

Comment

BER survey results point to consumer-led growth during the first quarter

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Employment

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Introduction

A cornerstone of the BER's work is its regular business surveys¹. The aim of this note is to summarise the insights from the current round² of BER surveys in the trade, manufacturing and building industries. This serves as a first indication of likely developments in the real economy during 2015Q1 (until official data becomes available) and beyond. More detailed sectoral analyses are provided in the respective BER survey publications.

Please note that the information provided is under embargo until the respective survey publications are released on the BER's website.

Business confidence down slightly

The RMB/BER Business Confidence Index (BCI)³ declined by two index points to 49 in 2015Q1. At this level, just more than half of the respondents are unsatisfied with prevailing business conditions.

One might have expected a sharper deterioration in confidence given adverse conditions such as the intensification of loadshedding. Moreover, confidence is at a fairly high level when compared to reported activity levels. The overall results however hide important shifts in the conditions facing the different sectors. In essence, the slight decline in the overall confidence level masks the swing in favour of the trade sector. Retailers, wholesalers and new vehicle dealers reported an increase in business confidence and activity indicators. But manufacturers and building contractors are noticeably less confident and have reported deteriorations in activity.

¹ The BER's survey method is modelled on those of the European Commission and Munich based IFO Institute. The survey data has a proven track record as exceptionally reliable – given the correspondence with the available formal statistics – and provides unique information such as confidence, rating of business conditions and respondents' expectations for the next quarter. Finally, the survey data has a publishing lead i.e. the results reveal the direction of production, sales, selling prices, employment etc. before the release of official data. More information is available on the BER's website.

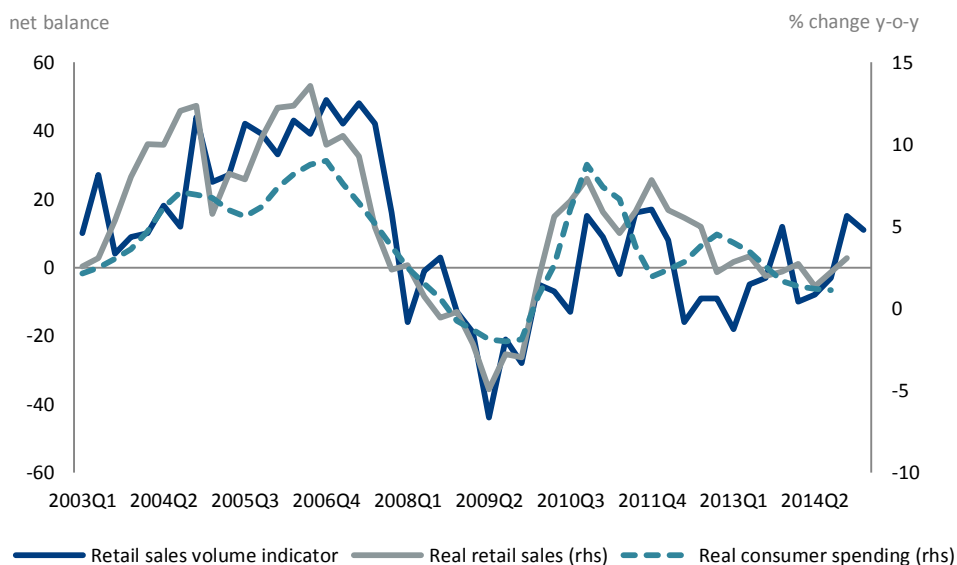
² The survey was conducted between 2 February and 4 March 2015, and covered 2900 firms.

³ The BCI covers the building, manufacturing, retail, wholesale and new vehicle trade sectors and indicates the percentage of respondents that rated prevailing business conditions as satisfactory. It can vary between 0 and 100 and 50 is taken as the neutral level.

Activity indicators point to consumer-led growth in Q1

Official real **retail** trade sales growth averaged 3.1% year-on-year (y-o-y) during 2014Q4, with December sales registering 3.4%. The survey results indicated that the uptick in retail sales growth was probably sustained into the first quarter, with the BER's retail sales volume growth indicator remaining at a relatively high level. The current reading is consistent with sustained growth of around 3% in real retail trade sales in Q1. Figure 1 plots the retail survey sales volume indicator against growth in real retail trade sales as published by Statistics South Africa (Stats SA) as well as final household consumption expenditure from the South African Reserve Bank (SARB).

Figure 1: Retail trade sales volume indicator remained relatively high



Sources: BER, Stats SA, SARB

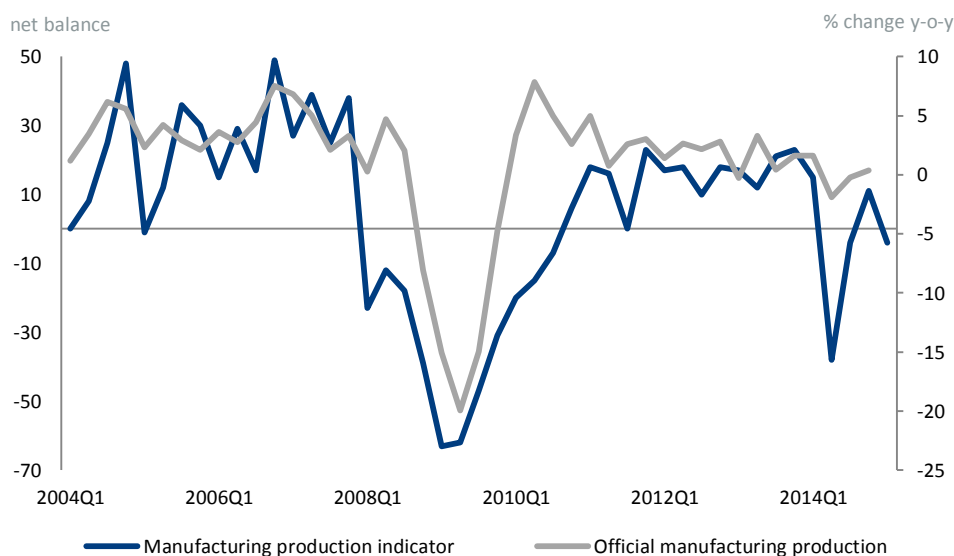
Growth in real consumer spending as published by the SARB is expected to accelerate into 2015, and this is supported by the retail survey results for Q1. Furthermore, new vehicle dealers have also reported an improvement in their sales volume indicator. Consumers have benefited from lower fuel prices and the general disinflationary environment which have boosted real disposable income. However, these stimuli will be notably less post-Q1 as fuel prices increase⁴ and other risks to the consumer inflation outlook from both food and electricity prices mount.

The **wholesale** trade survey results saw a clear improvement in the case of wholesalers of consumer goods, while those in the non-consumer goods market (machinery and equipment, building materials, petroleum and chemicals etc.) reported a deterioration in sales volume growth. This divergence is in line with the rest of the BER survey results, where manufacturing and building activity were not reported to have improved in Q1.

⁴ The increases in the fuel levy and Road Accident Fund levy announced in the recent Budget, coupled with the increase in the international oil price and more recently the weakening of the rand exchange rate, will force hefty fuel price increases in early April. Fuel prices also rose early March on the back of the higher international oil price during February.

The survey indicator for **manufacturing** production neutralised the recovery in 2014Q4. Figure 2 shows that at the current level, this indicator does not signal any significant acceleration (on a y-o-y basis) in official manufacturing production data for Q1. Stocks of finished goods in relation to expected demand were quite low going into the quarter and manufacturers expected to further ramp up production. While we cannot disentangle the effect of loadshedding on production, it is clear from the survey indicators on demand that insufficient domestic demand played a major role in holding back production volumes. Export sales and order volume indicators, while lower, remained at relatively positive levels. In accordance with the retail and wholesale trade results, manufacturers of consumer goods reported comparatively higher levels of domestic sales and order volumes.

Figure 2: Annual manufacturing production growth not likely to accelerate in Q1

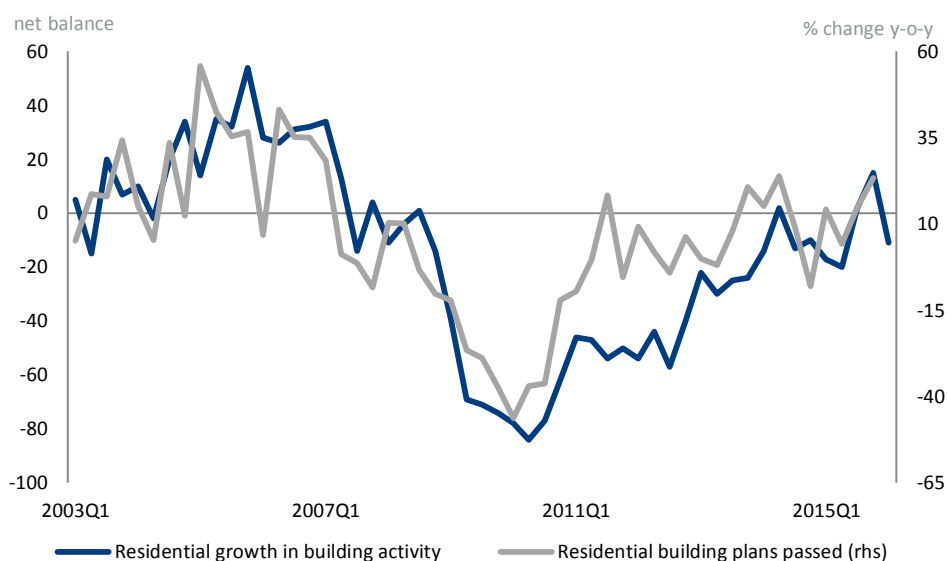


Sources: BER, Stats SA

Building activity indicators disappointed in the current survey round. Civil construction activity contracted further during Q1. Non-residential contractors continued to report a contraction in the growth in building activity, albeit an improvement on the Q4 reading. The pedestrian pace of non-residential building activity can be expected given the low level of capacity utilisation in the economy.

Residential building activity stalled in Q1, after improving in the second half of 2014. Although in line with contractors' expectations, one might have expected continued outperformance of residential building activity. Figure 3 indicates that, despite the Q1 setback, the residential building activity indicator continues to trend upwards – in line with the trend in residential building plans passed. It remains to be seen whether this reported slump in building activity is signalling a more fundamental loss of momentum in the residential market. Respondents are rather pessimistic regarding the outlook for Q2. However, growth in mortgage advances continues to recover and real house prices are increasing (albeit that nominal house price growth has slowed slightly), which should continue to support residential building activity.

Figure 3: Residential building activity stalled

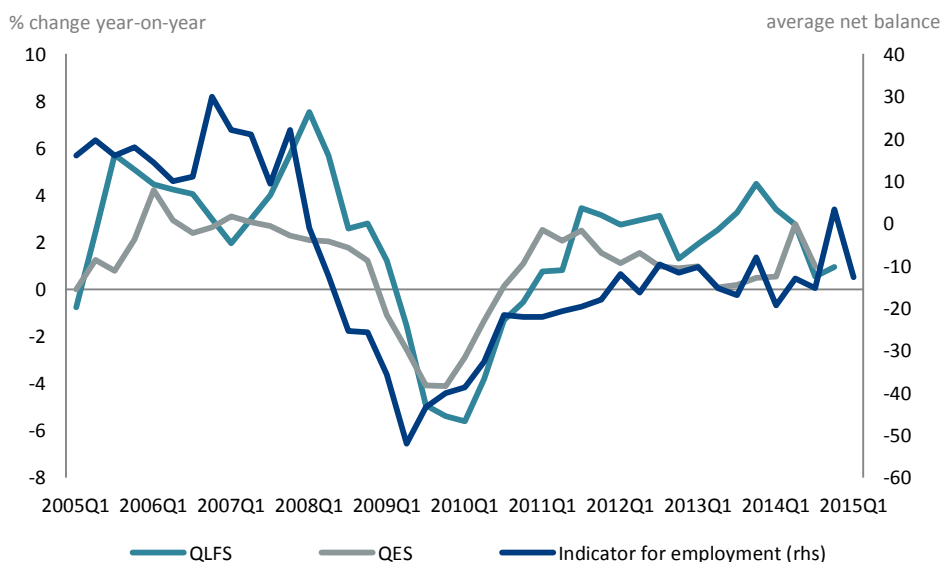


Sources: BER, Stats SA

Employment indicators dip

The survey indicators for employment dipped in all the major sectors, following a rebound during 2014Q4. The average of these indicators across the building, manufacturing and retail sectors points towards a continuation of weak growth in formal employment in Q1 (see Figure 4). This is also a feature of the BER's macroeconomic forecast.

Figure 4: Survey indicators consistent with weak employment growth⁵



Sources: BER, Stats SA

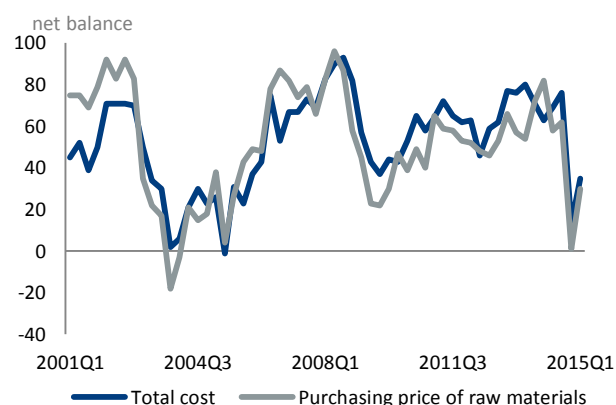
⁵ The average survey indicator for employment is plotted against growth in employment according to the Quarterly Labour Force Statistics (QLFS) and the Quarterly Employment Statistics (QES), both published by Stats SA. The BER employment indicators are theoretically more closely correlated with the QES growth rates (the latest of which are for 2014Q3) since the surveys cover the formal sector.

The fact that the retail trade sector's employment indicator remained in positive territory (after increasing to a relatively high level in 2014Q4), and is expected to do so again in Q2, is worth noting. This provides the first indication of sustained employment growth in the retail trade sector (according to the survey indicator) since 2008.

Cost and price indicators remained relatively low

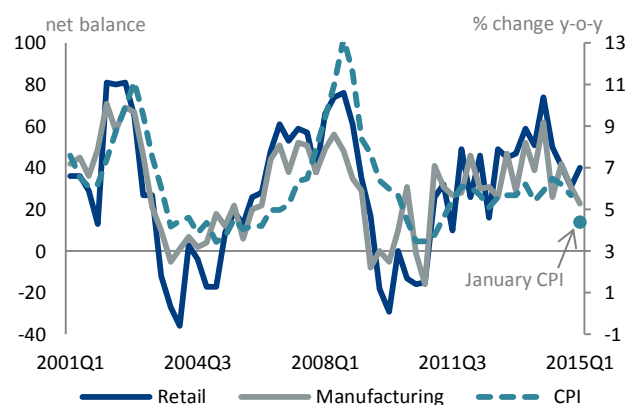
Cost and price indicators remained relatively low, but decelerations in price pressures are unlikely to continue post-Q1. In 2014Q4, the survey results showed a record drop in average total unit cost inflation as reported by manufacturers. This stemmed from an unusually large drop in the indicator tracking raw material cost increases per unit and was likely due to the drop in many international commodity prices – most notably the oil price. However, these prices have recovered slightly during Q1 and manufacturers have consequently reported higher rates of increase in the average purchasing price of raw materials as well as total cost per unit of production (see Figure 5).

Figure 5: Manufacturing average unit costs



Source: BER

Figure 6: Selling price indicators and the CPI



Sources: BER, Stats SA

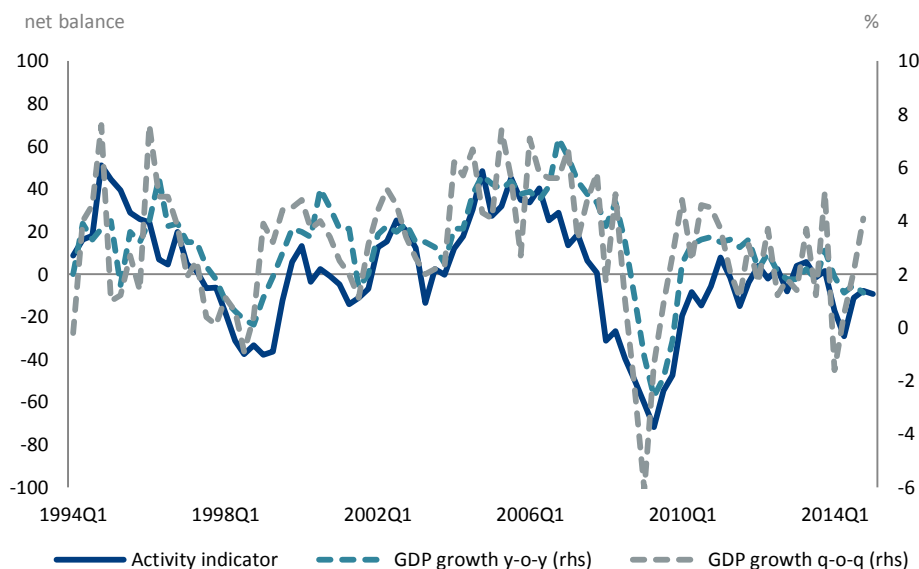
While manufacturers have managed to increase export selling prices at a faster rate, constrained domestic demand has tempered domestic selling price inflation. Wholesalers have also not reported an acceleration in the rate of increase in average selling prices. On the other hand, the selling price indicator for the retail trade sector did tick up slightly (see Figure 6). Retailers furthermore expect to accelerate the rate of increase in average selling prices in Q2. This, coupled with the fuel price increases, supports the BER's view that the recent inflation relief is set to be temporary. CPI inflation is currently forecast to bottom in 2015Q1 and accelerate into the second half of the year.

Implications for the BER's macroeconomic forecast

The survey results mostly corroborated the BER's macroeconomic forecast as published in **Economic Prospects (2015Q1)**. As noted above, the results did however support the moving forward of the bottoming of CPI inflation from Q2 to Q1 (which is also a technical result of the hefty fuel price hike on the cards for April).

In terms of the 2015Q1 GDP reading, the quarter-on-quarter (q-o-q) growth rate is expected to decline in line with lower confidence levels and average activity levels. Figure 7 plots GDP growth together with the average of the survey indicators for activity⁶.

Figure 7: Average activity indicator and GDP growth



Sources: BER, Stats SA

Current estimates for Q1 GDP growth are in the range of 1 to 2.5% q-o-q seasonally adjusted and annualised. It is likely that the consumer sectors will make the largest contribution to growth in the quarter. The survey results substantiate the relative outperformance of the retail trade sector, while it is clear that manufacturing production has not ramped up further (as was the case in 2014Q4 in the aftermath of the metal industry strike during the previous quarter) and activity in the building sector stalled. Given that the 2014Q1 GDP data was distorted by the strike activity in the mining sector, the Q1 y-o-y GDP growth rate is likely to increase slightly.

Christelle Grobler

⁶ This indicator is constructed by taking the average of the net balance statistics reported for the growth in the volume of sales in the retail, wholesale and new vehicle trade sectors, for production volumes in the manufacturing sector, and for the growth in building activity as reported by building contractors.

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