BUREAU FOR ECONOMIC RESEARCH

Economic Snapshot

December 2017

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

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Highlights

S&P cuts local currency rating to junk, Moody's on 90-day review

On 24 November S&P Global cut SA's long-term foreign currency sovereign credit rating by another notch to 'BB' from 'BB+', which is two notches below investment grade. Of particular importance is that S&P also lowered the local currency (LC) rating to sub-investment grade, i.e. to 'BB+' from 'BBB-'. Both ratings were assigned a stable outlook, indicating further near-term downgrades are unlikely. However, Moody's decided to maintain SA's investment grade foreign and LC ratings, implying that SA will remain in the Citibank World Government Bond Index (WGBI), for now. Still, Moody's placed both SA's long-term foreign and LC ratings on a 90-day review for a downgrade. This suggests that if the February 2018 Budget does not include credible measures to improve SA's medium-term GDP growth outlook and stabilise public debt levels, Moody's will cut the ratings to junk status by late 2018Q1. This will trigger a WGBI exit and could potentially have a significant (albeit highly uncertain) adverse impact on especially the rand exchange rate and the value of SA government bonds.

MPC keeps policy interest rate on hold

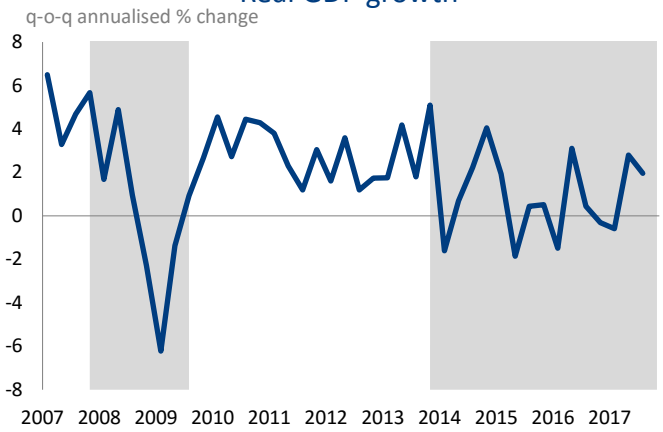
On 23 November the Monetary Policy Committee (MPC) left its policy interest rate unchanged at 6.75% (implying a prime lending rate of 10.25%) at their final meeting for the year. This unanimous decision was in line with market expectations. For the first time, the latest MPC decision was accompanied by guidance on the outlook for the policy interest rate. This is generated by the SARB's new Quarterly Projection Model (QPM). Currently, the model indicates that the repo rate could increase by 75bps through 2019. However, the MPC statement was explicit that they are not bound to follow this path through actual policy changes. BER clients can read more at this link.

Unemployment rate remains very high in 2017Q3

According to Statistics South Africa (Stats SA), 187 000 formal sector jobs were created in SA during 2017Q3. In contrast, job losses were recorded in the informal and agricultural sectors. As a result, a net gain of 92 000 jobs was registered, with most of the new jobs recorded in the tertiary sector. Meanwhile, the labour force expanded by 125 000 people to 22.4 million. Consequently, the unemployment rate remained high at 27.7% (a total of 6.21 million people were classified as being unemployed).

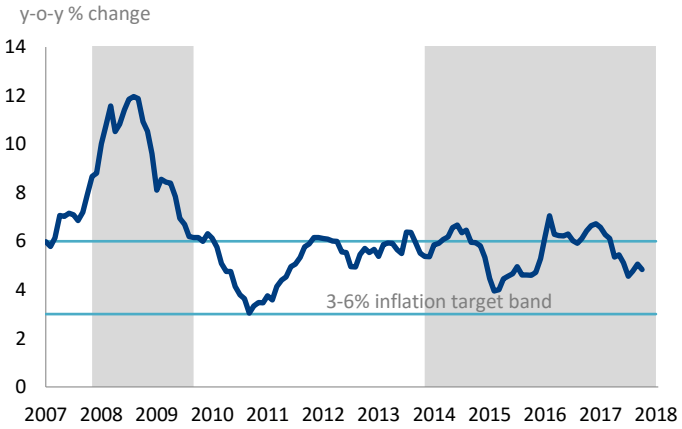
Core indicators

Real GDP growth



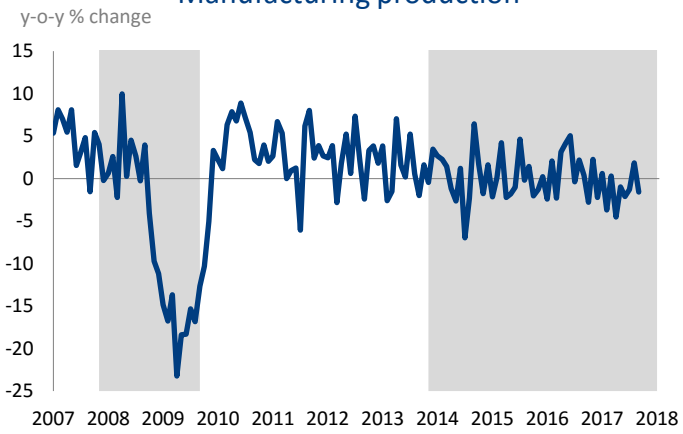
Source: Stats SA

CPI inflation



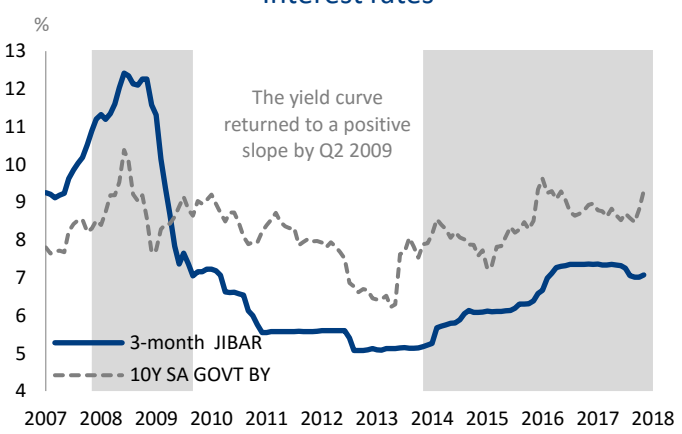
Source: Stats SA

Manufacturing production



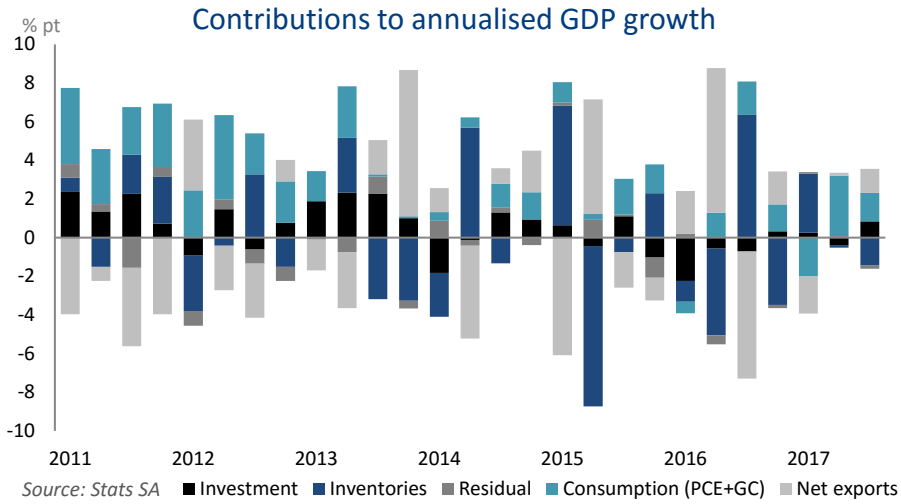
Source: Stats SA

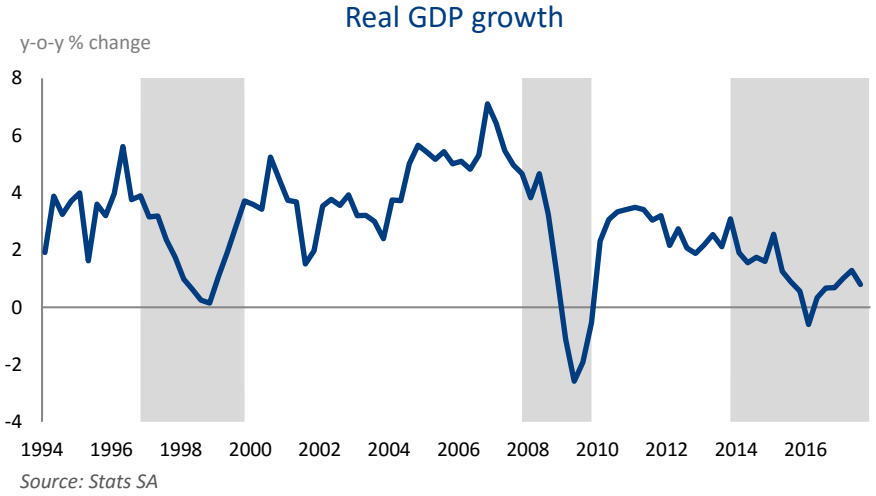
Interest rates



Source: Thomson Reuters

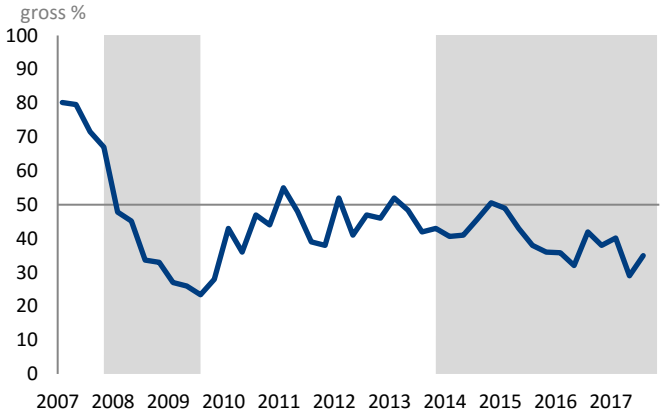
GDP growth


Contributions to annualised GDP growth
% pt
10
8
6
4
2
0
-2
-4
-6
-8
-10
2011
2012
2013
2014
2015
2016
2017
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
Source: Stats SA

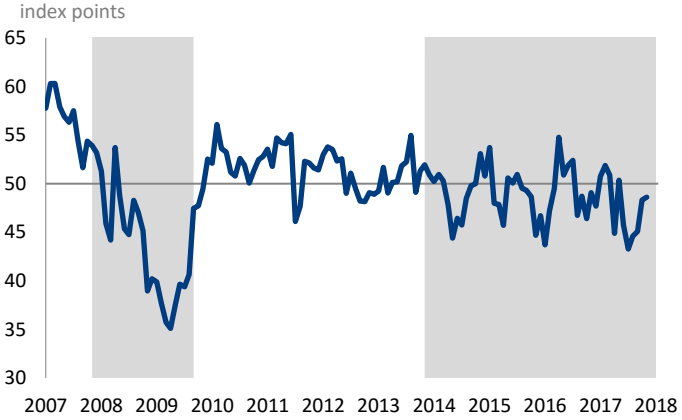
Business environment

RMB/BER Business Confidence Index



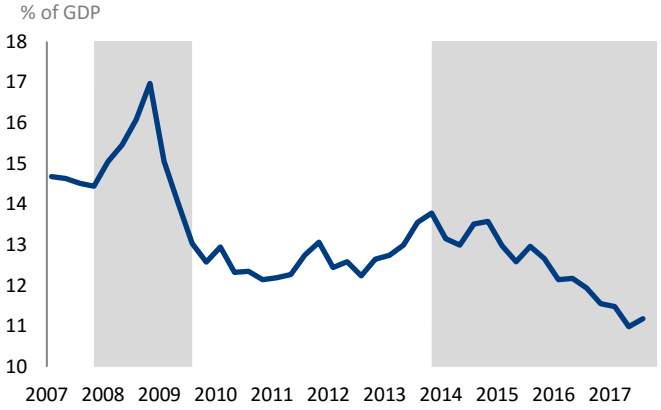
Source: BER

Absa Purchasing Managers Index



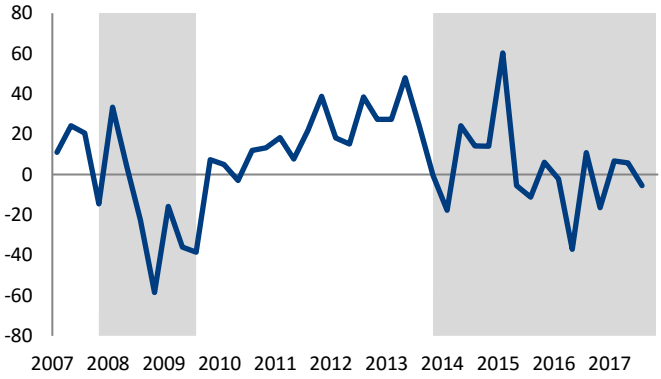
Source: BER

Private fixed investment



Source: SARB, Stats SA

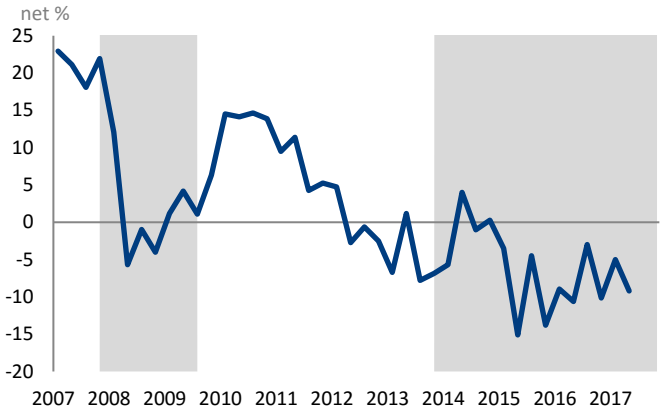
Changes in inventories



Source: SARB, Stats SA

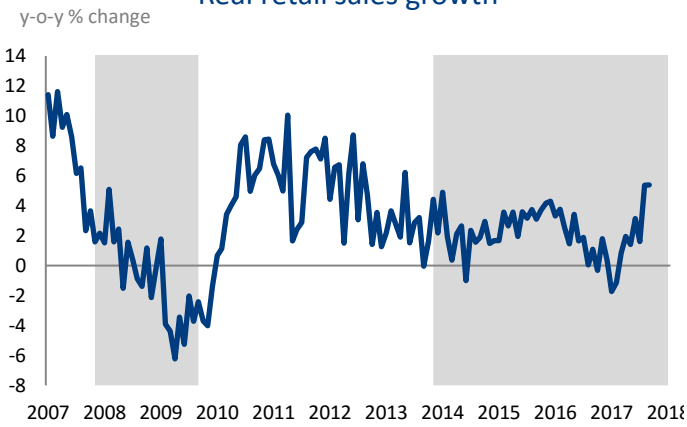
Household consumption

FNB/BER Consumer Confidence Index



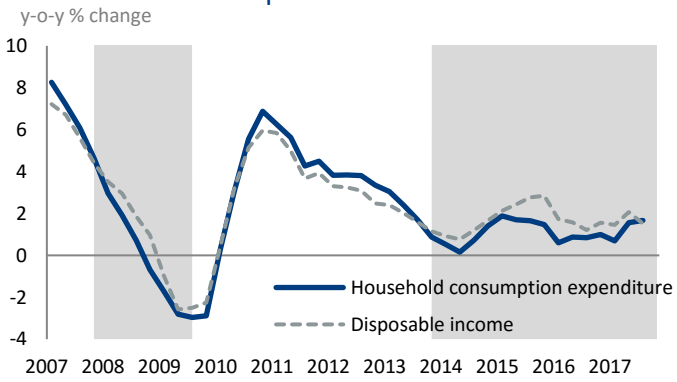
Source: BER

Real retail sales growth



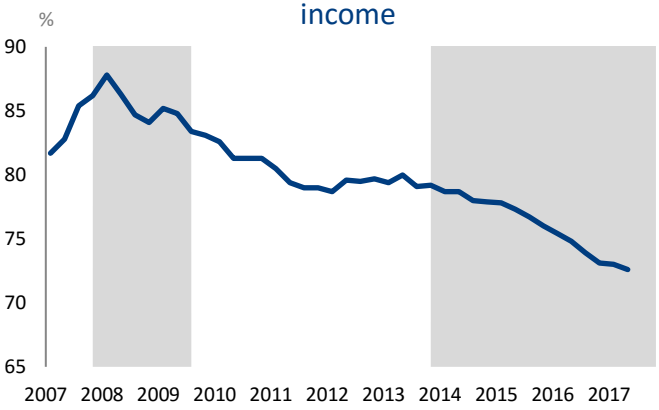
Source: Stats SA

Household consumption and real disposable income



Source: SARB, Stats SA

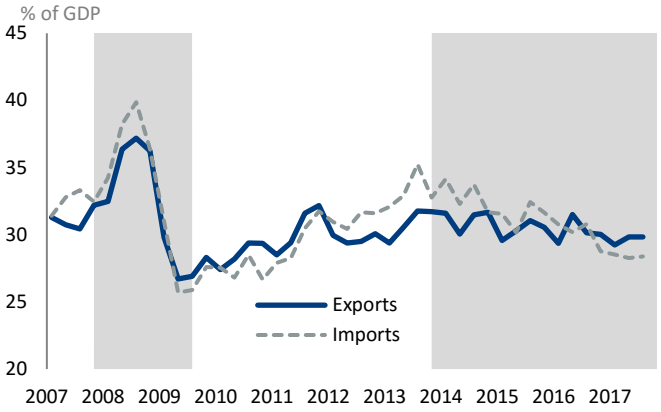
Ratio of household debt to disposable income



Source: SARB

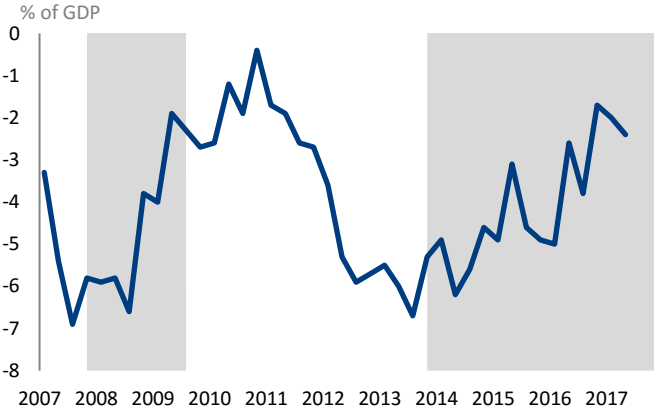
International trade

Imports and exports



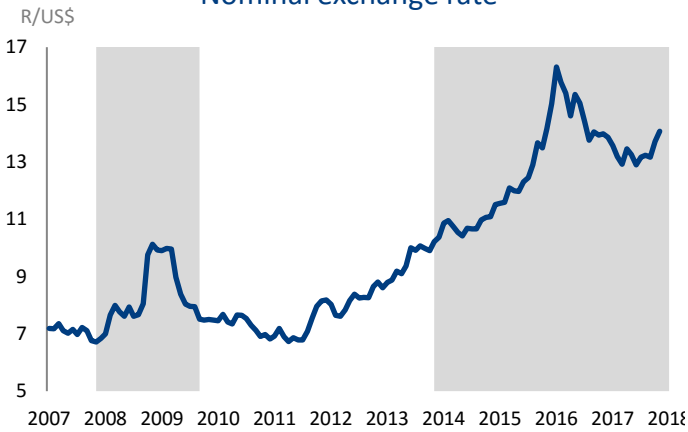
Source: SARB, Stats SA

Current account balance



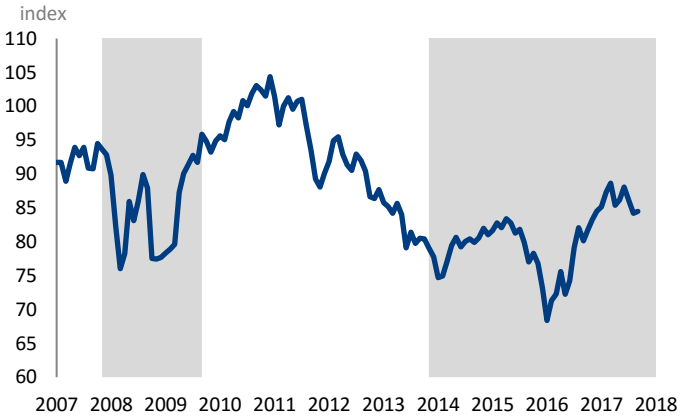
Source: SARB

Nominal exchange rate



Source: Thomson Reuters

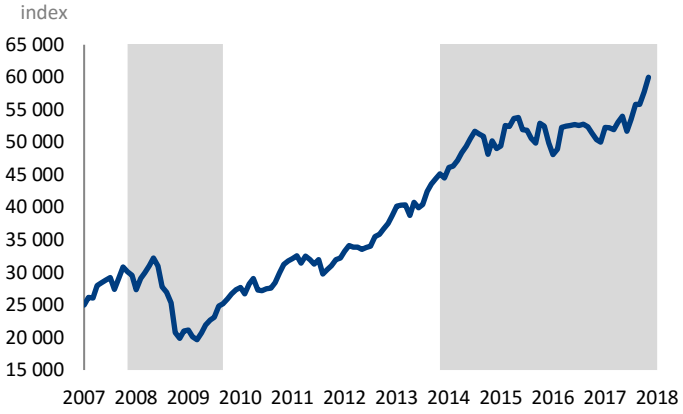
Real effective exchange rate of the Rand



Source: SARB

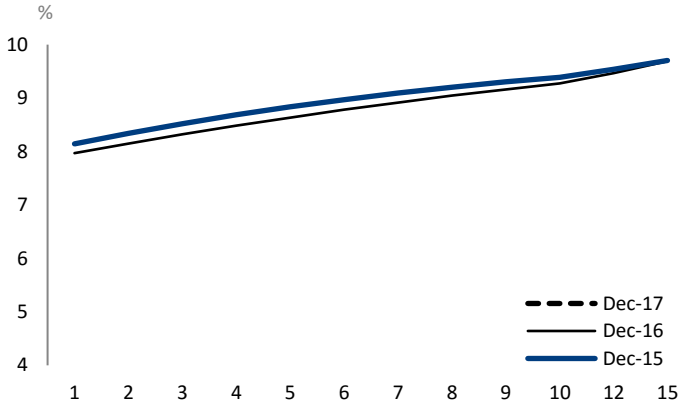
Financial markets

JSE all share index



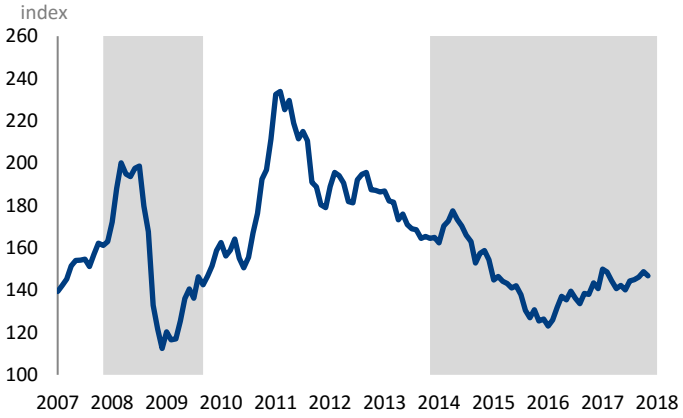
Source: Thomson Reuters

Yield curve comparisons



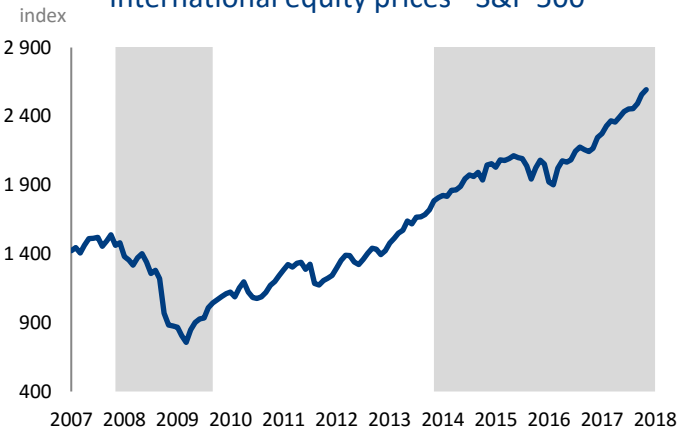
Source: Thomson Reuters

Economist all commodities index



Source: Economist

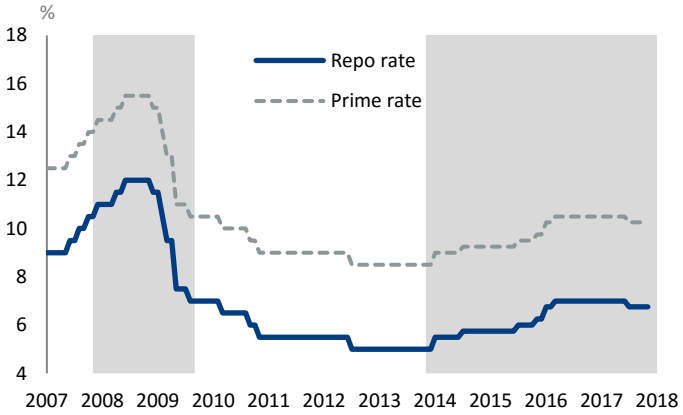
International equity prices - S&P 500



Source: Thomson Reuters

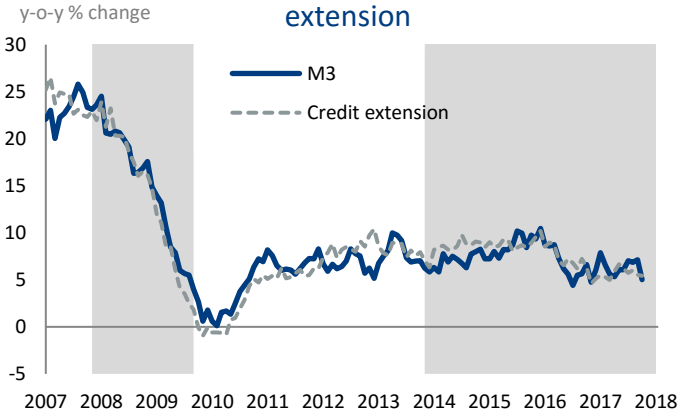
Money and prices

Repo and prime interest rate



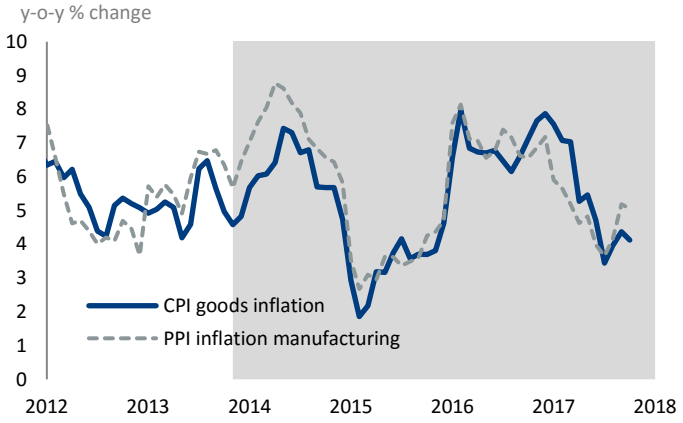
Source: SARB

M3 monetary aggregates and credit extension



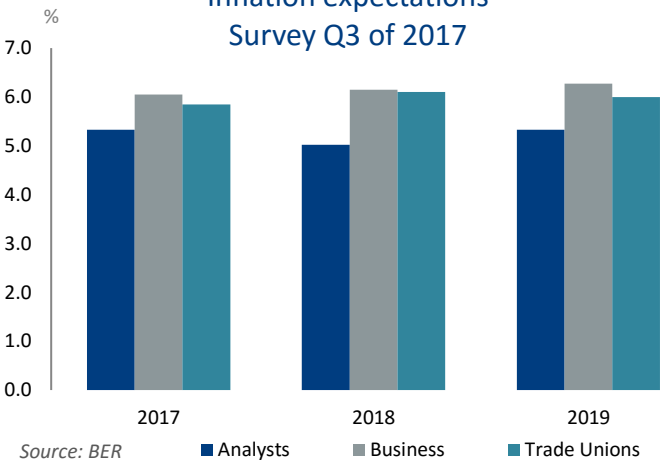
Source: SARB

Consumer and producer prices



Source: Stats SA

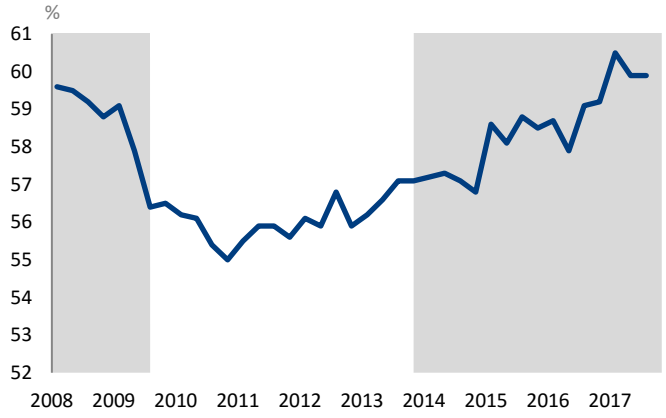
Inflation expectations Survey Q3 of 2017



Source: BER

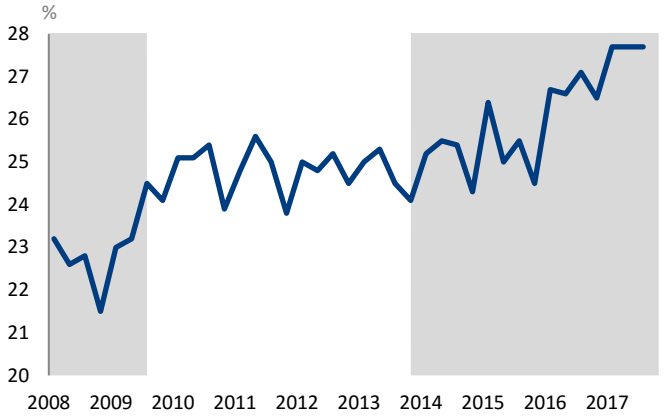
Labour

Labour force participation



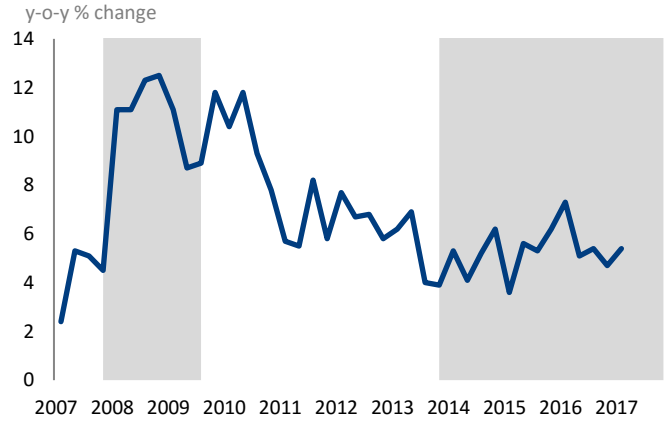
Source: Stats SA

Unemployment rate



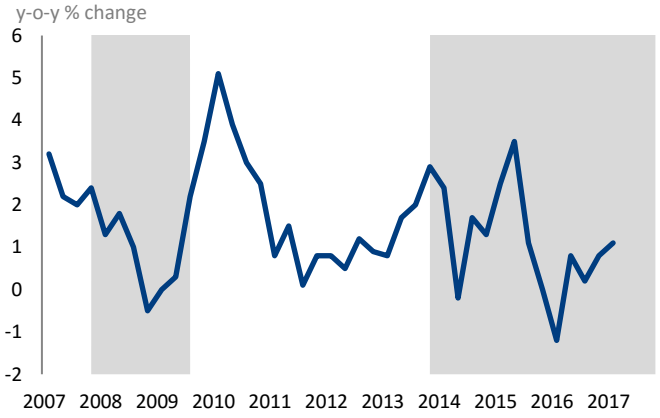
Source: Stats SA

Unit labour cost



Source: SARB

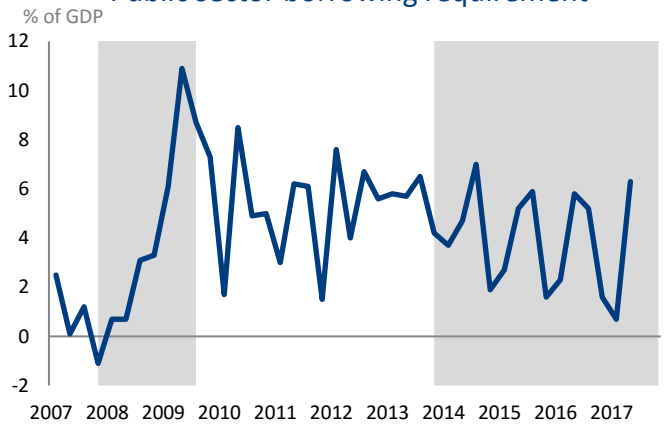
Labour productivity



Source: SARB

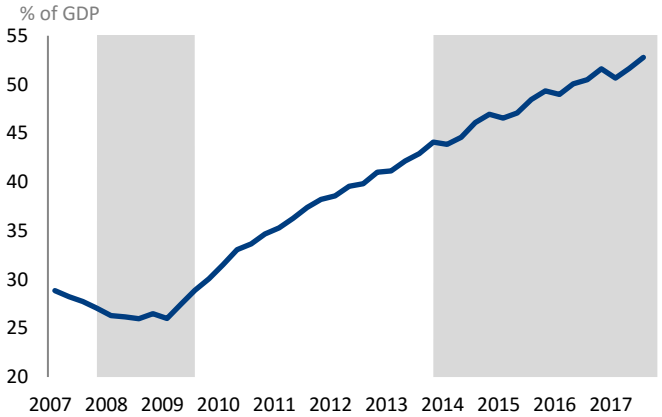
Government

Public sector borrowing requirement



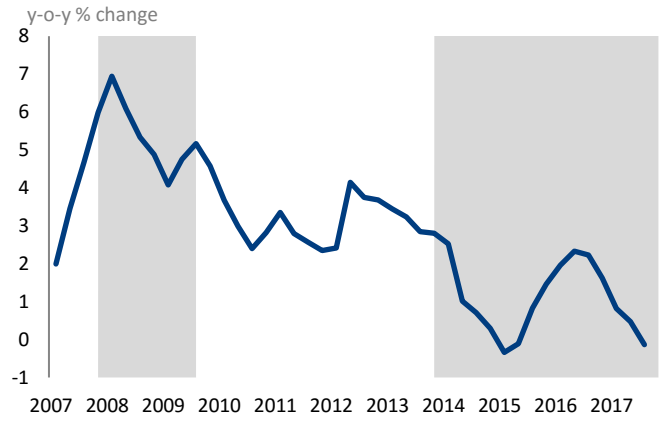
Source: SARB

Gross government debt



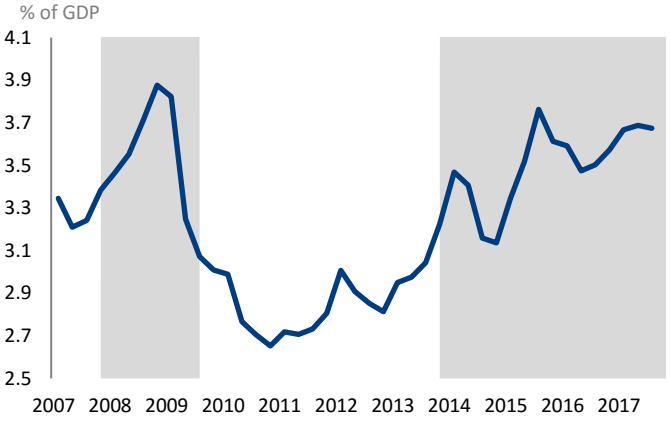
Source: SARB

Real government consumption



Source: SARB, Stats SA

Government fixed investment



Source: SARB, Stats SA

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