Business confidence remains sound

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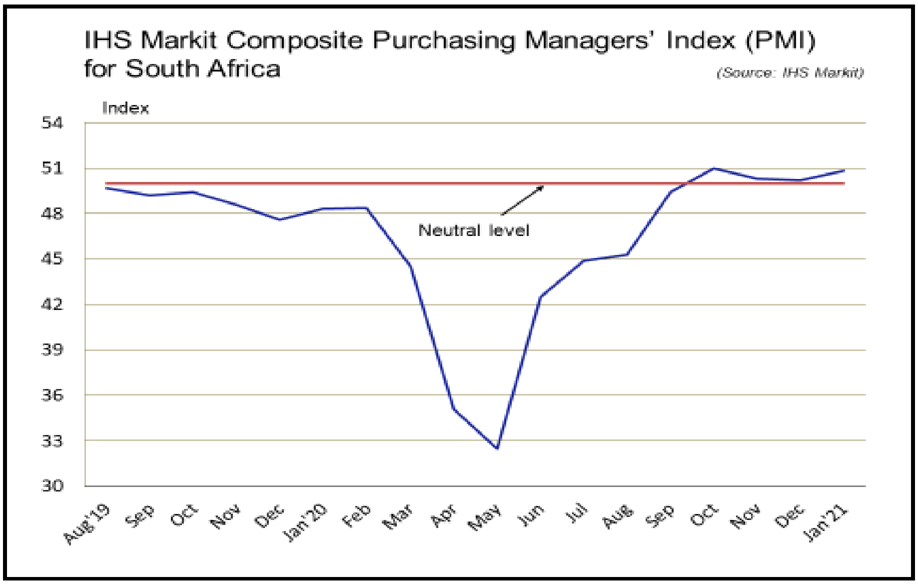
It is rather disingenuous to suggest that South Africa is experiencing a crisis of confidence when the most authoritative and up-to-date indices of business confidence are telling a completely different story.

Unfortunately, a false impression has been created on the state of business confidence in South Africa in an article published in *Business Maverick* on Monday, 15 February. Its author, Ed Stoddard, used the average of the monthly Business Confidence Index (BCI) readings of the South African Chamber of Commerce and Industry (SACCI) as a barometer for gauging the current sentiments of businesses in the country, which is very misleading.

No country in the world would have escaped a record low reading for comparable indices, due, of course, to the disastrous second quarter of 2020, when the authoritative IHS Purchasing Managers' Indices (PMIs) around the globe dropped to their lowest ever levels.

Despite a remarkably swift recovery to above the neutral 50-mark for virtually all of South Africa's major trading partners (Japan being one exception), grade 8 maths is sufficient to predict that this was never going to undo the damage between April and June (in terms of an average for 2020, the worst year for the global economy in modern history).



The IHS Markit PMI, which includes the manufacturing and services sectors, represents the global benchmark index of business confidence in the post-industrial economies and emerging markets alike.

For South Africa, this index increased to 50.8 in January from 50.2 in December 2020, pointing to a continuation of growth in private sector activity, with output reaching its sharpest pace of growth in over four years. The index has been above the neutral 50-mark level (which signals the border between economic expansion and economic contraction) for four successive months and is based on quantifiable evidence from purchasing managers, including sales orders.

In May 2020, the IHS Markit PMI recorded the sharpest contraction in the private sector on record, due to lockdowns and business closures in the wake of the coronavirus pandemic. That, however, is history and the PMI has since followed the same V-shaped recovery as most key economic indicators, including retail sales.

Reasons for the resurgence of the IHS Markit PMI include a strengthening of business confidence, amid hopes of an easing in Covid-19 restrictions over the course of 2021, as well as the planned introduction of new services and products.

Another benchmark index of business confidence that confirms a positive mood amongst business leaders is the Absa Purchasing Managers' Index (PMI) for the manufacturing sector, compiled by the Bureau for Economic Research (BER) at Stellenbosch University. This index recently increased to 60 index points, its highest level in 20 years.

Recovery of manufacturing sales

This positive sentiment has been reflected in the latest manufacturing sales data, with the fourth quarter figure of R631-billion representing year-on-year growth of almost 2% and an increase of 58% over the second quarter of 2020 (at current prices).

A third index that points to a resurgence of economic activity in 2021 is the Afrimat Construction Index (ACI), which staged a remarkable improvement in the 3rd quarter with an astounding jump of 69.1% from the 2nd quarter. The ACI includes indicators such as retail sales of hardware & paint, wholesale sales of building materials and the value of building plans passed by municipalities.

A fourth index that seems to be ignored by the followers of a cynical agenda is the Agbiz/IDC Agribusiness Confidence Index, which continued to improve in the fourth quarter of 2020 to a level of 61. This is its highest level in six years and implies significantly improved confidence in the agricultural sector over business conditions in the country.

The disruption caused by the coronavirus pandemic brings a well-known adage to the fore, namely not to compare apples to pears or, in this case, the immediate aftermath of an economic disaster (albeit temporary) with that which went before, but rather to what is likely to transpire in the future.

During the first 10 quarters of Pres Cyril Ramaphosa's presidency, foreign direct investment into South Africa amounted to more than R185-billion, an increase of 172% over the last three years of the Zupta administration (quarterly averages).

As the threat of the coronavirus slowly starts to dissipate, South Africa is headed for a revival of sustained economic growth, driven by low interest rates, global recovery, an upswing in the commodity price cycle and a president that is unequivocally committed to combating corruption and seeking closer cooperation with the private sector.

This statement is confirmed by indices of business confidence that are worth watching.