Business confidence at all-time low - RMB BCI

South African business owners are highly unsatisfied with prevailing business conditions. This is according to the RMB/Business Expense Report Business Confidence Index (BCI), which has eased only slightly from 42 to 39 in the third quarter.

61% of respondents say their business confidence is at an all-time low.

While on the face of it this is a disappointing outcome, the underlying picture is not as bad as the lower BCI implies.

The third quarter survey was conducted between 10 and 29 August. It covered about 1,200 senior executives at companies of varying sizes in the building, manufacturing, and trade (namely retail, wholesale, and motor trade) sectors, across all provinces in the country.

In terms of the sectors making up the RMB/BER BCI, confidence among retailers and wholesalers remained comparatively high, while a notable improvement in sentiment among new vehicle dealers partly offset a 17-point deterioration in building confidence.

The manufacturing BCI remained at a low level.

Retail confidence ticked up from 49 to 51 in the third quarter – a level which is well above its long-term average of 40.

Retail spending on the up

Given depressed consumer confidence, rising inflation and rising interest rates, retail confidence could easily have taken a knock. Fortunately, a countervailing force coming from the resumption of SRD grant payments and a recovery in employment (particularly in the hospitality sector) bolstered spending on essentials, such as food and beverages.

Sales of clothing also continued at a heady pace. Improved turnover enabled such retailers to handle higher operating costs which, in turn, propped up profitability and confidence.

Sentiment among wholesalers deteriorated from 58, to a still-high 50. Although the pace of growth in sales volumes of both consumer and non-consumer goods moderated from earlier record highs, it nevertheless remained quite strong.

Automotive-industry volatility

Low stock levels continue to make life difficult for new car dealers. While the re-start of production at the Toyota plant in KwaZulu-Natal brought about some relief, the combination of a constant global shortage of computer chips (delaying new vehicle manufacturing), and erratic deliveries of imports, continued to prevent dealers from fully satisfying increased demand.

Volatile as sentiment in this sector now is, its BCI, after falling from 54 to 29 in the second quarter, bounced back to 40 in the third quarter.

By contrast, sentiment among building contractors deteriorated by 17 points to 29 in the third quarter.

Although the full extent of this deterioration is hard to square with somewhat livelier building activity (particularly in the non-residential sector), it does speak to the impact of several confidence-sapping factors like ongoing delays in the authorisation of building plans, the postponement of tenders, persistent shortages of certain materials, load-shedding and the lack of working capital (due to, among other things, continued late payments by the public sector).

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As for manufacturing, confidence eased slightly further to 26 in the third quarter, notwithstanding an improvement in domestic and export sales volumes, as well as production receiving a boost from the reopening of the Toyota and other flood-damaged plants in KwaZulu-Natal, and less intense load-shedding in August.

Bottom line

While the third quarter drop in the RMB/BER BCI to below 40 is disappointing, it is unlikely that this points to another outright contraction in real GDP.

Confidence among retailers and wholesalers remains well above long-term averages, which speaks to the surprising resilience of consumer spending, this at a time when falling inflation in due course should ease the pressure on disposable income.

Simultaneously, underlying activity in the building as well as the manufacturing sector is stronger than third-quarter confidence figures seem to imply. Notable too, is the fact that fixed investment in manufacturing, after a temporary drop in the second quarter, resumed its upward trajectory to a level that is now close to its long-term average.

“None of this is to say that the economy will experience strong growth in the year ahead; external headwinds are mounting, interest rates will continue to rise while the danger of summer power outages is ever present.

"But suggestions that the economy is now in the throes of a protracted recession after yesterday’s GDP release, is an overstatement," said Ettienne le Roux, chief economist at RMB.