momentum investments

The Macro Research Desk

Herman van Papendorp
(Head of Investment Research and Asset Allocation)

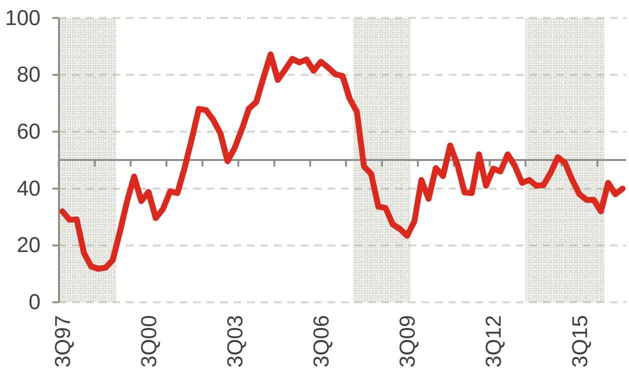
Sanisha Packirisamy
(Economist)

SA businesses not in a rush to hire or invest

Businesses are still feeling the pressure of a low-growth environment

The Bureau of Economic Research's (BER) Business Confidence Index (BCI) inched higher by two index points to 40 in the first quarter of 2017 (see chart 1), only marginally higher than a dismal 37 index point-average posted for 2016. This implies that only four out of every ten respondents were satisfied with prevailing business conditions at the beginning of the year (the survey was conducted between 15 February and 7 March 2017).

Chart 1: Business confidence index (>50 = expansion)



Source: BER, Momentum Investments, economic downturns (as defined by the SA Reserve Bank) shaded in grey, data up to 1Q17

The BER notes that despite a handful of industries benefiting from the revival in agriculture, mining and manufacturing exports, most sectors appear to be in a holding pattern, experiencing continually weak underlying activity. Moreover, survey detail points to a reluctance on the part of corporates to hire additional workers or to ramp up fixed investment. A stagnant hiring environment is likely to depress household spend this year, while sluggish fixed investment spend is expected to compound weakness in domestic demand in 2017.

The expected recovery in overall (real) GDP growth this year from 0.3% in 2016 to just higher than 1% in 2017 is likely to be a function of inventory build and higher export growth piggy-backing off higher expected global GDP prospects, while domestic demand is only anticipated to recover more meaningfully in 2018 on an improvement in sentiment following a clearer outlook on SA's future political leadership and economic policy direction.

Widespread pessimism

Of the five contributing sectors, the retail sector experienced the sharpest recovery in sentiment, increasing from 34 index points in the final quarter of 2016 to 45 in the first quarter of 2017 (see chart 2). Nevertheless, the index barely budged from levels experienced a year ago. Retailers continue to show signs of stress with little increase in retail sales volumes, while underlying data points to returning pressure on margins as the rate of increase in selling prices slows. The data also confirmed that discretionary goods spend is bearing the brunt of soft consumer sentiment. This was confirmed by the depressed confidence levels recorded for new vehicle dealers, which registered at 30 points in the first quarter of the year, only slightly higher than the 26 points recorded in the fourth quarter of 2016.

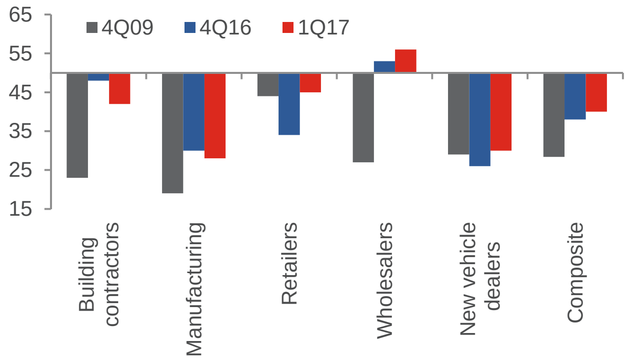
Only one of the five contributing sectors boasted a positive reading, measuring above the neutral 50 mark. Wholesaler confidence rose by three index points to 56 in the first quarter of the year, but the improvement was largely thanks to an increase in confidence amongst wholesalers of non-consumer goods (such as machinery, chemicals and building materials). According to the BER, confidence among wholesalers of consumer goods slipped back into negative territory, boding ill for retail confidence in the coming quarter.

The latest reading for manufacturing sentiment (28 index points) reinforced the downward trend that has been in place for the past six years. Despite export sales volumes showing an encouraging improvement, the overall confidence index was dragged lower by persistently weak domestic demand.

Finally, business confidence declined by six points to 42 in the first quarter of 2017 thanks to a contraction in non-residential activity, while an improvement in residential activity during the second half of 2016 lost steam in the latest survey results.

Chart 2: Business confidence index by sector

(>50 = expansion)



Source: BER, Momentum Investments