



**Enquiries**

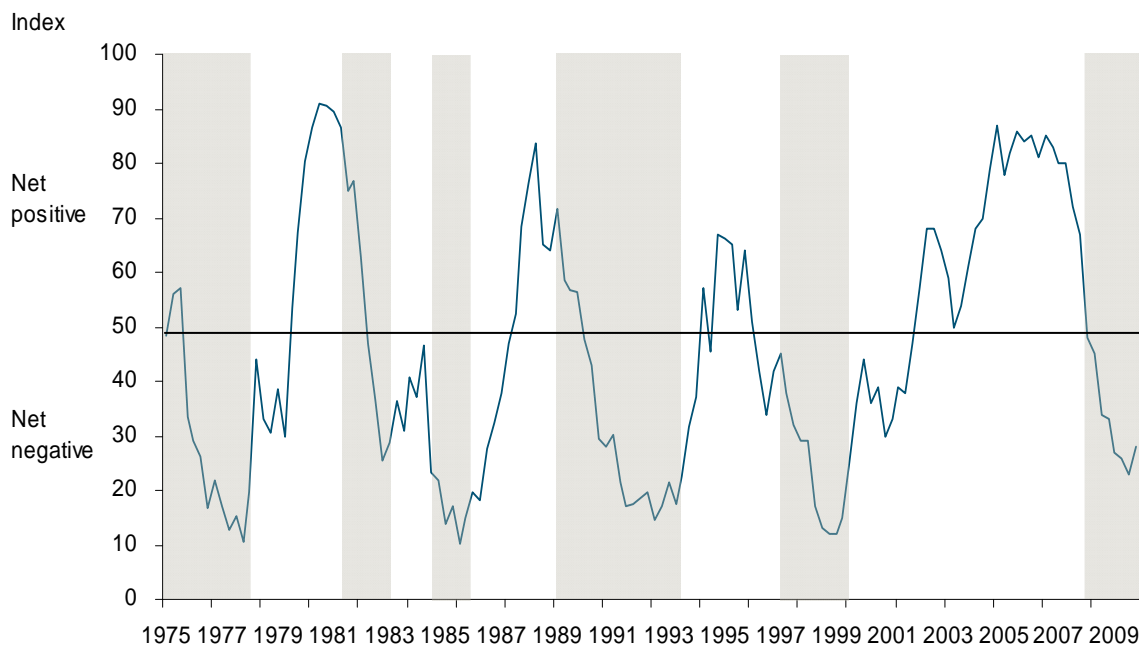
**Ettienne le Roux, Chief Economist, Rand Merchant Bank**  
Tel: 011 282-8726  
[ettienne.leroux@rmb.co.za](mailto:ettienne.leroux@rmb.co.za)

**Carmen Nel, Senior Economist, Rand Merchant Bank**  
Tel: 021 658-9351  
[carmen.nel@rmb.co.za](mailto:carmen.nel@rmb.co.za)

## Business confidence on the up

Following sharp and persistent declines from a level of 85 in the third quarter of 2006 to a low of 23 three years later, the RMB/BER business confidence index rose by five points to 28 during the fourth quarter of 2009. This indicates that a growing - although still small - number of respondents rated business conditions as satisfactory. The upturn in confidence is consistent with other leading indicators which usually precede a recovery in economic activity.

Figure 1: RMB/BER business confidence



Source: BER \* Shaded areas indicate business cycle downturns

Business confidence increased in three of the five sectors covered in the survey, while declines in the remaining two were small:

- Confidence rose strongest for new vehicle dealers, with the index increasing from zero at the end of last year to 19 in the third and 29 in the fourth quarter of 2009. Sales volumes of new vehicles contracted at a significantly slower rate and so helped dealers to reduce excessive stock levels.
- The sharp declines in retailer and wholesaler confidence during the third quarter of 2009 were almost fully reversed during the fourth quarter. Retailer confidence rose from 35 to 44 index points, while wholesaler confidence jumped from 17 to a still low 27. The better mood among retailers stems mainly from the higher confidence levels of dealers in semi-durable goods. Their profitability improved thanks to an apparent increase in ability to raise selling prices, but this came at the expense of lower sales volumes.
- Building contractors' confidence gave up the one index point it had gained during the third quarter and returned to a level of 23. Confidence levels improved moderately among contractors operating in the residential market while it fell among those working in commercial real estate, leaving the overall building confidence index largely unchanged. This divergence in confidence levels seems to reflect the usual leads and lags in the industry, where planning for larger non-residential projects typically takes longer to complete.
- Although small, the three index point decline in manufacturing confidence to 19 did come as a disappointment, the drop occurring notwithstanding the rebound in global economic growth and the associated need to rebuild inventories. From the survey results it would appear that increasing pressure on margins, among other factors, attributed to the impact of the strong rand as well as rising input costs, somewhat dampened the mood of manufacturers during the fourth quarter of 2009. Export sales remained weak and domestic sales volumes may have

recovered even more were it not for competition from a pickup in cheaper imports. At the same time, the percentage of manufacturers seeing the political climate as constraining business activity increased from 40% to 51%. This is the highest percentage since the election earlier this year.

### **Bottom line**

“Although business confidence remains low in absolute level terms and is still fragile, the small uptick seen during the fourth quarter is encouraging and points to a 3-year long decline finally having come to an end”, said Etienne le Roux, Chief Economist of RMB. Also pleasing is that business confidence during this cycle did not fall to the same low level seen during previous economic downturns, and this despite what has been a severe recession that technically lasted for nine months till the end of the second quarter of 2009. The fourth quarter upturn in confidence, coupled with respondents’ expectations of more advances in the new year is consistent with a further improvement in business conditions and the current recovery in overall economic activity gaining momentum in the quarters ahead.

*The fourth quarter survey was conducted between 16 October and 13 November 2009.*