

Comment

BER surveys confirm tough business conditions in Q4

Confidence

Activity

Employment

Costs and prices

Implications

Introduction

A cornerstone of the BER's work is its regular business surveys¹. The results of the latest round² of BER surveys in the trade, manufacturing and building industries are summarised below.

The surveys provide an early indication of likely developments in the real economy during the fourth quarter (until official data becomes available) and beyond. More detailed sectoral analyses are provided in the individual BER survey publications. **Please note that the information provided is under embargo until the respective survey publications are released on the BER website.**

Business confidence slumps further

The RMB/BER Business Confidence Index (BCI)³ has trended downwards throughout the year and slumped further to 36 index points in 2015Q4, from 38 in Q3. Confidence is now at its lowest level in more than five years (since 2010Q2). New vehicle dealers and building contractors saw the largest drop in confidence. Retailer confidence bounced back slightly after the sharp fall in Q3, but remains low.

Indicators of general business conditions remained depressed. Respondents mostly indicated further weakening of demand and hence activity measures. The fact that demand once again remained lacklustre constrained selling price inflation. This, while input cost or purchasing price inflation stayed relatively high, implies continued pressure on profitability. A detailed description of these trends is provided in the next sections.

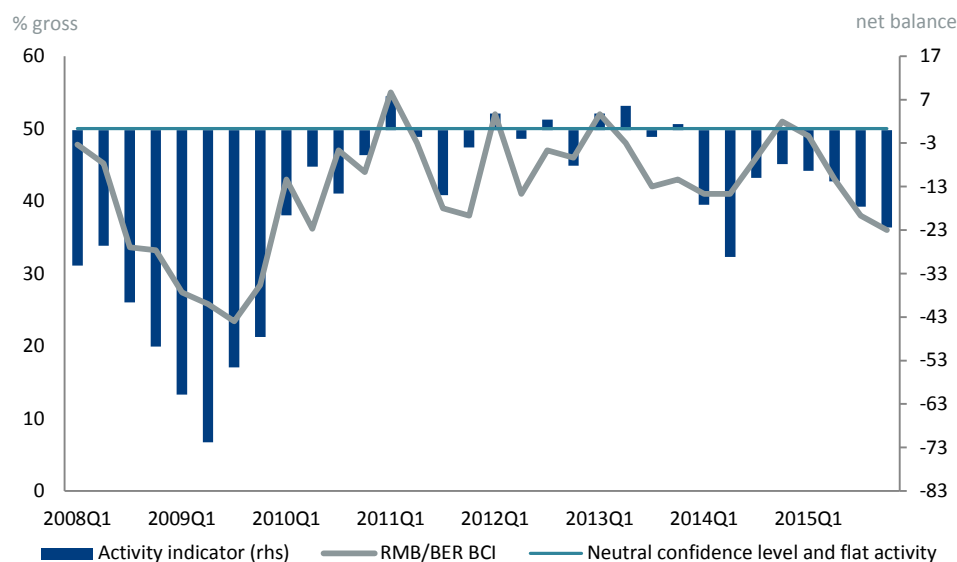
¹ The BER's survey method is modelled on those of the European Commission and Munich based IFO Institute. The survey data has a proven track record as exceptionally reliable – given the correspondence with the available formal statistics – and provides unique information such as confidence, rating of 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 website.

² The survey was conducted between 12 October and 17 November.

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.

The further decline in business confidence is generally in line with the underlying survey indicators. See Figure 1, which illustrates the tandem downward trajectory in the average of the survey indicators for activity⁴ and the RMB/BCI during 2015.

Figure 1: Business confidence versus the average survey activity indicator



Source: BER

Activity measures lose more momentum

The sharper than expected adjustment in **retail trade** activity, in particular the reading on the growth in the volume of sales, did not recover in Q4. In fact, the sales volume indicator declined to its lowest level since 2009. This was counter to retailer expectations, despite them keeping a lid on selling price increases.

Retailers of non-durable goods reported continued low growth in sales volumes – atypical of their usual response in a fourth quarter. Respondents in the semi-durable and durable goods markets reported further deceleration in sales volume growth.

The **motor trade** sector remained in the doldrums, albeit that the used car market seems to be doing slightly better than the new car market. New vehicle sales contracted further in Q4. A possible bottoming out in the decline of new cars sold seems to be on the cards for 2016. This is in line with the BER's forecast of passenger car sales⁵.

The survey indicators confirmed a tough trading environment in Q4, with consumers clearly under pressure. As highlighted in the **2015Q4 BER Economic Prospects** publication, the consumer is currently

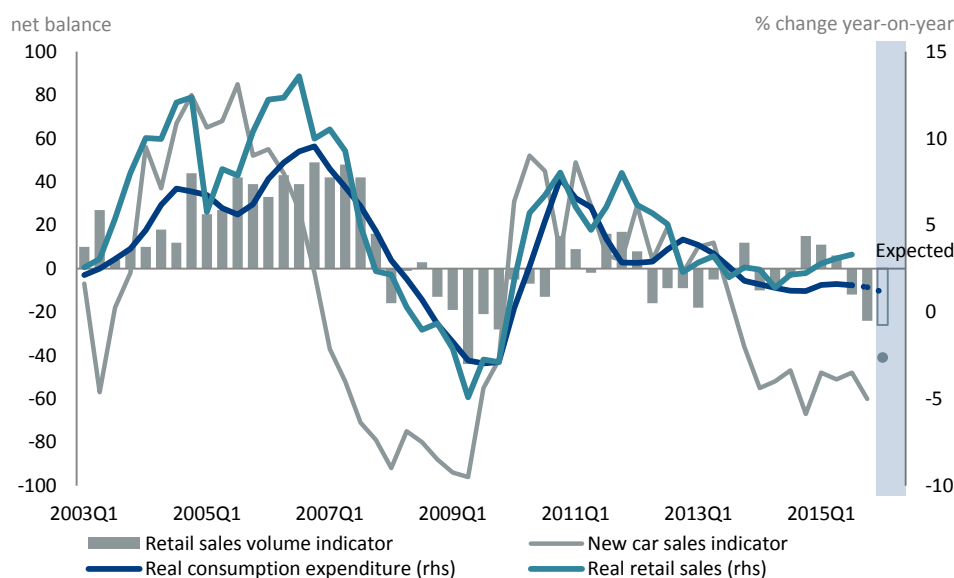
⁴ This indicator is constructed by taking the average of the net balance statistics reported for the growth in the volume of sales in the retail, wholesale and new vehicle trade sectors, for production volumes in the manufacturing sector, and for the growth in building activity as reported by building contractors.

⁵ The BER forecasts vehicle sales (split into passenger cars, light commercial vehicles, other commercial vehicles and busses) based on our macroeconomic projections. The vehicle sales forecast is available to BER Macro clients as part of their subscription; **please contact us for more information**.

facing multiple headwinds all culminating in lower real disposable income. These include a slowdown in government spending, job losses in the formal sector, higher taxes and rising interest rates. Consumer confidence also remains near multi-year lows, implying hesitancy regarding willingness to spend. Furthermore, credit conditions have tightened noticeably as indicated by the sharp rise in the indicator for household credit standards as reported by retail banks in the **2015Q3 EY Financial Services Survey**. Changes to consumer credit affordability assessment regulations are likely taking their toll on credit extended to households (effective 13 March 2015).

Real retail sales growth is expected to slow to between 2% and 2.5% year-on-year (y-o-y) in 2015Q4, from 3.3% in Q3, based on the further dip in the retail survey sales indicator. The survey also confirmed the BER's outlook for total real consumption expenditure growth which is forecasted to slow to 1.4% and 1.1% y-o-y in Q4 and 2016Q1 respectively (from an average of 1.6% y-o-y for the first three quarters of 2015) – see Figure 2.

Figure 2: Trade survey sales indicators versus real growth in retail sales and consumption expenditure



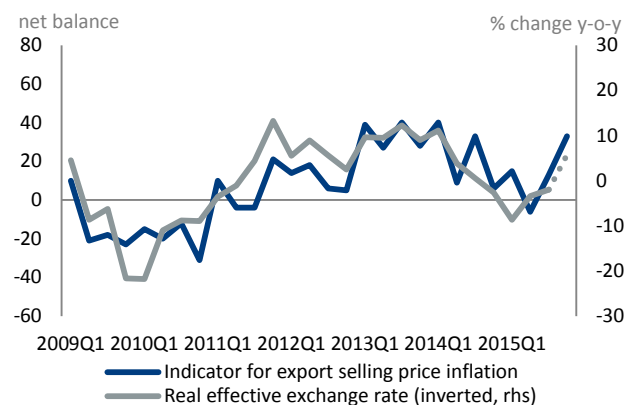
Source: BER, SARB, Stats SA

Growth in the volume of sales of **wholesalers** did not deteriorate further in Q4, even as selling price inflation accelerated in a response to sharp upward pressure on purchasing price inflation. However, growth in sales volumes is not expected to continue, with respondents in both the consumer and non-consumer wholesale sectors expecting pressure on sales volume growth into 2016.

As is the case in the wholesale sector, **manufacturers** reported a slight improvement in domestic sales and order volume indicators. These, however, remain in negative territory. Import substitution might be benefiting some of the manufacturing subsectors, given the continued weakness in the rand exchange rate. Currency weakness also seems to be to the advantage of exporters on the pricing side, with export selling price inflation accelerating once again – as shown in Figure 3. But, export sales and order volumes dipped during Q4. These export volume indicators have been quite choppy this year, and taken together with a proxy for the trend in manufacturing exports (in rand terms) calculated from SARS Trade Statistics, can no longer confirm a sustained positive trend for manufacturing export volumes (see Figure 4). This

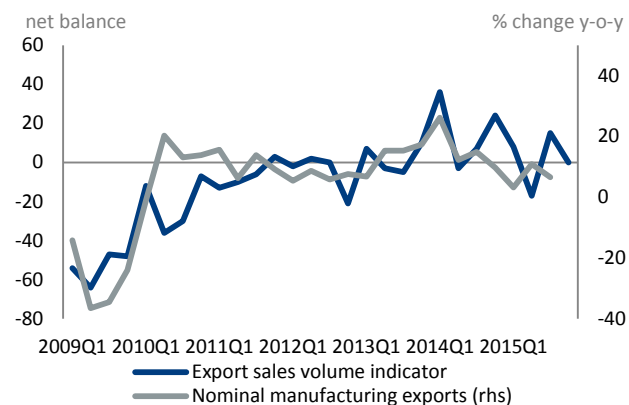
unfortunately ties in with the fact that economic growth slowed in key export destinations such as other African countries (which were adversely affected by faltering Chinese economic growth during the year), or remained relatively subdued in the case of Europe.

Figure 3: Export selling prices and the rand



Source: BER, SARB

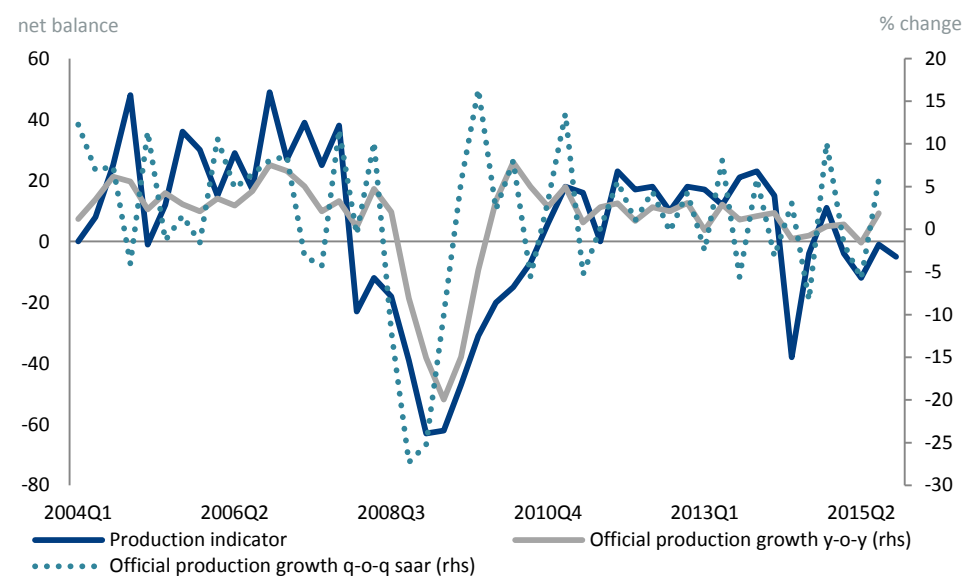
Figure 4: Export volumes versus trade data (rand)



Source: BER, SARS

After improving somewhat in Q3, the manufacturing production indicator dipped slightly during Q4. The reading is in line with the **Barclays PMI** for October. Both the seasonally adjusted business activity and the overall index declined to 47.7 and 48.1 respectively, after averaging above the neutral 50 mark for Q3. The manufacturing survey production indicator reading signals that growth in official manufacturing output as reported by Stats SA could slow (but not necessarily contract) in Q4 – see Figure 5.

Figure 5: Manufacturing production indicator versus growth in official production data

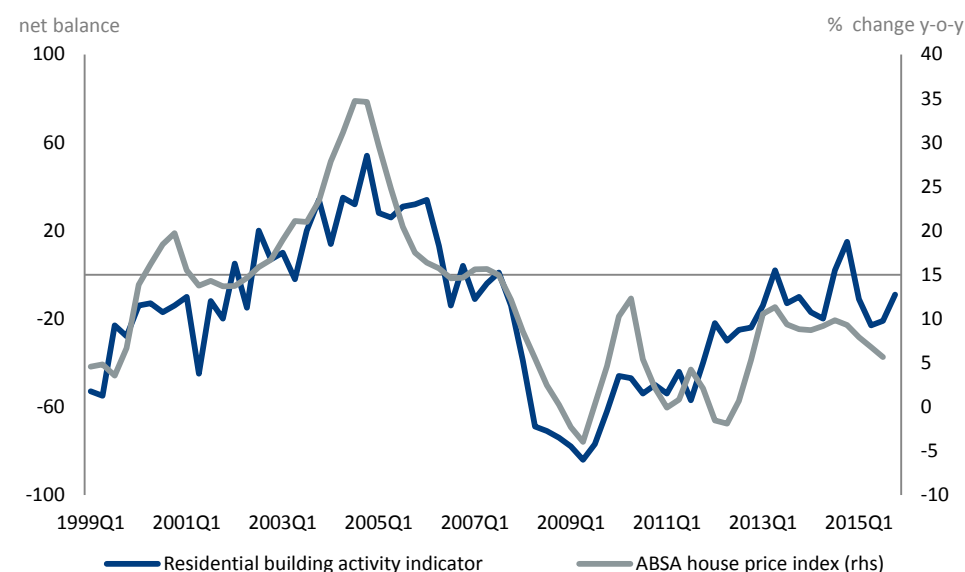


Source: BER, Stats SA

Building sector performance diverged notably in Q4. Non-residential contractors reported a sharp deterioration in building activity. Although the fall was sharper than respondents expected, it is in line with the weak outlook for private fixed investment sketched by the Q3 survey results.

Residential building activity, on the other hand, improved. However, as shown in Figure 6, the indicator remains below the positive readings posted in the second half of 2014. It is uncertain at what pace the slow upward momentum in residential building activity, also echoed by the statistics on residential building plans passed, can be sustained going into 2016. Not only is formal employment under pressure and inflation on the rise, but we are also in an interest rate hiking cycle, with tight credit standards⁶ and slowing house price growth (especially in real terms). These factors do not bode well for residential building activity momentum going forward.

Figure 6: Residential building activity



Source: BER, ABSA

Employment indicator recovers somewhat

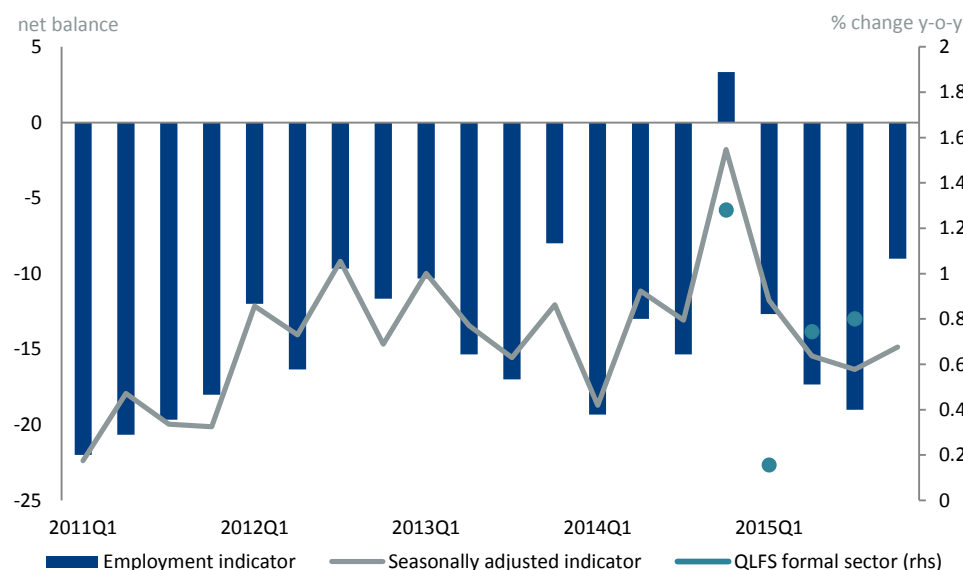
The average employment indicator across the retail, manufacturing and building (contractors) sector surveys recovered in Q4. However, similar recoveries in 2013Q4 and 2014Q4 were not sustained – the indicator dipped again in 2014Q1 and 2015Q1. Figure 7 includes the seasonally adjusted version of this average employment indicator⁷, showing that the recovery in the unadjusted data might be slightly overstated.

The surveys do, however, portray a more positive picture on the employment front in the sense that all three these sectors saw an improvement. Also, manufacturers reported an increase in the average hours worked per factory worker for the first time since 2012. In all, growth in formal sector employment, which averaged 0.8% y-o-y in Q2 and Q3 according to the Quarterly Labour Force Survey (QLFS), should see slight further improvement in Q4.

⁶ Apart from the evidence provided earlier, access to mortgage agreements might be negatively affected by the newly promulgated regulations which limit interest rates on different credit products (including mortgage agreements) and come into effect in May 2016.

⁷ Respondents are asked to compare the number of workers with that of a year ago, so technically there should not be a seasonal impact, but it is unclear what respondents have in mind when they complete the survey.

Figure 7: Average employment indicator versus formal sector employment growth (QLFS)

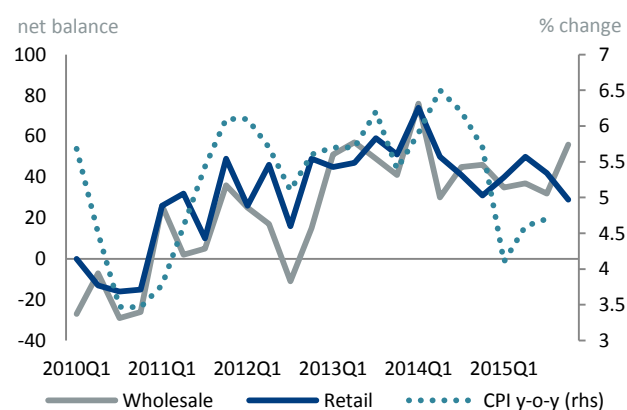


Source: BER, Stats SA

Selling prices are under pressure

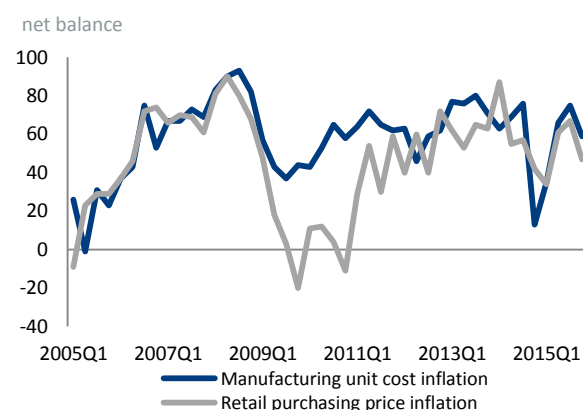
Selling price inflation was constrained by weak demand in Q4. The only sector to report an acceleration in the rate of increase in average selling prices was the wholesale sector (this was the case for both wholesalers of consumer and non-consumer goods). Wholesale selling prices do, at times, lead the direction of retail selling prices by a quarter or so. Also, while cost pressures have receded slightly (see Figure 9), profitability indicators remain at low levels. Hence, selling price inflation is expected to pick up into 2016. This is in line with the BER's forecast of a rise in CPI inflation to an average of above 6% next year.

Figure 8: Selling prices and the CPI



Source: BER

Figure 9: Cost pressure receded slightly



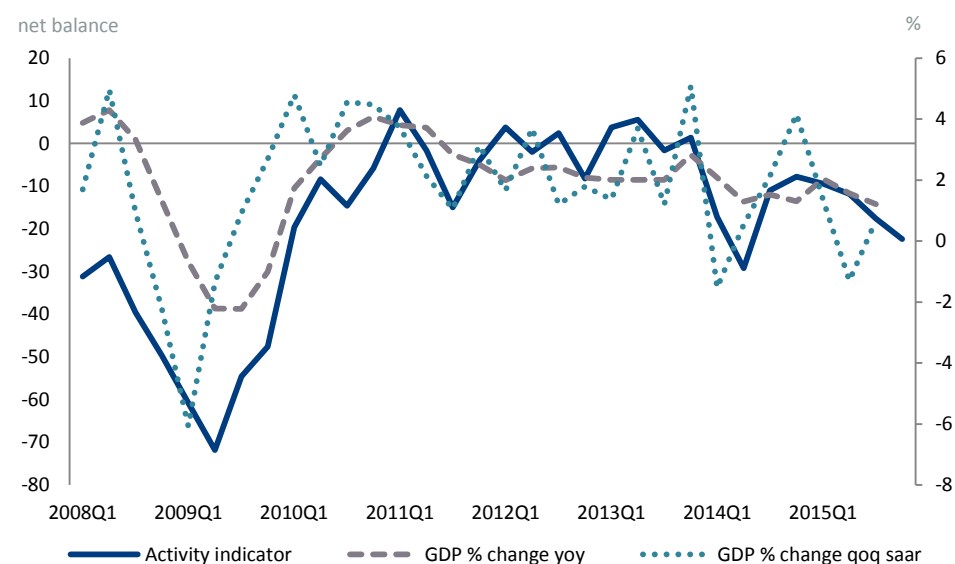
Source: BER

Implications for the BER's macroeconomic forecast

The latest BER forecast incorporates the key themes from the survey results in Q3 and Q4. These are weak domestic demand, slowing commercial fixed investment, the prospect of rising prices amid pressure on profitability and weak employment growth.

The recently released Q3 GDP growth reading of 0.7% q-o-q (seasonally adjusted and annualised), which implied a slowdown in y-o-y GDP growth from 1.6% to 1.2% between Q2 and Q3, was in line with the Q3 survey results. The Q4 results, in particular the average activity indicator as shown in Figure 10, signals a further waning of y-o-y GDP growth. Barring major revisions to the GDP statistics when the fourth quarter figures are released in March next year, 2015 GDP growth might average below the 1.4% currently projected by the BER.

Figure 10: Activity indicator and GDP growth



Source: BER, Stats SA

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