

## **Nelson Mandela Bay Business Confidence Indicator Year-to-Date July 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.

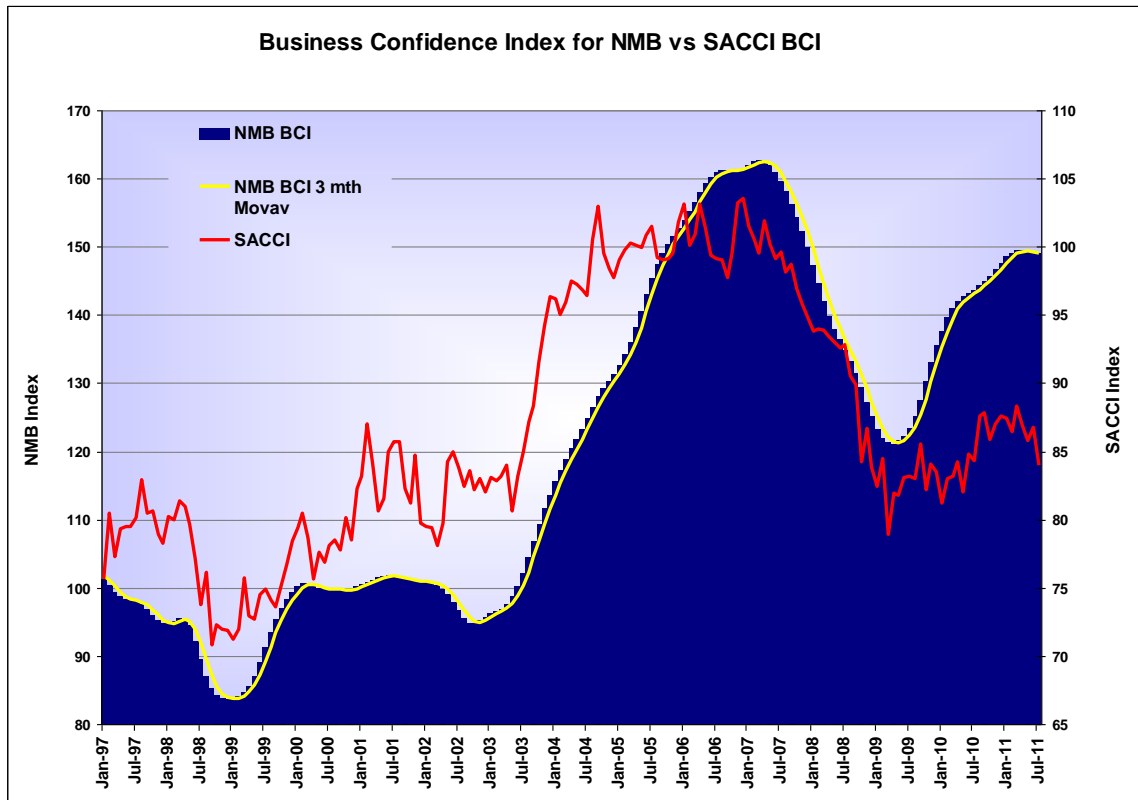
The following indicators have been chosen for inclusion in the NMB BCI:

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.



After a number of months of sideways movement the NMB BCI has begun declining slowly, under pressure from a declining pace of economic activity both in South Africa and in the major western economies.

In both the US and the EU growth rates have slowed sharply and financial markets have contracted substantially discounting the possibility of the emergence of renewed global financial crisis on the back of slower rates of economic growth and sovereign debt concerns in circumstances where the means of addressing such a development are far more limited than in 2008 and 2009.

In South Africa the second quarter of 2011 saw slower rates of economic activity with manufacturing production only marginally up on an annual basis and down by -2 percent when compared to the first quarter of 2011 on a seasonally adjusted basis. Similarly while in real terms, retail trade sales for the second quarter of 2011 reflected an increase of 4.1% compared with the second quarter of 2010, second quarter 2011 real retail sales grew only marginally by 0.1 percent from the first quarter on a seasonally adjusted basis.

Economic growth in the SA economy has been driven by household consumption spending since late 2009 averaging a rate of growth of 5 percent. However, the sustainability of this performance is under growing pressure as real free disposable income of households is increasingly impacted by slowly rising inflation, a range of administered price increases and the more specific impact of increasing food and fuel prices on household budgets. Growth in consumption spending will furthermore have been impacted and will be restrained in coming months by the slow pace of growth in employment, ongoing high debt levels, slow growth in bank credit extension and negative wealth effects emanating from a weak housing market and the recent sharp downward adjustment in JSE equity prices.

Looking ahead the pace of economic activity in coming months will be affected by both the probability of slowing household consumption spending and the fact that fixed investment by the private sector is reflecting very slow growth. These developments when taken together will probably result in slower levels of economic growth in the second half of 2011 and into 2012. Under these circumstances it has become unlikely that any increase in interest rates will occur in 2011 with some analysts even talking of a further reduction in interest rates.

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

The indicators that supported the NMB BCI through July 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.

On the downside, the trend in the rand US dollar exchange rate weakened marginally through July, as did the trend cycle of the JSE all share index, a negative development that will accelerate through August. The trend cycles in the real value of both exports and imports also moved into decline through July and the trend in total national new vehicle sales has also begun weakening. 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 slowly.

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

**Dr N.S.Bruton**  
**26 August 2011**