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## Uptick in business confidence, but reading remains below neutral

### Highlights

- The Business Confidence Index (BCI) gained five index points in the fourth quarter of 2019 to 26 index points from 21 in the third quarter of 2019.
- Three out of the five sectors felt more confident of local business conditions. However, confidence in these sectors remained below the 50 neutral mark.
- A range of structural reform initiatives and bouts of positive news flow during the period in which the survey was conducted could have contributed to the marginal improvement in business mood.
- Economic activity is expected to tick higher in 2020, as increased political stability and efforts to curb corruption progressively improve business and consumer confidence. Growth is nevertheless expected to remain below trend for the next two years.

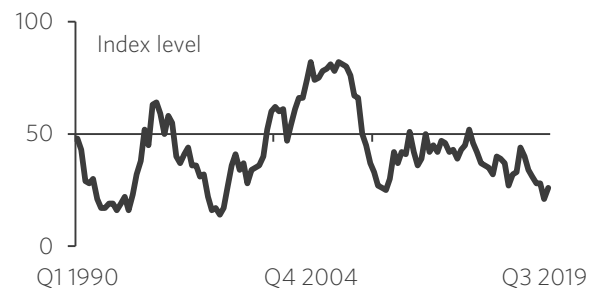
### Business confidence improved, but remained significantly below neutral

The Bureau of Economic Research (BER) released the BCI for the fourth quarter of 2019 and the index showed an incremental improvement. Although the index is still below the 50 neutral mark, it gained five index points in the fourth quarter of 2019 to 26 index points from 21 in the third quarter of 2019 (see chart 1). This was the first increase in the index in the last two years and was driven by three out of five of the sectors, which felt more confident of local business conditions.

The survey polled 1 800 business executives in the first three weeks of November 2019 and occurred during or after the announcement or implementation of key events. It included the disappointing 2019 Medium-term Budget Policy Speech (MTBPS), Moody's sovereign outlook change

from stable to negative and the announcement of a 20% reduction in staff at South African Airways (SAA). A more positive second SA investor conference was also held at the start of November 2019, which received pledges of more than the R300 billion.

Chart 1: Confidence slightly higher, but still below 50



Source: BER, Momentum Investments

In the first three weeks of November 2019, when the survey was conducted, Home Affairs announced it was piloting its new e-Visa system, which was accompanied by an expanded list of countries that do not require a visa and other pro-tourism deregulation. The BizPortal pilot was also

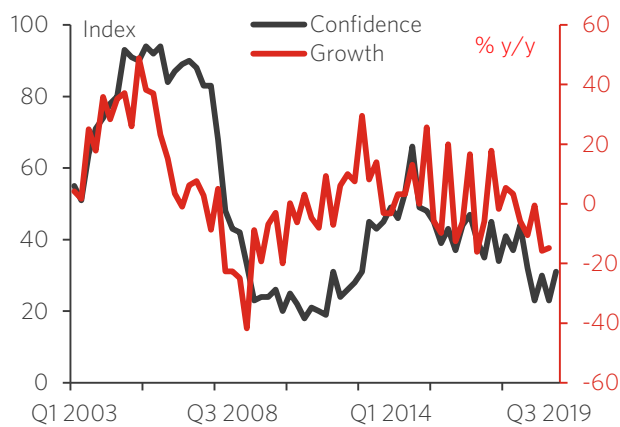
launched in this period, which is a digital integrated platform to register a business in SA and complements the one-stop-shop initiative. These initiatives will contribute to improving the ease of doing business, which boosts confidence.

## Higher levels of confidence needed for growth to improve

The three sectors that improved in the fourth quarter of 2019 were the building sector, the manufacturing sector and the retail sector, albeit still printing below the 50-neutral mark.

Confidence in the building sector improved to 31 index points from 23 in the fourth quarter, essentially shifting back to the second-quarter 30 index point level, when growth in the economy surprised to 3.1% in quarter-on-quarter terms (see chart 2). This sector is the most bullish relative to the remaining four sectors in the economy according to the BCI.

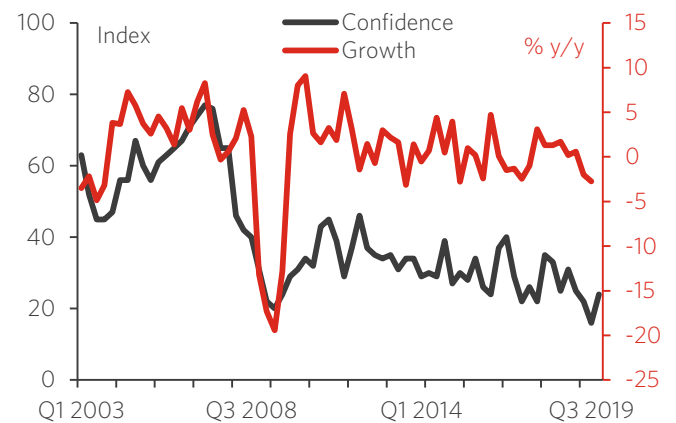
**Chart 2: Building sector under pressure**



Source: BER, Momentum Investments

Sentiment in the manufacturing sector improved to 24 index points in the fourth quarter of 2019, up from 16 index points, which was the lowest level since the second quarter of 1999. The last time the manufacturing sector was in expansionary territory was in the fourth quarter of 2007, when the index reached 65 index points (see chart 3).

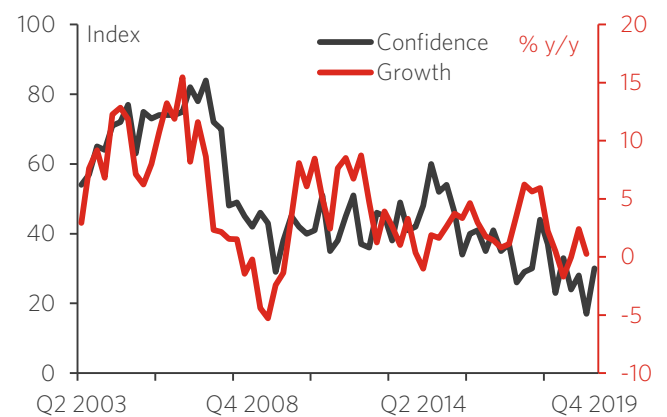
**Chart 3: Weak manufacturing sector**



Source: BER, Momentum Investments

Retailers were reported to be the second-most bullish in the fourth quarter of 2019 relative to the other sectors and realised the most significant improvement from the third quarter of 2019. The index improved to 30 index points from 17 in the third quarter of 2019 (see chart 4). The rebound was, however, not significant enough to coincide with or exceed the sector's median confidence level of 41 index points.

**Chart 4: Soft retail sales activity**



Source: BER, Momentum Investments

The wholesale and new vehicle sectors contracted further in the fourth quarter of 2019. Wholesalers became slightly more bearish and reported confidence of 28 index points, down from 29 in the fourth quarter of 2019. There was a notable dip in confidence in the new vehicle sector in the fourth quarter of 2019. New vehicle dealers' confidence dropped to 17 index points from 22 index points.

Structural reform is still being implemented at a slow pace and, as such, will likely only bear the fruits of higher investment growth at a delayed pace. Although growth in 2019 is expected to undershoot the 0.8% reported in 2018, 2020 is forecasted to have more policy certainty and corruption accountability, which is expected to boost confidence.

