Nelson Mandela Bay Business Confidence Indicator
Year-to-Date June 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.

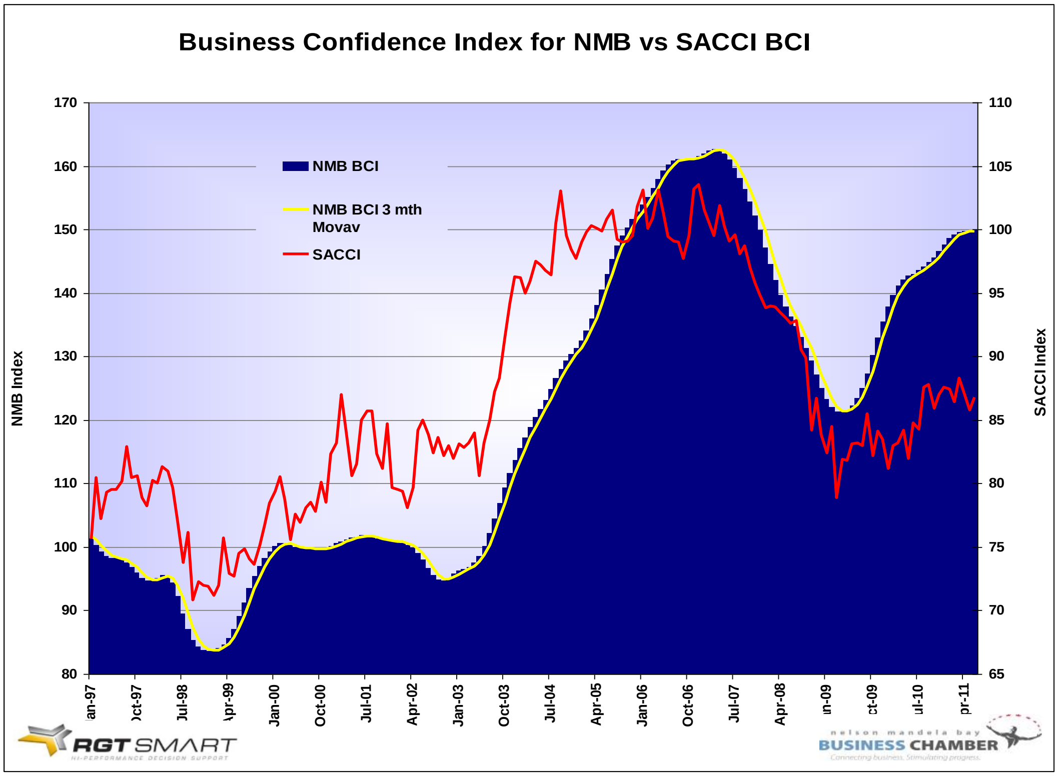
The following indicators have been chosen for inclusion in the NMB BCI:

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.
NMB PEBCI 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 Nelson Mandela Bay Business Chamber.



Over the past five months the NMB BCI has largely moved sideways reflecting little growth momentum. The development in the BCI is in line with more subdued levels of economic activity during the second quarter of 2011 which appears to have continued into the beginning of the third quarter of the year.

After unexpectedly high GDP growth of 4.8 percent during the first quarter of 2011 the pace of economic activity appears to have slowed during the second quarter. Annual growth in real retail sales after posting robust growth of 10 percent during April fell to zero in May and manufacturing production after growing at a low annual rate of 0.2 percent in April only recorded annual growth of 0.6 percent in May. Furthermore, the Kagiso PMI declined for the third consecutive month in June and the RNB/BER business confidence index for the second quarter fell back quite sharply to 47, below the break-even 50 level. Money supply growth and overall credit extension continue at low levels from an historical perspective and the annual change in credit extension to the private sector is also reflecting only hesitant recovery and is expected to remain in single digits for the remainder of 2011. With household consumption spending providing the driving force behind current economic performance the outlook for the economy in coming months is therefore, probably relatively fragile given low levels of credit extension, a sustained high level of household debt and growing pressure on the free disposable income of households. Lack luster performance of the JSE and stagnant house price growth will furthermore keep pressure on the household wealth to income ratio and on consumer sentiment in general.

Slowing global economic growth, ongoing major economic challenges, particularly in the USA and Eurozone, and the development of widespread strike action during July are further reasons to expect a slower pace of economic activity in coming months and provide little motivation for accelerated growth in fixed investment which in the first quarter grew by a low 3.1 percent on an annual basis.

Furthermore, with inflation likely to challenge the six percent upper limit of the target range by year end the possibility of an interest rate increase before the end of 2011 cannot be discounted, however, a slowing pace of economic activity during the second half of the year may well result in the Reserve bank holding off on interest rate increases until 2012.

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

The indicators that supported the NMB BCI through June included the trend cycle in the real value of imports which once again reflected slow growth and the trend cycle in the price of gold which also assisted the index. The underlying trend cycle in the real seasonally adjusted value of manufacturing continues reflecting slow growth as do the trend cycles in the real value of new building plans passed and in new buildings completed, with both of the latter reflecting very marginal improvement from a very low base. In June the index was also assisted by a slight fall in the local rate of inflation and by a return to trend cycle growth of the new car market in the Metro.

On the downside, the trend in the rand US dollar exchange rate weakened marginally, as did the trend cycle of the JSE all share index. The trend cycle in the real value of exports also moved into decline through June and the trend in total new vehicle sales in the country has also begun weakening. Of concern is the deterioration in the level of consumer confidence in the Eastern Cape which dropped from 14 in the first quarter to 13 in second as measured by the BER, primarily as the result of a big drop in how respondents in the Eastern Cape expect the general economic position in SA to develop over the next 12 months, the rating of which fell from 21 in the first quarter of 2011 to 11 in second. The underlying trend in the real value of retail sales in the Eastern Cape moved into slow decline in June and the trend in passengers arriving at the PE airport declined quite sharply through the month.

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

Dr N.S.Bruton
26 July 2011