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Current conditions matter, but expectations matter more

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Economic expansions do not begin when conditions are perfect; they begin when enough people believe the future will be better than the present. Right now, many businesses appear to be waiting for a reason to believe again.

Last week, the **RMB/BER Business Confidence Index (BCI)** revealed that business confidence fell sharply in the second quarter, interrupting what had been a steady improvement in sentiment over the previous six months.

The timing of the BCI survey is key as businesses were surveyed between 14-25 May, after the outbreak of the US-Iran war and once the sharp increase in fuel prices had begun to filter through the economy.

This week, Stats SA will release first-quarter GDP data which will tell us where the economy was at the start of the year, before South Africans felt the direct impact of the fuel shock. It may still tell the story of an economy that was recovering.

The Bureau for Economic Research (BER) expects growth of just 0.3% quarter-on-quarter. Still, that would mark the sixth consecutive quarter of economic expansion. The last time South Africa achieved such a streak was between late 2016 and early 2018. Whether the economy manages a seventh quarter remains to be seen.

The business confidence survey is asking a more forward-looking question: where is the economy heading next? That distinction between the two big data releases matters because economies are driven not only by current conditions, but also by expectations.

Though the latest BCI suggests that the recovery has stalled, what struck me most, given the downbeat survey results, was the relative sense of calm, not panic, in the survey comments (which are submitted voluntarily by some respondents).

Though businesses spoke about projects being placed on hold, tenders being delayed and customers becoming increasingly cautious, their language was not describing a collapse but rather hesitation. One noted "a general lethargy brought about by (the) nervousness of clients to commit", another bemoaned a "dampening" of activity as a result of the Iran war.

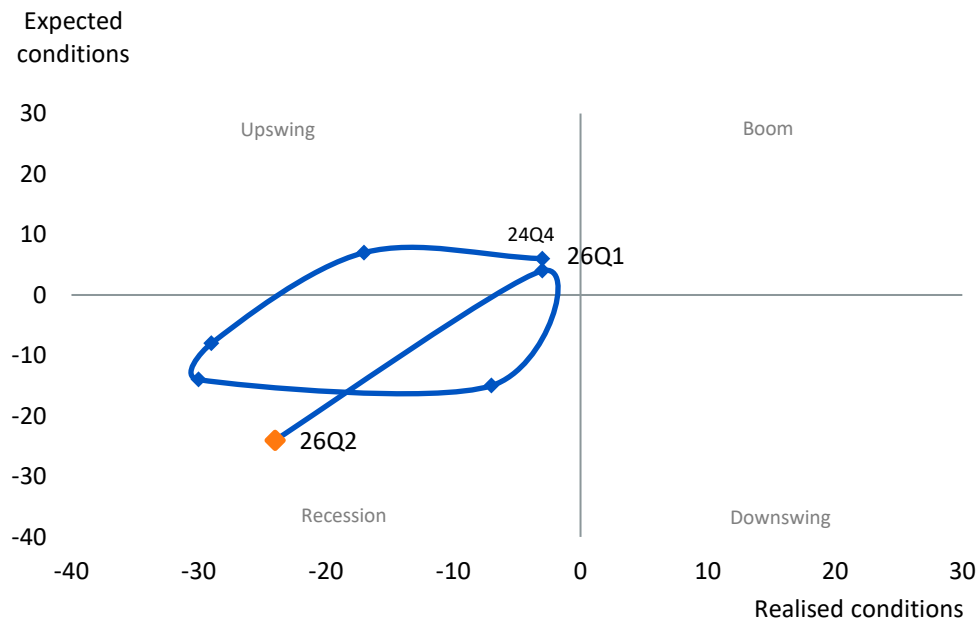
The distinction matters. Recoveries rarely end because firms suddenly stop operating. More often, momentum fades because businesses delay investment, postpone expansion plans and wait for greater certainty before committing capital.

Economists spend a great deal of time analysing current conditions: growth, inflation, employment and spending. Yet recoveries are fundamentally forward-looking. Businesses invest before demand arrives. Consumers buy houses before the economy peaks. Companies expand capacity because they expect tomorrow's opportunities to be greater than today's.

In short, growth starts when people believe conditions will improve.

This is why the business cycle clock remains such a useful framework (see graph). It combines businesses' assessment of current conditions with their expectations about the future. In the second quarter, both deteriorated sharply, pushing the economy back into the recessionary quadrant of the clock.

Figure 1: Business cycle clock



Source: BER

That sounds alarming, but when considered alongside the survey comments it does not necessarily mean South Africa is heading into recession. Rather, it suggests that the recovery has abruptly lost momentum.

This should not come as a total surprise. Granted, South Africa entered 2026 in a stronger position than in many years: business confidence had reached its highest level since 2015, consumer confidence was improving, and inflation expectations had fallen to record lows. The Government of National Unity also appeared stable and structural reforms were beginning to show tangible progress.

But an economy growing at around 1% a year has little room for error. A spike in oil prices, a bout of global uncertainty or a delay in investment decisions can be enough to really sour the mood.

This raises an uncomfortable question: was our domestic recovery weaker than we thought, or was the oil shock bigger than we realised?

It probably was a bit of both.

But the survey also contains a more encouraging message.

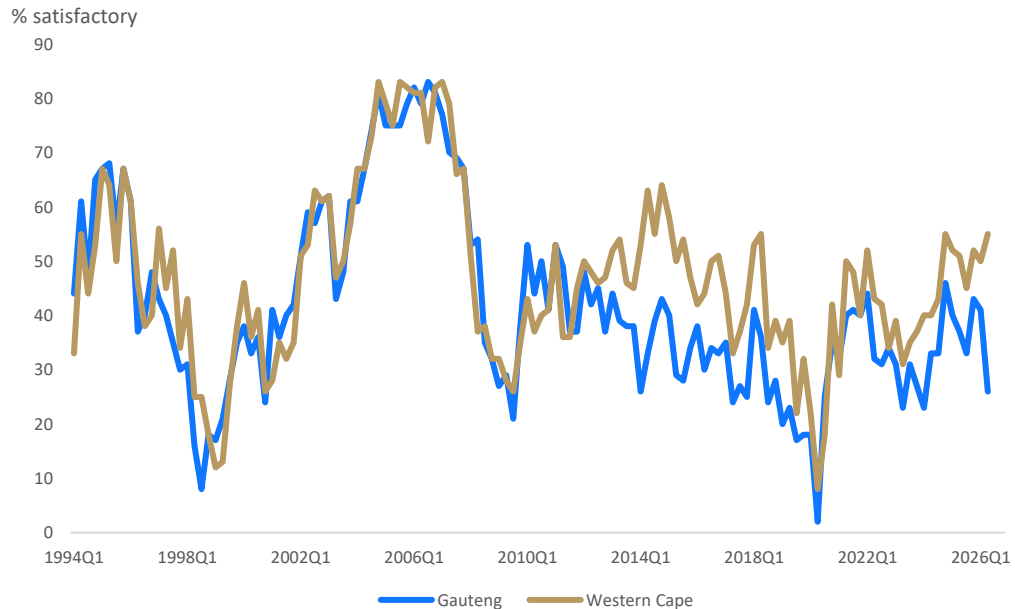
While the latest deterioration in sentiment was triggered largely by events beyond South Africa's control, many businesses continue to identify local factors as equally important. Concerns about municipal performance, infrastructure reliability and service delivery feature prominently in the survey responses.

Johannesburg, the country's economic heartland, remains a recurring source of frustration for many firms. That matters because what happens in Gauteng increasingly shapes the national growth story.

It may seem counterintuitive to find encouragement in this litany of woe. Yet the fact that firms continue to cite *local* constraints means that we still have an opportunity to influence the factors that shape business expectations: the reliability of infrastructure, the effectiveness of local government, policy certainty and the pace of reform.

The wide gap in business confidence between Gauteng and the Western Cape in the second quarter illustrates this point (see graph).

Figure 2: The widening provincial gap
Business confidence by province (1994Q1-2026Q2)



Source: BER

Businesses increasingly operate under the same national economic conditions while experiencing very different local realities. This suggests that confidence is not driven solely by global shocks, it is also shaped by the quality of governance much closer to home.

The lesson from the latest surveys is, therefore, not simply that global uncertainty is weighing on the economy, it is that South Africa still has considerable influence over how resilient the economy becomes.

The business cycle clock suggests the recovery has stumbled. Whether it regains its footing will, of course, depend on events in the Middle East, but also on whether businesses remain convinced that South Africa is moving in the right direction.

After all, economic expansions do not begin when conditions are perfect; they begin when enough people believe the future will be better than the present. Right now, many businesses appear to be waiting for a reason to believe again.

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