

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

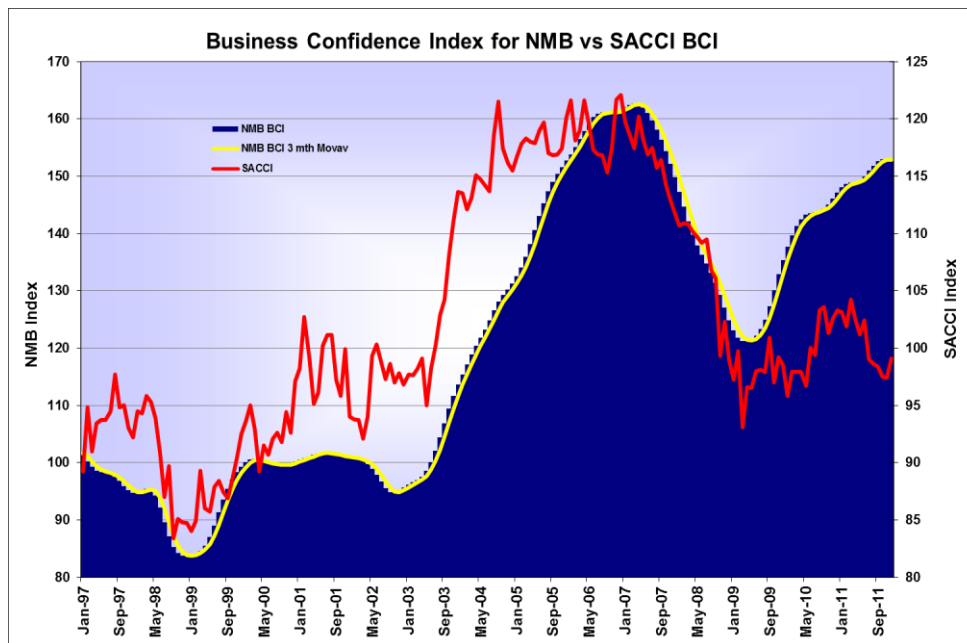
The following indicators have been chosen for inclusion in the NMB BCI:

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.



The NMBBCI reflected only marginal improvement during 2011 with the index in December 2011 only some 3 percent up on the January 2011 level. Furthermore during the closing four month period of the year between September and December 2011, the index reflected uncertain performance and largely moved sideways during this period.

The slower pace of economic growth in the South African economy for the second and third quarters of 2011 appears to have carried over into the fourth quarter of the year and into early 2012. Expectations for economic growth in 2012 have been adjusted downwards to around 2.8 percent from what will probably end up as 3.1 percent for 2011. With an abundance of external challenges facing the country, low and volatile business confidence and little growth in fixed investment, the demand side of the economy will in all probability be the engine for economic growth in 2012. In this regard monetary policy is highly supportive at present with the repo rate at 5.5 percent now effectively negative in real terms with inflation at 6.1 percent. The impact of low rates of interest on demand for credit has been muted with the rate of growth in credit extension to the private sector remaining in single digits and low by historical standards. However, the rate of growth in installment sales credit extension has begun to perform slightly more enthusiastically growing by 10.7 percent on an annual basis in December 2011. Expected levels of economic growth for 2012 should, furthermore, support growth in the disposable income of households at around eight to ten percent in nominal terms or

three to four percent in real terms, which will provide a sound platform of support for ongoing growth in consumer demand. Government consumption spending also remains relatively supportive and the exchange rate currently at less overvalued levels is more producer friendly which probably played a role in the performance of the Kagiso PMI in January which rebounded strongly to 53.2 from weak December levels. Most encouraging was the performance of the expected business conditions index which rose by 3.8 points to 65.1 reflecting optimistic expectations. Growth in real disposable income of households will, furthermore, have been complemented in early 2012 by the wealth effect of the strong performance of the stock exchange with the all-share index climbing to all time high levels in early February.

While still early in the year current circumstances and expectations seem to suggest slow growth in the NMBBCI during 2012, with growth rates probably remaining in single digits. However, some downside potential can also not be ruled out as a possibility for the year.

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

The indicators that supported the NMB BCI through December included the trend cycle in the price of gold which continued to assist the index and the trend cycle of the JSE all-share index which reflected recovery. The underlying trend cycle in the total new vehicle market in the country and the trend cycle in the value of real retail sales in the Eastern Cape also reflected improvement as did the trend cycle in the number of passengers arriving at the PE airport which has sustained an earlier improvement. The trend cycles in the real value of both exports and imports are also reflecting growth and encouragingly, while at low levels, the trend cycle in the real value of building plans passed in the Metro is also reflecting improvement. The trend in the real value of manufacturing sales also lent support to the index.

On the downside, the trend in the rand US dollar exchange rate continued weakening through December, and the trend in the level of consumer confidence in the Eastern Cape continues in decline despite a marginal improvement in the actual data in the fourth quarter. The trend in the local rate of inflation is accelerating, weighing on the index and the underlying trend in the real value of buildings completed in the Metro continues declining.

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

Dr N.S.Bruton
3 February 2012