



## Enquiries

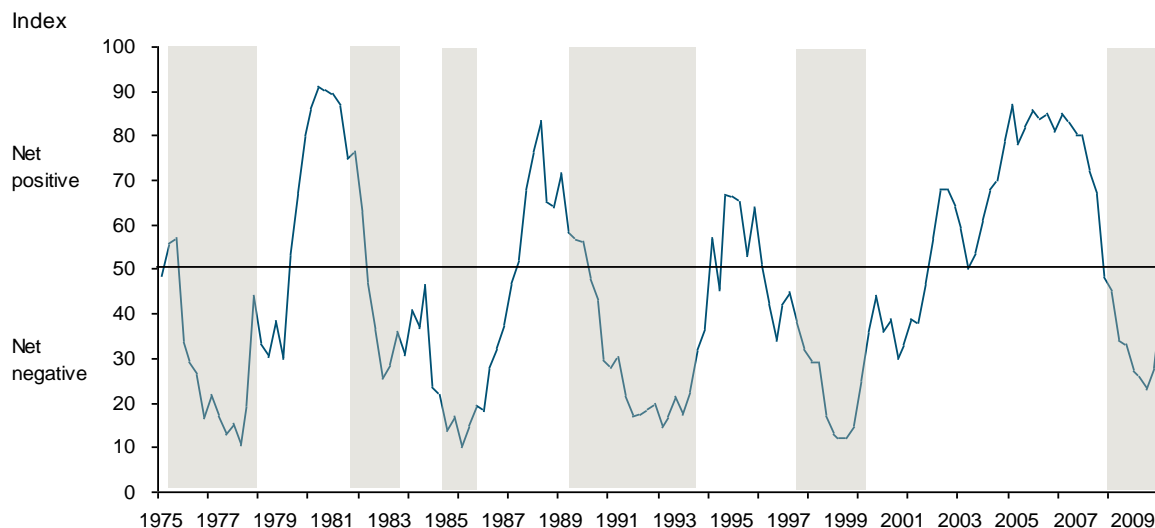
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## Business confidence sharply up but narrowly based

After rising by five points to 28 during the fourth quarter of 2009, the RMB/BER Business Confidence Index (BCI) jumped by a further 15 points to a level of 43 during the first quarter of 2010<sup>1</sup>. This is the single biggest increase between two consecutive quarters in 16 years. Also, at 43 the BCI is back to the same level which prevailed before the global financial market crisis erupted around 18 months ago.

Figure 1: RMB/BER business confidence



Source: BER \* Shaded areas indicate business cycle downturns

<sup>1</sup> The first quarter survey was conducted between 1 February and 1 March 2010.

The first quarter improvement in business confidence is no doubt impressive. Still the increase needs to be put in context. Confidence remains in “net negative” territory (i.e. below 50), and although the mood improved across all five of the sectors surveyed<sup>2</sup>, increases were only particularly large in the case of wholesale and new vehicle trade, where index levels surged by 23 and 31 points respectively. Whereas confidence is now at the neutral level of 50 or above in the internal trade sectors, the mood remains depressed in the case of building and manufacturing.

### **Detail**

- New vehicle dealer confidence jumped from an index level of 29 in the fourth quarter of 2009 to 60 in the first quarter of 2010. The surge in confidence came about as sales surpassed even earlier optimistic expectations.
- Wholesaler confidence increased from 27 to 50. But the significance of this result is undermined by the fact that wholesale trade is known for displaying big swings in confidence. In addition, the upsurge in confidence seems mainly to have been based on merchants’ expectations of an imminent upturn rather than the actual improvement in current conditions. For instance, sales volumes continued to contract in the first quarter, albeit at a slower pace than before.
- Retailer confidence increased from 41 to 51. Driving the increase was a notable improvement in the sales of non-essential items, such as semi-durable and durable goods. Low interest rates, a degree of stability returning to the labour market, as well as greater affordability, could all have played a role in boosting sales. That being said, sales of non-durable goods remained poor.

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<sup>2</sup> The RMB/BER BCI is made up of the percentage of respondents rating prevailing business conditions as satisfactory in the manufacturing, building, retail trade, wholesale trade and new vehicle trade sectors.

- Following improving production and sales, manufacturer confidence rose by 9 index points to 28. But once again a qualification is required. Apart from vehicle and basic metal manufacturers, conditions remained far from ideal in most other sub-sectors. In aggregate, production and sales were still down compared to year ago levels and thus explains why confidence remained low in comparison to the internal trade sectors.
- Although building activity contracted at a slower pace, conditions remained quite tough. The mood among building contractors improved only marginally to an index level of 26 from 23 in the previous quarter.

### **Bottom line**

The 15 point surge in the RMB/BER BCI is a heartening. Together with other leading indicators it provides further evidence that the domestic economy has entered an upward phase of the business cycle. Still some realism is required.

Firstly, the index level remains below 50, which implies that the majority of respondents are still pessimistic in their outlook. Secondly, the headline increase in large part was driven by a surge in the confidence of wholesalers, a sector which by nature delivers some volatile results from one quarter to the next. Thirdly, being narrowly based, the increase in the BCI hides tough conditions on the ground in most sectors. Indeed, conditions remain difficult with activity levels still lower compared to a year ago in all of the sectors surveyed except for the new vehicle trade, durable goods retail trade and the vehicle and basic metals manufacturing sectors.

“Although there is no doubt that the economy is recovering, we are not yet in a broadly based upswing”, said Etienne Le Roux, chief economist at RMB. The improvement remains patchy and heavily leveraged towards the health of global demand. While GDP

growth of more than 3% is possible this year and next, the longevity of the upswing critically hinges on higher levels of consumer and private investment spending ultimately taking over from what should be a strong rebound in exports and inventories in 2010, as production levels catch up with demand.