BER
BUREAU FOR ECONOMIC RESEARCH

Economic Snapshot

October 2019

Contents:

Note: Shaded area in graphs denotes the downward phase of the business cycle.

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Highlights

MPC remains cautious

Despite the benign inflation environment, on 19 September the Monetary Policy Committee (MPC) of the SA Reserve Bank (SARB) kept the repo policy interest rate unchanged at 6.50% (prime rate at 10.00%). The vote was unanimous. The strong agreement among MPC members was somewhat at odds with a downscaling in the Bank's real GDP growth forecast, a largely unchanged domestic inflation outlook, a further slight moderation in BER inflation expectations and the flagging of downside risks to global growth.

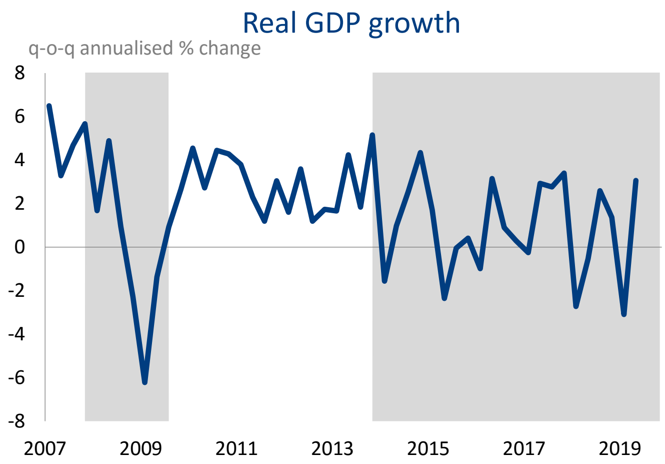
Business confidence drops to a 20-year low

The RMB/BER Business Confidence Index (BCI) dropped to 21 index points in the third quarter from 28 in the second quarter. Not even during the height of the global financial crisis in 2009 have executives been this downbeat. In fact, the last time the BCI was at similar levels was in the 1998-1999 Emerging Market debt crisis. It would appear that more business people are simply giving up hope - a concerning development, and one that spells even greater trouble ahead for an already weak economy. Confidence collapsed in four of the five sectors making up the BCI. This was on the back of lower activity and, importantly, a downscaling of expectations for future operating conditions.

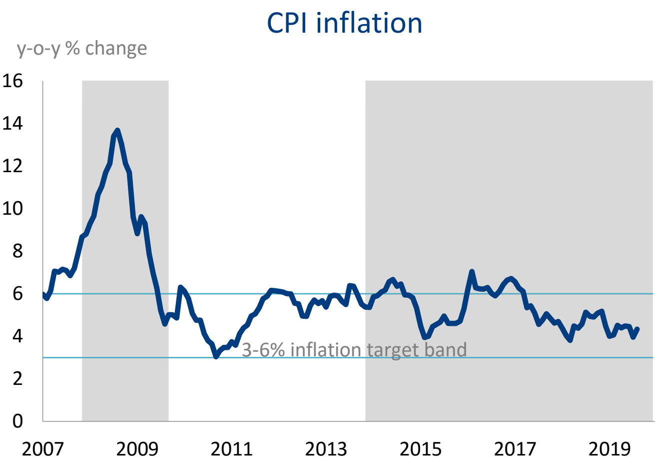
Manufacturing and mining output send mixed signals

Manufacturing production declined by 1.1% y-o-y, following a hefty 3.6% drop in June. On a monthly, seasonally adjusted (sa) basis, manufacturing output rose by 0.4% in July. Of the ten subdivisions, seven contracted on an annual basis. The largest contraction came from 'petroleum, chemical products, rubber and plastic products', due mostly to a 20.2% y-o-y drop in the 'coke, petroleum products and nuclear fuel' subcategory. In contrast, **mining** production rose 2.4% y-o-y in July, the first positive reading since October last year. The greatest positive contributions to July's improvement came from iron ore (up 23.7%) and coal (up 8.6%). However, on a monthly basis, production declined by 3.8% following a downwardly revised 3% m-o-m increase the previous month. Gold production continued its steady decline, with a 13.1% y-o-y drop in July.

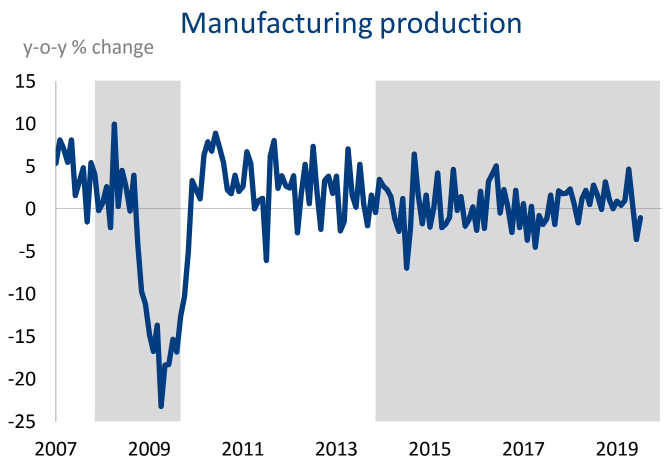
Core indicators



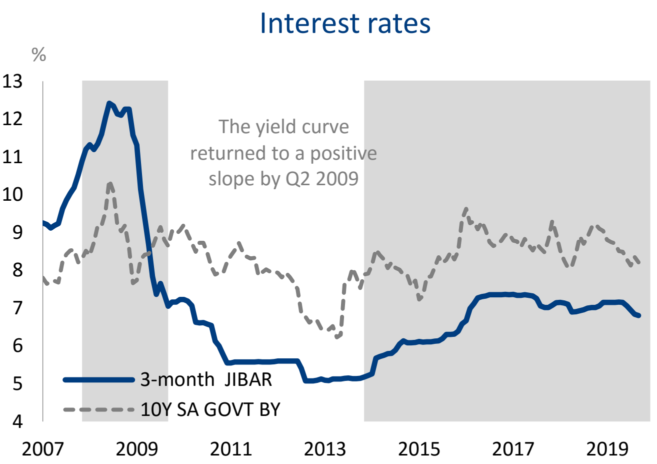
Source: Stats SA



Source: Stats SA



Source: Stats SA



Source: Thomson Reuters

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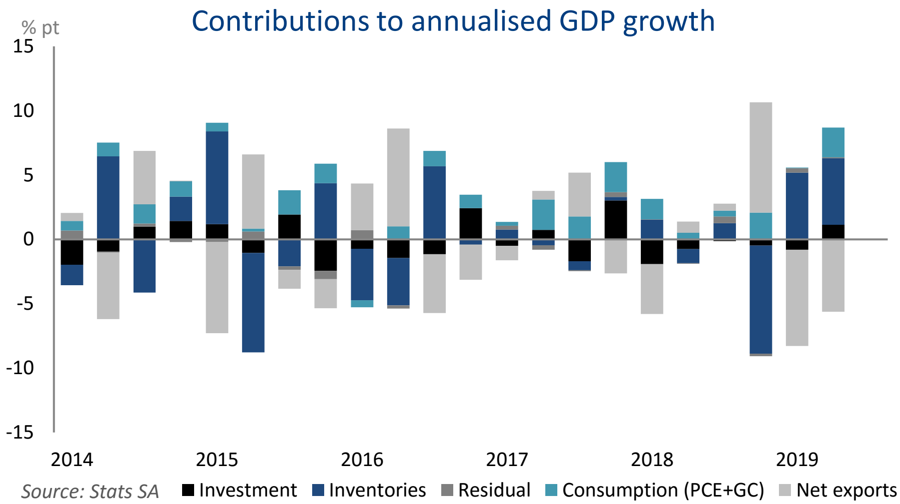
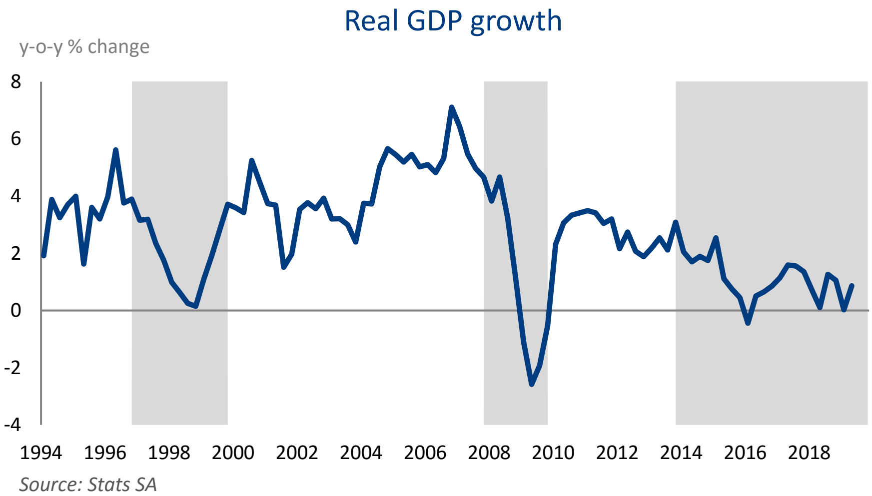
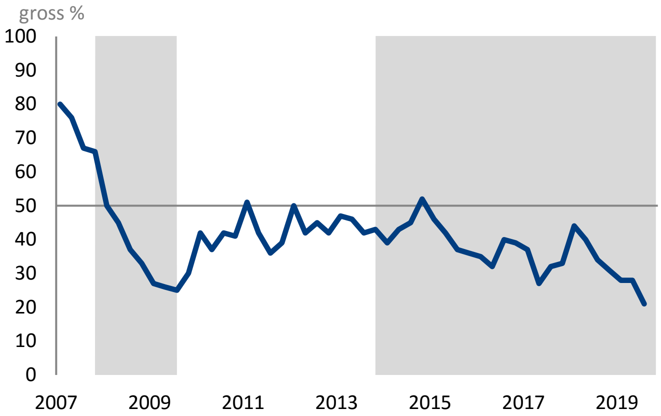
GDP growth


Contributions to annualised GDP growth
% pt
15
10
5
0
-5
-10
-15
2014
2015
2016
2017
2018
2019
Source: Stats SA
Investment
Inventories
Residual
Consumption (PCE+GC)
Net exports


Real GDP growth
y-o-y % change
8
6
4
2
0
-2
-4
1994
1996
1998
2000
2002
2004
2006
2008
2010
2012
2014
2016
2018
Source: Stats SA

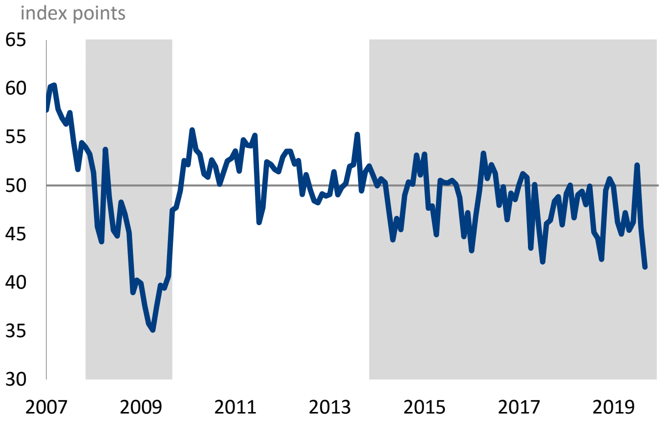
Business environment

RMB/BER Business Confidence Index



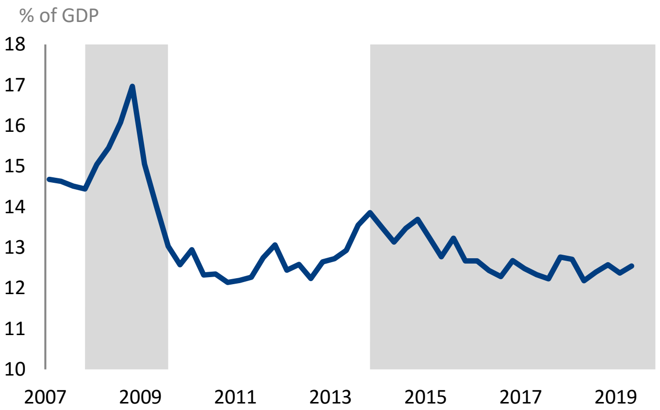
Source: BER

Absa Purchasing Managers Index



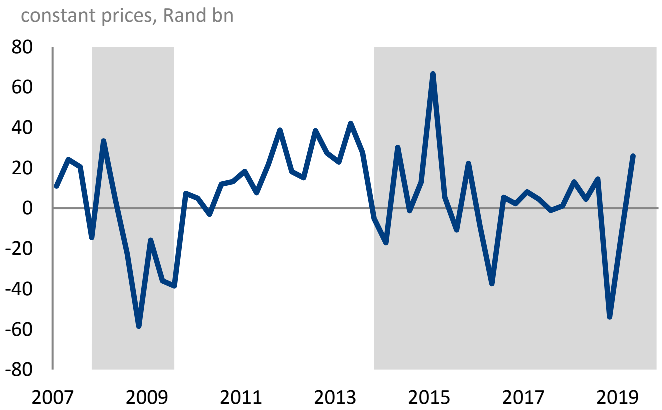
Source: BER

Private fixed investment



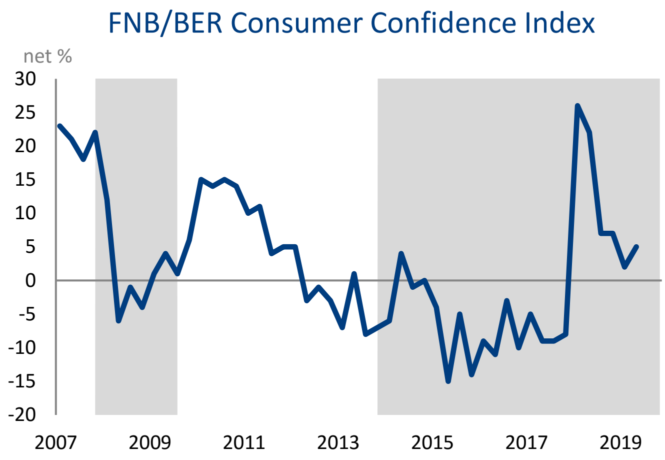
Source: SARB, Stats SA

Changes in inventories

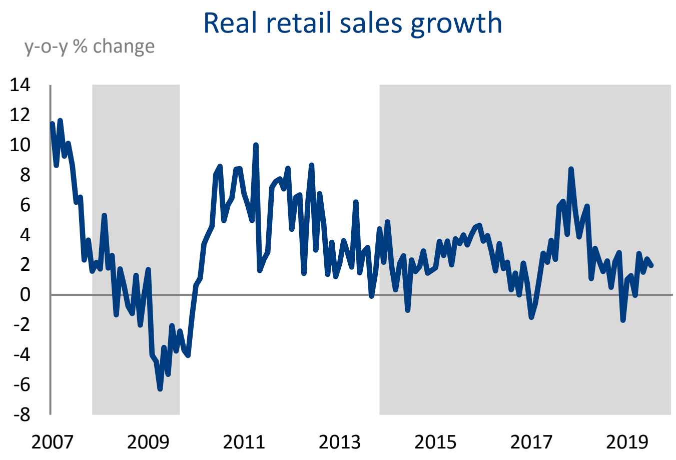


Source: SARB, Stats SA

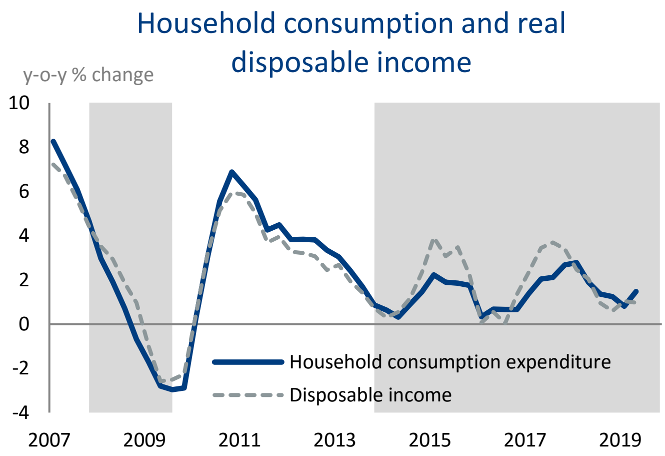
Household consumption



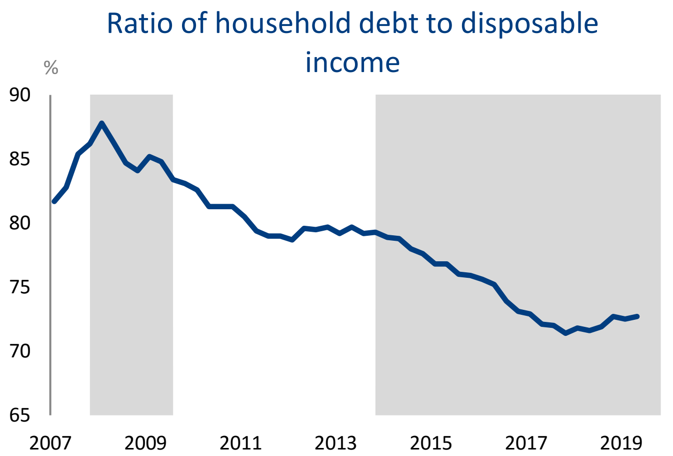
Source: BER



Source: Stats SA



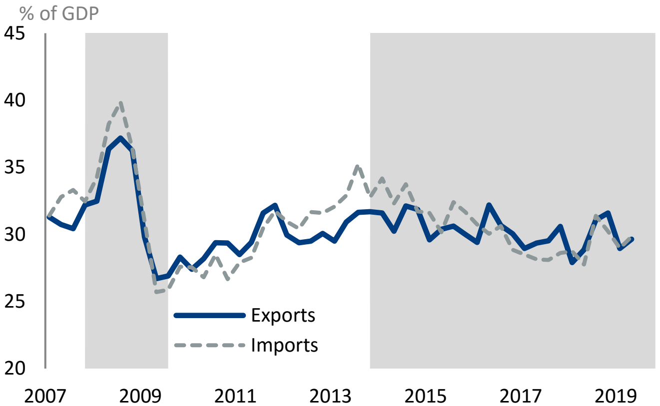
Source: SARB, Stats SA



Source: SARB

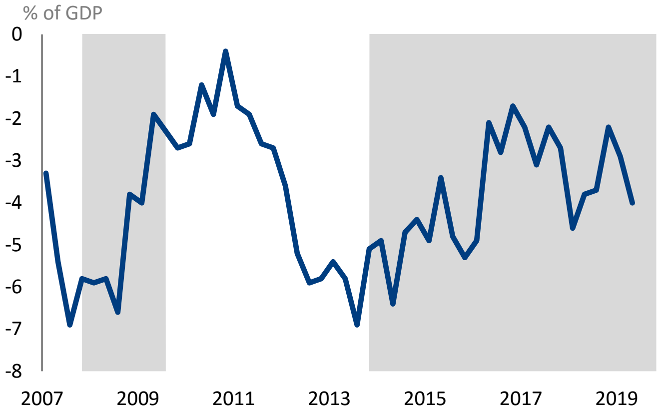
International trade

Imports and exports



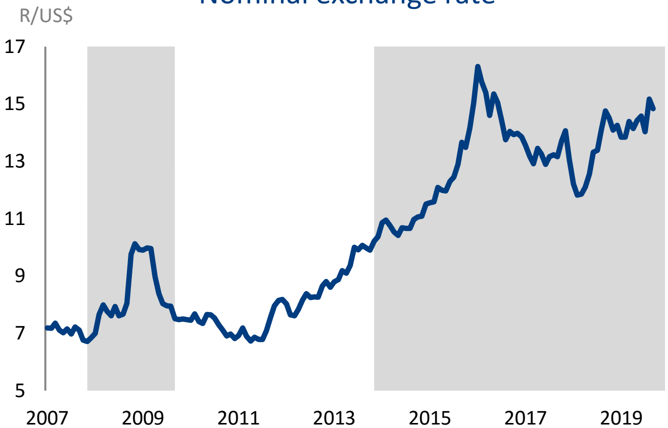
Source: SARB, Stats SA

Current account balance



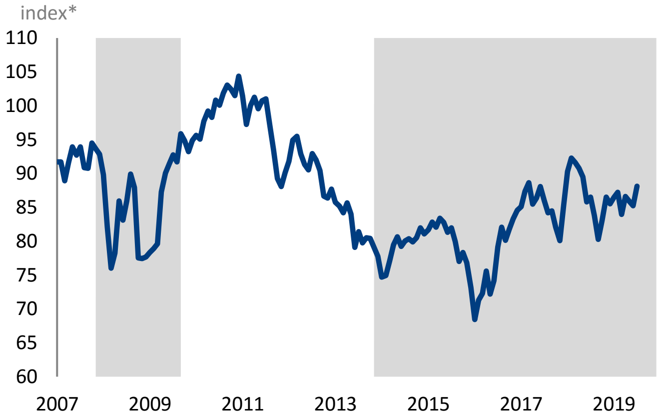
Source: SARB

Nominal exchange rate



Source: Thomson Reuters

Real effective exchange rate of the Rand



Source: SARB **higher values denote a stronger rand*

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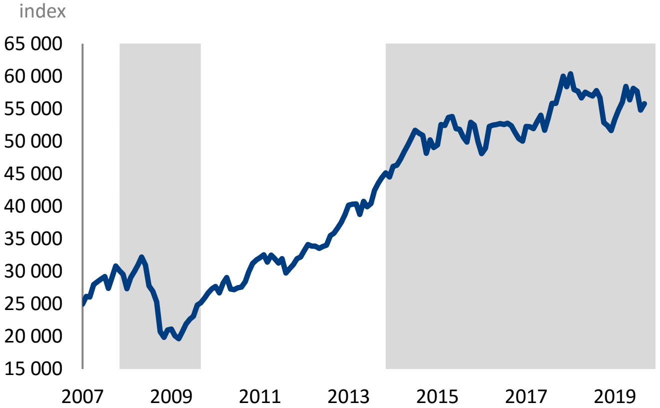
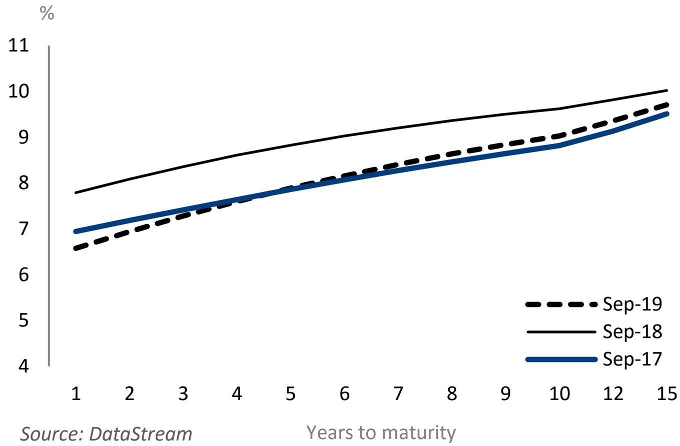
Financial markets

JSE all share index



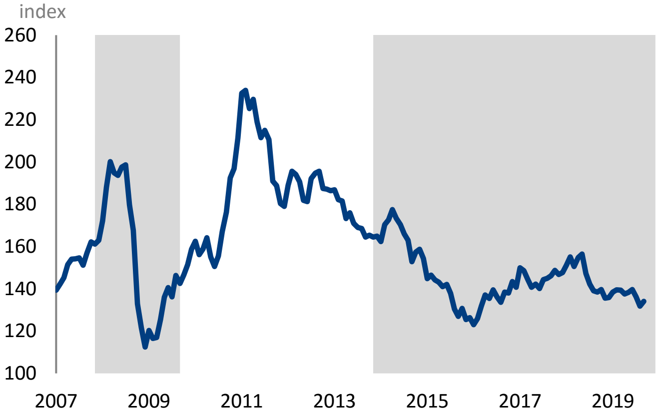
Source: Thomson Reuters

Yield curve comparisons



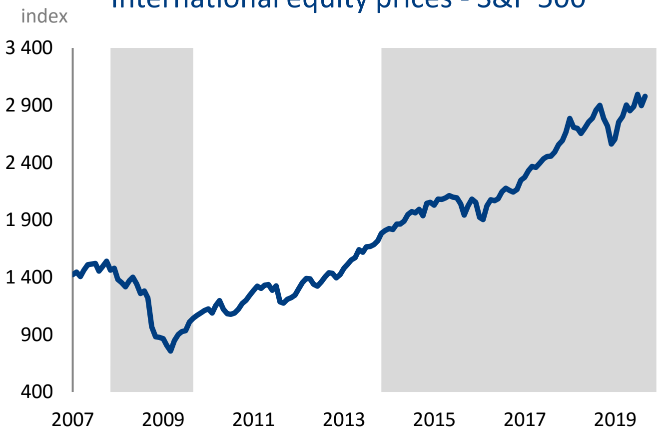
Source: DataStream

Economist all commodities index



Source: Economist

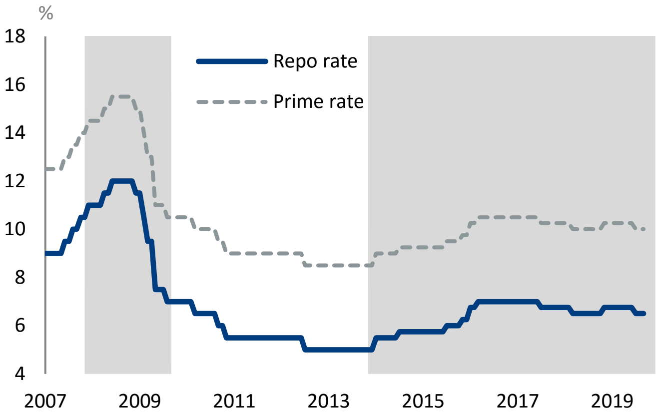
International equity prices - S&P 500



Source: DataStream

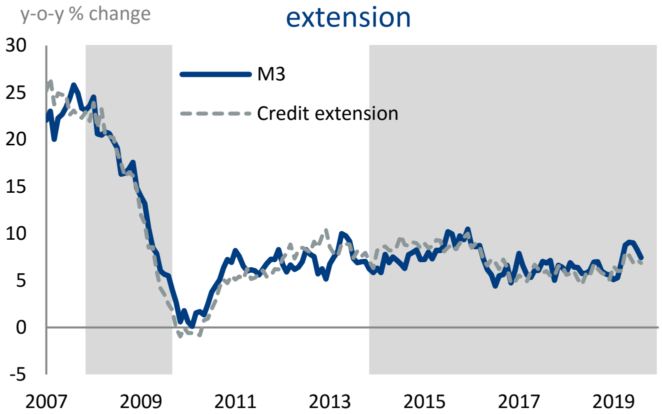
Money and prices

Repo and prime interest rate



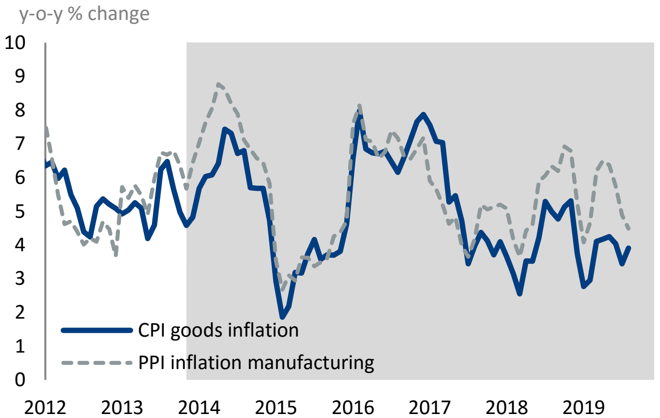
Source: SARB

M3 monetary aggregates and credit extension



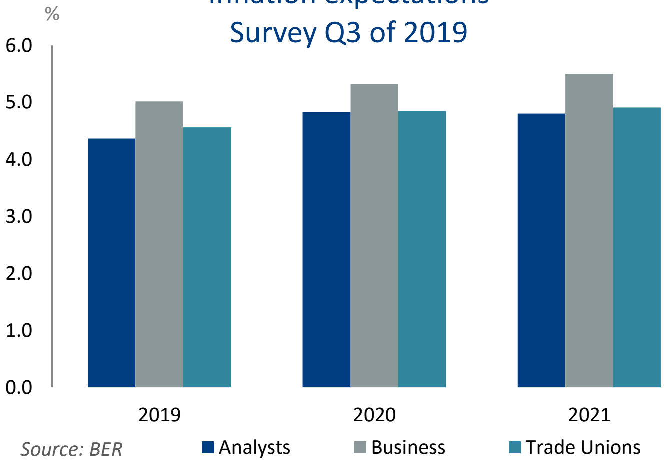
Source: SARB

Consumer and producer prices



Source: Stats SA

Inflation expectations
Survey Q3 of 2019



Source: BER

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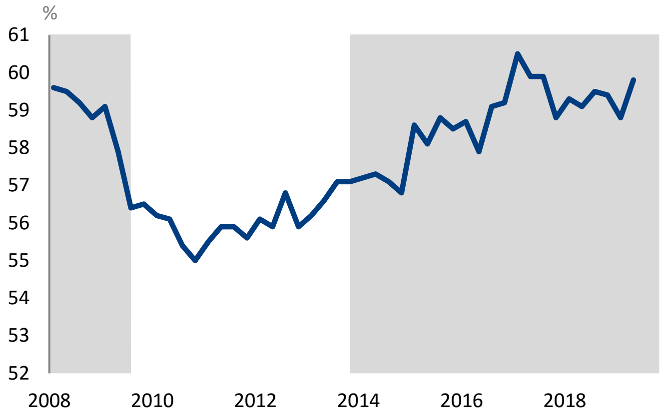
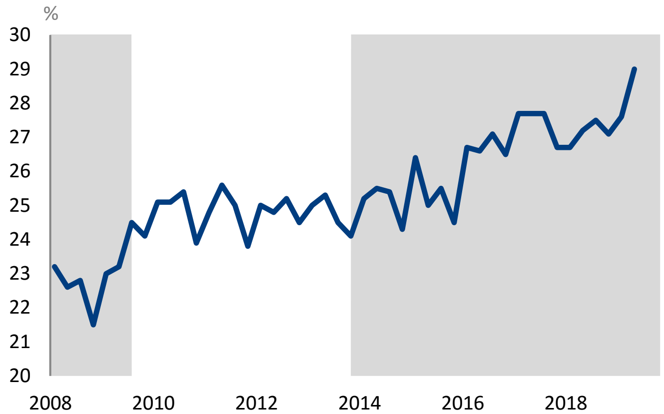
Labour

Labour force participation



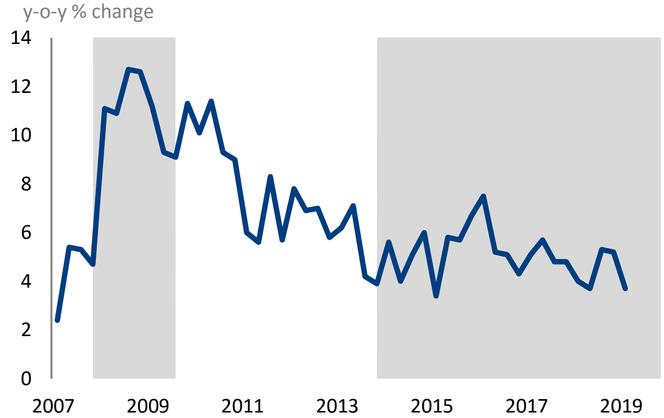
Source: Stats SA

Unemployment rate



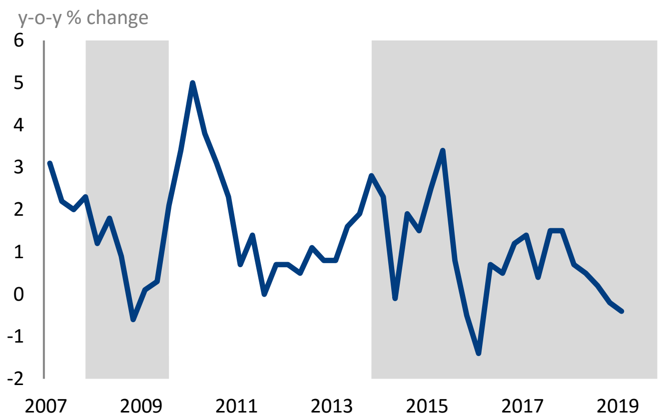
Source: Stats SA

Unit labour cost



Source: SARB

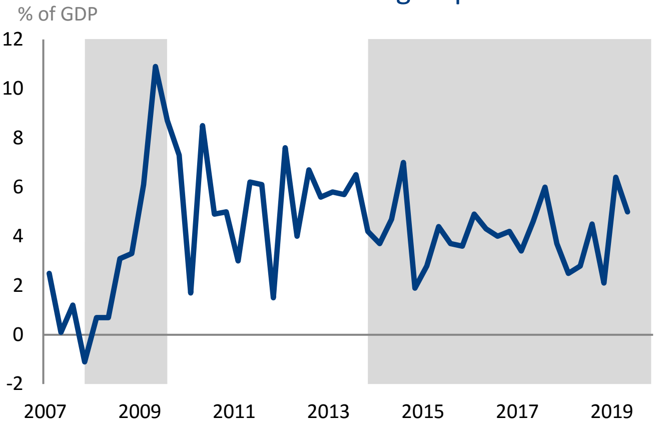
Labour productivity



Source: SARB

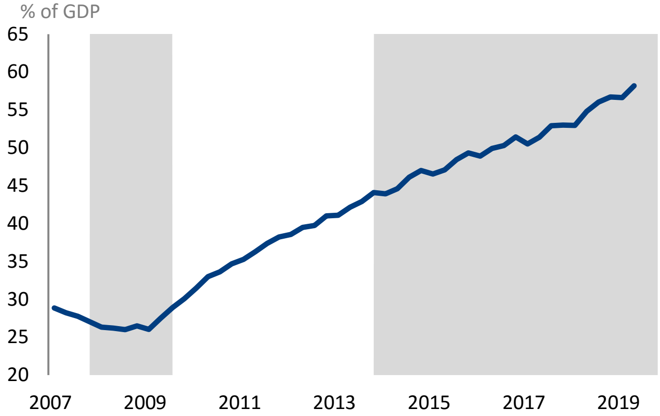
Government

Public sector borrowing requirement



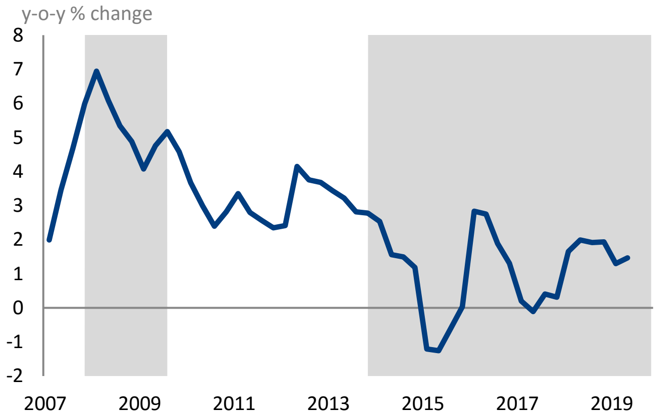
Source: SARB

Gross government debt



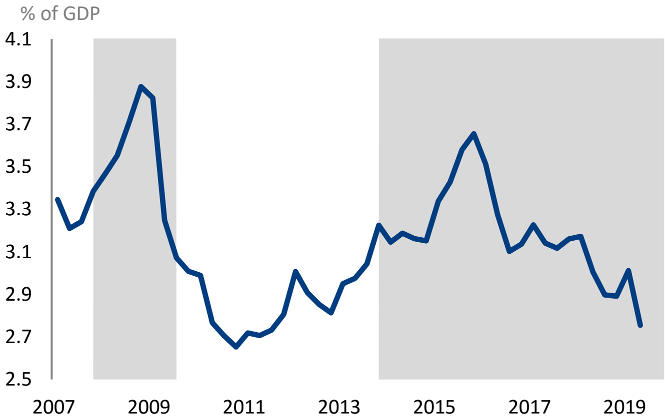
Source: SARB

Real government consumption



Source: SARB, Stats SA

Government fixed investment



Source: SARB, Stats SA

Recession algorithm[1]

SA's real GDP rebounded by an annualised 3.1% during the second quarter, which restored the level of GDP following an equivalent quantum contraction in the first quarter of the year. The rebound was stronger than expected, mainly due to better-than-expected recoveries in the financial & business services sector (4.1%) and general government services (3.4%). The rebounds in mining (14.4%) and manufacturing (2.1%), partly driven by the restoration of electricity supply, and retail, wholesale & accommodation (3.9%) were expected in view of the earlier release of higher frequency economic data. The most reliable conclusion to draw from these volatile GDP numbers is that growth remains pedestrian. The volatility in GDP was also reflected on the demand side of the economy. A close to 9% jump in real domestic expenditure (driven by a rebound in private household consumption, fixed investment and inventory accumulation), countered a sharp contraction in net exports, delivering the 3.1% GDP growth rate. Most concerning is the fact that real exports of goods and services receded further, following a 27% collapse during the first quarter. In view of the weakening global growth conditions, short-term export prospects remain negative.

It is clear from higher frequency economic indicators that the domestic economy remained under pressure during the third quarter. This is best reflected in the RMB/BER business confidence index falling to 21 points, a 20-year low; confidence in the major manufacturing groups is even lower. The BER recession-dating algorithm, designed to track turning points in the SA business cycle, shows no sign of a lower turning point, based on the available economic data. Closer inspection shows that both manufacturing output and wholesale sales volumes witnessed mini upturns between the middle of 2017 and the start of 18Q4. However, these upturns are not reflected in business confidence, manufacturing working hours and manufacturing production capacity utilisation - see the charts below. On the contrary, all three of these indicators continue trending down or sideways since their earlier upper turning points (around the end of 2013). The SARB identified the onset of the current economic downturn from November 2013, making the downturn the longest on record, i.e. 70 months. The inevitable increase in unemployment and the erosion of tax revenues, should the economy continue on this trajectory, point to crisis-ridden economic conditions. Decisive political leadership and urgent policy action is required.

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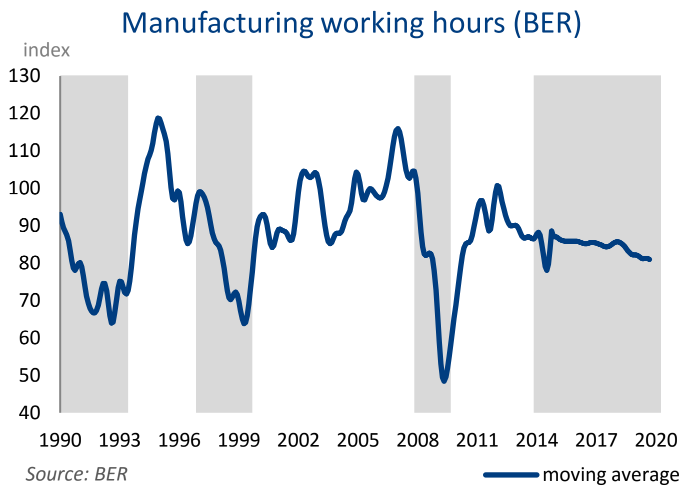
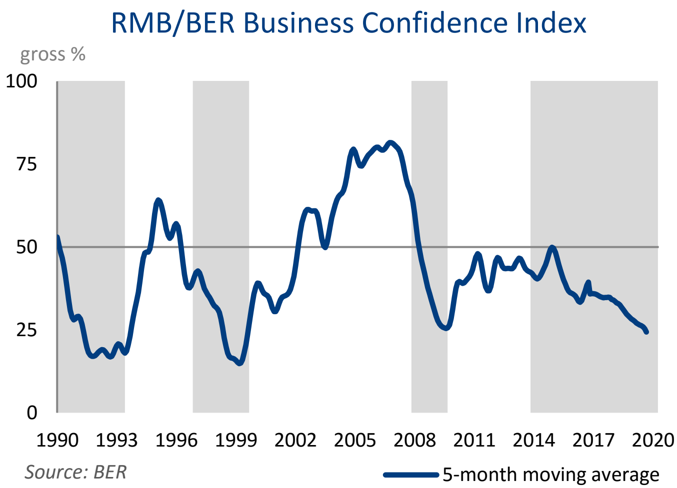
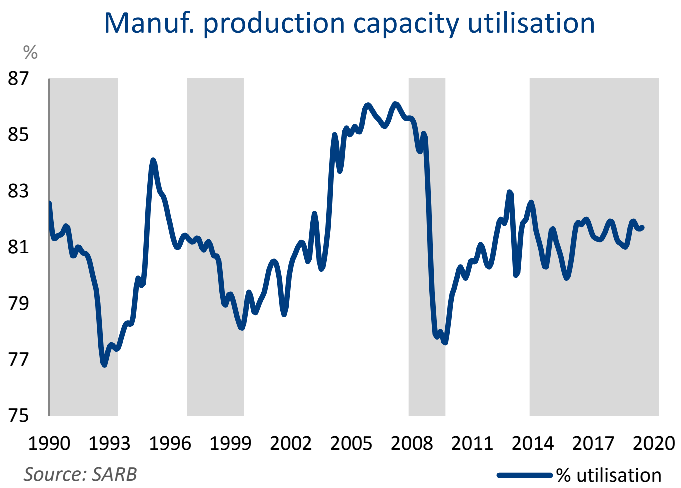
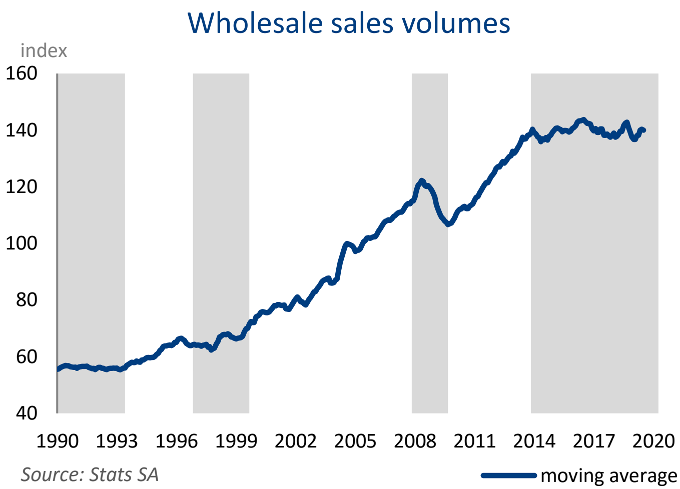
[1] Recession-dating algorithm for South Africa, which allows the BER to make accurate calls on business cycle turning points substantially sooner after the event than is the case with the official SARB determination. Read more at this link.

Recession algorithm









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