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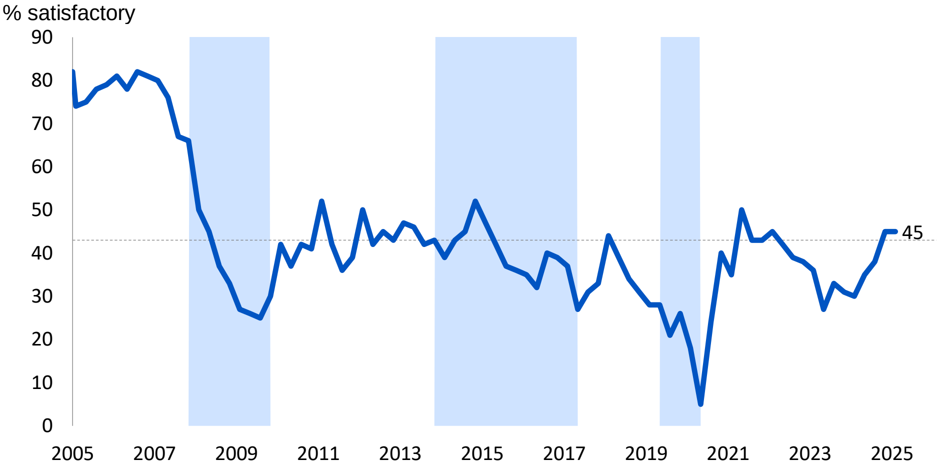
Press release

The recovery in business sentiment stalled at the start of the year

Following three consecutive increases, the **RMB/BER Business Confidence Index (BCI)** remained unchanged at 45 index points in the first quarter of 2025. While a touch above the long-term average reading of 43 points, and well above the sentiment level recorded at the start of last year, it is worrying that four of the five sectors saw confidence slip relative to the fourth quarter of last year. New vehicle dealers saw a 29-point surge in confidence, which offset the decline in confidence from all other sectors. A confidence reading of 45 points means that a slight majority of respondents across sectors are pessimistic about current business conditions in South Africa.

RMB/BER Business Confidence Index (BCI)



Source: BER, SARB (Shaded areas represent economic downswings)

The survey took place from 5 to 24 February, with the bulk of responses received early in the survey period. This means that many responses were received just after US President Donald Trump announced that the US would cut all aid to South Africa. While this would have had little direct impact on the sectors surveyed, it signals a further souring of already strained US-SA trade relations. Indeed, these concerns featured in some of the comments from survey respondents, with references to worries about the impact of the continuation of AGOA. That said, not all concerns were globally driven. Respondents in the building and manufacturing sector, in particular, were worried about ArcelorMittal's potential closure and domestic demand in general. The majority of responses were received prior to the delay in the tabling of the National Budget.

In all, despite the composite activity indicator ticking along at an elevated level and, in fact, even increasing slightly from Q4, business sentiment did not improve further.

Details

The changes in sentiment relative to the previous quarter presented a reversal from what transpired in 2024Q4. The recovery was broad-based during the last quarter, with all but new vehicle dealers seeing higher confidence. In 2025Q1, new vehicle dealers joined the party late and saw a surge in confidence, while all other sectors saw confidence decline. Considering the levels, new vehicle dealers and retail traders have confidence readings well above their long-term average, while the remaining sectors see confidence around long-term levels. The Q1 survey results are thus not a bad outcome, but signal that the recovery (seen in the second half of 2024) has stalled.

Business confidence per sector

%	*LT avg*	23Q2	23Q3	23Q4	24Q1	24Q2	24Q3	24Q4	**25Q1**
RMB/BER BCI	*43*	27	33	31	30	35	38	45	**45**
New vehicle dealers	*41*	23	30	6	16	10	27	23	**52**
Retail	*40*	20	32	47	34	39	45	54	**50**
Building contractors	*43*	43	41	41	42	47	41	51	**45**
Wholesale	*45*	32	38	36	37	53	51	60	**42**
Manufacturing	*36*	17	23	26	21	28	28	36	**34**

Source: BER

New vehicle dealers' confidence increased by 29 points to 52. Although new vehicle traders tend to see sharper swings in confidence than the other sectors, this was still a significant upsurge. The rise in confidence was underpinned by a big improvement in sales volumes with somewhat lower interest rates, two-pot retirement withdrawals and pent-up demand providing a boost. A renewed knock to the consumer (in the form of, for example, higher taxes or lower sentiment) presents the biggest risk to the sector. Should confidence reverse, it would drag the composite BCI lower – unless other sectors can pick up the slack.

Despite a slight dip in confidence, the **retail sector** experienced another strong quarter. Sales volumes remained positive for a second consecutive quarter. Meanwhile, **wholesale traders** saw the biggest decline in confidence in Q1 – although it came from an elevated level. The drop in confidence corresponds with a drop in sales and a deterioration in business conditions in the sector.

Building contractors stayed in the middle of the pack, with confidence ticking down by six points to 45. This is still somewhat above the long-term average reading. It is quite encouraging that respondents are fairly optimistic about the next quarter, especially in terms of activity.

Finally, **manufacturing business confidence** dipped by two points to 34. While export demand remained surprisingly resilient, domestic demand was weaker. Production improved relative to the fourth quarter, but investment dropped back somewhat.

<u>Bottom line</u>

Isaah Mhlanga, chief economist at RMB, warns that some of the survey results can be seen as flickering warning lights. Without the sharp improvement in new vehicle dealers' confidence, the BCI would have declined at the start of the year, but the optimism by new vehicle traders is underpinned by a strong underlying performance and thus warranted. As per Mhlanga, "the consumer-linked sectors still performed well in the first quarter, but the question is whether this momentum can be sustained in coming quarters or whether the more industry-linked sectors can take over the baton of growth". The boost due to withdrawals from the two-pot retirement savings will fade, while interest rates are unlikely to move much further down in an environment of slightly rising inflation. Possible tax increases could burden the consumer further. More geopolitical uncertainty could undermine confidence.

In all, the survey results suggest that, even though sentiment stalled, growth could tick along in the first quarter of 2025 after a 0.6% q-o-q expansion in real GDP was recorded in the fourth quarter. Encouragingly, many respondents remain fairly optimistic about next quarter, but we need to see a real recovery in demand and activity, or firm action on the structural reform front, to underpin renewed confidence increases.