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

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Highlights

Moody's retain SA credit rating at investment grade

In a very positive development, Moody's not only affirmed SA's foreign and local currency investment grade credit ratings, but crucially also revised the outlook on the ratings from negative to stable. Including Fitch and S&P Global, this means that all three major credit rating agencies now have a stable outlook on SA's rating. For the near future, this removes the risk that SA bonds will fall out of key global bond indices. Moody's listed some key drivers of the positive rating decision. These include a halt in the deterioration of SA's institutional framework, an improved GDP growth outlook and the fiscal consolidation measures announced in the February Budget.

Consumer inflation moderates in February

According to Statistics South Africa, consumer price inflation, as measured by the headline consumer price index, slowed to 4% y-o-y in February. This was the lowest level in almost three years. The main contributors to the slowdown were the food and non-alcoholic beverages (FNAB) and transport categories. FNAB inflation slowed from 4.5% in January to 3.9% in February. Transport inflation moderated from 6.4% to 4.4%, mainly due to a 30c/litre drop in the price of petrol.

MPC lowers policy interest rate to 6.5% (prime at 10%)

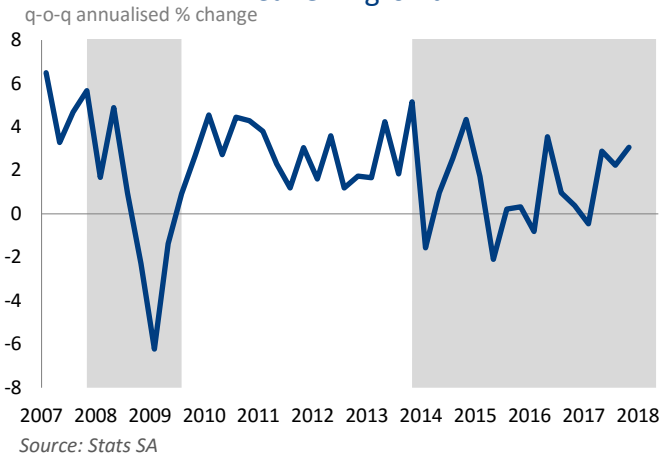
On 28 March, the Monetary Policy Committee of the SA Reserve Bank announced a reduction of 25 basis points in the repo rate to 6.5%. The Committee motivated their decision by an improvement in the Bank's inflation forecast, with risks thereto evenly balanced. This is despite the higher VAT rate from April 1st. They also welcomed the notable improvement in inflation expectations.

Annual mining and manufacturing output rose in January

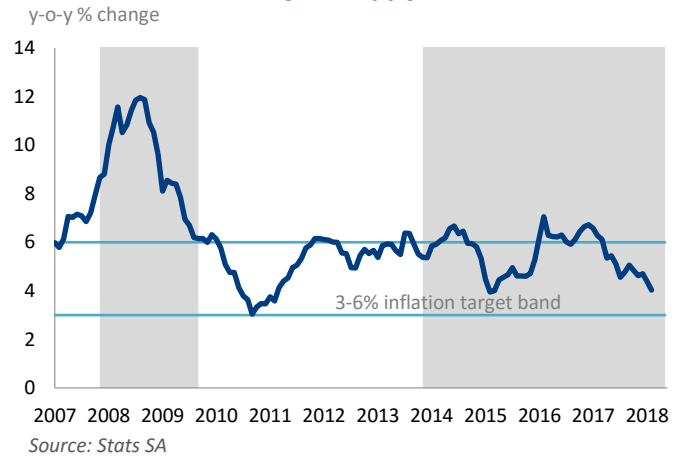
Manufacturing output rose by 2.5% y-o-y in January after expanding by 1.8% in December. The biggest contribution to the annual figure came from food and beverages, which expanded by 10.1%, contributing 2.5 percentage points to the total. **Mining** production increased by 2.4% y-o-y in January. The main positive contributors were iron ore (25.1% y-o-y) and 'other' non-metallic minerals (27.1%). However, platinum group metals (-13.6% y-o-y) and gold (-7.7%) were significant negative contributors.

Core indicators

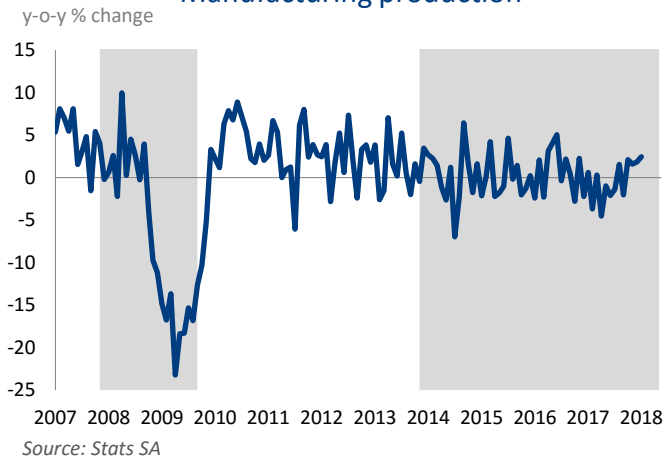
Real GDP growth



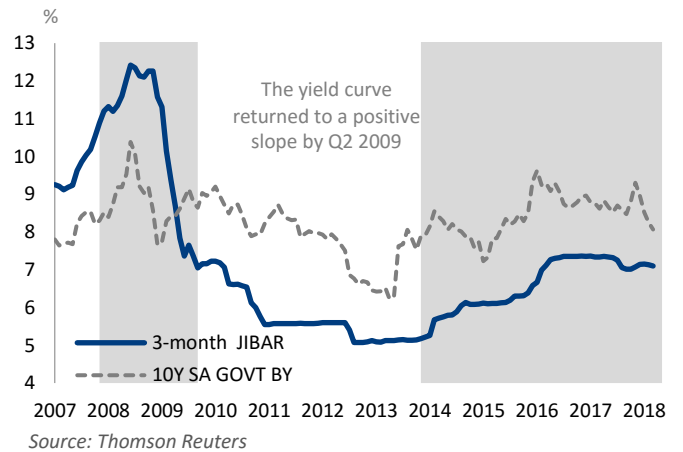
CPI inflation



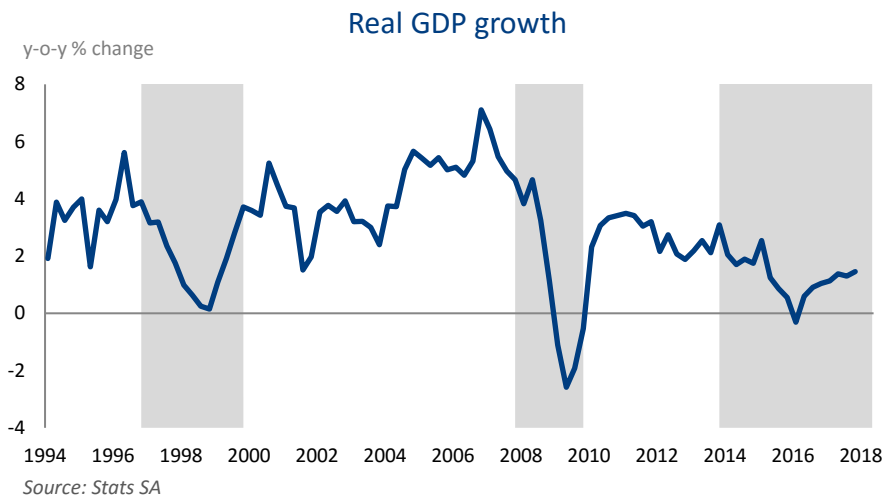
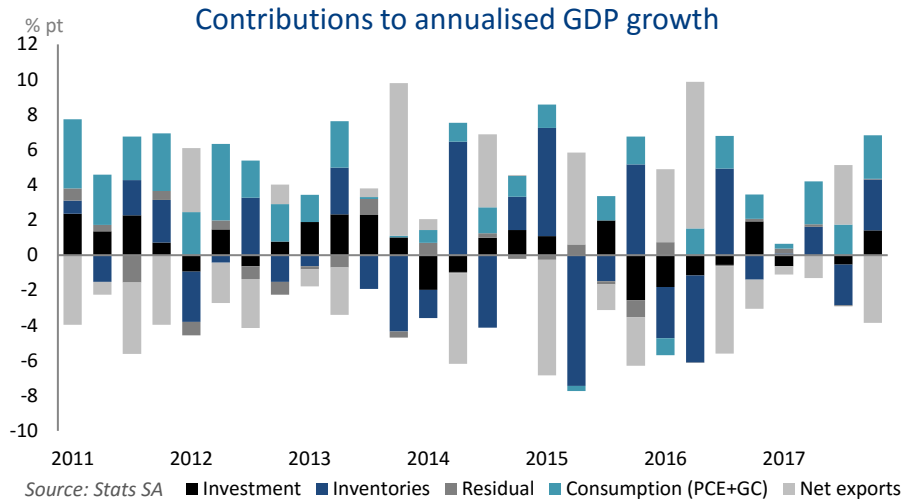
Manufacturing production



Interest rates

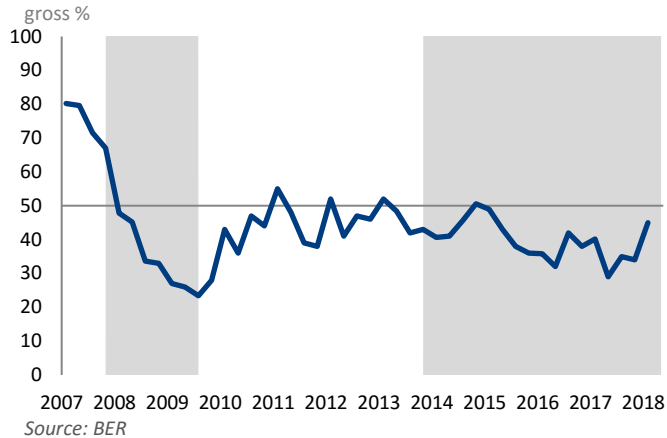


GDP growth

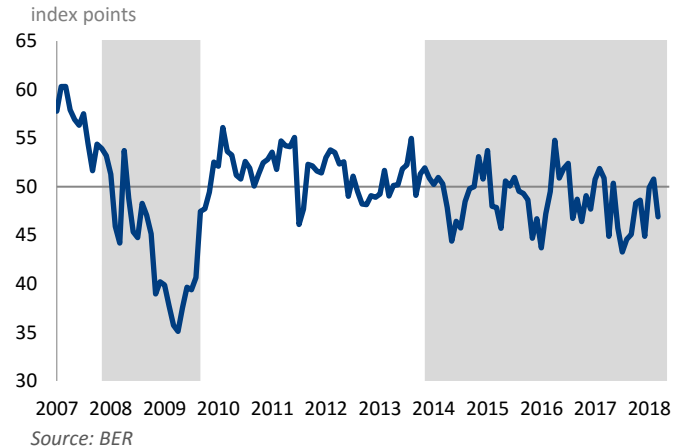


Business environment

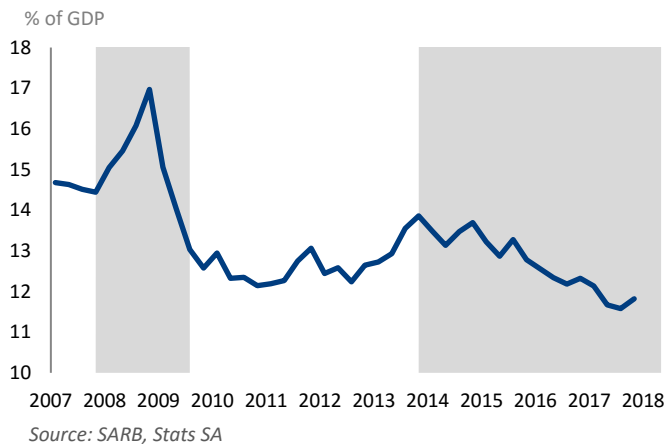
RMB/BER Business Confidence Index



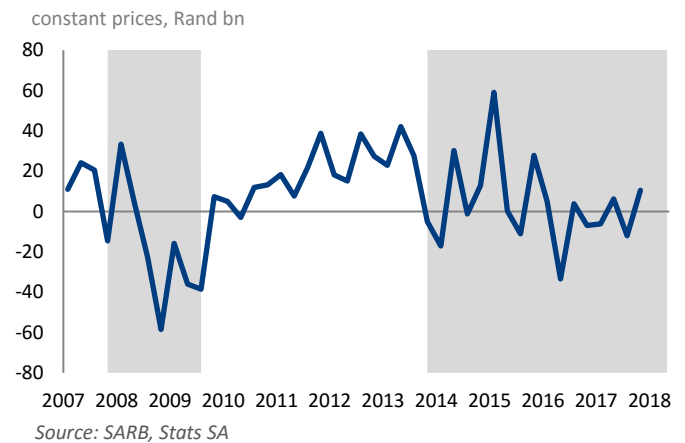
Absa Purchasing Managers Index



Private fixed investment

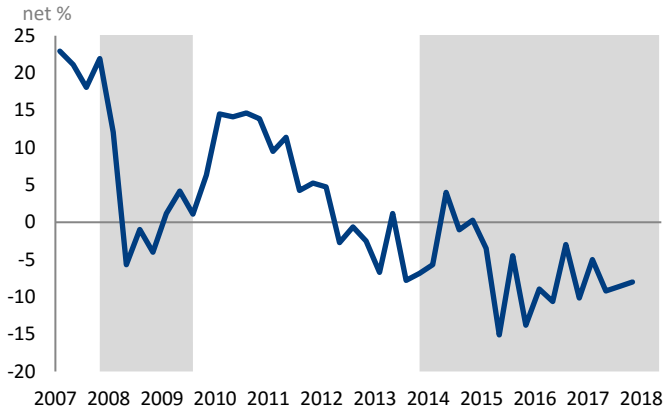


Changes in inventories



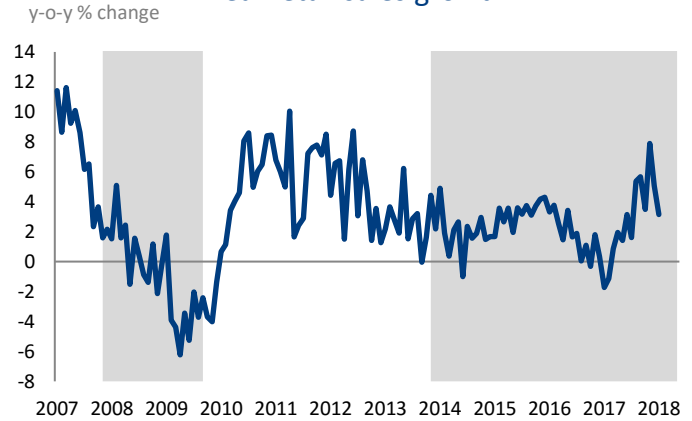
Household consumption

FNB/BER Consumer Confidence Index



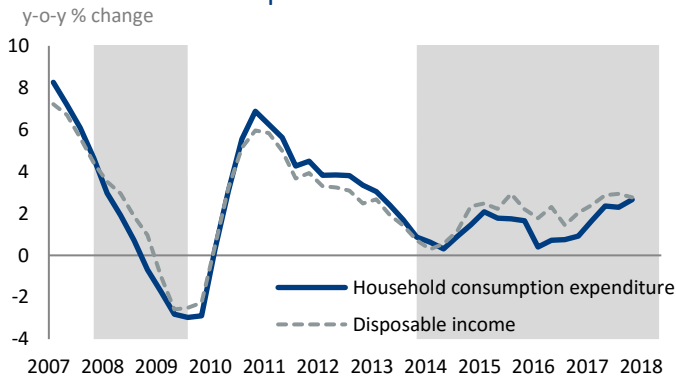
Source: BER

Real retail sales growth



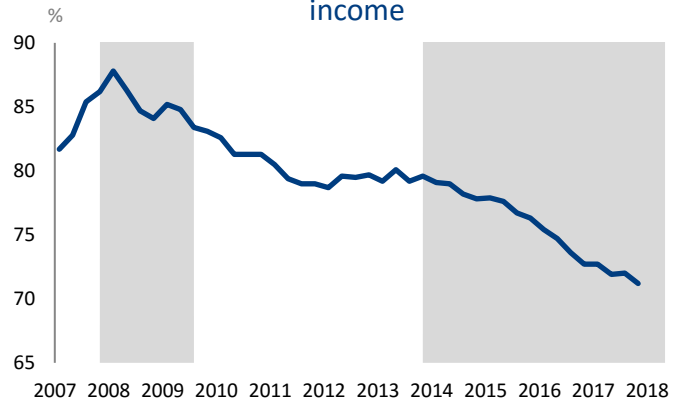
Source: Stats SA

Household consumption and real disposable income



Source: SARB, Stats SA

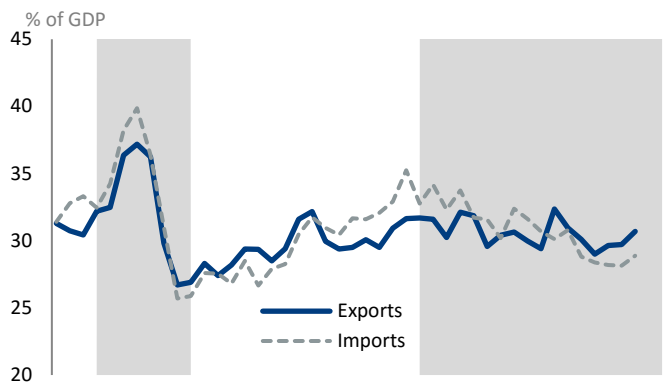
Ratio of household debt to disposable income



Source: SARB

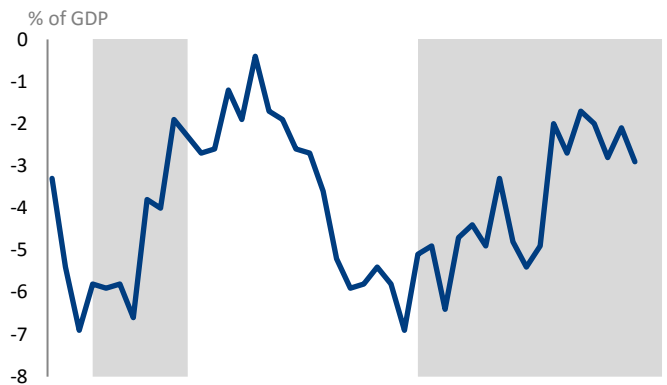
International trade

Imports and exports



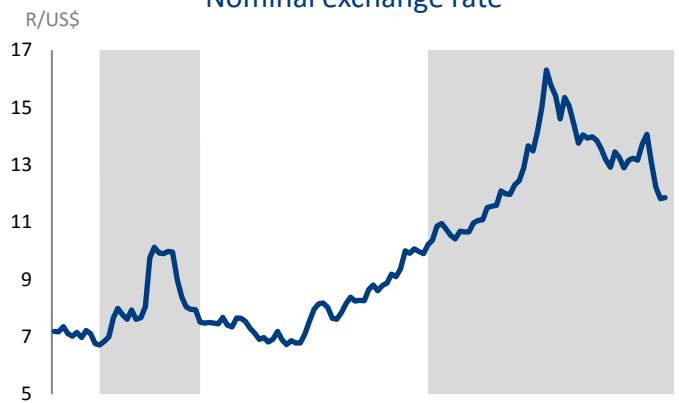
2007 2008 2009 2010 2011 2012 2013 2014 2015 2016 2017 2018
 Source: SARB, Stats SA

Current account balance



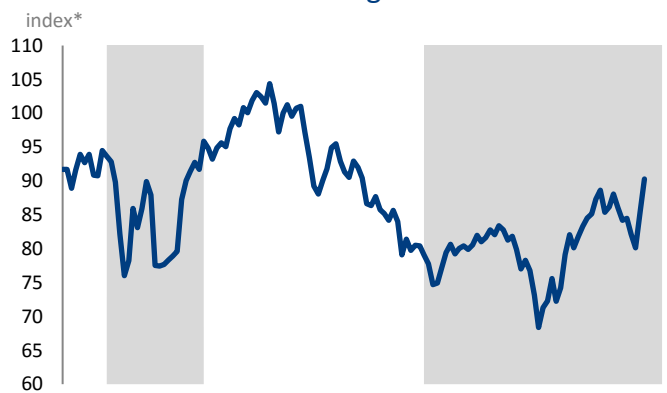
2007 2008 2009 2010 2011 2012 2013 2014 2015 2016 2017 2018
 Source: SARB

Nominal exchange rate



2007 2008 2009 2010 2011 2012 2013 2014 2015 2016 2017 2018
 Source: Thomson Reuters

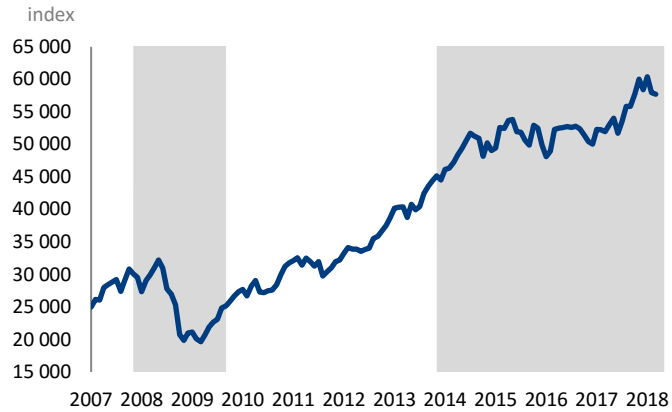
Real effective exchange rate of the Rand



2007 2008 2009 2010 2011 2012 2013 2014 2015 2016 2017 2018
 Source: SARB *higher values denotes a stronger rand

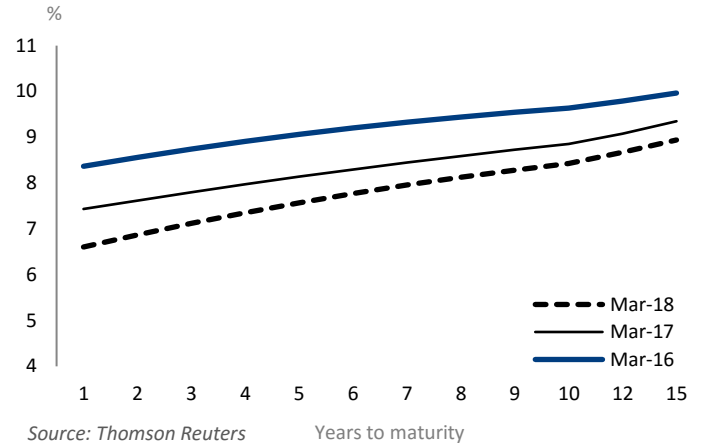
Financial markets

JSE all share index



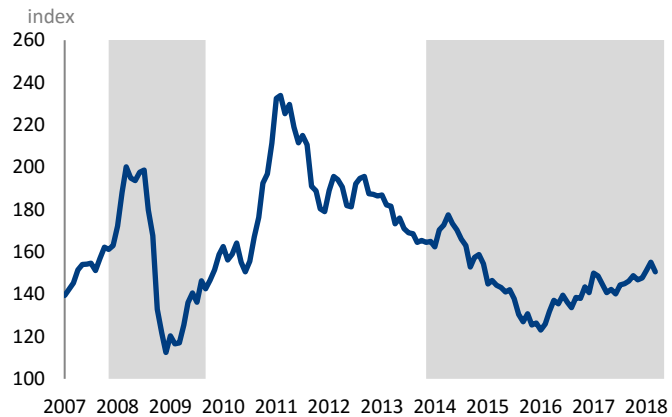
Source: Thomson Reuters

Yield curve comparisons



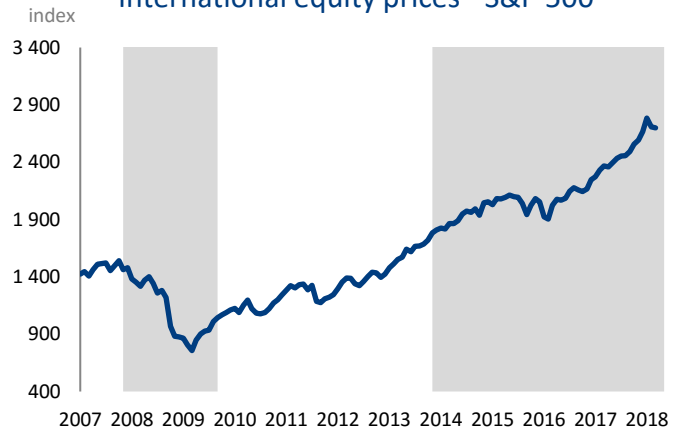
Source: Thomson Reuters

Economist all commodities index



Source: Economist

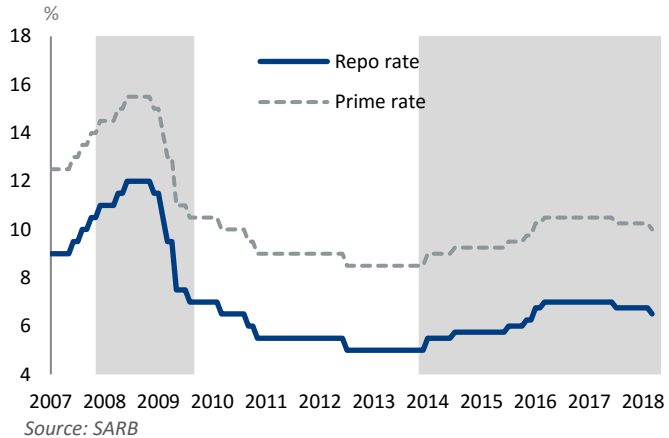
International equity prices - S&P 500



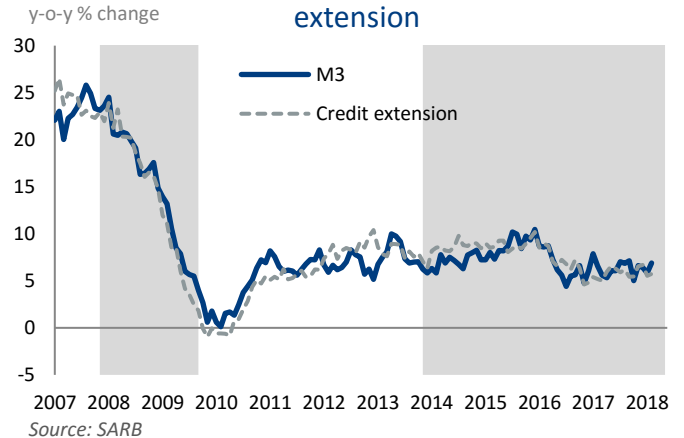
Source: Thomson Reuters

Money and prices

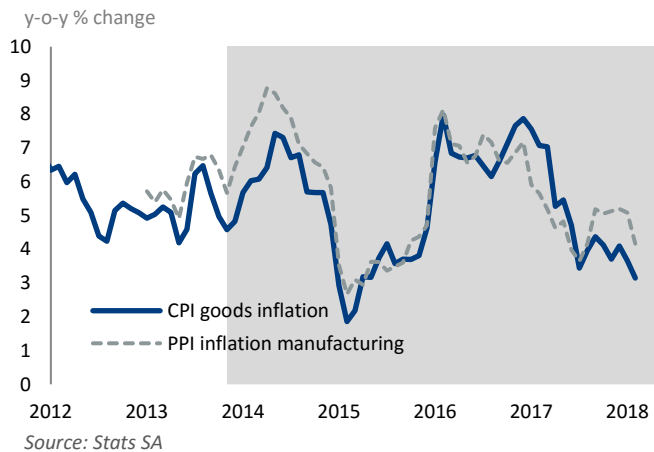
Repo and prime interest rate



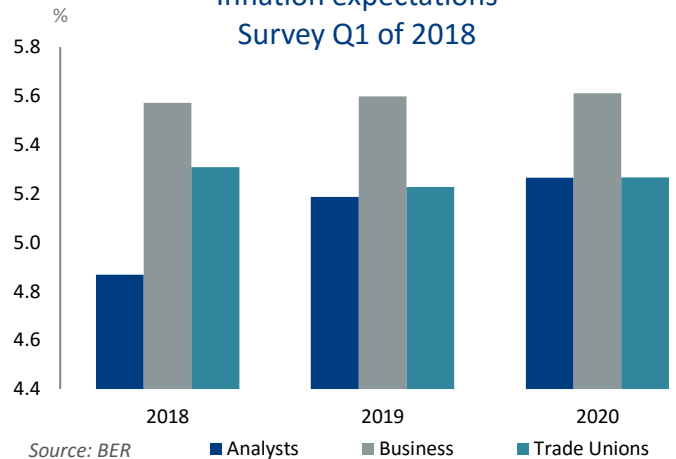
M3 monetary aggregates and credit extension



Consumer and producer prices

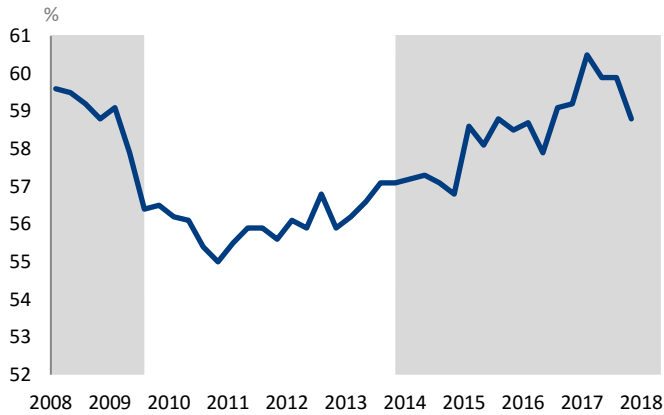


Inflation expectations Survey Q1 of 2018



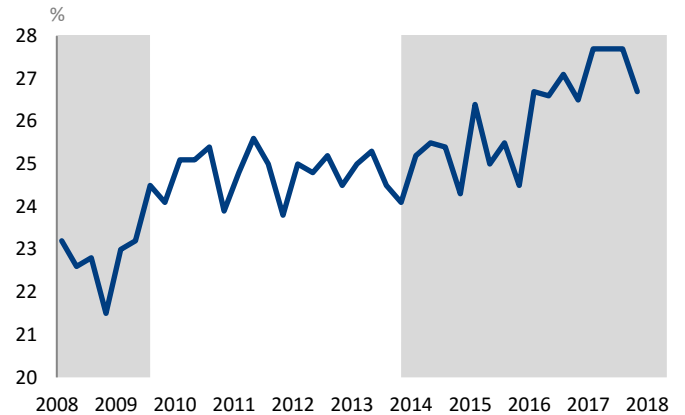
Labour

Labour force participation



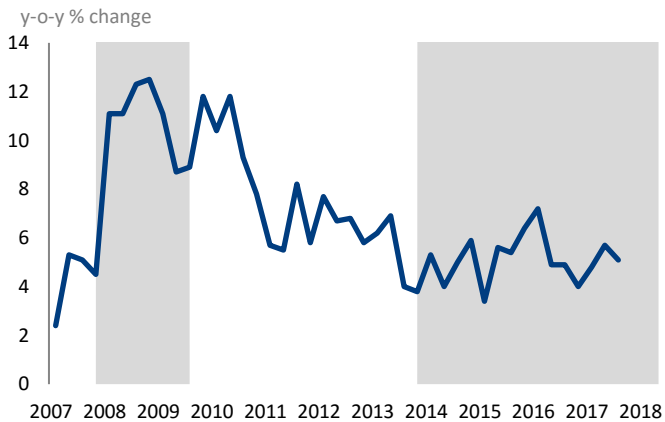
Source: Stats SA

Unemployment rate



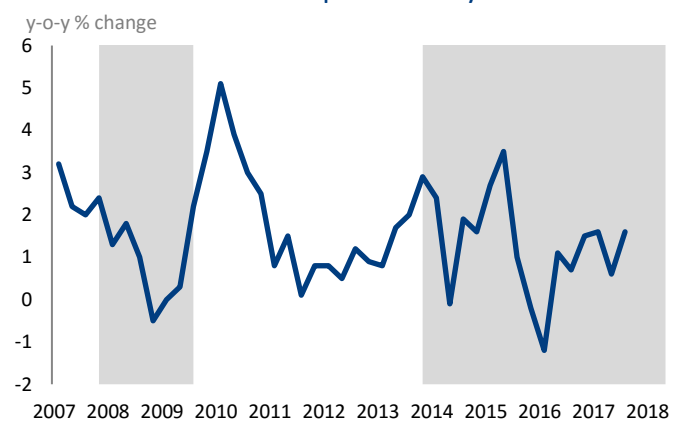
Source: Stats SA

Unit labour cost



Source: SARB

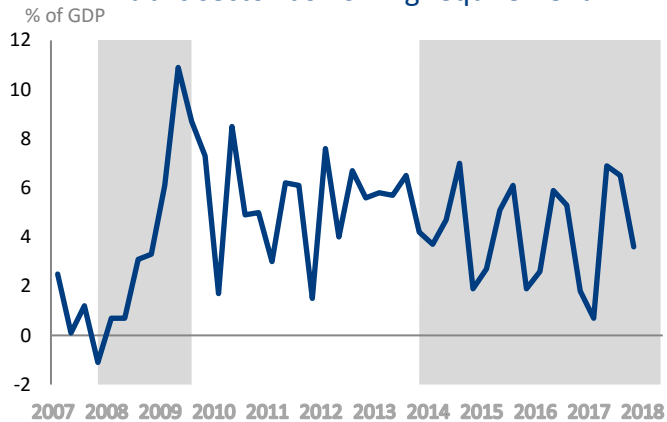
Labour productivity



Source: SARB

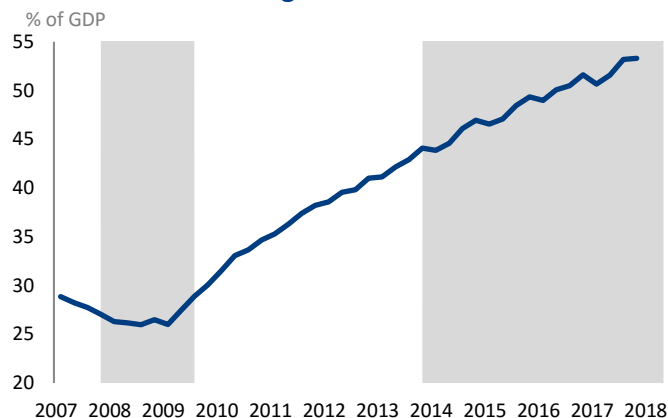
Government

Public sector borrowing requirement



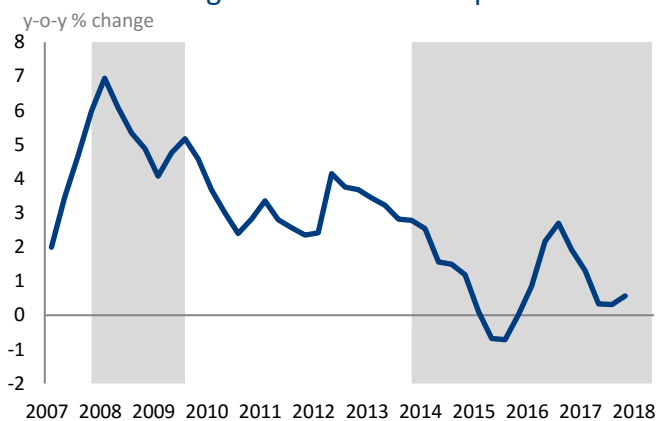
Source: SARB

Gross government debt



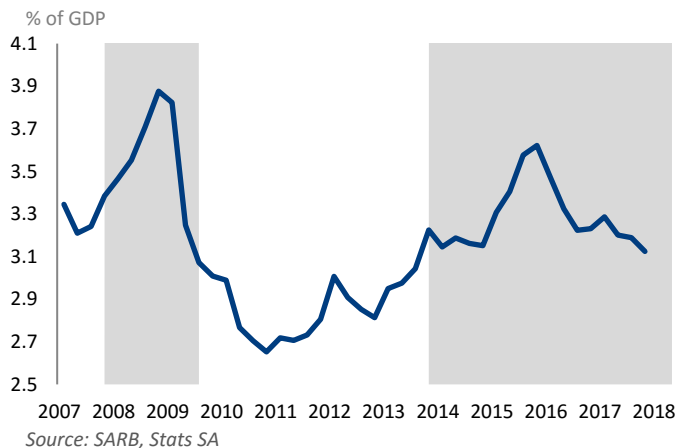
Source: SARB

Real government consumption



Source: SARB, Stats SA

Government fixed investment



Source: SARB, Stats SA

Recession algorithm¹

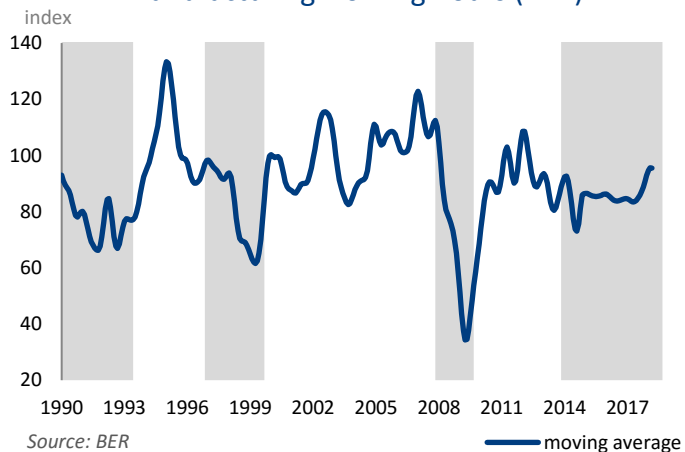
SA real GDP growth came in stronger than expected during the final quarter of 2017 (3.1% seasonally adjusted and annualised) and was upwardly revised for the full year (and also in respect of the preceding three calendar years). The real value of GDP is currently estimated to be 0.8% higher in 17Q3 compared to the previous measurement, which translates into around a nominal R23.5 billion additional national income. Overall, real GDP growth came in at 1.3% for the year, up from an upwardly revised 0.6% in 2016. Excluding agriculture (which expanded by a whopping 18% in 2017), the real GDP growth rate was significantly lower at 1.0% and when mining is also excluded, 0.6% (i.e. in line with the overall growth rate in 2016). Non-agricultural growth improved from 0.8% to 1.0% between 2016 and 2017. In the non-primary sectors, the annual contraction of trade & accommodation (0.6%) and manufacturing (0.2%), despite recoveries during the fourth quarter, is notable. The construction sector contracted in each of the four quarters during 2017 (0.3% overall). The tertiary sectors that contributed meaningfully to growth in 2017 were financial & business services (up 1.9%) and transport & communication (1.5%).

On the demand side of the economy, growth is fully explained by household consumption as the contribution of fixed & inventory investment was marginal. Exports did not contribute to growth. The poor export performance is particularly worrying in view of the acceleration in world economic growth since the middle of 2016. Fixed investment spending rebounded during the final quarter and the lift in business confidence following Mr. Ramaphosa's inauguration as President of South Africa bodes well in this regard. World economic growth, higher confidence, lower inflation and interest rates and a more stable currency should counter the constraining effects of fiscal consolidation and support a recovery in the economy. The BER recession-dating algorithm suggests that the economic downturn, in motion since November 2013, reached a nadir in April 2017. All five components of the algorithm: business confidence, manufacturing production, working hours, capacity utilisation and wholesale sales volumes have registered lower turning points.

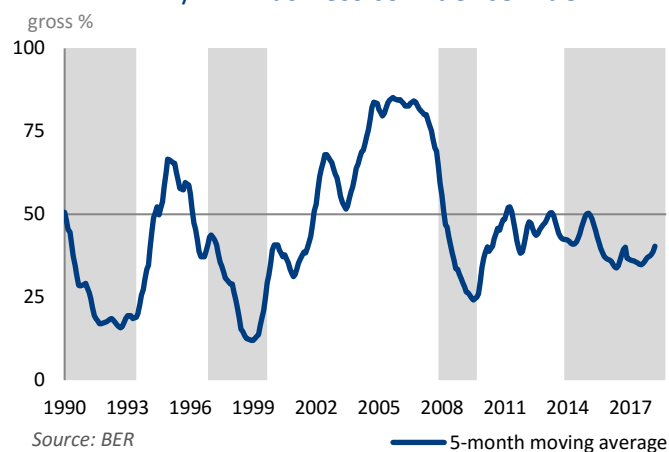
¹ Recession-dating algorithm for South Africa, which allows the BER to make accurate calls on business cycle turning points substantially sooner after the event than is the case with the official SARB determination. Read more at [this link](#).

Recession algorithm

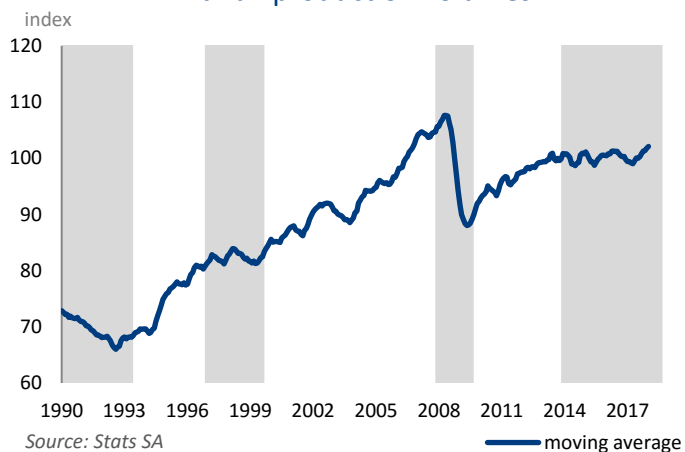
Manufacturing working hours (BER)



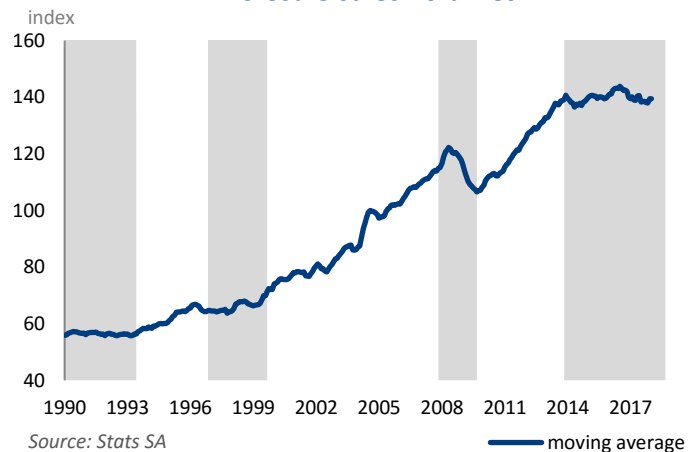
RMB/BER Business confidence index



Manuf. production volumes



Wholesale sales volumes



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