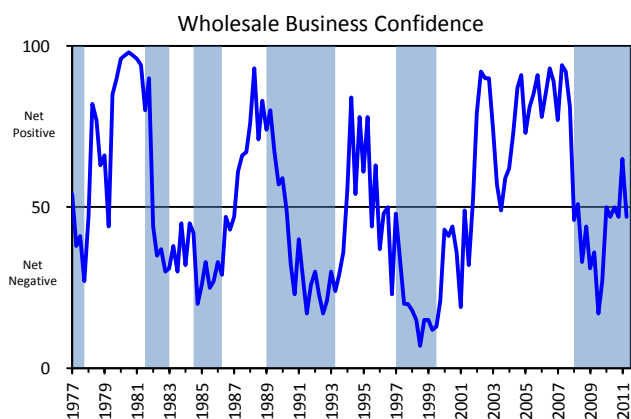
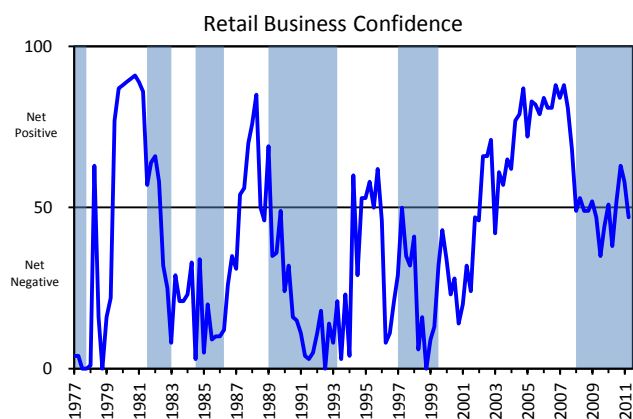
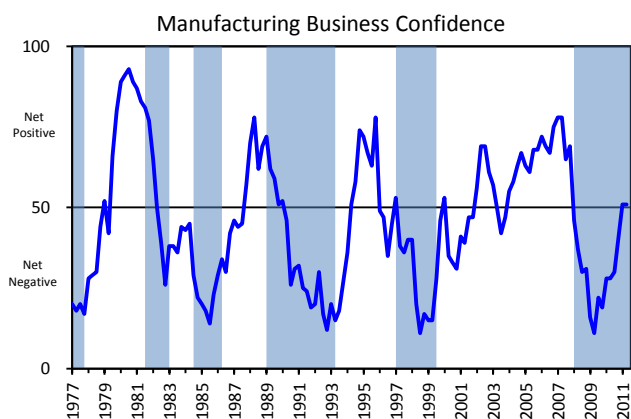
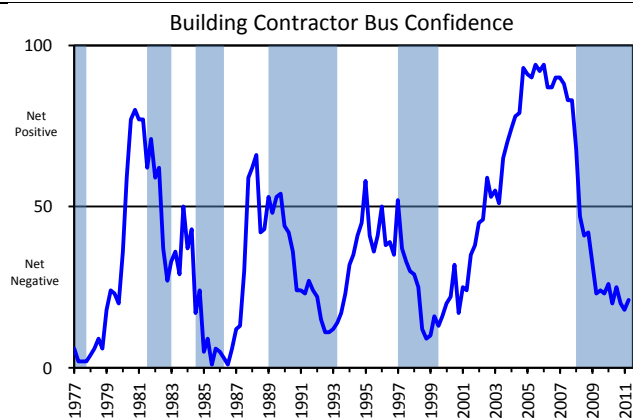
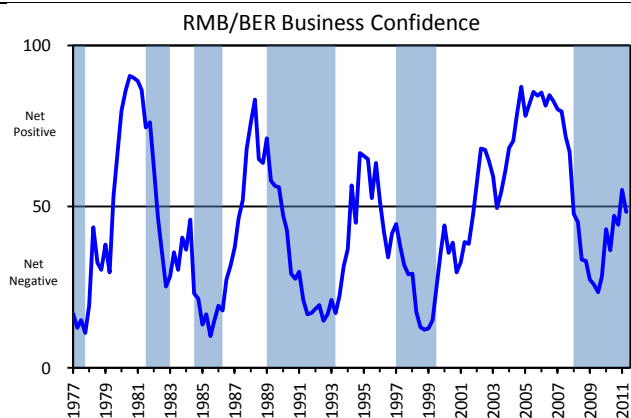
At first glance the decline in the RMB/BER BCI is disappointing. It signals that the strong growth in GDP recorded in the first quarter did not continue in 2011Q2. The performance of the trade sectors weakened and was not cancelled out by the steady performance of the manufacturing and building sectors.

However, the shift from the domestic trade sectors as the exclusive source of growth towards one where the manufacturing and building sectors also play a more prominent role is laying the groundwork for more balanced, sustainable growth going forward.

George Kershoff

7 June 2011

RMB/BER BUSINESS CONFIDENCE INDICES
(Cyclical downturns are shaded*)



* Although the economy may already have entered an upward phase of the business cycle, the SA Reserve Bank has yet not determined the lower turning point.

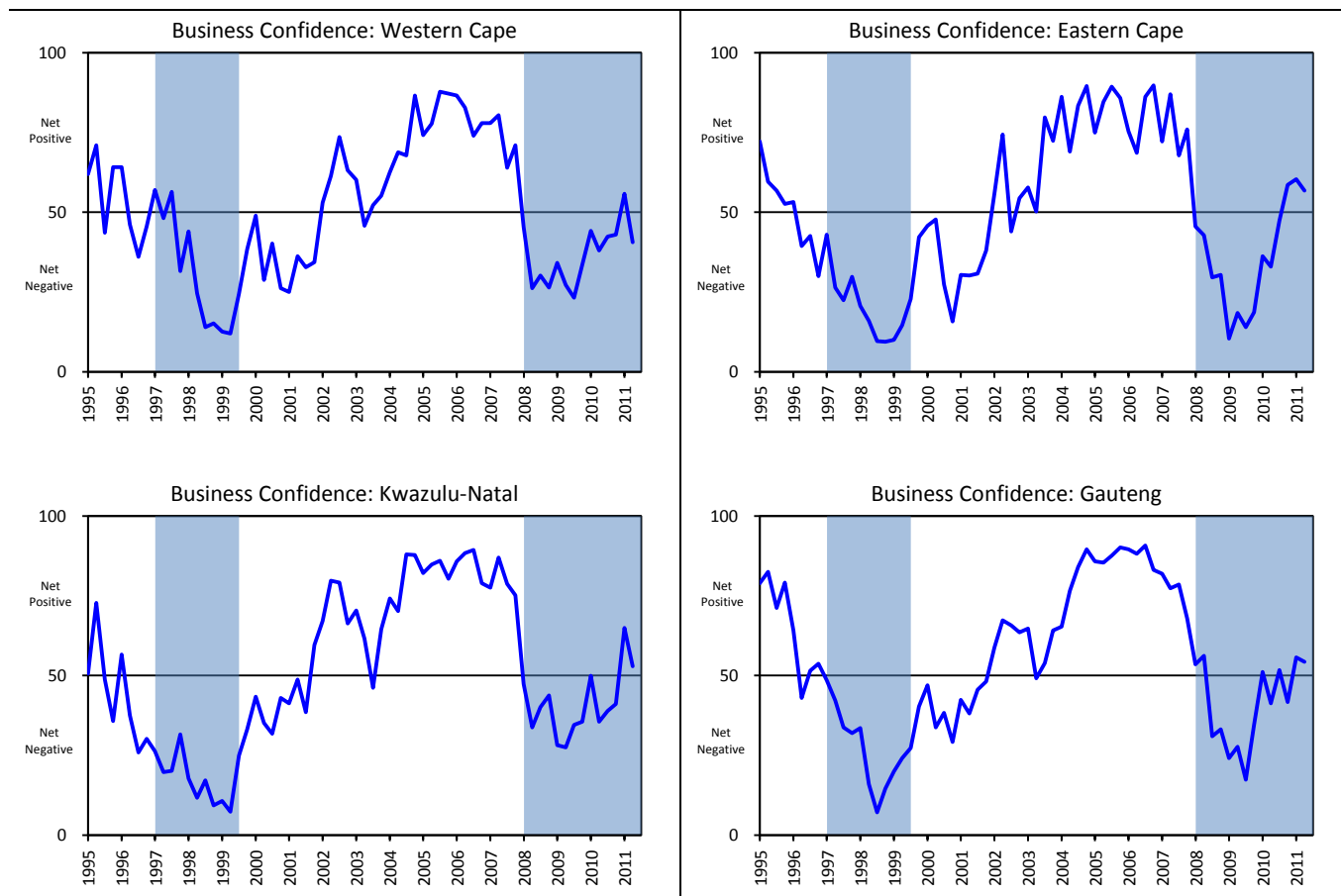
RMB/BER BUSINESS CONFIDENCE INDICES[#]

Quarter	Building Contractors	Manufacturing	Retail	Wholesale	New Vehicle Dealers	Composite Business Confidence
00.1	20	53	34	43	71	44
00.2	22	35	23	41	57	36
00.3	32	33	28	44	57	39
00.4	17	31	14	36	50	30
01.1	25	41	20	19	59	33
01.2	24	39	32	49	51	39
01.3	35	47	24	32	54	38
01.4	38	47	47	52	52	47
02.1	45	56	46	79	60	57
02.2	46	69	66	92	67	68
02.3	59	69	66	90	54	68
02.4	53	61	71	90	46	64
03.1	55	57	42	74	69	59
03.2	51	50	61	57	29	50
03.3	65	42	57	49	59	54
03.4	70	47	65	59	64	61
04.1	74	55	62	62	88	68
04.2	78	58	77	73	66	70
04.3	79	63	79	87	87	79
04.4	93	67	87	91	98	87
05.1	91	63	72	73	92	78
05.2	90	61	83	81	94	82
05.3	94	68	82	85	99	86
05.4	92	68	79	91	92	84
06.1	94	72	84	78	99	85
06.2	87	69	81	85	85	81
06.3	87	67	81	93	95	85
06.4	90	75	88	89	71	83
07.1	90	78	84	77	72	80
07.2	88	78	88	94	50	80
07.3	83	65	81	92	37	72
07.4	83	69	68	81	34	67
08.1	68	46	49	46	30	48
08.2	47	37	53	51	38	45
08.3	41	30	49	33	15	34
08.4	42	31	49	44	0	33
09.1	33	16	52	31	5	27
09.2	23	11	47	36	12	26
09.3	24	22	35	17	19	23
09.4	23	19	44	27	29	28
10.1	26	28	51	50	60	43
10.2	20	28	38	47	49	36
10.3	25	30	52	50	79	47
10.4	20	41	63	47	51	44
11.1	18	51	58	65	84	55
11.2	21	51	47	47	76	48

[#] Percentage gross of respondents rating prevailing business conditions as satisfactory. 0 = extreme lack of confidence, 50 = neutral and 100 = extreme confidence. For example, an index number of 56 indicates that 56% gross of respondents rated prevailing business conditions as satisfactory and 44% as unsatisfactory. An index number of 56 indicates a relatively high confidence level.

PROVINCIAL RMB/BER BUSINESS CONFIDENCE INDICES

(Cyclical downturns are shaded*)



PROVINCIAL RMB/BER BUSINESS CONFIDENCE INDICES[#]

<i>Quarter</i>	<i>Western Cape</i>	<i>Eastern Cape</i>	<i>KwaZulu-Natal</i>	<i>Gauteng</i>
07.3	64	68	79	79
07.4	71	76	75	68
08.1	45	46	47	54
08.2	26	43	34	56
08.3	30	30	40	31
08.4	26	30	44	33
09.1	34	10	28	24
09.2	27	18	28	28
09.3	23	14	35	17
09.4	34	19	36	35
10.1	44	36	50	51
10.2	38	33	36	41
10.3	42	47	39	52
10.4	43	59	41	42
11.1	56	60	65	56
11.2	41	57	53	54

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