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Load Shedding a Major Concern for South African CEOs; Confidence Decreases by 2.7%

The [Merchantec CEO Confidence Index](#) recorded a marginal quarter-on-quarter decrease of 2.7% from 52.1 points in Q4 2014 to 50.7 points in Q1 2015. CEO confidence, across all sectors, in the current economic conditions dropped by a significant 9.5%, with the largest decrease was demonstrated by CEOs in the Consumer Services sector with a 19.2% decrease in confidence relating to current economic conditions.

The CEO Confidence Index recorded that 76.2% of South Africa CEOs felt that load shedding will have a greater negative impact on their business activities than the positive impact of the drop in oil price. During the first quarter of 2015, the oil price dropped to a record low in South Africa, which in turn had a positive effect on many company’s operating costs. CEO’s from the transport and logistics sectors expected the drop in the oil price to have a greater effect on their bottom lines. While CEOs in the Basic Resources, Industrials and Information Communication and Technology sectors were extremely concerned about the effects of load shedding.

89% of CEOs in the Basic Resources sector expected load shedding to have a significant negative impact on their bottom lines. Load shedding causes a loss of productivity, increase in opportunity costs, loss of efficiencies and an increase in operating costs. A few CEOs from the Information Communication and Technology sector highlighted that a large proportion of their revenue is generated through billing time and with load shedding causing inconvenience, such as traffic congestion, the companies are losing time which they can never regain or try to ‘sell’ at a later stage.

CEO’s suggested that the provision of energy should be opened up to the private sector and believe that this will provide job opportunities, competitive prices and sustainable energy provision in the medium to long term.

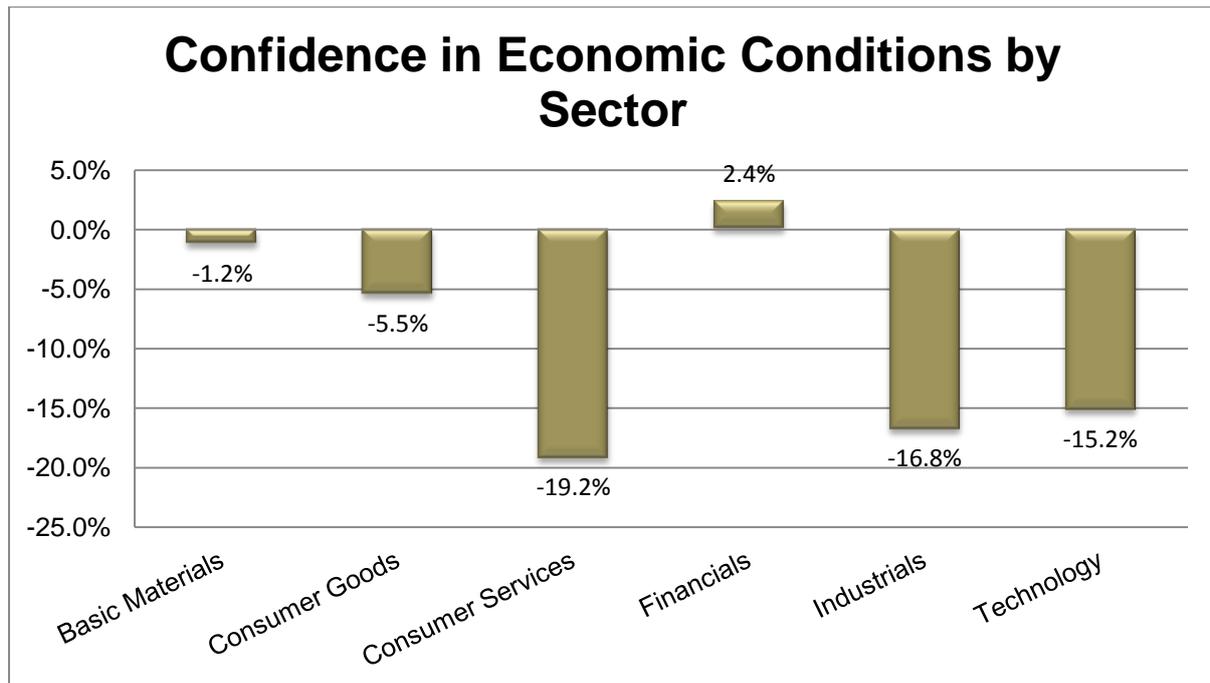
CEOs furthermore cited the government as a problem, stating that Foreign Direct Investment has slowed drastically due to the negative perceptions international investors have regarding the business environment in South Africa. This point was mentioned multiple times from CEOs in the Basic Resources sector, stating that government’s inability to establish a positive market perception will have the greatest negative consequences on companies in the sector.

Corruption in the public sector remains a major concern of CEOs and many highlighted the need for the government to facilitate small enterprise funding and empower entrepreneurs.

Merchantec CEO Confidence Index



CEOs across all the sectors, with the exception of the financial sector, indicated a decrease in confidence relating to current economic conditions in South Africa, compared to six months ago, with an overall 9.5% decrease from 44.5 points in Q4 2014 to 40.2 in Q1 2015. The decrease in confidence relating to current economic conditions was driven mainly by a decrease in CEO confidence in the Consumer Services, Industrials and Technology sectors, dropping by 19.2%, 16.8% and 15.2% respectively. CEOs in the financial sector, however, indicated a 2.4% increase in confidence relating to current economic conditions, rising from a score of 43.4 point in Q4 2014 to 44.4 points in Q1 2015, remaining below the neutral score line of 50 points.



Basic Materials recorded the largest increase in confidence, rising by 10.5% from 49.3 to 54.4 points, driven by an 18.5% increase in confidence relating to their planned level of investment in company business activities, a 15.3% increase in confidence relating their company growth expectations and a 9.0% increase in their industry growth expectation.

Consumer Services recorded the largest decrease in confidence, dropping 10.0% from a positive score of 53.2 in Q4 2014 to below the neutral score line (50 points) to 47.9 points in Q1 2015. The decrease in sentiment was primarily driven by a 19.2% decrease in confidence relating to economic conditions, a 14.3% decrease in confidence relating to their industry growth expectation and an 11.8% decrease in their planned level of investment in company business activities.

Consumer Goods recorded the second greatest decrease in confidence for the first quarter of 2015, dropping by 8.9% from 52.2 to 47.5 points. The drop in sentiment was primarily driven by a 17.3% decrease in confidence relating to their industry growth expectation, a 10.4% decrease in confidence relating to their company growth expectations and an 8.0% decrease in their ability to secure debt or equity capital for their companies.

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For a copy of the first quarter 2015 Merchantec CEO Confidence Index Report or for previous quarterly reports, please email Niki Rayner at 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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