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**Dramatic drop in confidence in the Financial Sector.  
Is ‘South Africa Inc’ becoming economically unsustainable?**

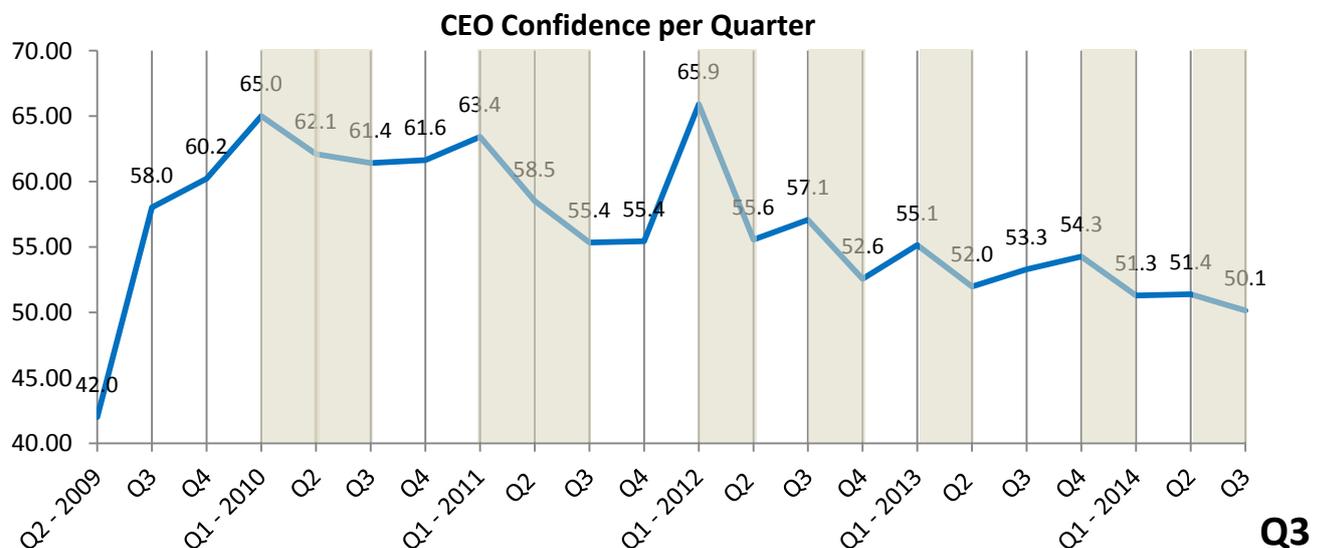
The [Merchantec CEO Confidence Index](#) recorded a marginal quarter-on-quarter decrease of 2.4% from 51.4 points in Q2 2014 to 50.1 points in Q3 2014. Confidence in the Financial sector dropped by a significant 17.2%, which is mainly attributed to the collapse of micro-lender, African Bank Investments Limited.

Although the South African Reserve Bank maintains that the country’s banking sector is healthy and robust, Moody downgraded the credit ratings of the four major banks and the Merchantec CEO Confidence Index reflects expectations of tougher industry conditions going forward. 63% of CEOs believe that ‘South Africa Inc’ is on its way to becoming economically unsustainable citing government inefficiencies, corruption, red tape, skill shortages and unions as the main reasons for the country’s economic stagnation.

Confidence in the Financial sector dropped from a score of 55.1 points in Q2 2014 to 45.6 points in Q3 2014. Confidence in the Consumer Services sector also recorded a decrease, dropping by 10.8% from 55.4 points in Q2 2014 to 49.4 points in Q3 2014. The Index further reported a decrease in confidence in the Industrials and Technology sectors of 4.9% and 2.3% respectively. These decreases were partially offset by an 18.6% increase in overall confidence in the Basic Materials sector to 53.88 points and a 6.7% increase in the Consumer Goods sector to 52.3 points.

CEOs across all the sectors indicated their decrease in confidence relating to current economic conditions in South Africa, with a 7.8% decrease from 41.6 points in Q2 2014 to 38.3 in Q3 2014. CEO’s confidence in their ability to secure debt or equity capital for their companies also decreased from 50.1 points to 48.01, representing a 4.2% drop. Confidence of CEOs relating to their own company prospects and industry growth expectations also recorded a decrease of 3.6% and 0.8% respectively.

**Merchantec CEO Confidence Index**



**Financials** recorded the largest decrease in confidence, dropping by a significant 17.2% from 55.1 to 45.6 points, driven by a 20.6% decrease in confidence relating to their company growth expectations, a 17.6% decrease in confidence relating to current economic conditions and a 16.9% decrease in confidence relating to their planned level of investment in company business activities.

**Consumer Services** recorded the second largest decrease in confidence, dropping 10.8% from a positive score of 55.4 to below the neutral score line to 49.4 points in Q3 2014. The decrease in sentiment was primarily driven by an 18.9% decrease in confidence relating to economic conditions, a 15.3% decrease in confidence relating to their company growth expectations and an 11.7% decrease in confidence relating to their ability to secure debt/equity capital.

**Basic Materials** recorded the greatest increase in confidence for the third quarter of 2014, rising by a significant 18.6% from 45.4 to 53.9 points. The rise in sentiment was primarily driven by a 51.6% increase in confidence relating to their planned level of investment in company business activities as well as a 17.1% increase in confidence relating to their industry growth expectations and a 13.6% increase in confidence relating to their company growth expectations.

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For a copy of the second quarter 2014 Merchantec CEO Confidence Index Report or for previous quarterly reports, please email Niki Rayner at [niki@merchantec.co.za](mailto:niki@merchantec.co.za) or visit [Merchantec CEO Confidence Index](#) for past results.

#### **More about the Merchantec CEO Confidence Index**

The Merchantec CEO Confidence Index, which consists of five components, collates views from CEOs of top South African companies and therefore provides a leading indicator into how business leaders perceive local market conditions and the economy going forward.

The Merchantec CEO Confidence Index is a copyright report prepared quarterly by Merchantec Capital. The survey collates responses from over 1 000 top CEOs, primarily from the listed environment.

#### **About Merchantec Capital**

Merchantec Capital is one of the largest independent Equity & Debt Sponsor, Research and Corporate Finance Advisory companies in South Africa, with offices in Johannesburg, Cape Town and Windhoek, Namibia.

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