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

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Highlights

MTBPS stressed fiscal risks but lengthened fiscal consolidation

The October Medium Term Budget Policy Statement (MTBPS) outlined a less aggressive fiscal consolidation strategy than the June Supplementary Budget (SBR). The level of gross debt is now clearly higher than the Treasury's June 'active' (baseline) scenario and the peak has also been pushed out by two years. Debt is expected to rise to a projected 95.3% of GDP in 2025/26. Crucially, and to the best of our knowledge, it was the first time in the democratic era that the official budget document flagged the possibility of a sovereign debt default if the precarious fiscal position is not adequately tackled. The fiscal difficulties faced by SA are outlined on page 9 with government debt and the borrowing requirement on a steep upward trend. Treasury now expects GDP to contract by 7.8% in 2020 (previously -7.3%), recovering to 3.3% in 2021, but expects a protracted economic recovery with real GDP only expected to return to 2019 levels in 2024. The risks remain materially biased to the downside, particularly in the absence of growth-enhancing economic reforms.

Real economic indicators point to robust GDP recovery in third quarter

Economic activity is still underperforming compared to the corresponding period in 2019. Mining and manufacturing output contracted by 3.3% y-o-y and 10.8% y-o-y in August, respectively. Nevertheless, robust monthly changes in activity corroborate our view that real GDP growth rebounded strongly in 2020Q3. The Q3 to date monthly rebound in mining output is so far being led by platinum group metals (PGMs), iron ore and gold production, while the rise in manufacturing production is being led by motor vehicle production, basic iron and steel, as well as petroleum-related output.

Despite a sharp 2.2 million q-o-q drop in employment (see here) and a R471bn decline in household disposable income (see here) in 2020Q2, monthly retail sales (chart here) have somewhat recovered, posting 4.0% m-o-m growth in August from just 0.6% m-o-m in July. Seasonally adjusted total vehicle sales showed robust growth of 99.2% q-o-q in 2020Q3 after contracting by 62.3% q-o-q in Q2. In October, total vehicle sales increased by 4.1% m-o-m, but were still 25.4% lower compared to the same period last year.

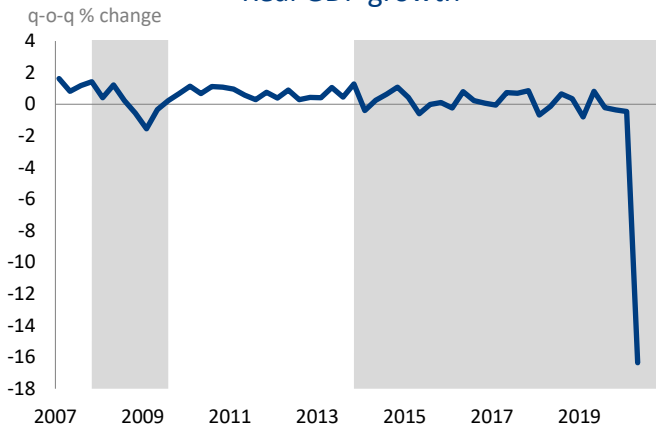
Inflation still subdued amid weak demand; another large trade surplus

Consumer inflation remained subdued, decelerating slightly to 3.0% y-o-y in September from 3.1% y-o-y in August (see chart on page 7). Core inflation was unchanged at 3.3% y-o-y in September, similar to August's 3.3%, reflecting weak domestic demand.

The large nominal monthly trade surpluses since May 2020 were sustained in September at R33.5 billion. The notable trade surpluses have largely been a function of import compression. The value of merchandise imports is 16.4% y-o-y lower year to date, while nominal merchandise exports are only 2.9% y-o-y higher.

Core indicators

Real GDP growth



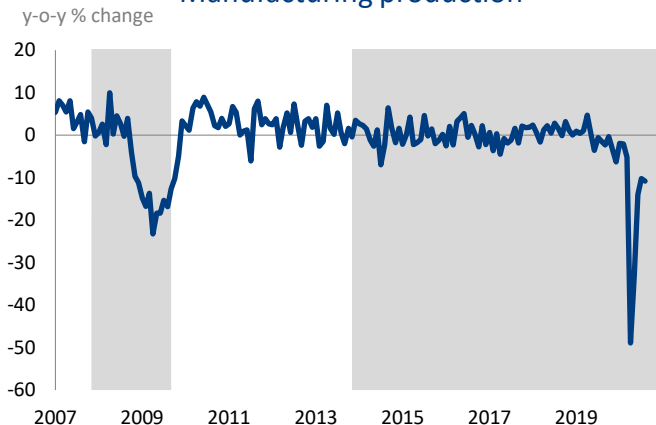
Source: Stats SA

CPI inflation



Source: Stats SA

Manufacturing production



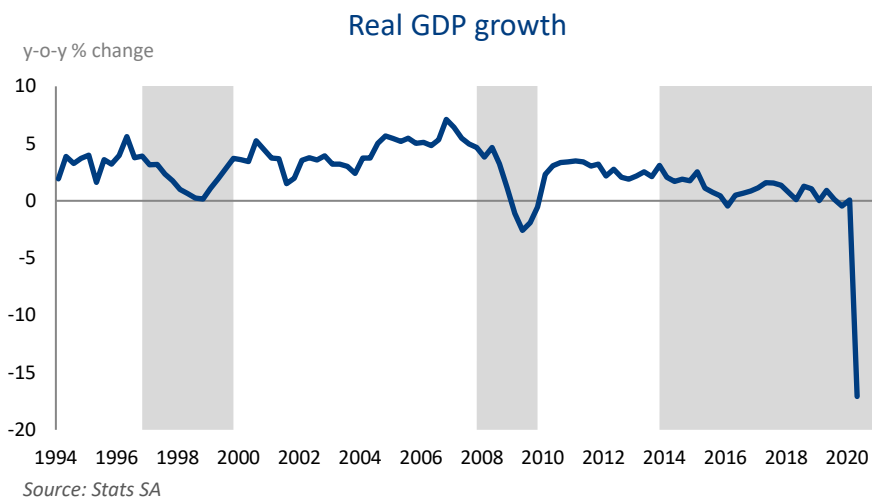
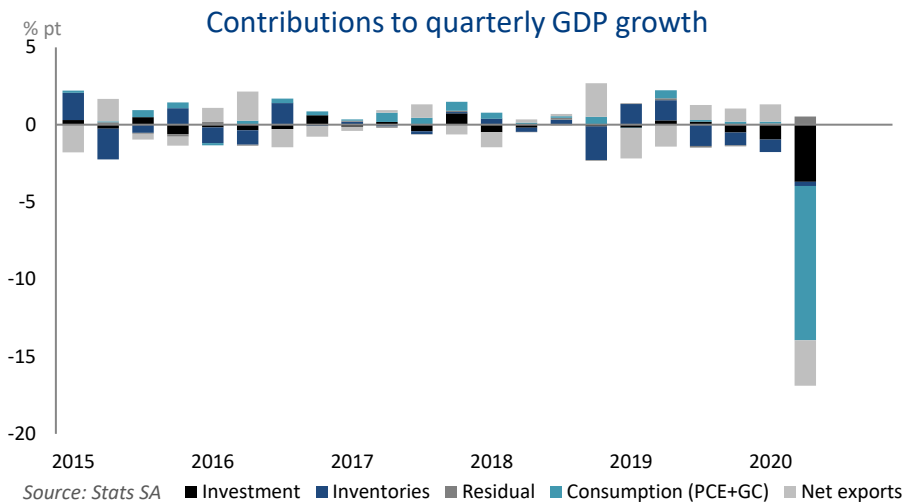
Source: Stats SA

Interest rates



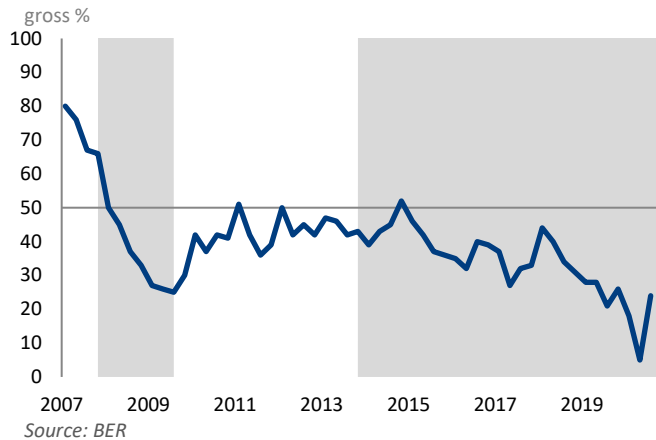
Source: DataStream

GDP growth

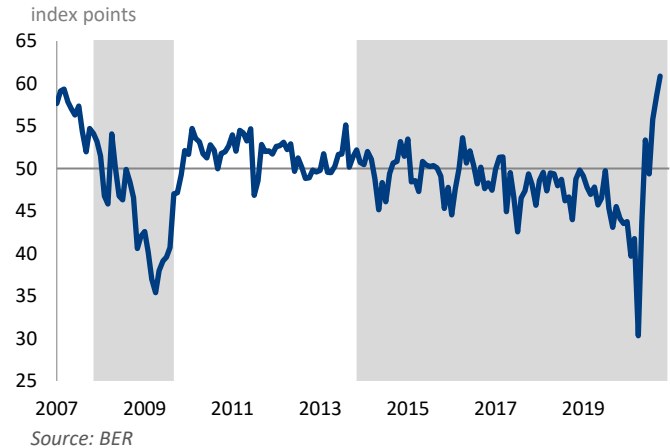


Business environment

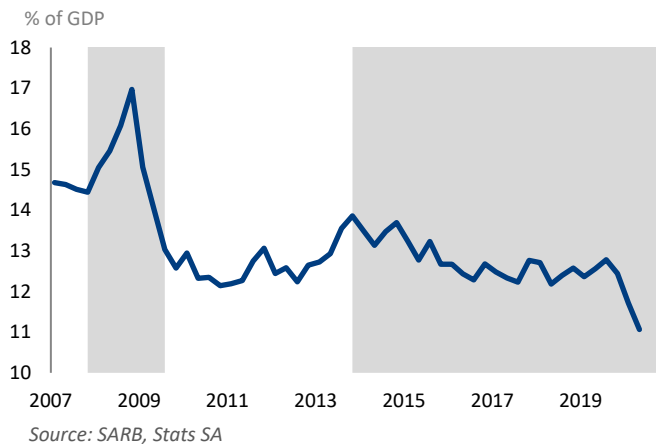
RMB/BER Business Confidence Index



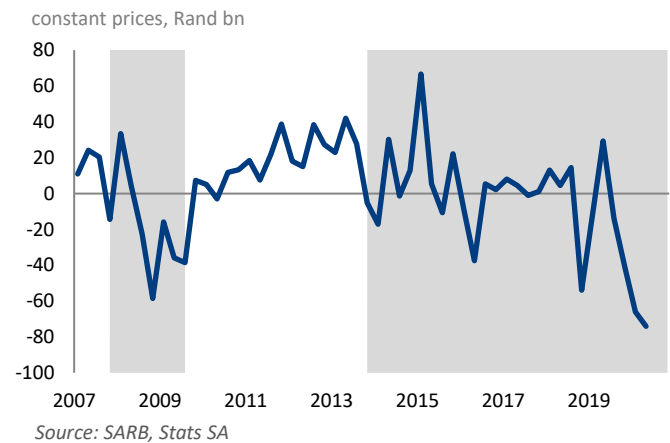
Absa Purchasing Managers' Index



Private fixed investment

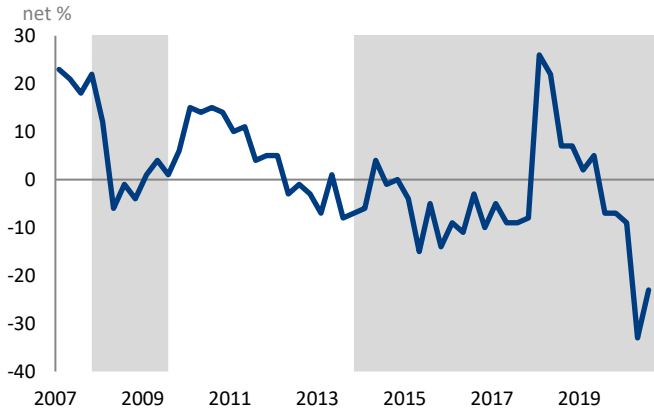


Changes in inventories



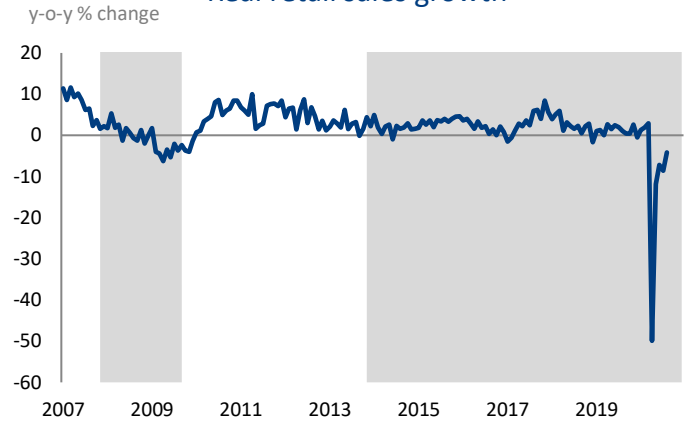
Household consumption

FNB/BER Consumer Confidence Index



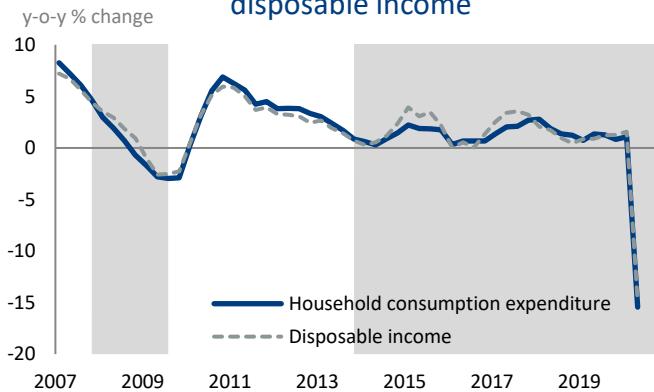
Source: BER

Real retail sales growth



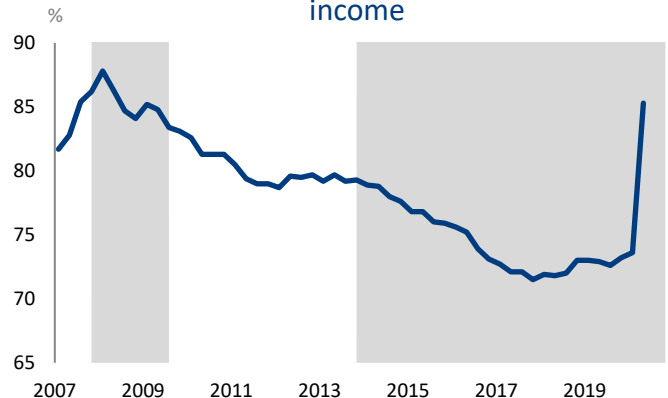
Source: Stats SA

Household consumption and real disposable income



Source: SARB, Stats SA

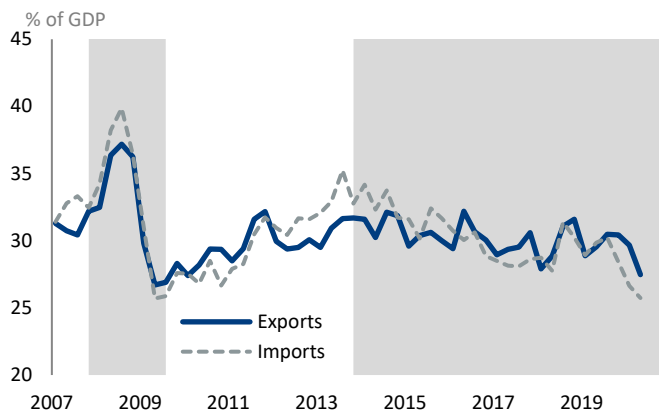
Ratio of household debt to disposable income



Source: SARB

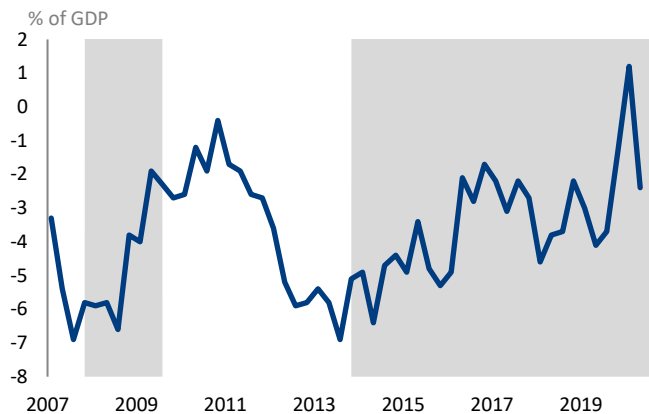
International trade

Imports and exports



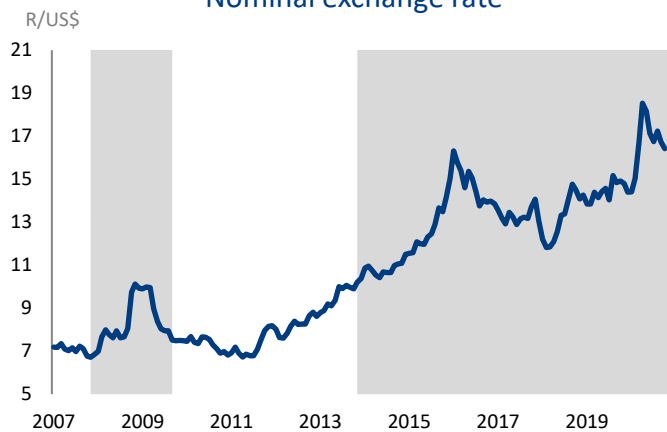
Source: SARB, Stats SA

Current account balance



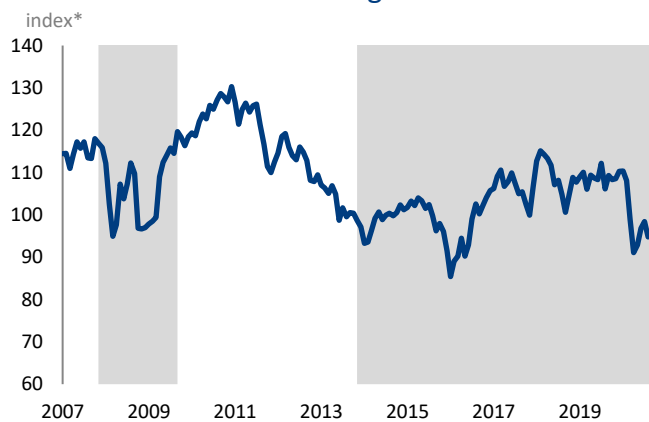
Source: SARB

Nominal exchange rate



Source: DataStream

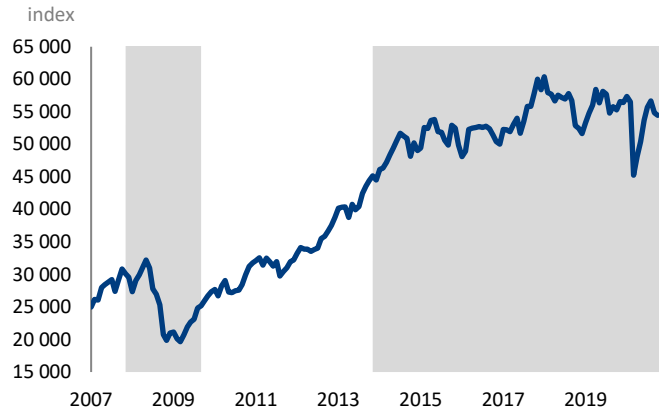
Real effective exchange rate of the Rand



Source: SARB *higher values denote a stronger rand

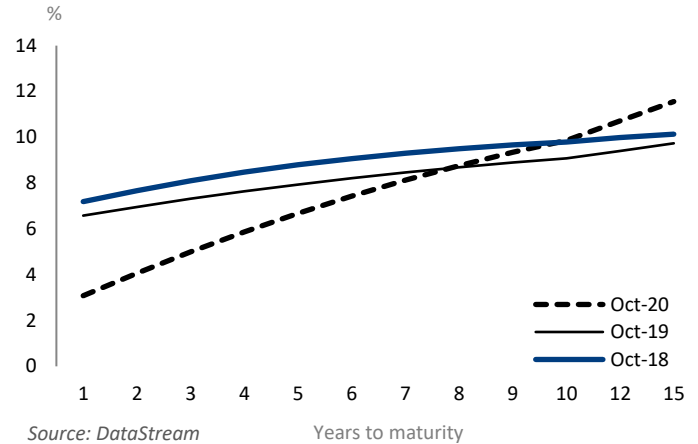
Financial markets

JSE all share index



Source: DataStream

Yield curve comparisons



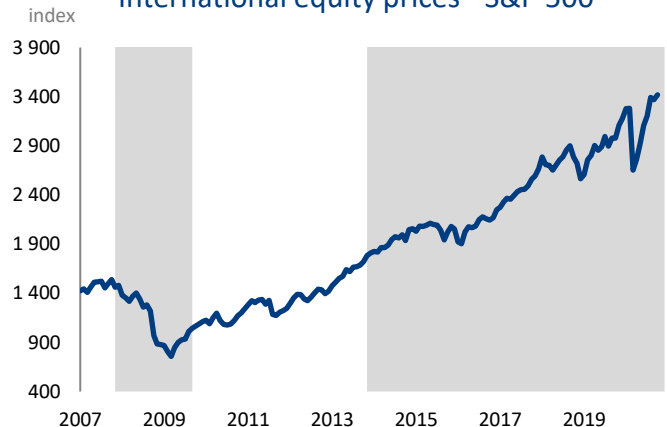
Source: DataStream

Economist all commodities index



Source: Economist

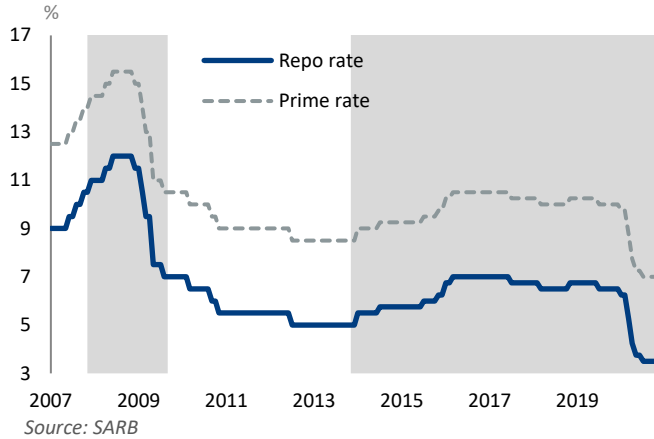
International equity prices - S&P 500



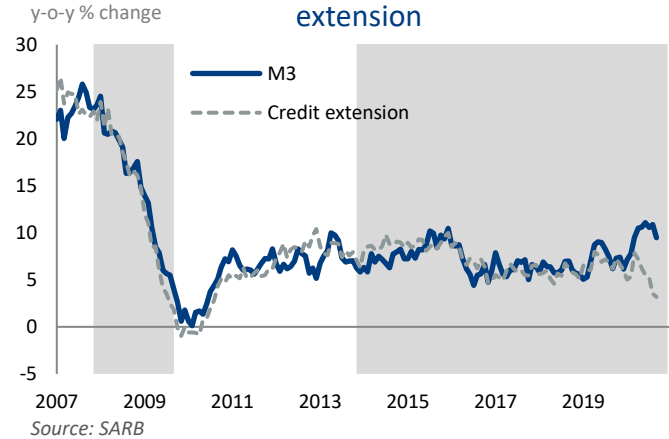
Source: DataStream

Money and prices

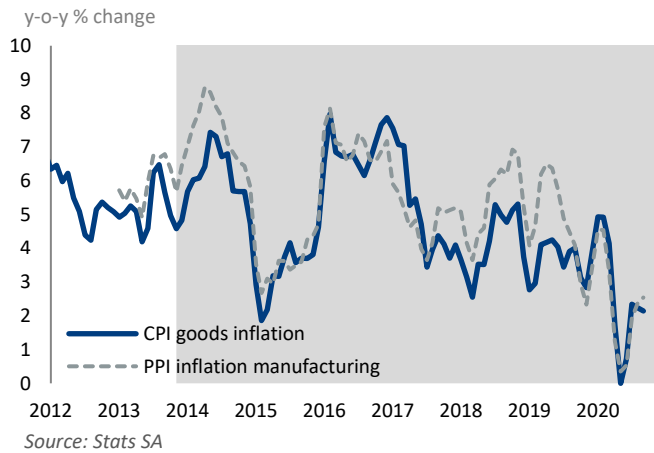
Repo and prime interest rate



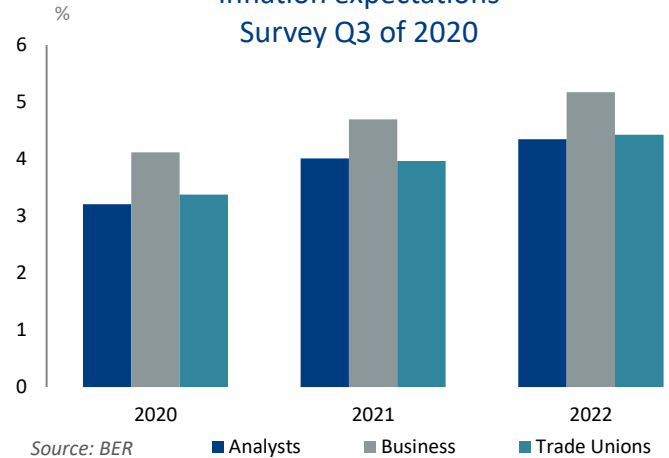
M3 monetary aggregates and credit extension



Consumer and producer prices

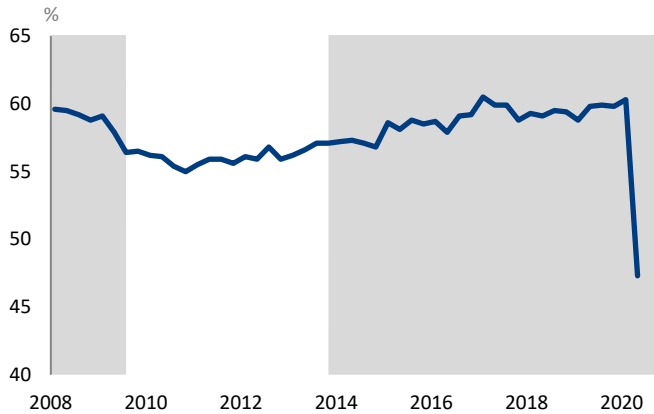


Inflation expectations Survey Q3 of 2020



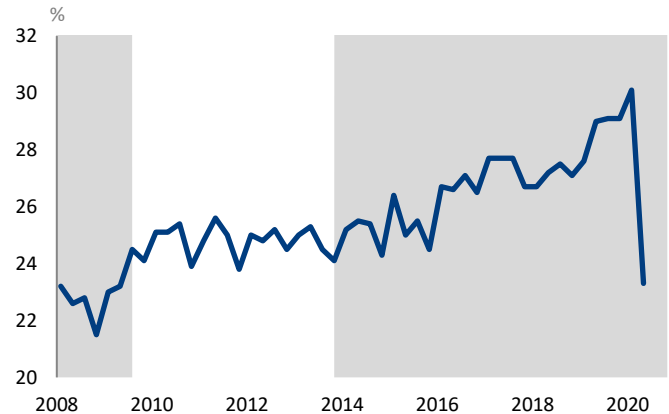
Labour

Labour force participation



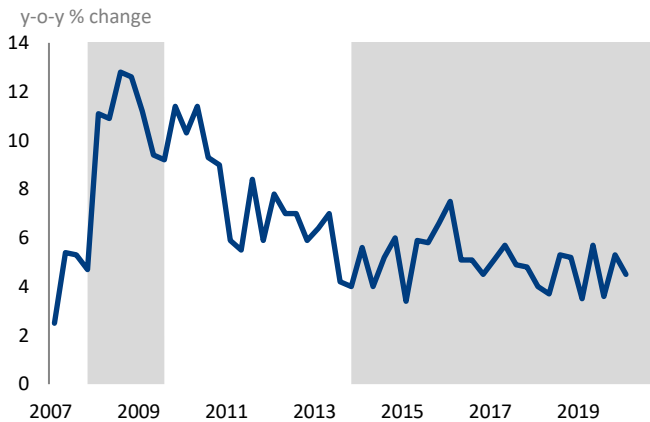
Source: Stats SA

Unemployment rate



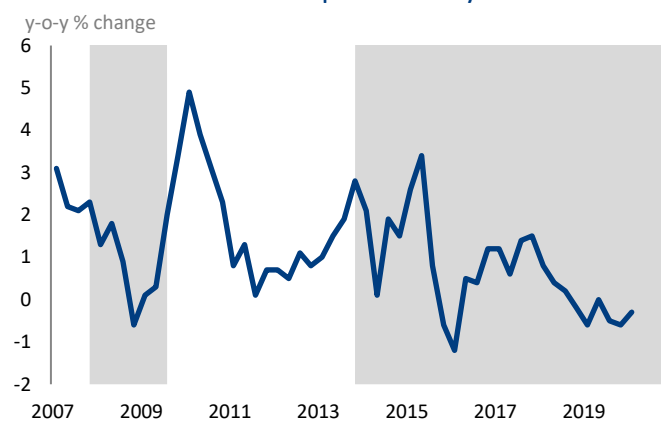
Source: Stats SA

Unit labour cost



Source: SARB

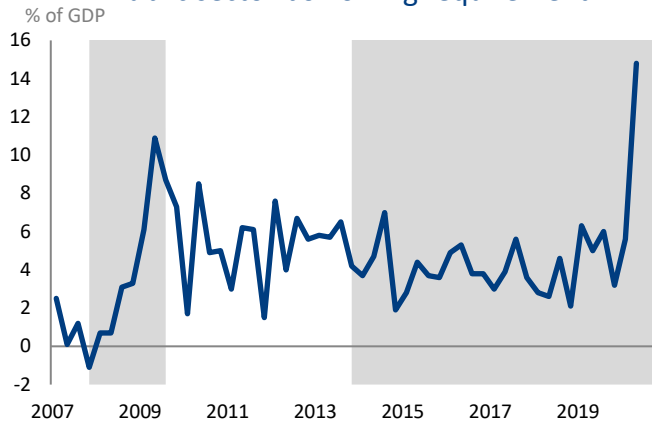
Labour productivity



Source: SARB

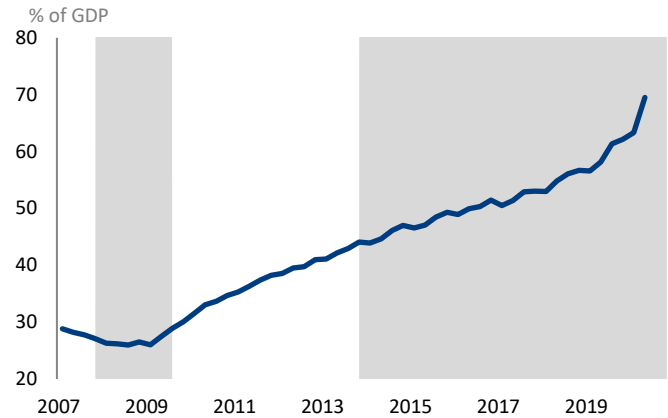
Government

Public sector borrowing requirement



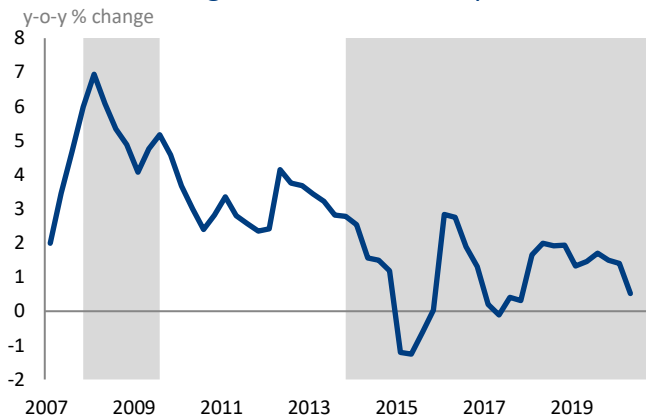
Source: SARB

Gross government debt



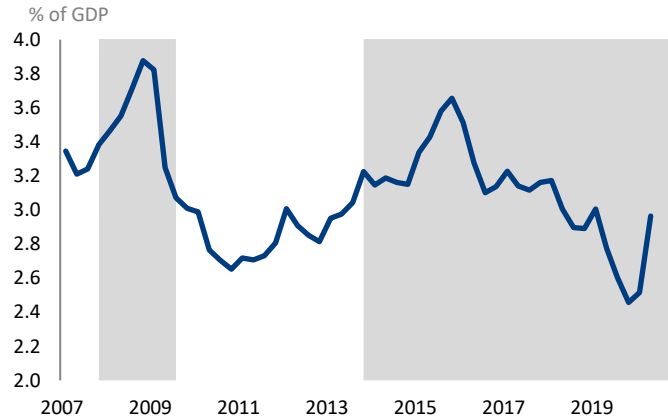
Source: SARB

Real government consumption



Source: SARB, Stats SA

Government fixed investment



Source: SARB, Stats SA

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