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CEO confidence plummets 11.7% due to load shedding

The [Merchantec CEO Confidence Index](#) recorded a significant decrease of 11.7% from a positive score of 51.4 points in Q1 2015 to 45.4 points in Q2 2015, a score below the neutral score line of 50 points. The ongoing power crisis is a major contributor to the fairly grim outlook of CEOs in South Africa demonstrated by a drop in confidence in the Basic Resources, Industrials, Financial, Consumer Good and Technology sectors.

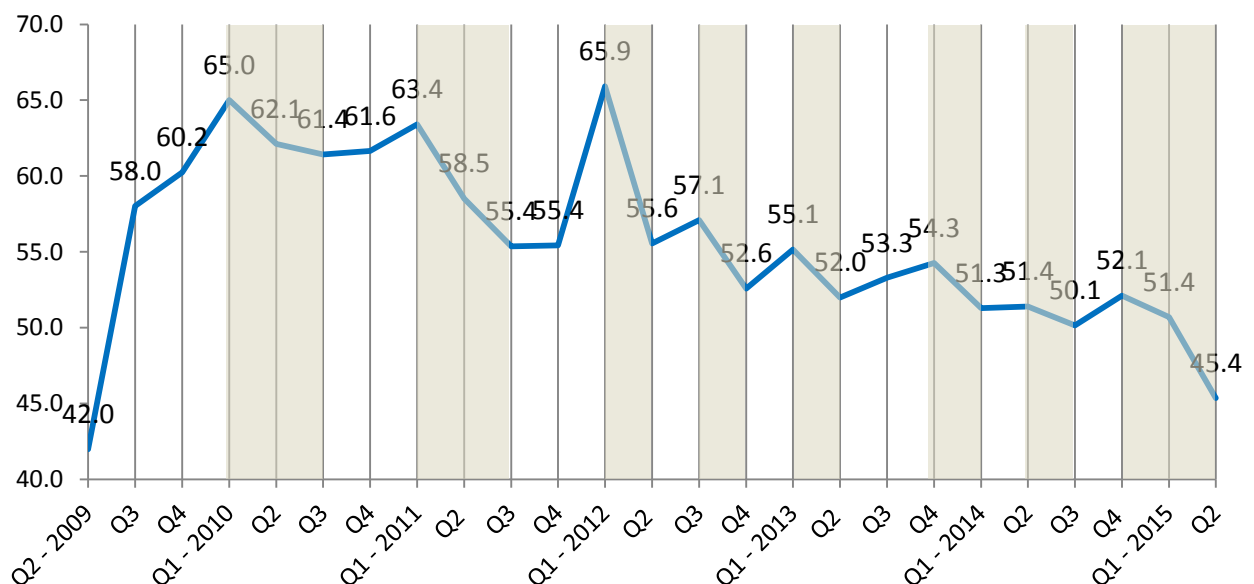
CEO confidence relating to the current economic conditions, compared to six months ago, dropped by a significant 20.8% from an already negative score of 40.7 points to 32.3 points, with the largest decrease demonstrated by CEOs in the Basic Resources sector.

82% of CEOs in South Africa believe load shedding will continue for at least another two years. 63% of CEOs have already made an investment to mitigate the effects of load shedding with the majority having acquired generators or alternative energy sources such as solar and gas. Most of the first movers who invested in backup power sources in 2008 can support their full operations when load shedding occurs, as they have been able to monitor and keep up with their ever changing power needs over the years. However, first movers are now facing another significant investment as their back up power systems are beginning to deteriorate and require upgrading.

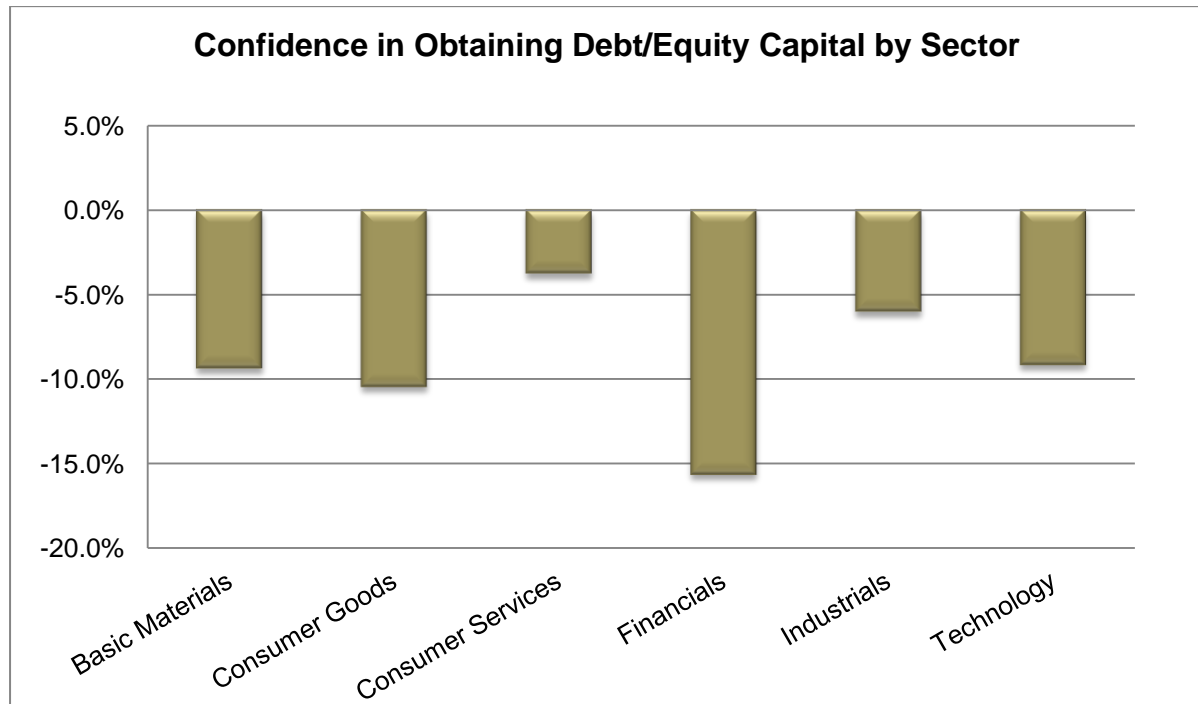
Numerous other companies have invested enough to keep core admin processes up and running during load shedding but report to be suffering various negative effects. The power crisis is imposing huge costs on companies in South Africa in the form of productivity losses, cost of idle time as well as the cost of restart time, with CEOs mentioning that employees “switch off mentally” when load shedding occurs, further decreasing productivity even when power returns. Costs include the initial investment in alternative power sources as well as maintenance and running costs.

Many CEOs believe the general public are not getting the full story behind the national power crisis and the true state of the power stations and their level of deterioration. The lack of information, transparency and government planning, together with the irregularity of power outages has made it increasingly difficult for CEOs to plan for the long term. Many CEOs are reviewing their company’s plans as regularly as every quarter. The 37% of CEOs who have not yet invested into mitigating the effects of load shedding, cannot afford to do so, or are discouraged from investing further in the country, given the current state of affairs.

Merchantec CEO Confidence Index



With the ongoing power crisis and no solution in the foreseeable future, CEOs are losing confidence in their ability to secure debt or equity capital; confidence has dropped from 49.7 points in Q1 2015 to 45.1 points in Q2 2015, with the Basic Materials sector dropping 9.4%, the Consumer Goods sector dropping 10.5%, the Consumer Services sector dropping 3.8%, the Financials sector dropping 15.6%, the Industrials sector dropping 6.0% and the Technology sector dropping 9.2%. CEOs understand that investors are becoming increasingly cautious when considering South Africa as an investment opportunity.



Basic Materials recorded the largest decrease in confidence, dropping by 27.7% from a positive score of 54.4 in Q1 2015 to well below the neutral score line (50 points) to 39.4 points for Q2 2015. The decrease in confidence was driven by a 40.0% decrease in confidence relating to economic conditions, a 40.4% decrease in confidence relating to their industry growth expectations and a 27.3% decrease in their company growth expectations.

Industrials recorded a decrease in confidence, dropping 13.3% from a positive score of 47.6 in Q1 2015 to 41.3 points in Q2 2015. The decrease in sentiment was primarily driven by a 26.7% decrease in confidence relating to economic conditions, a 17.0% decrease in confidence relating to their planned level of investment in company business activities and an 11.7% decrease in confidence relating to their industry growth expectations.

Consumer Services recorded the only increase in confidence for Q2 2015, rising 1.6% from 47.9 to 48.7 points, remaining below the neutral score line. The rise in sentiment was primarily driven by a 11.3% increase in confidence relating to their industry growth expectations, a 3.6% increase in confidence relating to their company growth expectations and an 1.6% increase in their confidence relating to economic conditions.

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For a copy of the second 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.

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