

Comment

BER survey results signal a continuation of mediocre GDP growth in Q2

Confidence

Activity

Employment

Costs and prices

Implications

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 2015Q2 (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 website.

Business confidence down further

The RMB/BER Business Confidence Index (BCI)³ declined to 43 in 2015Q2, down from 49. New vehicle dealer confidence dropped significantly and the retail sector also saw a notable decline in confidence. This was not the case in the wholesale sector, where confidence increased slightly. The confidence indices of building contractors and manufacturers edged marginally lower.

There seems to be a high degree of uncertainty among respondents, as previous expectations for Q2 were in many cases more optimistic than what actually transpired. Business conditions deteriorated across the building, manufacturing and retail sectors. Trading conditions are clearly tough and even higher percentages of respondents rated insufficient demand as a constraint during the quarter.

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.

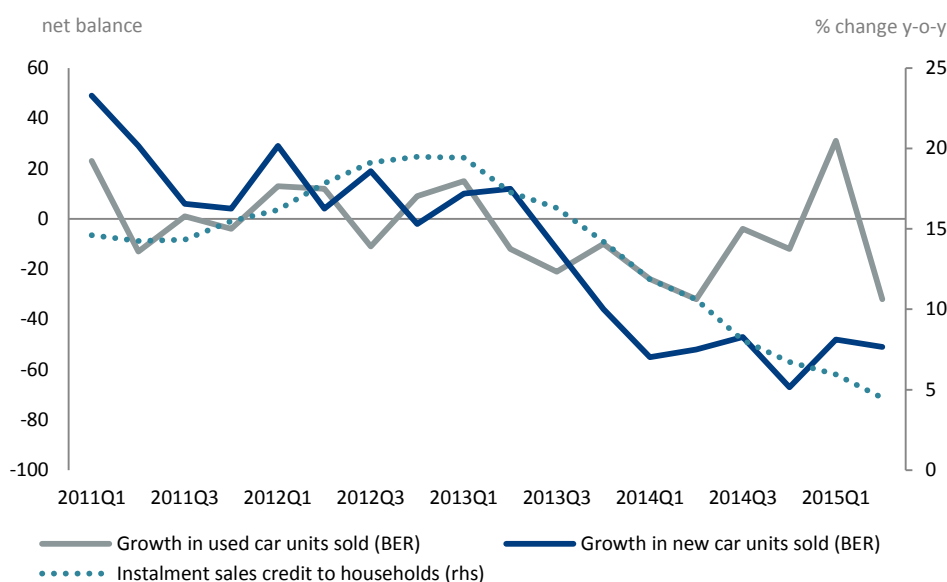
² The survey was conducted between 23 April and 1 June 2015.

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.

Broad-based weakness in activity levels

Units sold in the **new vehicle** market remained under pressure. This is also evident in the latest official new passenger vehicle sales statistics as released by the dti, which declined by 3.7% year-on-year (y-o-y) on average for April and May. **Used vehicles** provided better value as new vehicle prices rose on average by 7% y-o-y since late 2013. As a result, these sales have been outperforming those of new vehicles. However, after improving notably during the second half of 2014 and especially in Q1, traders in **used vehicles** reported a sharp deterioration in units sold during Q2 (see Figure 1). Growth in instalment sales credit extended to households has decelerated sharply of late. These trends are in line with the recent decline in the FNB/BER Consumer Confidence Index⁴, specifically the decline in the rating of the present as a good time to buy durable goods and the decrease in the confidence of middle and higher income households in general.

Figure 1: Survey indicators for growth in units sold in the motor market



Source: BER, SARB

The relative outperformance of the **retail** sector during the first quarter did not continue into Q2. The survey results showed a worsening of the trading environment. Retailers were faced with a sharper than expected acceleration in purchasing prices, evoking an acceleration in selling price inflation (see the section on **costs and prices** below). Growth in the volume of sales slowed, and stocks in relation to expected demand are now rated relatively high. The results indicate that the growth in official retail trade sales in Q2 is likely to remain relatively flat on a year-on-year basis compared to Q1. Moreover, this represents a notable weaker quarterly growth momentum as retail trade sales were particularly low during 2014Q2 (as a result of pressure on disposable income due to price pressures as well as the platinum mining sector strike).

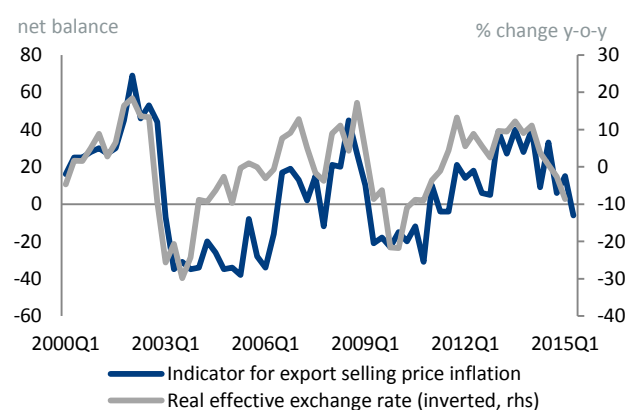
⁴ The latest results are for 2015Q1 – [click here to download the press release for more information](#).

Retailers of non-durable (food and beverages etc.) and durable goods (furniture, household appliances, electronics etc.) in particular reported lower than expected growth in sales volumes. The increase in the rate of selling price inflation was also the highest for these retailers.

The **wholesale** trade survey showed that underlying conditions were noticeably stronger in the non-consumer (excluding petroleum) relative to the consumer sector – echoing the retail survey results.

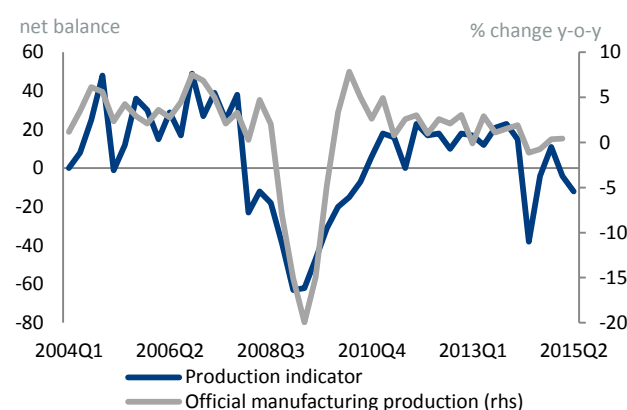
In line with the slowdown in sales volume growth in the retail sector, **manufacturers** reported a decline in domestic sales volumes. Surprisingly, domestic order volumes did not deteriorate to the same extent. The indicators for export sales and order volumes retreated noticeably during Q2. It is, however, not clear whether exporters are merely faced with lower turnover given a significant drop in the export selling price inflation indicator or a worsening in actual sales volumes. The export selling price indicator reached its lowest level since 2010. Figure 2 shows that this corresponds with recent trends in the real effective rand exchange rate (our trade weighted exchange rate with adjustments for the inflation rates of our trading partners relative to our own inflation), which strengthened in 2014Q4 and 2015Q1 in particular.

Figure 2: Export selling price inflation and the rand



Source: BER, SARB

Figure 3: Manufacturing production



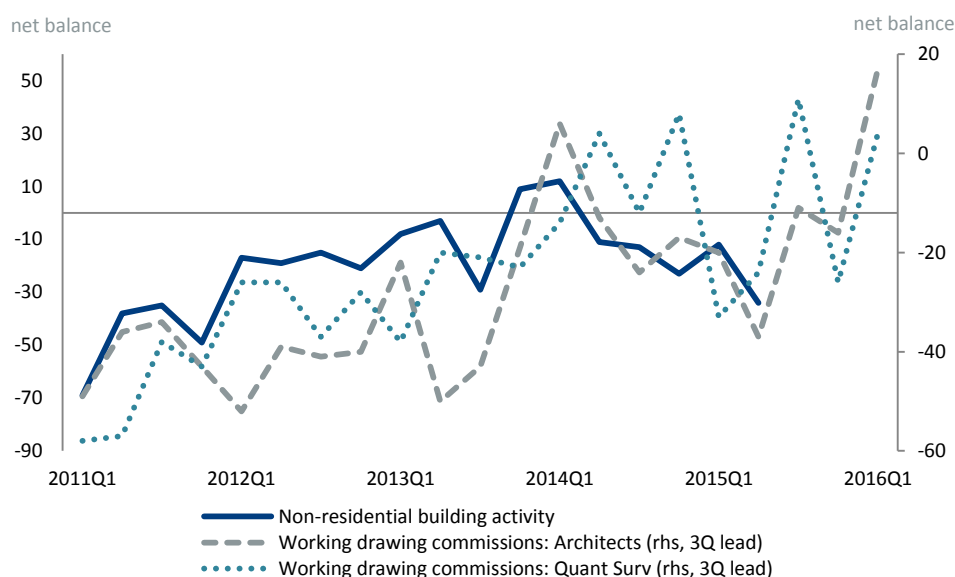
Source: BER, Stats SA

The BER's production volumes indicator dipped in Q2 and this does not bode well for the official manufacturing production growth number that will be released later – see Figure 3. Manufacturers rate their current stock of finished goods in relation to expected demand as too high. While there might be disruptions due to continued load-shedding, lacklustre demand seems to be the main driver of the slowdown in production volumes. Producers of consumer goods (in particular beverages, clothing and to a lesser extent food) continue to outperform the overall manufacturing sector. Import substitution is likely a factor in this regard (at least currently, but continued acceleration in domestic selling prices will undermine this).

Growth in **building** activity continued to lose momentum during Q2, with residential and non-residential contractors reporting lower growth in activity. Both these groups of respondents do, however, expect a slight improvement in conditions for the third quarter. For the residential contractors, this is in line with the upward trend in the growth in the number of residential building plans passed as published by Statistics South Africa (Stats SA). On the non-residential side, the architects and quantity surveyor survey data has been pointing towards improvements in activity at the start of the building pipeline and

foreshadows a recovery in non-residential building activity going forward. Figure 4 shows non-residential activity growth alongside the indicators for growth in the number of commissions at working drawing stage of both architects and quantity surveyors. These commissions have been trending upwards, albeit that the readings can be volatile on a quarterly basis. When these are given a lead of 3 quarters, they do correlate with the non-residential building activity growth indicator.

Figure 4: Non-residential building activity and commissions at architects and quantity surveyors



Source: BER

Employment indicators remained low

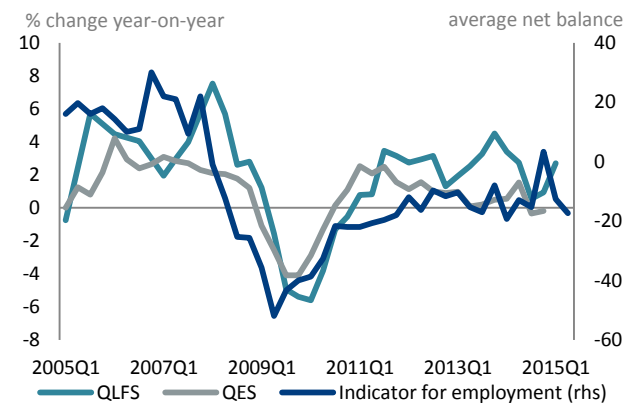
The employment indicator remained around average (positive) levels in the retail trade sector – see Figure 5. However, this indicator is at low levels in the building and manufacturing sectors. Manufacturers reported a sharp drop in the number of factory workers, with the average hours worked also declining during Q2. The average of these indicators points towards a continuation of weak growth in formal private sector employment (see Figure 6).

Figure 5: Employment in the retail sector



Source: BER

Figure 6: Surveys signal weak employment growth



Source: BER, Stats SA

Cost and price indicators have ticked up...

Cost pressures have continued to build during Q2. Manufacturers again reported higher rates of increase in the average total cost per unit of production. This stemmed primarily from higher labour cost per unit of production. Coupled with the rise in fuel prices and electricity costs, it is not a surprising result.

Manufacturers reported higher rates of domestic selling price inflation in a response to cost increases.

Figure 7: Producer prices

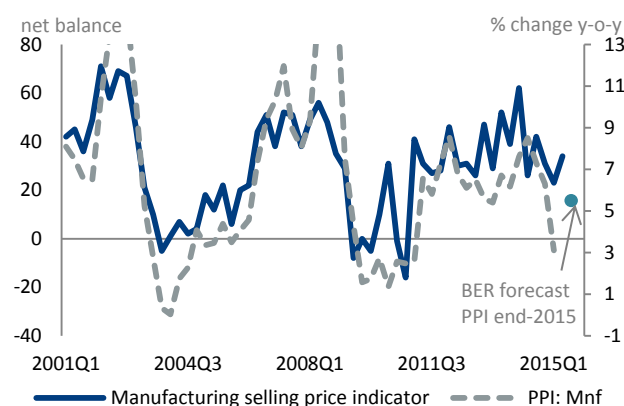
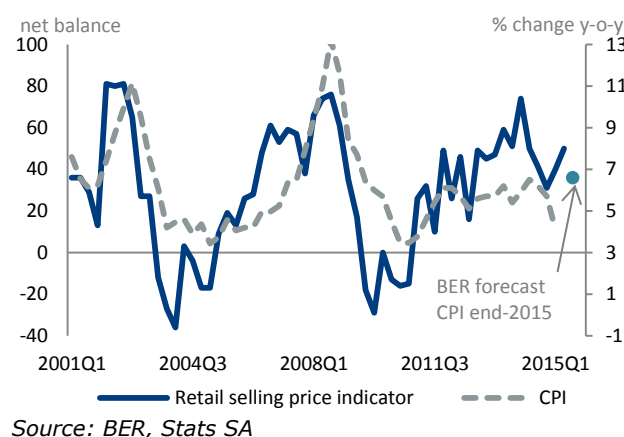


Figure 8: Consumer prices



As mentioned earlier, retailers reported a significant acceleration in purchasing price inflation and have, as a result, upped their rate of increase in average selling prices somewhat. These indicators are in line with the BER forecast for PPI and CPI inflation to accelerate into 2016 – see Figure 7 and Figure 8.

Implications for the BER's macroeconomic forecast

The survey results mostly corroborated the BER's macroeconomic forecast as published in **Economic Prospects (2015Q2)**. A slowdown in consumer spending growth was expected for the second half of this year, but one could argue that it is already evident in the Q2 results.

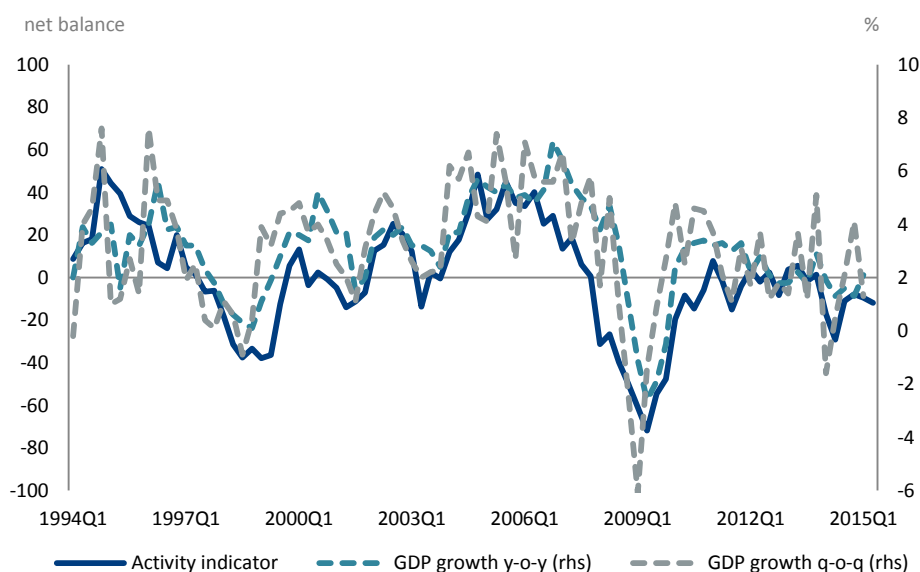
In terms of the 2015Q2 GDP reading, the quarter-on-quarter (q-o-q) growth rate is likely to decline slightly in line with lower confidence levels and average activity levels. Figure 9 plots GDP growth together with the average of the survey indicators for activity⁵.

The BER will be updating its macroeconomic forecast at the end of June after the release of the South African Reserve Bank's (SARB) June Quarterly Bulletin.

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⁵ 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.

Figure 9: Average activity indicator and GDP growth



Sources: BER, Stats SA

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