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

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Highlights

Ruling party gets new leadership

Cyril Ramaphosa was elected the new leader of the ANC on 18 December at the ruling party's five-yearly national conference. He is viewed by the market as a more investor-friendly candidate. Following the announcement, the rand appreciated from R13.44 per US dollar to R12.64 in one day.

Economic growth accelerates somewhat in Q3

Statistics SA reported that GDP expanded by a seasonally adjusted and annualised (saa) 2.0% in the third quarter of 2017. The main driver was the significant 44.2% quarterly increase in gross value added by the agriculture, forestry and fishing sector, the biggest increase in 21 years. Growth was also positive in the mining and manufacturing sectors. However, gross value added by the construction sector declined for a third straight quarter, falling by 1.1%. The trade, catering and accommodation sector also contracted during the third quarter.

Current account improves in Q3

According to the latest SA Reserve Bank Quarterly Bulletin, the deficit on the current account declined from 2.4% of GDP in 2017Q2 to 2.3% in Q3. Both exports and imports declined slightly during the quarter, resulting in an improvement in the trade surplus from R64 billion in 2017Q2 to R71 billion in Q3. The improvement in the trade balance was countered by a structural deficit on the services and income account, resulting in the deficit on the current account. The current account deficit has now improved from close to 6% of GDP to just over 2%, mainly due to an improved net export position.

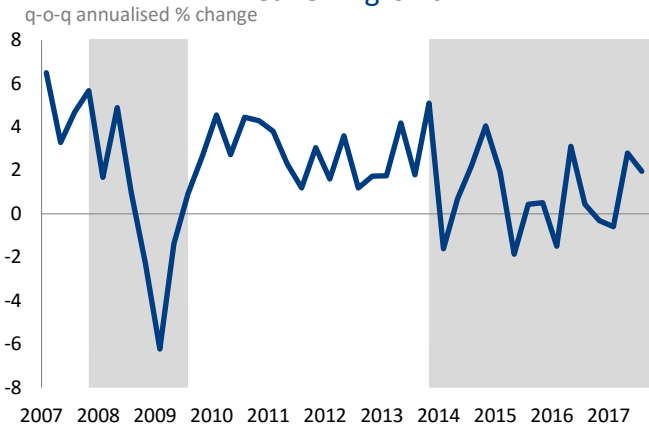
CPI inflation moderates in November

Headline consumer inflation moderated from 4.8% year-on-year (y-o-y) in October to 4.6% in November. Increases in the cost of housing and utilities contributed the most to annual inflation, followed by miscellaneous goods and services. Among the subcategories, meat price inflation remains high at 15.5% y-o-y, whereas bread, cereals and fruit prices declined on an annual basis.

Producer price inflation for November came in at 5.1% y-o-y, largely unchanged from the 5% recorded in October.

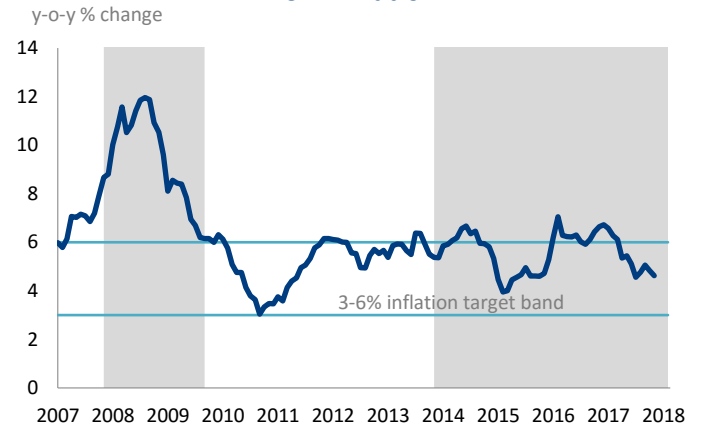
Core indicators

Real GDP growth



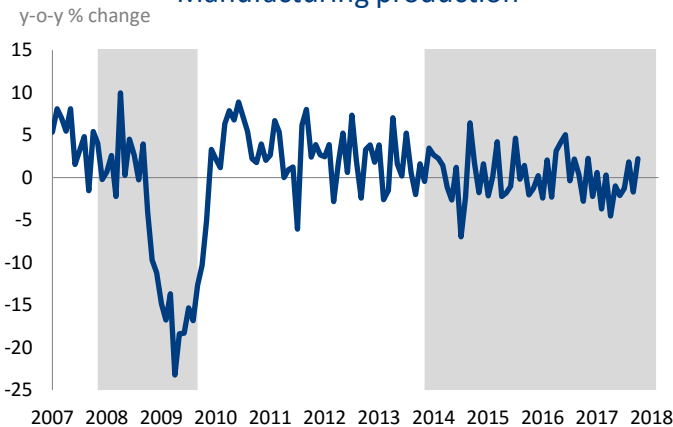
Source: Stats SA

CPI inflation



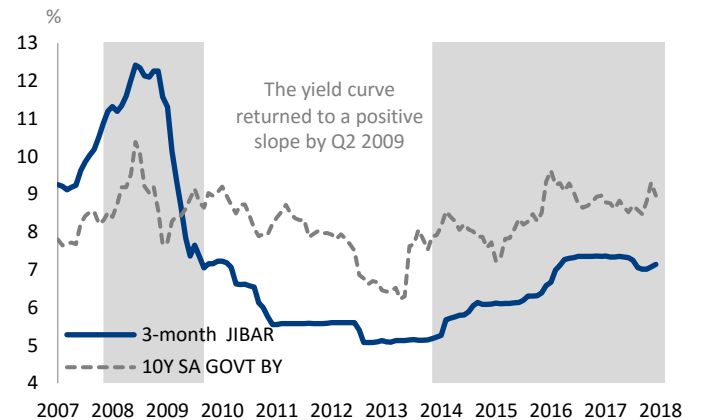
Source: Stats SA

Manufacturing production



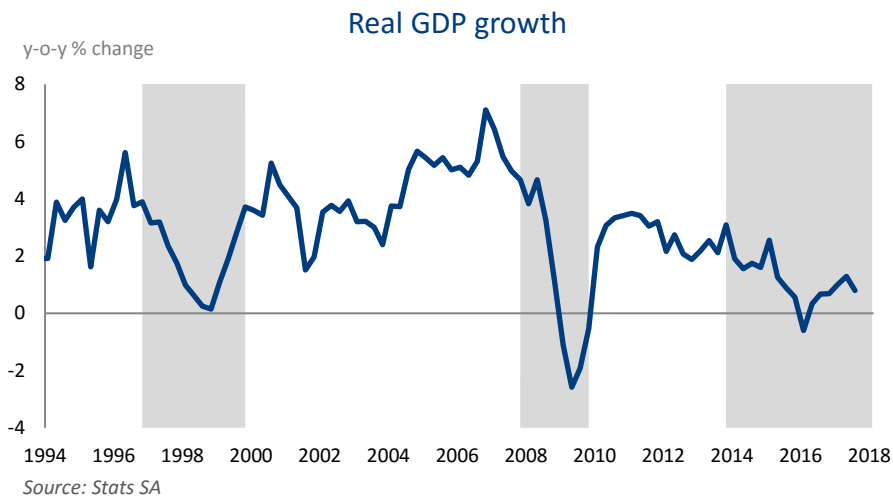
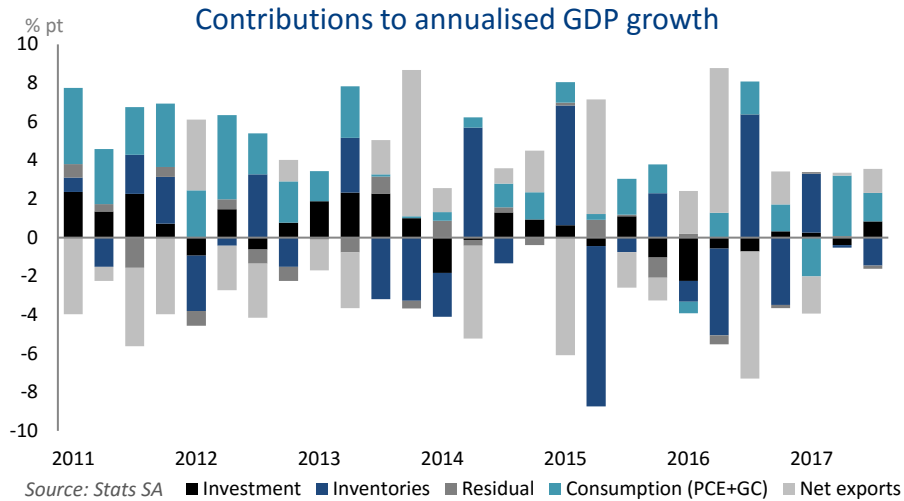
Source: Stats SA

Interest rates



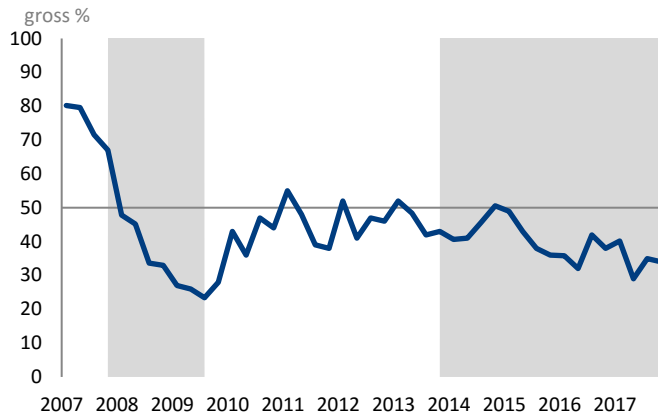
Source: Thomson Reuters

GDP growth



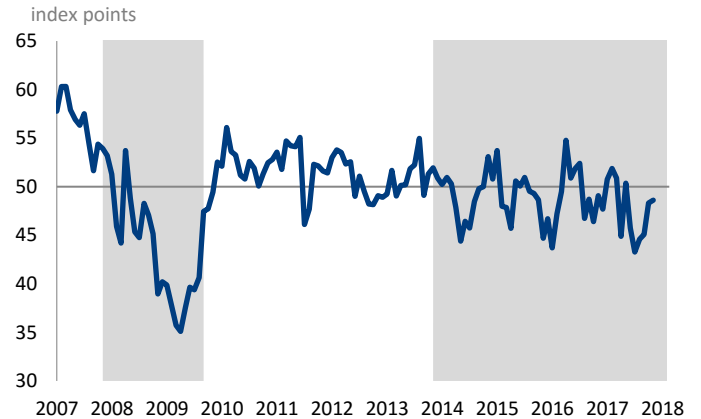
Business environment

RMB/BER Business Confidence Index



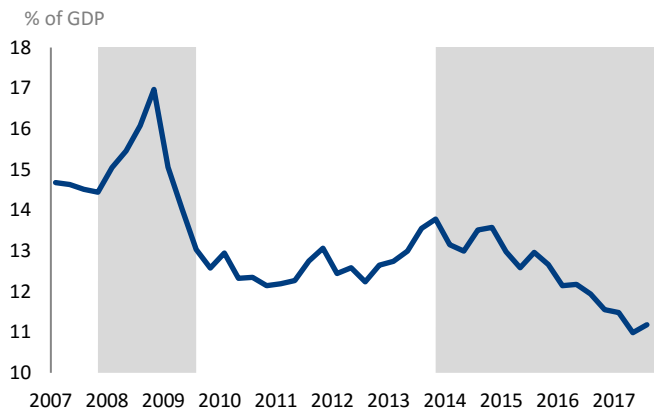
Source: BER

Absa Purchasing Managers Index



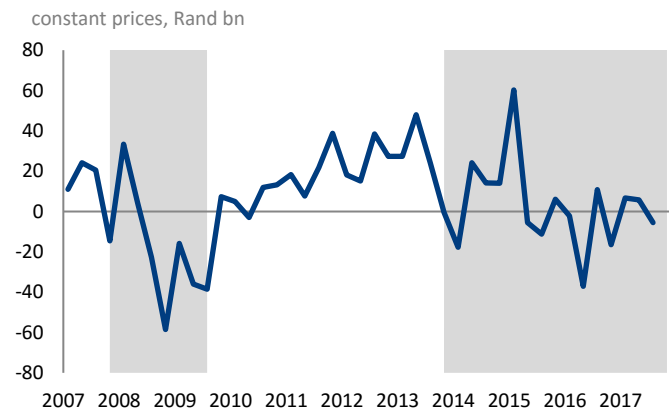
Source: BER

Private fixed investment



Source: SARB, Stats SA

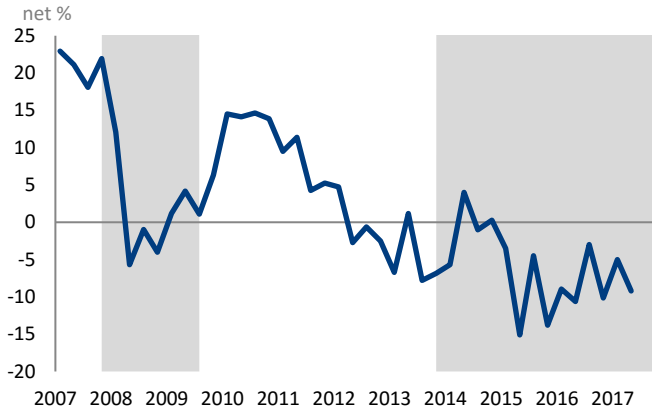
Changes in inventories



Source: SARB, Stats SA

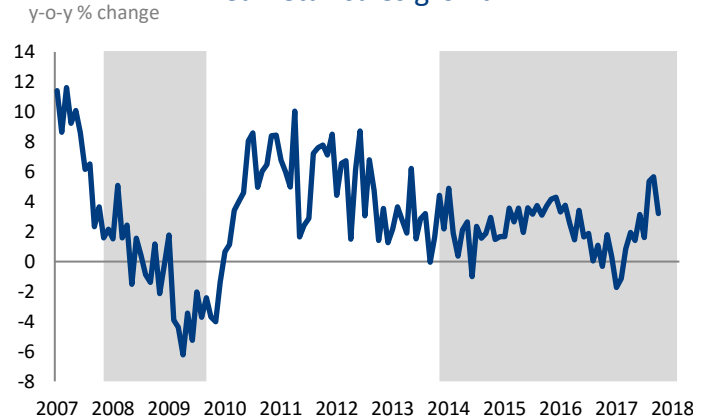
Household consumption

FNB/BER Consumer Confidence Index



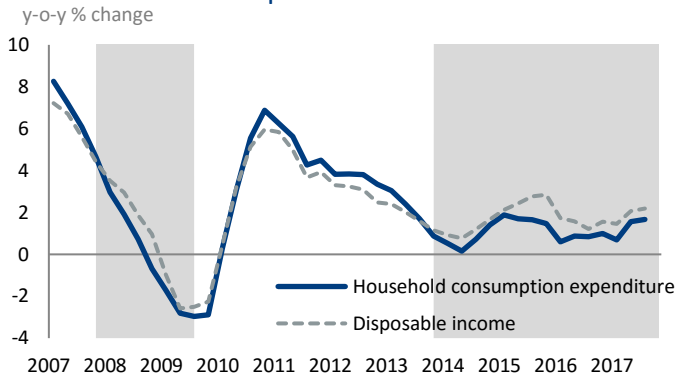
Source: BER

Real retail sales growth



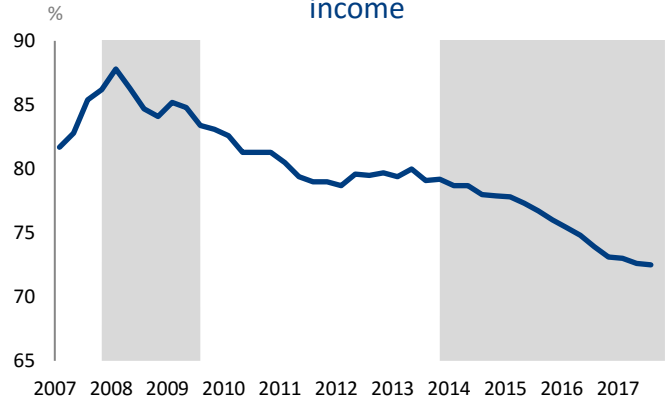
Source: Stats SA

Household consumption and real disposable income



Source: SARB, Stats SA

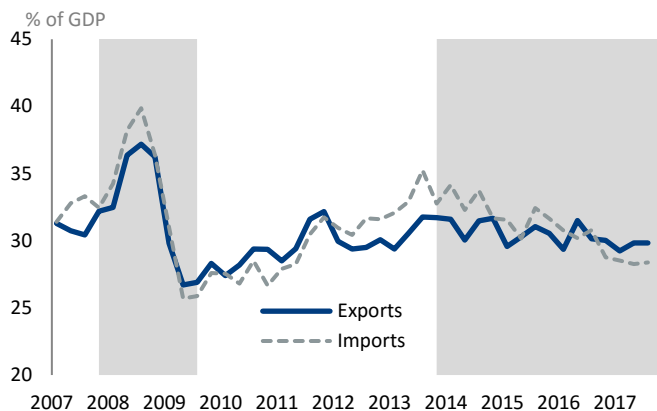
Ratio of household debt to disposable income



Source: SARB

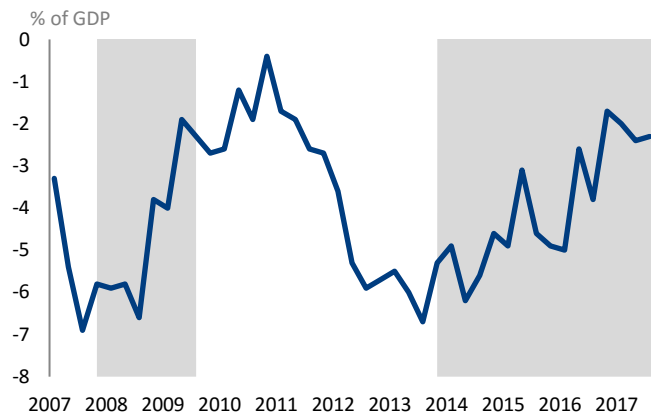
International trade

Imports and exports



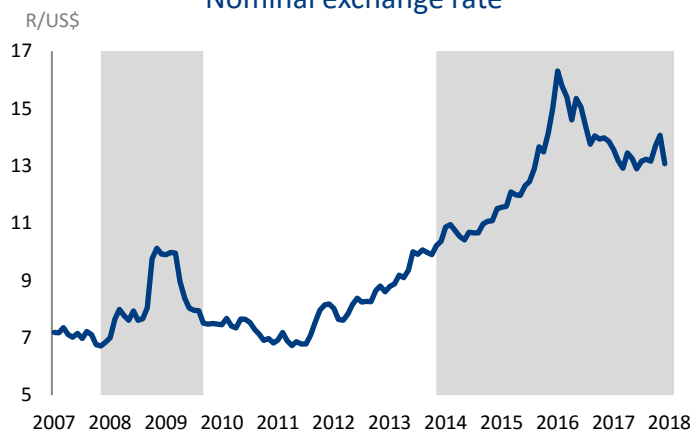
Source: SARB, Stats SA

Current account balance



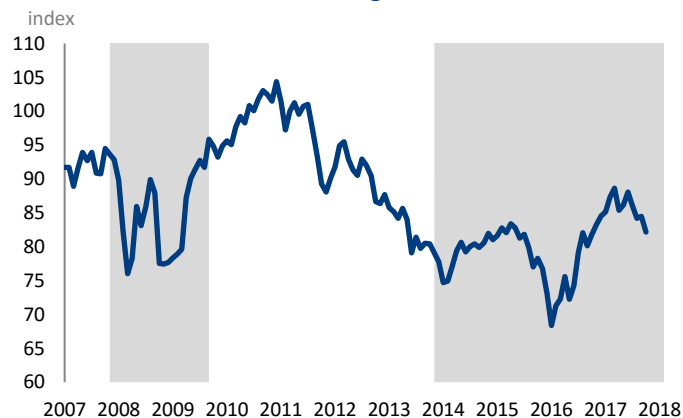
Source: SARB

Nominal exchange rate



Source: Thomson Reuters

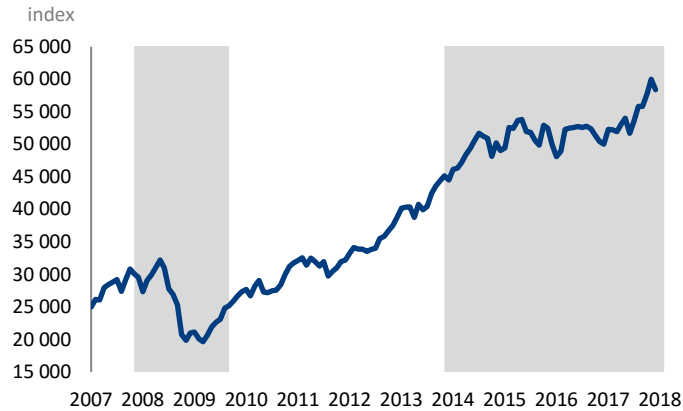
Real effective exchange rate of the Rand



Source: SARB

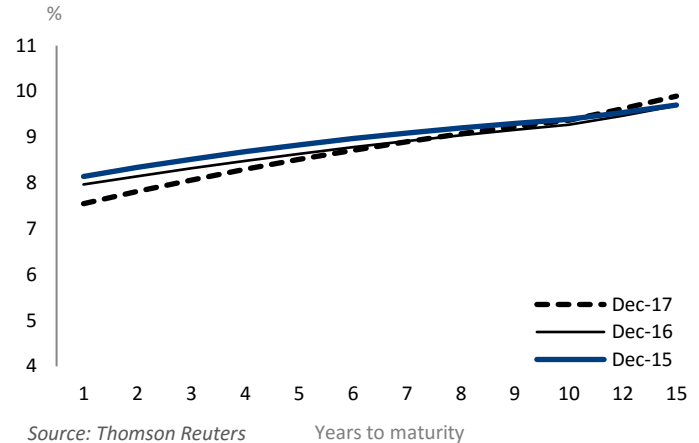
Financial markets

JSE all share index



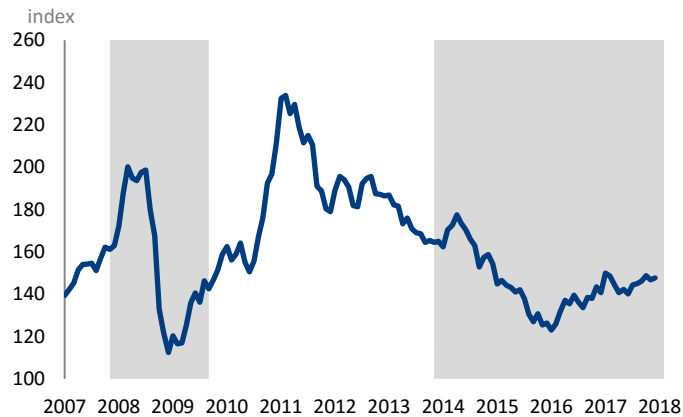
Source: Thomson Reuters

Yield curve comparisons



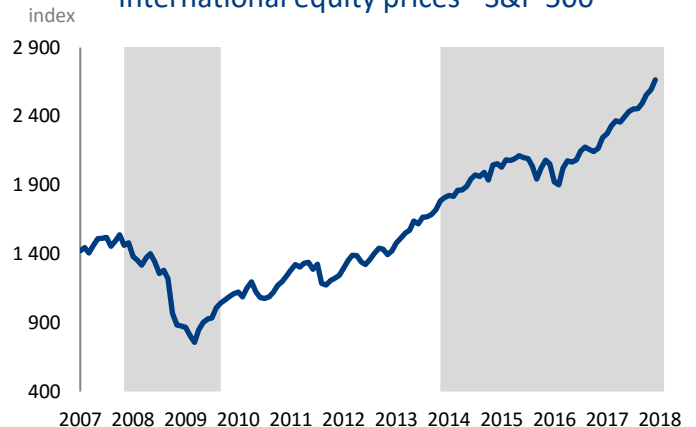
Source: Thomson Reuters

Economist all commodities index



Source: Economist

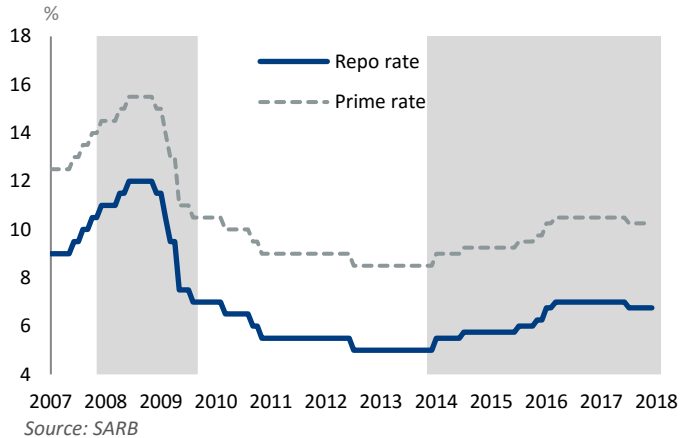
International equity prices - S&P 500



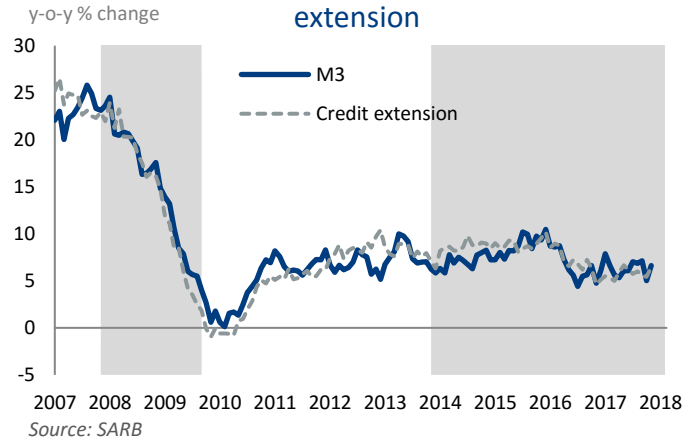
Source: Thomson Reuters

Money and prices

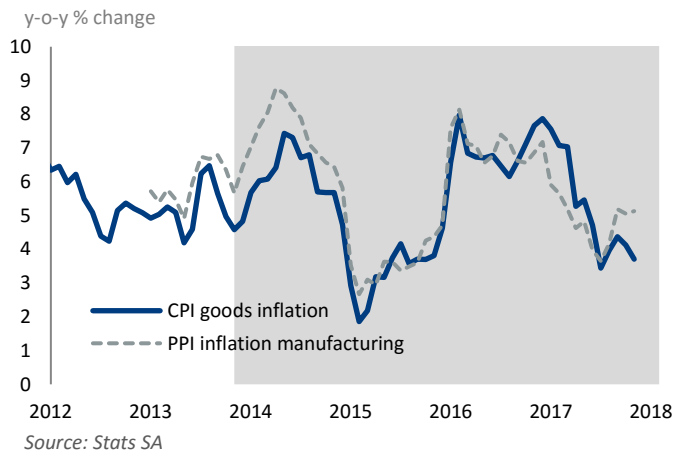
Repo and prime interest rate



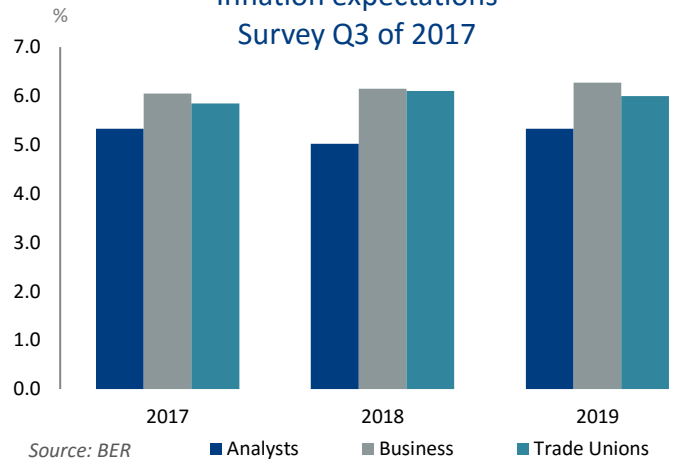
M3 monetary aggregates and credit extension



Consumer and producer prices

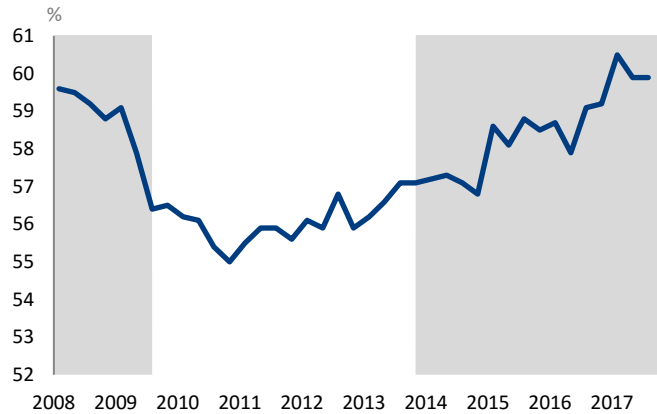


Inflation expectations Survey Q3 of 2017



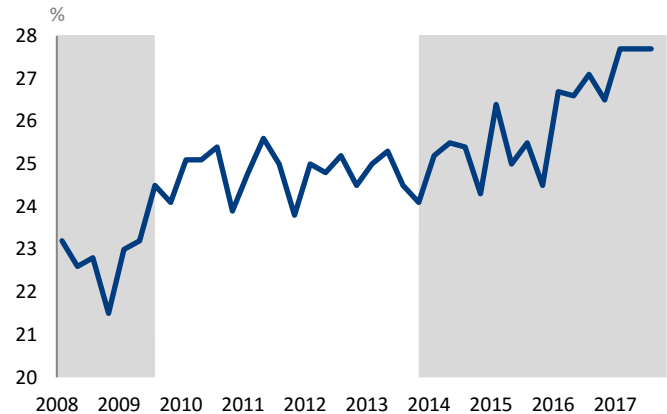
Labour

Labour force participation



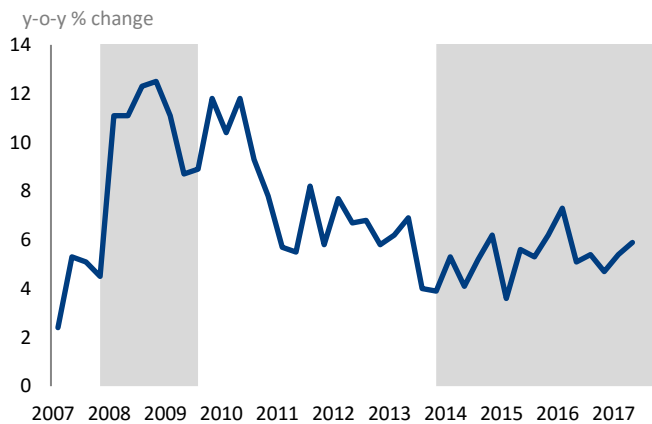
Source: Stats SA

Unemployment rate



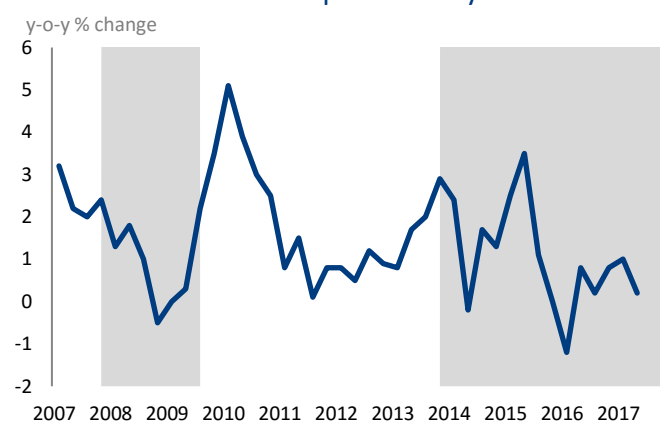
Source: Stats SA

Unit labour cost



Source: SARB

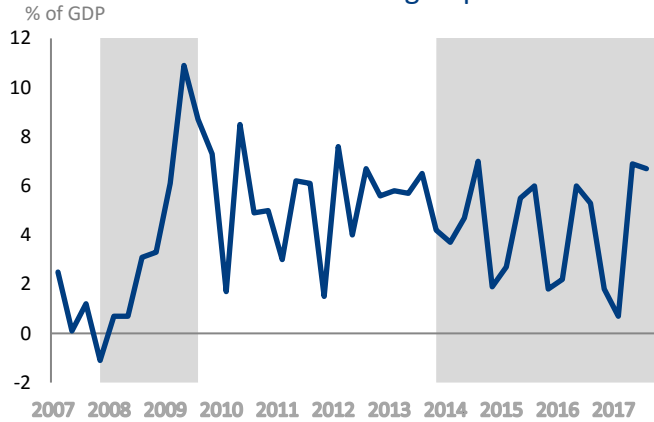
Labour productivity



Source: SARB

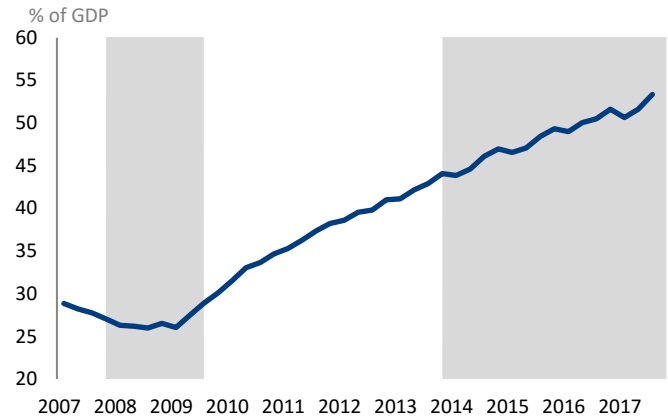
Government

Public sector borrowing requirement



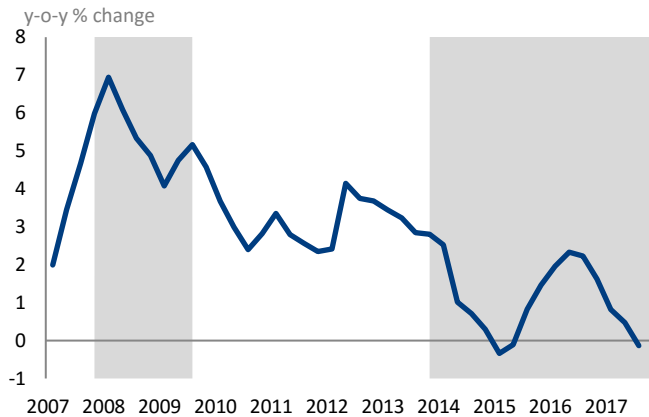
Source: SARB

Gross government debt



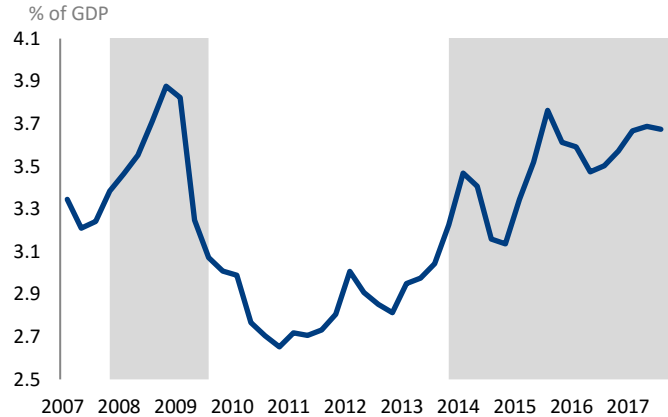
Source: SARB

Real government consumption



Source: SARB, Stats SA

Government fixed investment



Source: SARB, Stats SA

Recession algorithm¹

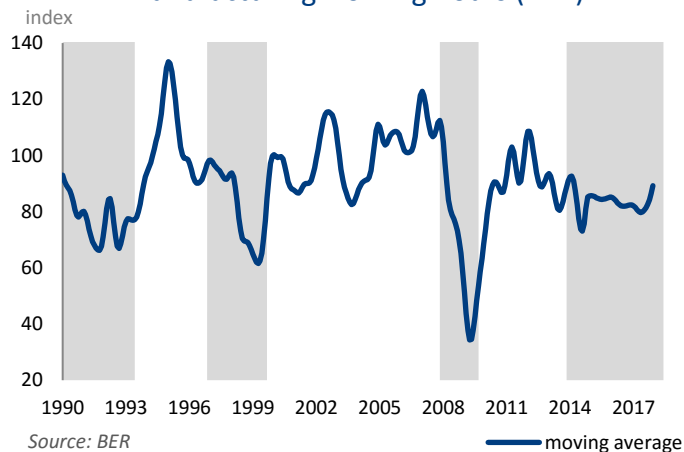
Real GDP growth continued to rebound during the third quarter as 2% (saa) growth was registered on top of an upwardly revised 2.8% growth rate during the second quarter. This rebound took the y-o-y real GDP growth rate to 0.8% in the third quarter. However, the overall growth picture is less than robust. This is especially true when it is considered that close to 60% of growth (saa) in 2017Q2 and 2017Q3 was delivered by the rebound in the primary sector, driven mainly by the bumper maize crop in agriculture. The mining and manufacturing sectors also contributed positively to economic growth. In contrast, the construction sector contracted for the third consecutive quarter, while activity in water and electricity and retail, wholesale and accommodation also diminished. Furthermore, tight fiscal conditions are also causing real value added and spending in the general government sector to contract. Whereas the primary and secondary sectors expanded during the middle quarters of the year, the wider tertiary sector continued to slow down, from real growth as high as 1.6% (saa) at the end of 2016 to a mere 0.3% during the third quarter of 2017.

On the demand side of the economy, there was higher activity levels in some areas of household consumption, for instance, new car sales. Private fixed investment in machinery and equipment also rebounded, however, the growth of this component has been erratic. Exports contracted in the third quarter, the impact of which was countered by an equivalent contraction in real imports. Business confidence moved sideways during the fourth quarter of the year as a general lack of direction permeated to the broader economy. Still, there is no sure sign of a lower turning point in the current phase of the business cycle. The positive election outcome at the ruling party's leadership conference in December 2017, combined with faster global growth, should boost local business and consumer confidence, particularly in the event of constructive economic policy developments. The economy may not only have averted a sustained cyclical contraction in 2017, but also a more dramatic collapse.

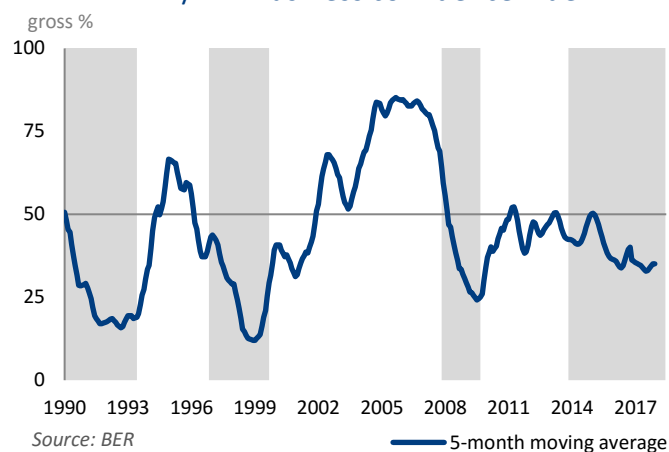
¹ Recession-dating algorithm for South Africa, which allows the BER to make accurate calls on business cycle turning points substantially sooner after the event than is the case with the official SARB determination. Read more at [this link](#).

Recession algorithm

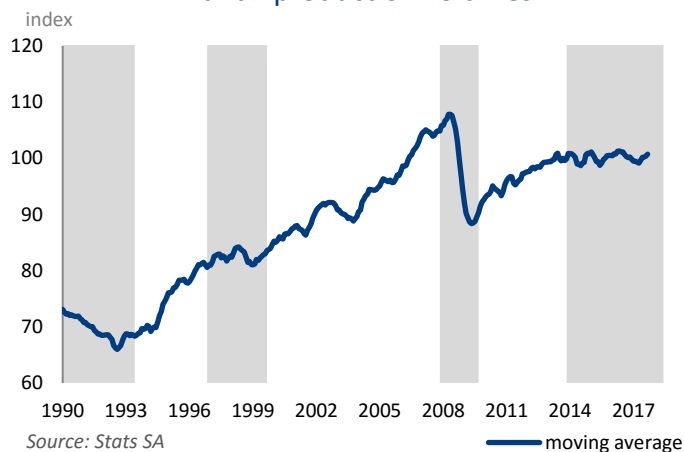
Manufacturing working hours (BER)



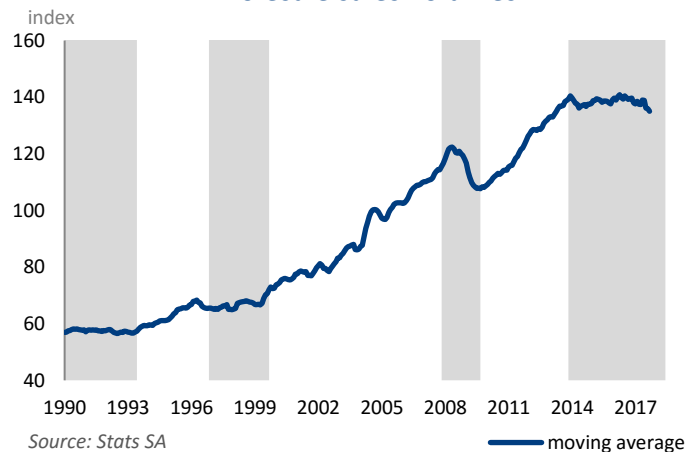
RMB/BER Business confidence index



Manuf. production volumes



Wholesale sales volumes



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