

Flat business confidence does not tell the whole story

After dipping from 42 to 39 in the third quarter, the RMB/BER business confidence index (BCI) slipped to 38 in the final quarter of 2022, that is more than six out of 10 respondents remained unsatisfied with prevailing business conditions.



Source: iStock.

Although the BCI was little changed, the outcome hides striking dynamics among the sectors, both positive and negative.

The fourth quarter survey was conducted between 26 October and 14 November 2022. It covered just over 1,000 senior executives in the building, manufacturing, retail, wholesale, and motor trade.

Fourth-quarter rebound

During the fourth quarter, a rebound in building confidence made up for the first significant falls in wholesale and retail confidence since the Covid-19 pandemic broke out.

After dropping by 17 points to 29 in the third quarter, building confidence recovered all the way back to 46 in the fourth quarter, extending what has been a volatile (but rising) trend over the past two years.

Driving this latest improvement was the residential sector where activity regained momentum, in part supported by typical seasonal factors.

In contrast, the recovery in non-residential activity faltered. Interference by the construction mafia, delays in tenders awarded, fierce competition to secure work, sharply rising building costs and load-shedding depressed profitability and confidence.

Wholesale confidence plummeted from 50 to 37 in the fourth quarter. Besides this eye-catching drop, it is also the first time since the third quarter of 2020 that confidence fell below the neutral 50 mark.

Consumer-goods sales knock

Fewer orders from retailers saw sales of consumer goods take a particularly hard knock, while delays at the ports also soured the mood.

Equally, confidence among retailers dropped sharply, from 51 to 42. Sales across all categories worsened. The deterioration was even more pronounced when accounting for the usual uplift in activity given Black Friday and the festive season.

Rising food and transport costs eroded households' spending power, as did higher debt servicing costs.

The supporting impact of special factors (such as pent-up demand that built up during periodic lockdowns; the rotation from spending on durable goods and home maintenance to clothing, eating out and entertainment; and the resumption of SRD-grant pay-outs in the third quarter) fizzled out.

Loadshedding: impact on retail

On top of that, extensive load-shedding resulted in a loss of trading hours/sales, while measures to counter the impact of load-shedding sharply raised operating costs, weighing down on the mood of retailers.

In the fourth quarter, new vehicle sales delivered a better performance, but this was not sufficient to markedly increase the confidence of dealerships; their BCI rose just one point to 41. Long waiting times for stocks of specific makes and models, and an apparent pessimistic outlook given the rising cost of debt, dampened spirits.



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As for manufacturing, confidence remained flat at a depressingly low 26.

Notable during the fourth quarter was the sharp deterioration in export sales volumes which, similar to domestic sales volumes, were weaker than recorded during the second half of 2021 – itself a turbulent period first characterised by the unrest and then the Numsa metalworker strike.

Factors like load-shedding, surging diesel costs and long delays at the ports were cited as explanations for the fourth quarter's poor performance.

Bottom line

Escalating load-shedding could easily have dashed business confidence in the fourth quarter. The fact that the RMB/BER BCI essentially remained unchanged indicates the presence of some underlying resilience as well as countervailing forces at work.

The recovery in residential building activity, as well as rising capital spending on renewable energy projects, machinery, capital goods and the like reveal increased fixed investment in at least some sectors.

To boot, and given the ongoing recovery in international tourism, employment seems to be expanding again in service sectors like hotels, hospitality, and related to that, travel agents, and tour operators, which all experienced increased demand in the fourth quarter.

“Even so, there is no denying the fact that the economy would be doing so much better were it not for the slow pace that continues to describe the government’s efforts in addressing growth-damaging constraints such as insufficient electricity, poorly functioning ports and a failing railway network.

"The importance of fast-tracking things cannot be overemphasised, especially now that global headwinds manifesting in sharply slowing growth and lower export commodity prices are mounting," said Ettienne Le Roux, chief economist at RMB.

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