

Nelson Mandela Bay Business Confidence Indicator Year-to-Date August 2011

The Nelson Mandela Bay Business Confidence Indicator, NMB BCI, has been specifically developed to offer a service to investors, potential investors and businesses wishing to understand developments in economic circumstances in the region or to analyze the environment impacting upon existing undertakings or upon the establishment of new undertakings.

The NMB BCI was modelled upon the original SACCI BCI, (which was substantially restructured during February 2001), and as such is not a 'confidence indicator' in the sense of asking business people how confident they feel about current or future circumstances, it is rather a composite of economic indicators that are accepted as reflecting the environment that businesses are actually experiencing and thus have the greatest bearing on the business mood. As SACCI says;

"The BCI is a market-related index that reflects not what business decision-makers are saying, but what they are doing and experiencing. It is likely that in any one month, the business mood will be influenced both positively and negatively by developments in various sectors of the economy, and the BCI seeks to reflect the net result of these influences."

The NMB BCI is a composite index tracking the performance of fifteen key economic indicators chosen from those available that are believed to best reflect the business mood in the PE / Uitenhage area.

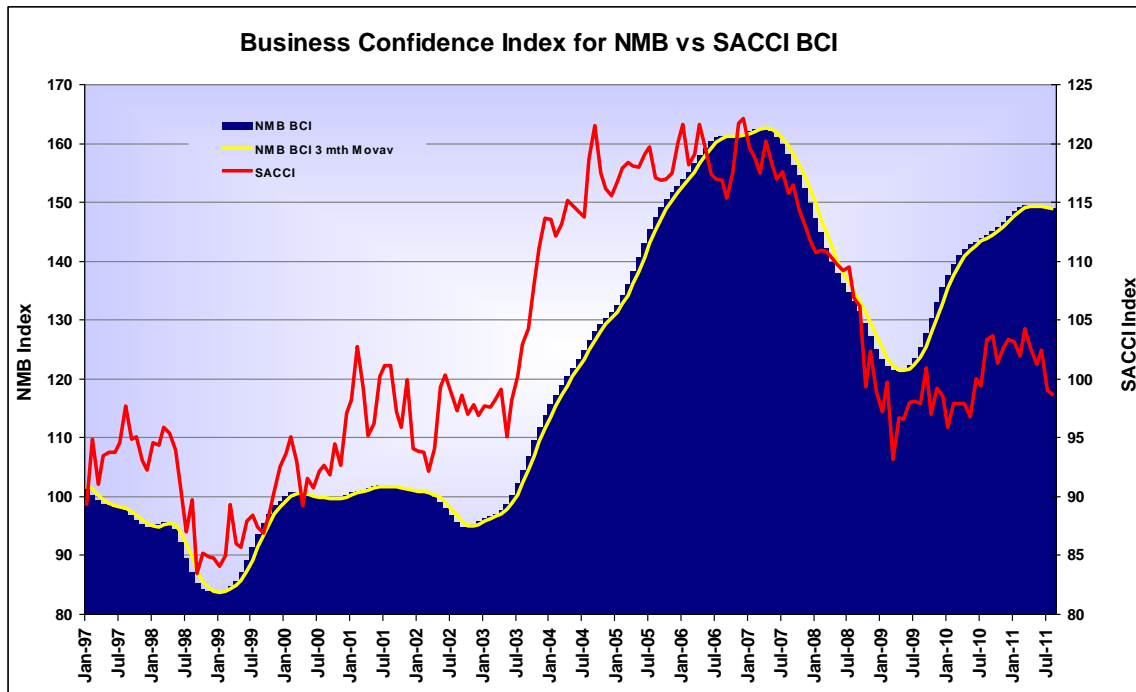
The following indicators have been chosen for inclusion in the NMB BCI:

1. *The rate of inflation, as measured by the Consumer Price Index for the PE / Uitenhage region;*
2. *The prime rate at month end;*
3. *The Rand/ US\$ exchange rate;*
4. *Retail sales in the Eastern Cape;*
5. *The average monthly gold price in dollar terms;*
6. *Merchandise imports in real terms;*
7. *Merchandise exports in real terms;*
8. *The total number of new passenger cars sold in the PE / Uitenhage region;*
9. *The value of building plans passed in the PE / Uitenhage region in constant prices;*
10. *The value of buildings completed in the PE / Uitenhage region in constant price terms;*
11. *The performance of the Johannesburg Stock Exchange, as indicated by the JSE All Share index.*
12. *The RMB BER Consumer Confidence Index for the PE / Uitenhage region from the Bureau for Economic Research of Stellenbosch University.*
13. *The total new vehicle market in South Africa*
14. *Number of passengers arriving at the PE airport*
15. *Real value of seasonally adjusted manufacturing sales in South Africa*

These indicators are all in constant price terms where applicable and are seasonally adjusted and trended using the X12 seasonal adjustment programme. The trend cycles

are aligned, synchronized and weighted to reflect the relative impact of each of the indicators on business activity in the region. The NMB BCI consists of both key regional statistics as well as national statistics that have a countrywide bearing on the business mood and as such have to be incorporated in a composite cycle that seeks to reflect the local business mood within a national context.

Dr Neal Bruton of **RGT Smart Ltd.**, has compiled the NMB BCI on behalf of NMBBC.



As expected the trend in the NMB BCI continued declining slowly through August coming under pressure from a range of weaker indicators while receiving some minimal support from the new car market in the Metro, the total national new vehicle market, and real retail sales in the Eastern Cape.

While the dramatic volatility on global equity and currency markets in September, coming as a result of a sharp deterioration in both the performance and outlook for the economies of the US and EU, compounded by the possibility and resultant far reaching impact of fears of sovereign debt default in the Eurozone, are not yet reflected in the performance of the NMB BCI, the index is beginning to capture the slowing current trend in the rate of growth in the South African economy. The slowing pace of economic activity in the country is reflected in the sharp decline in the rate of GDP growth during the second quarter of 2011 which saw the GDP growth rate fall from 4.5 percent in the first quarter to 1.3 percent in the second.

Under pressure from exchange rate strength, slowing growth in the economies of major export destination countries and the impact of strike action towards the end of the second quarter, manufacturing declined by seven percent in the second quarter on a seasonally adjusted and annualised basis. The weak performance of manufacturing during the second quarter continued into July with the month down 6 percent on July

2010 and given the ongoing poor performance of the Kagiso PMI, which continued below 50 at the beginning of August, the outlook for manufacturing remains challenging. In this regard the Bureau of Economic Research noted that; “From a GDP growth perspective, the most concerning part of the latest PMI numbers is the sharp deterioration in near-term demand, as well as the downbeat expectations for future business conditions.”

The rate of growth in real retail sales has also slowed as disposable income of households has come under pressure from rising inflation, administered price increases and the impact on household budgets of food and fuel price increases. The annual rate of change in real retail sales did, however, improve marginally in July 2011 registering a growth rate of 2.8 percent over July 2010.

With the annual rate of growth in the ratio of private sector fixed capital formation to GDP still in decline, a situation that has persisted since the second quarter of 2009, with business and consumer confidence having declined sharply in the second quarter and with the growing likelihood of negative fallout for the South African economy from global developments, the possibility of an interest rate cut in coming months cannot be ruled out, a development that will certainly assist the demand side of the economy into 2012.

With regard to the details of the NMB BCI, the trend cycles in five of the sub-indices reflected improvement, nine reflected deterioration, and one moved sideways.

The indicators that supported the NMB BCI through August included the trend cycle in the price of gold which continues to assist the index. The underlying trend cycle in the new car market in the Metro is also growing slowly as is the trend cycle in the value of real retail sales in the Eastern Cape. The trend cycle in the real value of new buildings completed in the Metro, is also reflecting some tenuous improvement but with the actual values at a very low level and the trend cycle in the total national new vehicle market is reflecting marginal growth having been supported by higher than expected sales in August.

On the downside, the trend in the rand US dollar exchange rate weakened marginally through August, as did the trend cycle of the JSE all share index, a negative development that will again accelerate through September. The trend cycles in the real value of both exports and imports also continued in decline through August. The trend in the level of consumer confidence in the Eastern Cape is declining and trend in the local rate of inflation is accelerating weighing on the index. The underlying trend in the real value of building plans passed in the Metro is declining and the trend in passengers arriving at the PE airport continued declining through the month. The trend in the real value of manufacturing sales is now also declining at an accelerating pace.

The trend cycle in the prime interest rate moved sideways through August having no meaningful effect on the overall index.

Dr N.S.Bruton
26 September 2011