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

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Highlights

Finance Minister warns of public debt trap

In the 2019 Medium Term Budget Policy Statement (MTBPS) National Treasury published a frank, and deeply concerning, outlook of SA's fiscal trajectory. Importantly, the depressing fiscal ratios presented in the MTBPS exclude major measures to boost tax revenue and/or contain expenditure. Finance Minister Tito Mboweni argued that a number of robust discussions, including with trade unions on the public sector wage bill, will take place in the lead-up to February 2020. At a projected 71.3% of GDP in 2022/23, gross debt to GDP is projected to be almost 12 percentage points (%pts) higher than expected in February. The initial reaction of the rand exchange rate and government bond market was negative. Credit rating agency Moody's reacted to the MTBPS by revising the outlook on SA's sovereign rating from stable to negative. If the February 2020 Budget does not show a firm commitment to consolidate SA's debt levels, an outright credit rating downgrade may follow soon afterwards.

CPI inflation remains below midpoint of SARB's target range

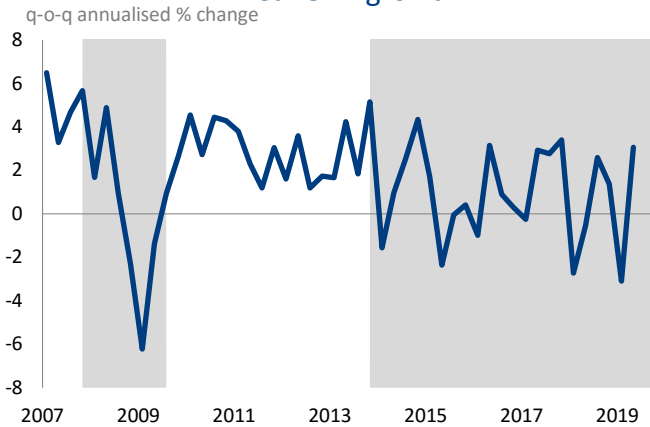
Consumer price inflation decelerated to 4.1% y-o-y in September from 4.3% in August, coming in lower than market expectations for 4.2%. Core inflation (headline inflation excluding food and non-alcoholic beverages, fuel and energy) measured just 4.0% y-o-y, down from the 4.3% recorded in August. This marks the lowest core inflation print since December 2011 and comes as a result of lower housing costs which were surveyed during the month. Owner's equivalent rent, which accounts for 13.2% of the inflation basket, slowed to 2.6% y-o-y in September from 3.3% in August. Additionally, inflation in the actual rentals category, accounting for 3.5% of the basket, eased to 3.3% y-o-y from 4.0% in August.

Mining and manufacturing output growth falters in August

Mining production decreased by 3.2% y-o-y in August. This decline follows growth of 1.4% in July. The biggest contributor to the fall in annual output was platinum group metals (PGM) which contracted by 12.5% y-o-y, subtracting 3.0 percentage points (%pts) from annual growth. Like mining, **manufacturing** production declined on an annual basis in August. The 1.8% y-o-y contraction marked the third consecutive decline. Leading the fall was metal and machinery manufacturing which was down by 7% y-o-y (subtracting 1.3 %pts).

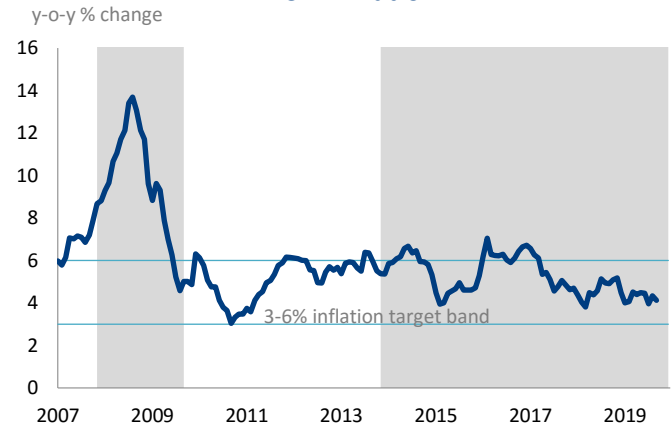
Core indicators

Real GDP growth



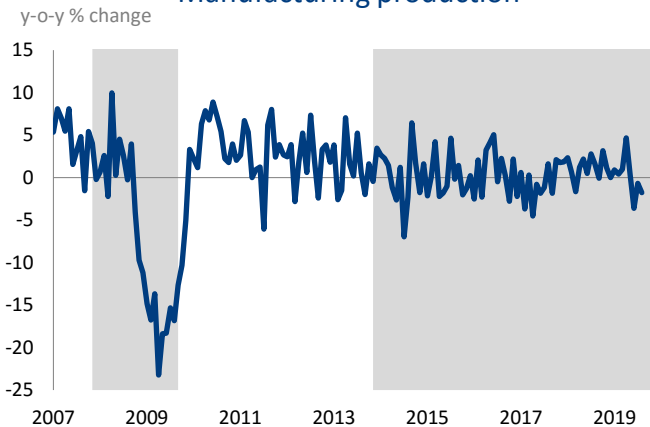
Source: Stats SA

CPI inflation



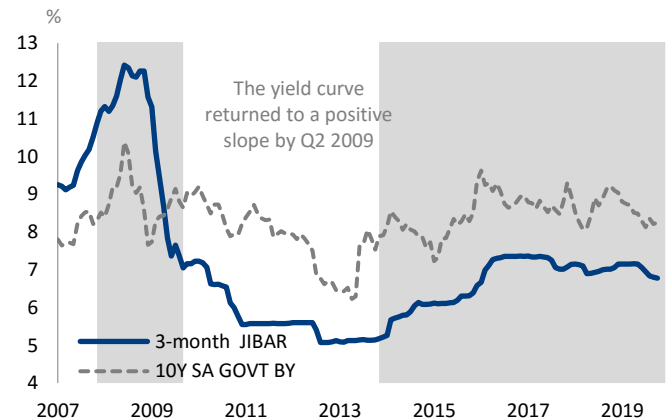
Source: Stats SA

Manufacturing production



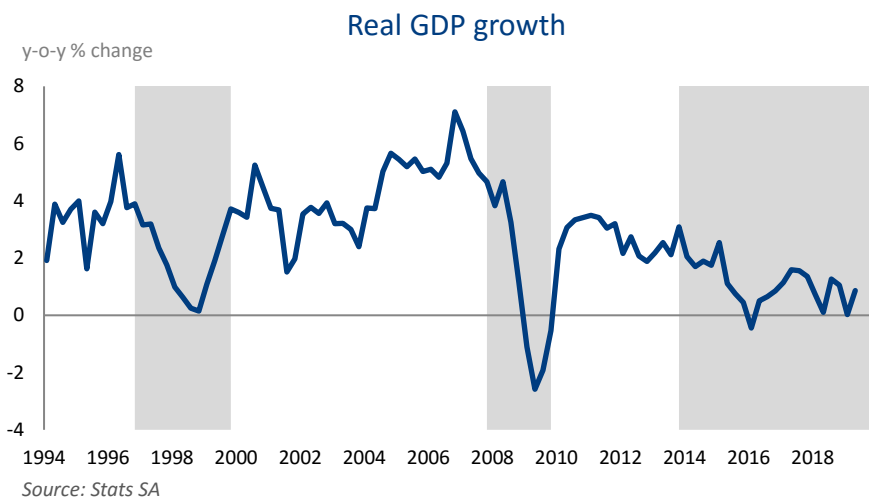
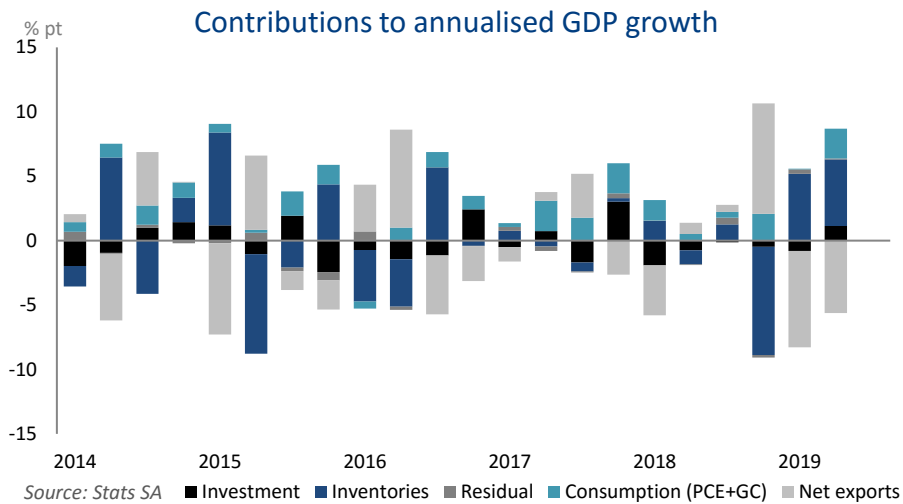
Source: Stats SA

Interest rates



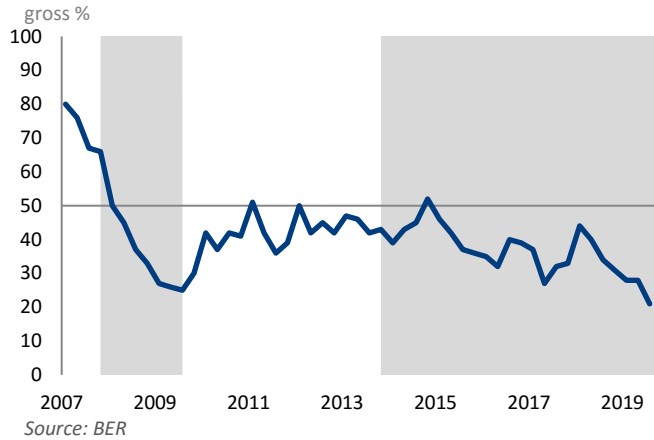
Source: Thomson Reuters

GDP growth

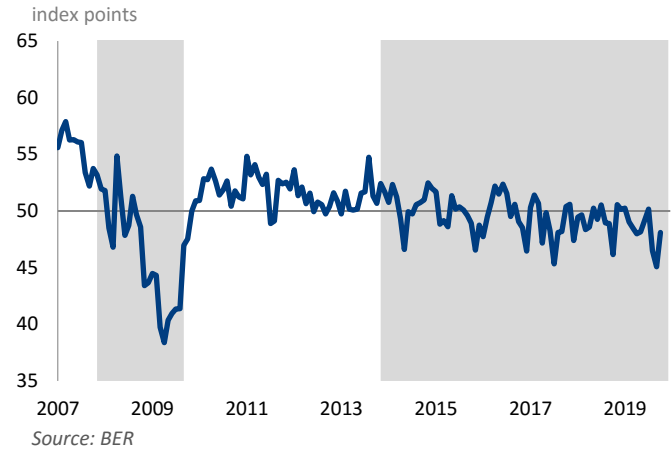


Business environment

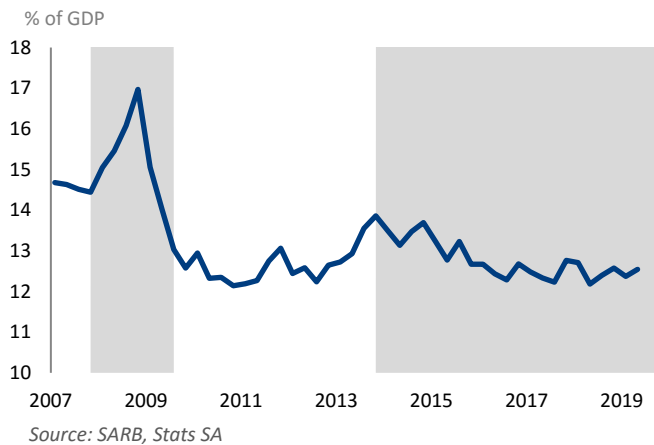
RMB/BER Business Confidence Index



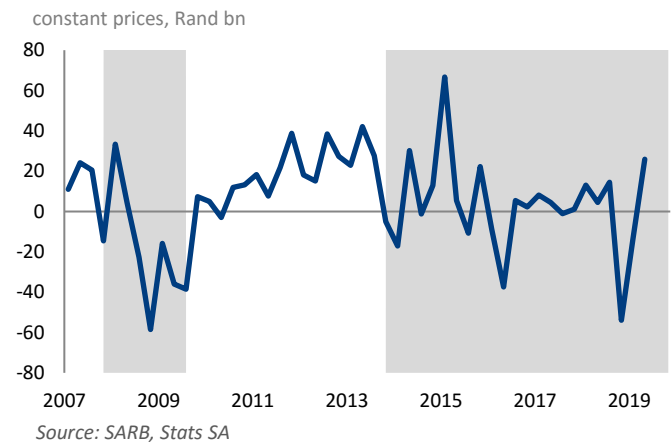
Absa Purchasing Managers Index



Private fixed investment

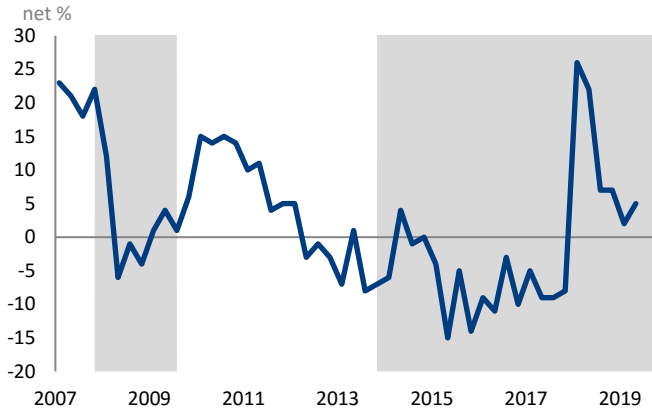


Changes in inventories



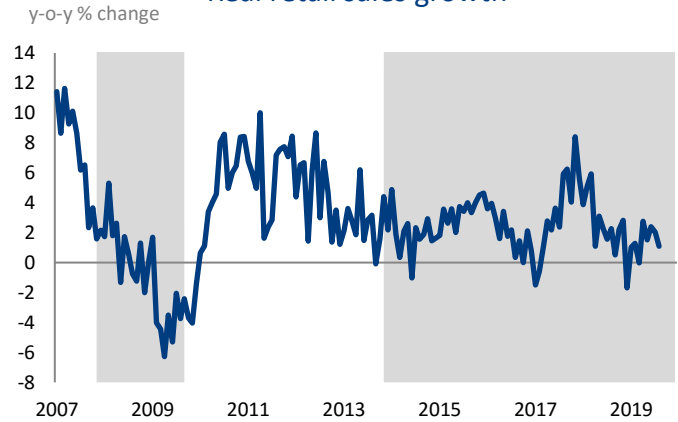
Household consumption

FNB/BER Consumer Confidence Index



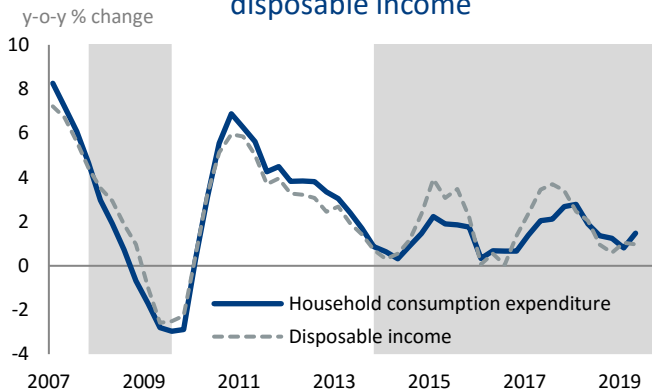
Source: BER

Real retail sales growth



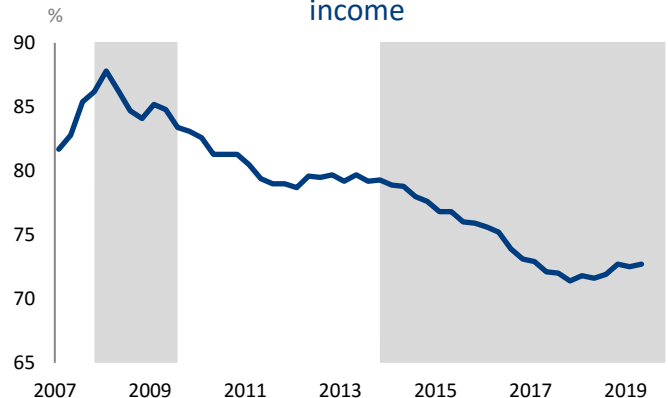
Source: Stats SA

Household consumption and real disposable income



Source: SARB, Stats SA

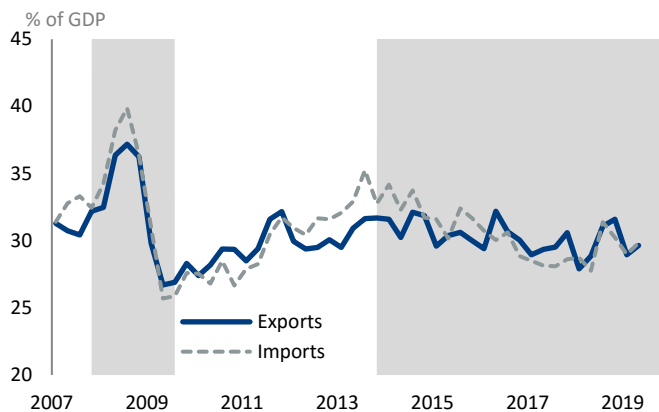
Ratio of household debt to disposable income



Source: SARB

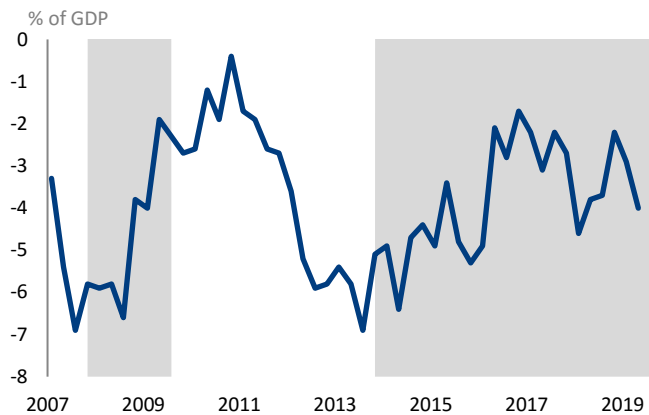
International trade

Imports and exports



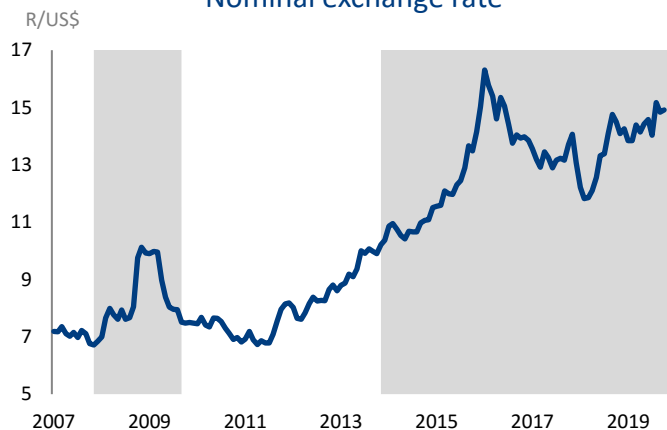
Source: SARB, Stats SA

Current account balance



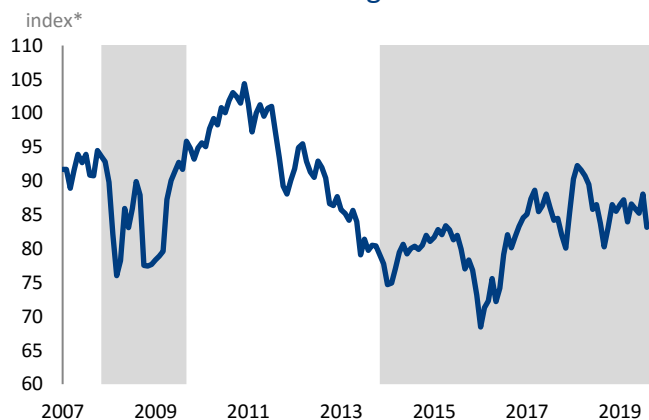
Source: SARB

Nominal exchange rate



Source: Thomson Reuters

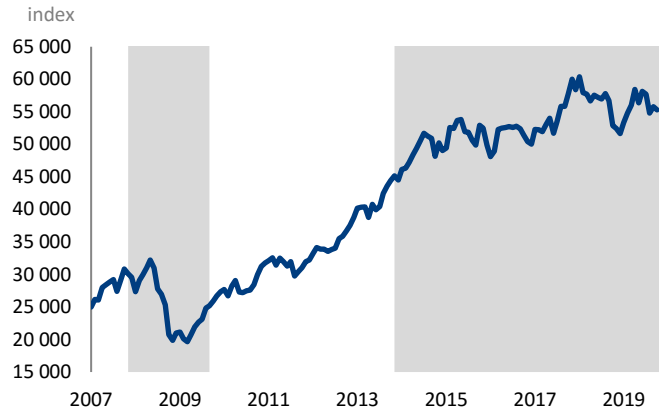
Real effective exchange rate of the Rand



Source: SARB *higher values denote a stronger rand

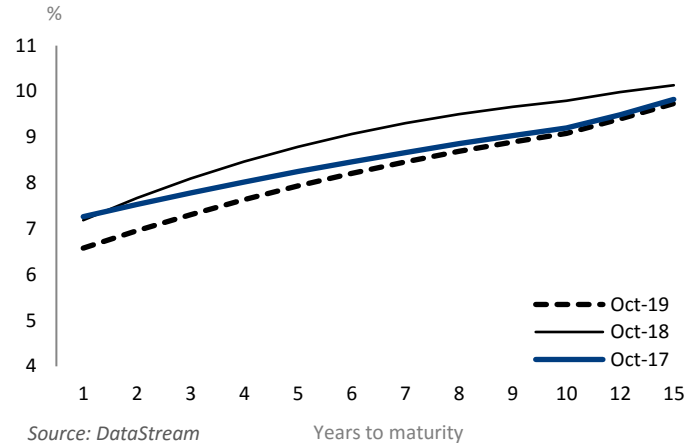
Financial markets

JSE all share index



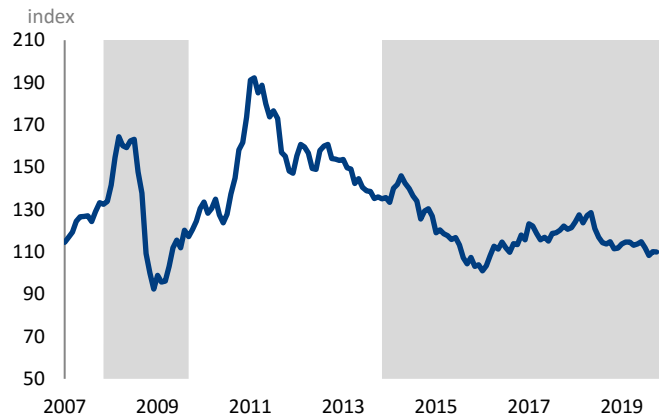
Source: Thomson Reuters

Yield curve comparisons



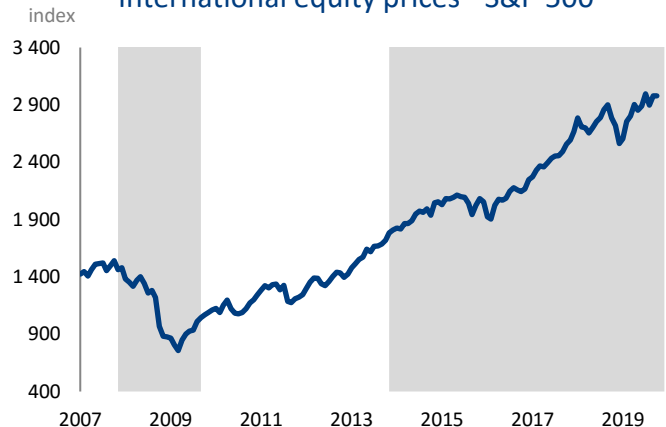
Source: DataStream

Economist all commodities index



Source: Economist

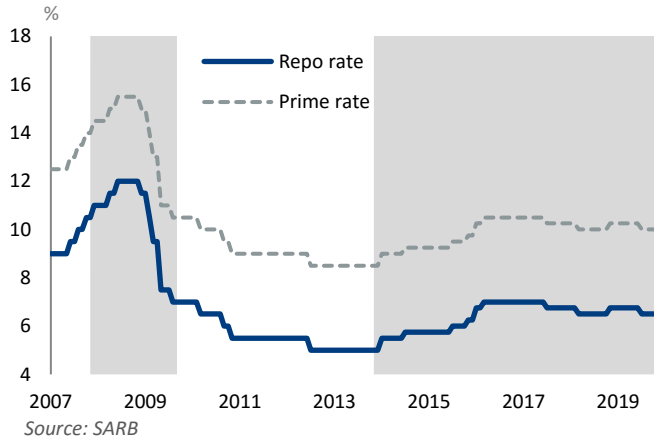
International equity prices - S&P 500



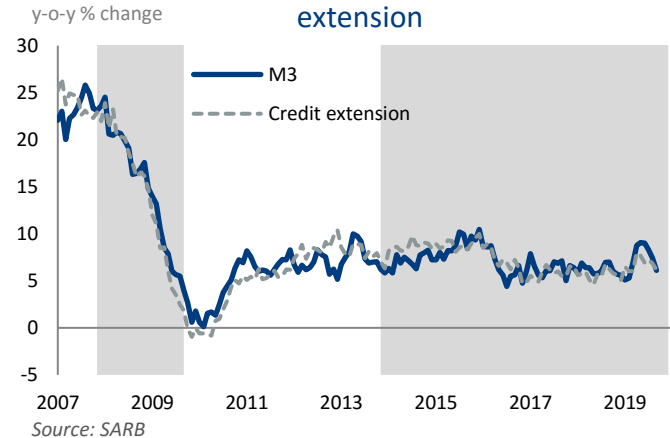
Source: DataStream

Money and prices

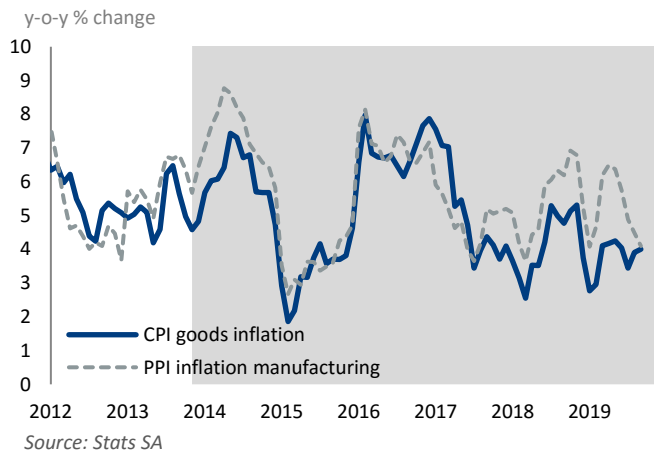
Repo and prime interest rate



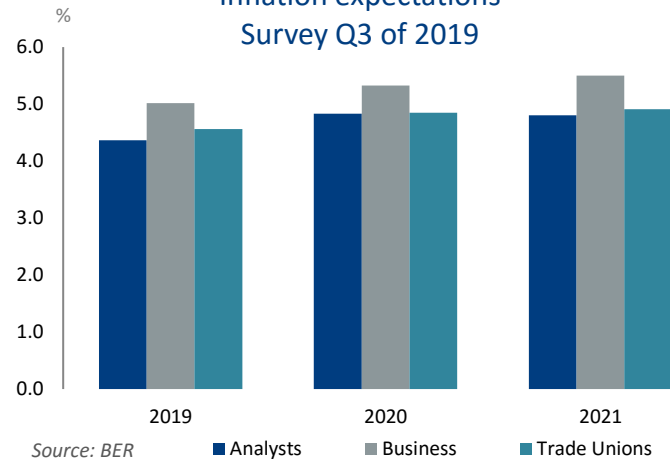
M3 monetary aggregates and credit extension



Consumer and producer prices

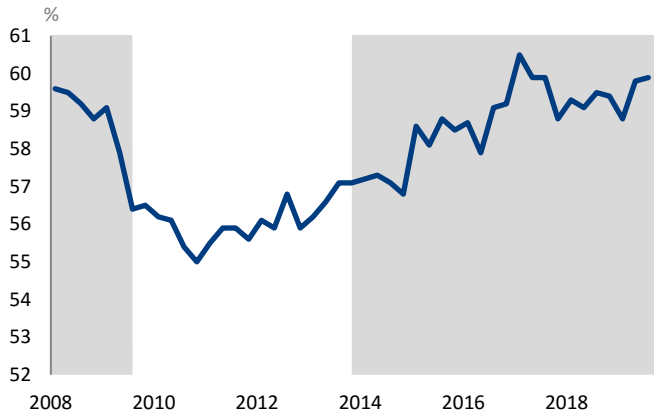


Inflation expectations Survey Q3 of 2019



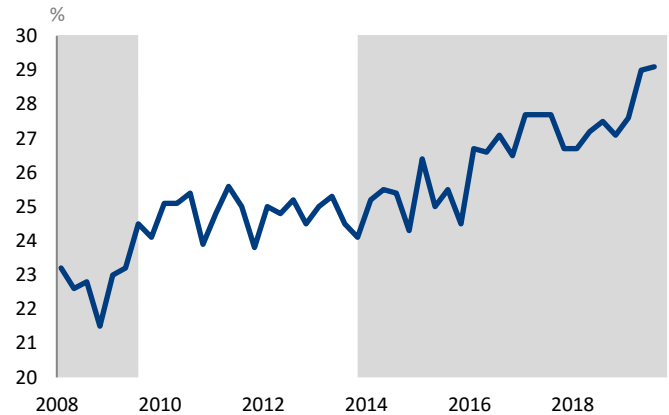
Labour

Labour force participation



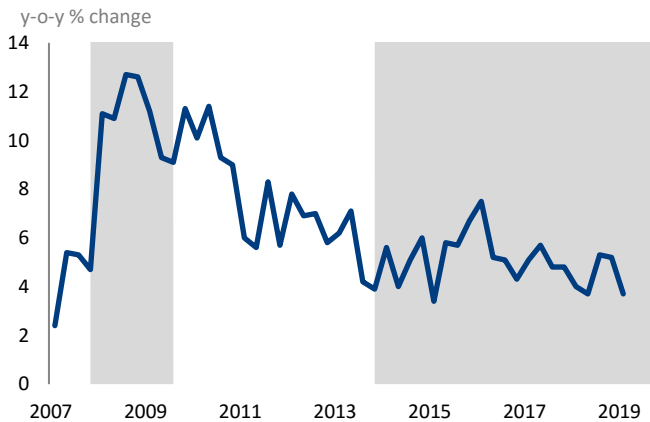
Source: Stats SA

Unemployment rate



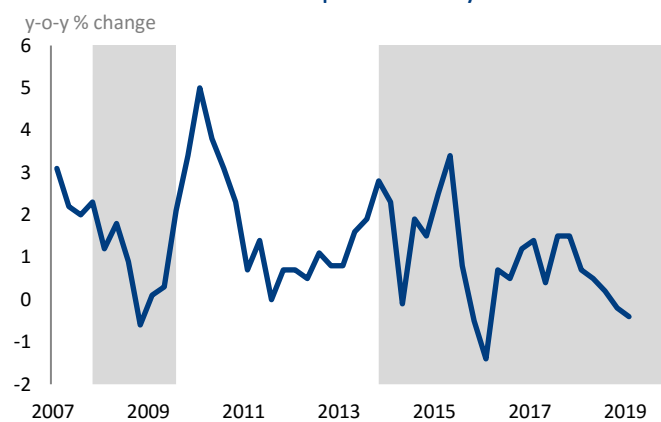
Source: Stats SA

Unit labour cost



Source: SARB

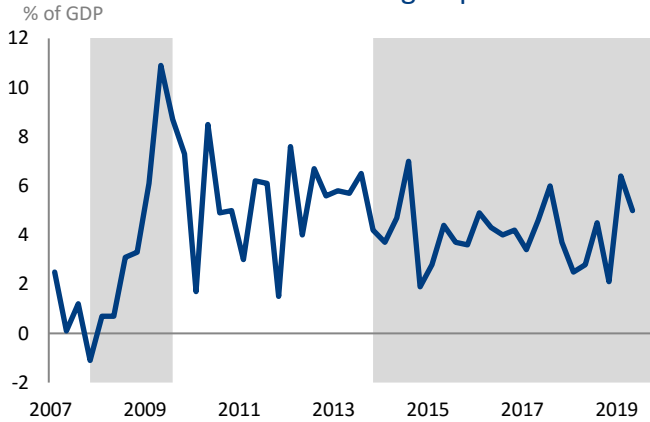
Labour productivity



Source: SARB

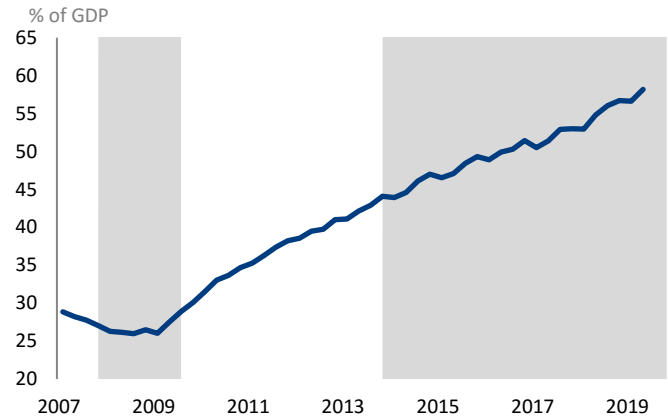
Government

Public sector borrowing requirement



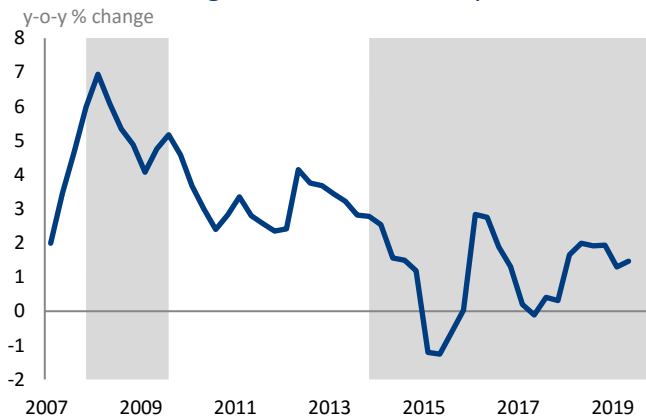
Source: SARB

Gross government debt



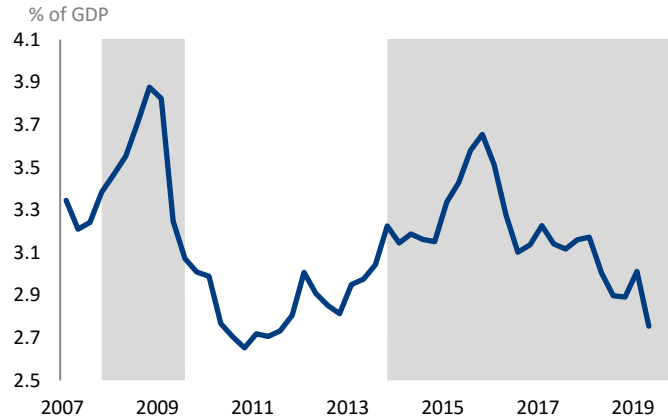
Source: SARB

Real government consumption



Source: SARB, Stats SA

Government fixed investment



Source: SARB, Stats SA

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