



Enquiries

Ettienne le Roux, Chief Economist, RMB

Tel: 011 282-8726

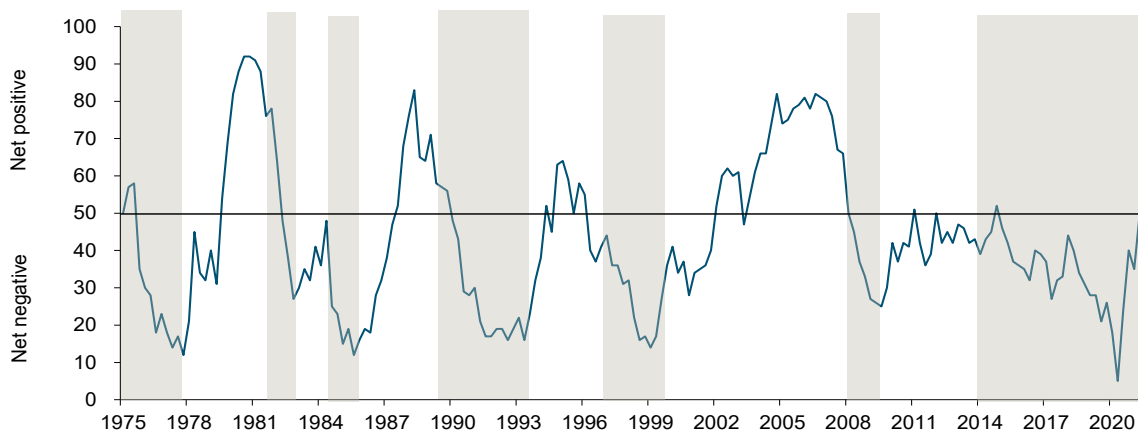
ettienne.leroux@rmb.co.za

Press release

Business confidence down but not out

After surging by 15 points to 50 in the second quarter, the RMB/BER Business Confidence index (BCI) retreated to 43 in the third quarter. The index is now back in net negative terrain, where the number of respondents unsatisfied with prevailing business conditions outnumber those that are satisfied. Given the variety of negative factors that affected sentiment in the quarter, this outcome is unsurprising. But things could easily have turned out even worse.

Figure 1: RMB/BER Business Confidence Index



Source: BER, SARB (Shaded areas represent economic downswings)

The third-quarter survey was conducted between 11 and 30 August. It covered about 1300 businesspeople spread across the building, manufacturing, retail, wholesale, and motor trade sectors.

Details

Although it is not unusual for the RMB/BER BCI to decline after a strong surge, several confidence-sapping developments did aggravate the third-quarter decline. Standouts

included the third wave of COVID-19 infections and the resultant stricter lockdown restrictions, as well as the unrest in KwaZulu-Natal and parts of Gauteng. Additionally, respondents had to deal with transport disruptions, first arising because of the unrest, and later because of the cyber-attack and the damage it caused to Durban port's operational system; shortages of inputs and insufficient final stocks related to supply chain interruptions more broadly, as well as higher than usual worker absenteeism due to the COVID-infections and taxi-violence in the Cape Metro.

Clearly, a long enough list to dampen anyone's spirits. Fortunately, however, there were some countervailing factors which ultimately limited the damage to "only" seven points.

Notably in this respect was the relief package announced by the government in the wake of the third Covid-19 wave of infections and the social unrest. Other positives included the generous wage settlement National Treasury struck with civil servants, the ongoing mineral export boom (and the wider multiplier effects associated with it), and encouragingly on the policy front, the Department of Mineral Resources and Energy's decision to lift the licence limit for embedded generation from 1MW to 100MW. Without these, the third quarter drop in confidence could easily have been even worse.

At an industry level, sentiment deteriorated across all the sectors making up the BCI, except for retail trade.

Retail confidence increased marginally further from 54 to 56 in the third quarter. Not only does this figure exceed the long-term average of 39, but it is also the highest since 2014. While sales of clothing and furniture deteriorated, those of food and hardware continued to do well. The reinstatement of the R350 per month Social Relief of Distress grant in August is a major positive that would have specifically boosted sentiment of retailers of food and other non-durable goods.

Similarly, wholesale confidence remained in net positive terrain, even though the index dropped from 63 to 55.

By contrast, new vehicle dealer confidence declined by a massive 16 points, taking the index all the way back below the neutral-50 mark, to 47. Vehicle sales disappointed some dealers, not so much because demand faltered, but rather because of the unavailability of certain models, and delays in the supply of new stock.

Manufacturing confidence receded from 46 to 41. Transport and other supply chain disruptions resulting in a shortage of raw materials, escalating input costs (ranging from electricity, to steel to plastic), which various respondents could not recoup by lifting selling

prices, as well as the looting in July, are all factors which contributed to weaker domestic as well as export sales, production and ultimately confidence. Despite the five-point decline, at 41, confidence in the third quarter was still at its highest level since 2016.

Of the five sectors making up the BCI, building is the one that continues to struggle the most. Confidence declined from 22 to 18, mainly due to a continuous general lack of new residential and non-residential projects.

Bottom line

The unexpected shock of the social unrest and looting, combined with a variety of other negatives, knocked business confidence hard in the third quarter. However, retail and wholesale trade confidence (which held up relatively well) cushioned the blow, while manufacturing confidence only fell by five points after the strong 21-point gain in the second quarter. “Thanks to this resilience, the adverse developments in the third quarter are likely to only deliver a temporary setback to what otherwise remains a cyclical economic recovery”, said Etienne Le Roux chief economist at RMB.

Importantly, to cement and invigorate the business cycle upswing, the government must not only build on the reform momentum already in progress, but it will also have to deliver on the various other growth-boosting initiatives captured in the Economic Reconstruction and Recovery plan. We trust this will happen sooner rather than later.