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

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Highlights

SA credit rating by S&P Global Ratings unchanged at sub investment grade

On 25 May S&P Global Ratings held its rating for both local and foreign currency denominated SA sovereign debt unchanged at below investment grade. In the accompanying statement, S&P mentioned that despite recent upward revisions, SA's economic growth remains tentative, and the government debt burden continues on a rising path. S&P states that the rating on SA is constrained by the weak pace of economic growth, particularly on a per capita basis, as well as its large fiscal debt burden and sizeable contingent liabilities. While the decision was largely discounted, it still came as somewhat of a relief.

MPC keeps repo rate unchanged at 6.5%

On 24 May the Monetary Policy Committee (MPC) of the SA Reserve Bank (SARB) kept the repo policy interest rate unchanged at 6.5% (prime rate at 10%). All seven members of the MPC agreed to keep rates on hold, mainly because inflation risks are now judged to be on the upside. That being said, the SARB's actual inflation forecast was broadly unchanged as the impact of a higher oil price and a weaker rand was offset by a downward revision to the food price outlook and a lower starting point.

A moderate pass-through to inflation from the higher VAT and sugar tax

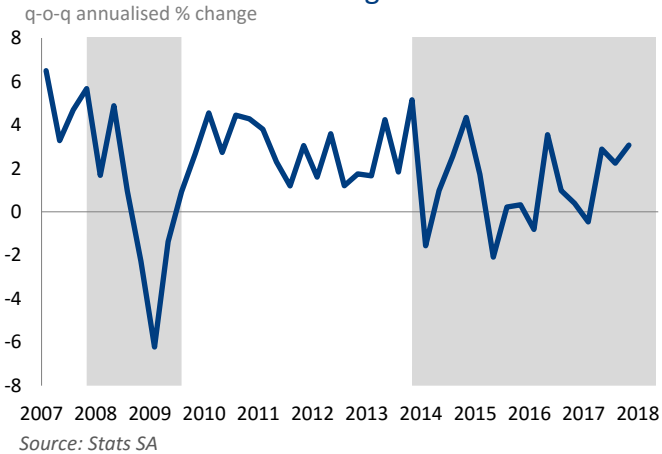
Headline inflation accelerated from a seven-year low of 3.8% y-o-y in March to 4.5% in April, while core inflation ticked up from 4.1% to 4.5%. This was below market expectations and, as noted by the MPC, reflects "a relatively moderate pass-through from the higher VAT and sugar tax". However, the full impact of the VAT increase may still trickle through in coming months. The main contributions to annual inflation in April came from transport with a 5% increase on the back of a hefty fuel price increase at the start of the month.

Unemployment rate unchanged at 26.7% in the first quarter

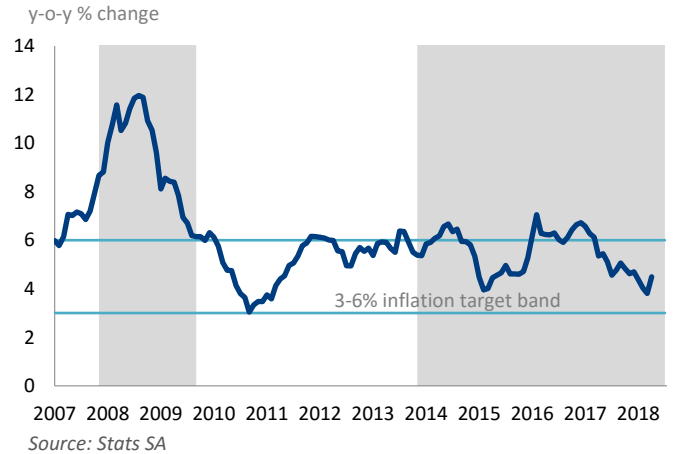
On a quarterly basis, overall employment expanded by 206 000 (1.3% q-o-q), with most jobs created in the formal services, manufacturing and trade sectors. There was also some job growth in the informal construction and finance sectors. On an annual basis, however, overall formal sector employment rose by just 18 000 (0.2% y-o-y), with jobs shed in the construction, mining, transport and finance sectors. The unemployment rate remained unchanged at 26.7%.

Core indicators

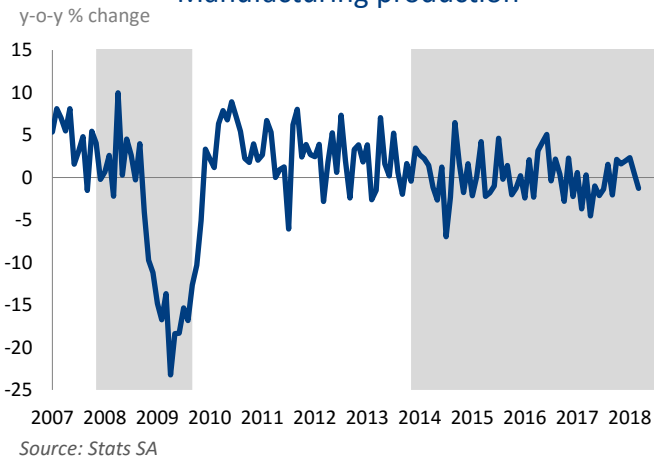
Real GDP growth



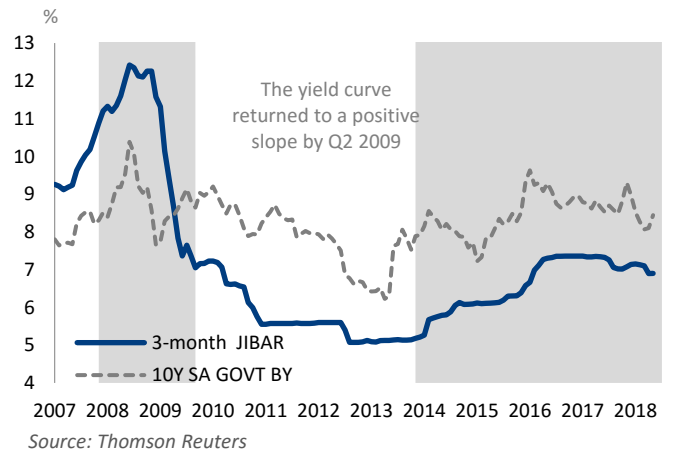
CPI inflation



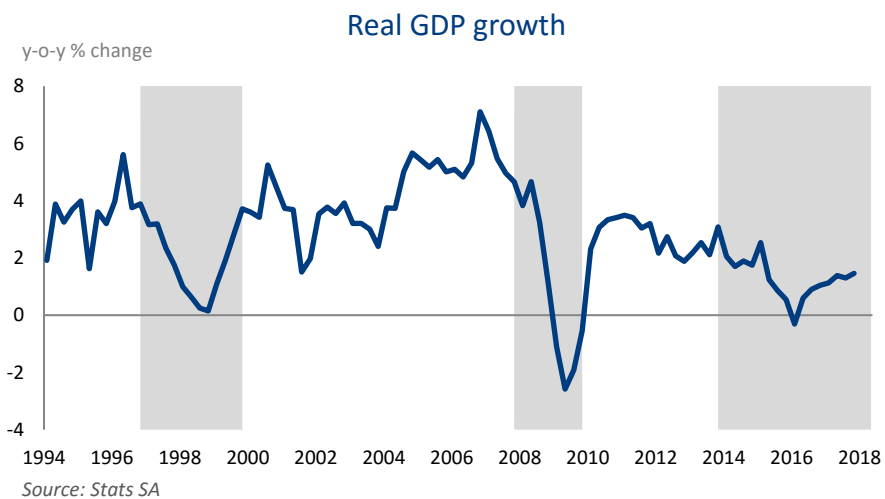
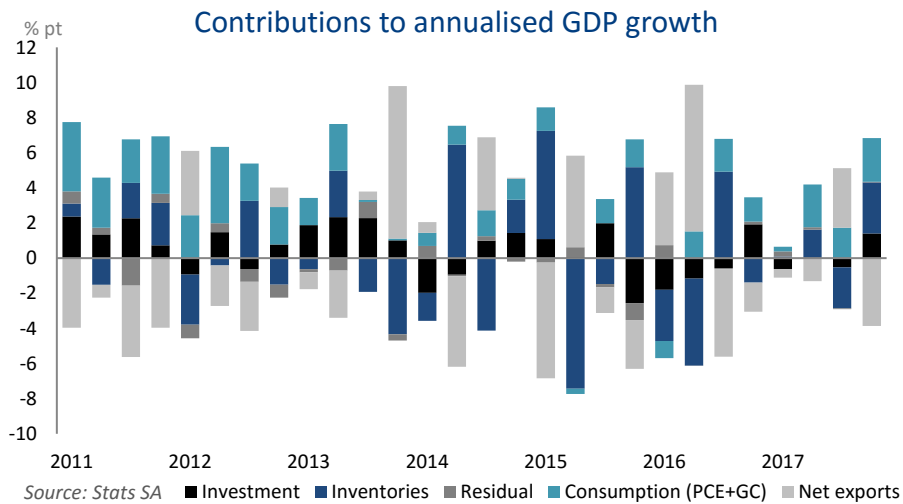
Manufacturing production



Interest rates

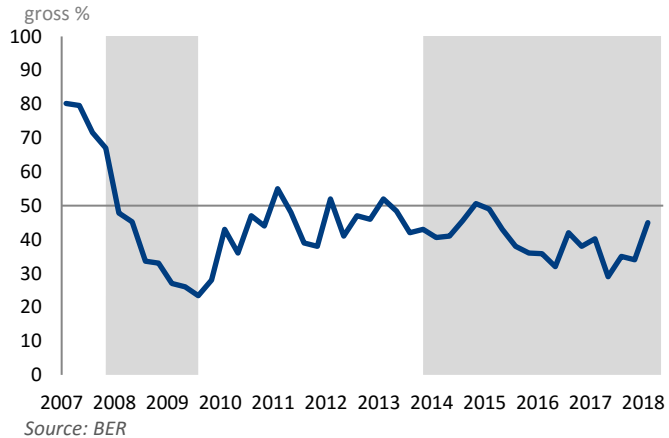


GDP growth

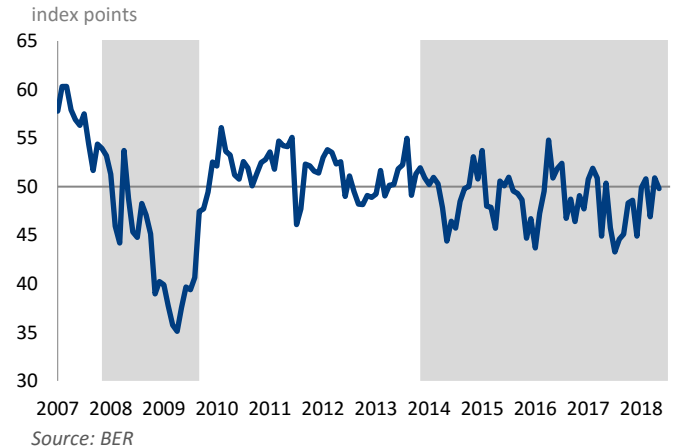


Business environment

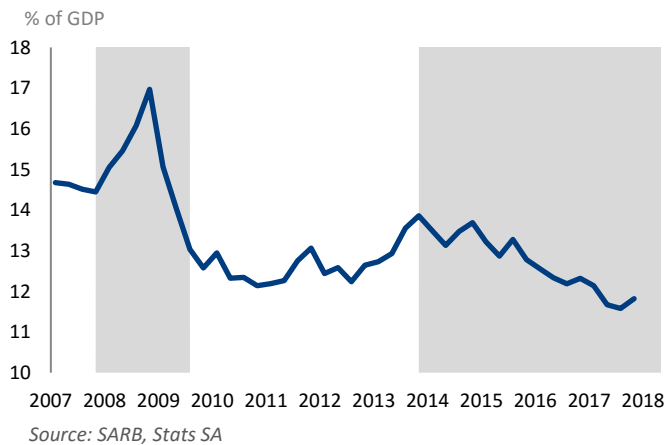
RMB/BER Business Confidence Index



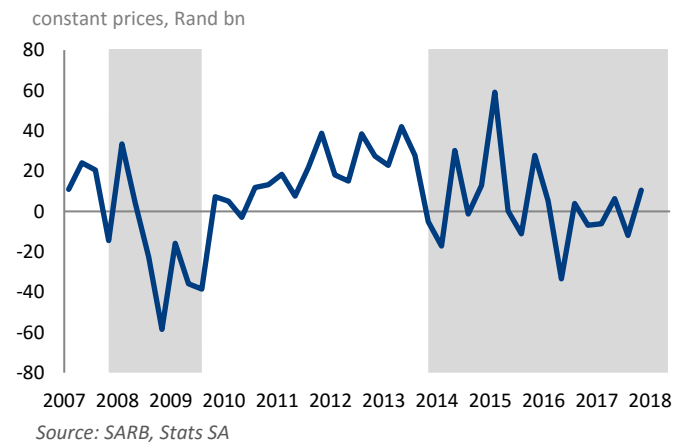
Absa Purchasing Managers Index



Private fixed investment

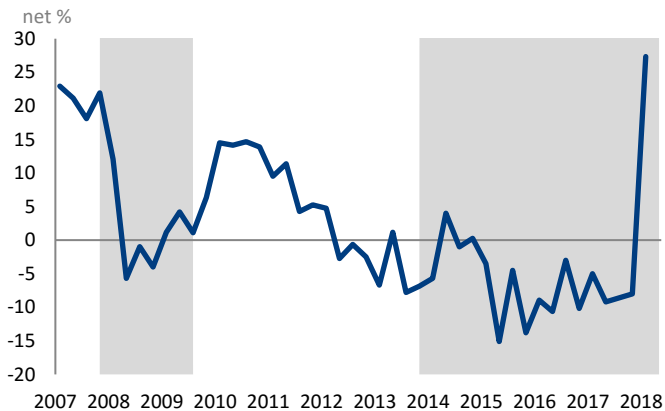


Changes in inventories



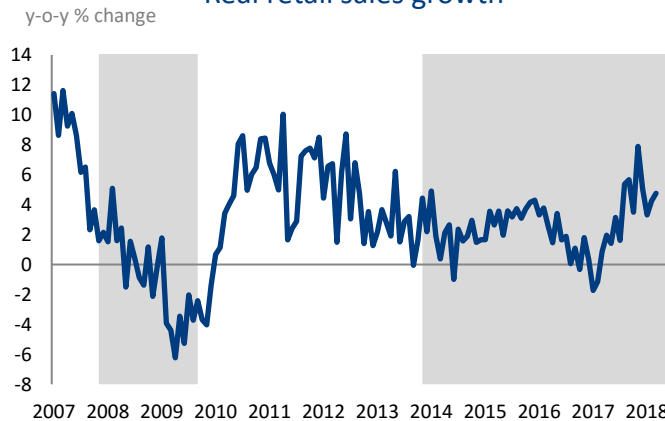
Household consumption

FNB/BER Consumer Confidence Index



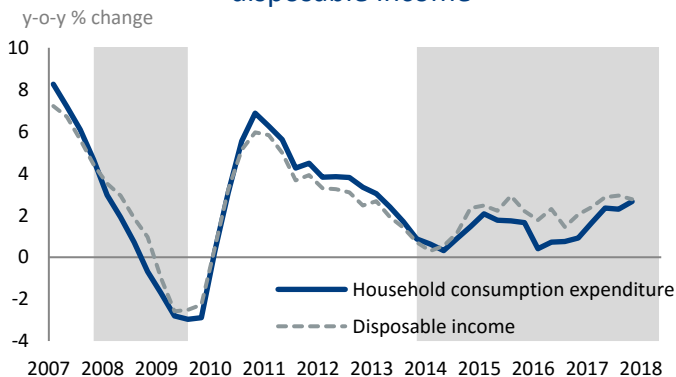
Source: BER

Real retail sales growth



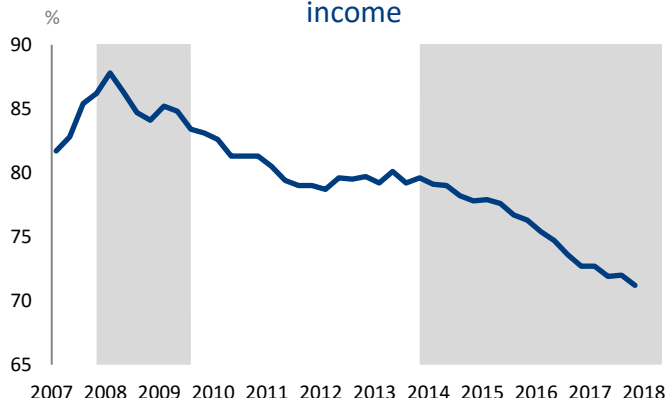
Source: Stats SA

Household consumption and real disposable income



Source: SARB, Stats SA

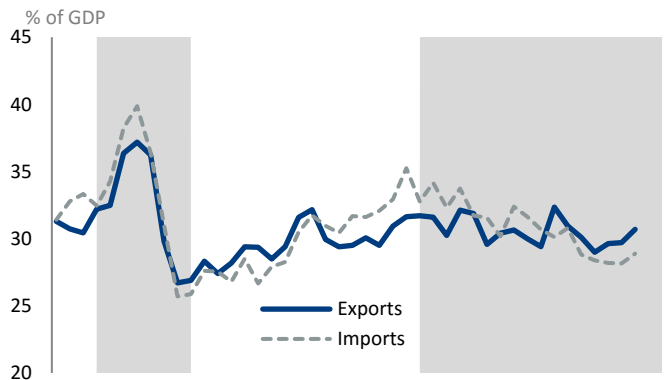
Ratio of household debt to disposable income



Source: SARB

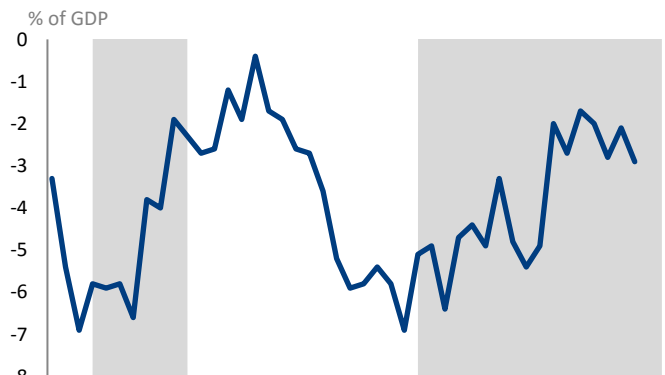
International trade

Imports and exports



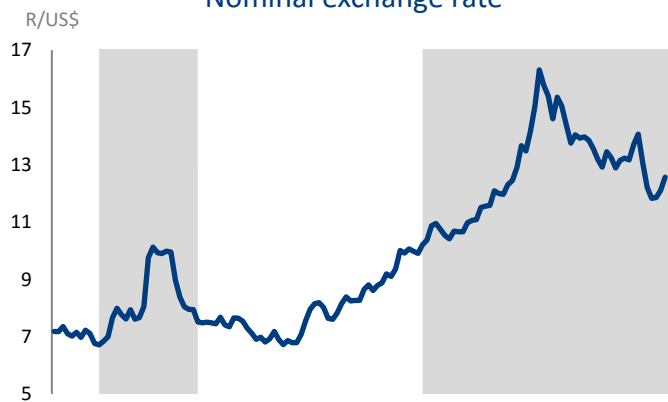
2007 2008 2009 2010 2011 2012 2013 2014 2015 2016 2017 2018
Source: SARB, Stats SA

Current account balance



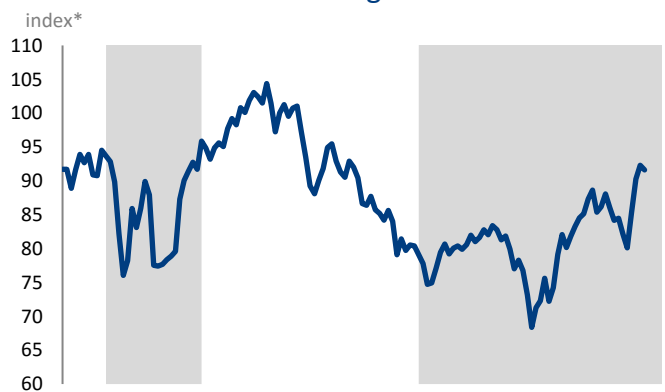
2007 2008 2009 2010 2011 2012 2013 2014 2015 2016 2017 2018
Source: SARB

Nominal exchange rate



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

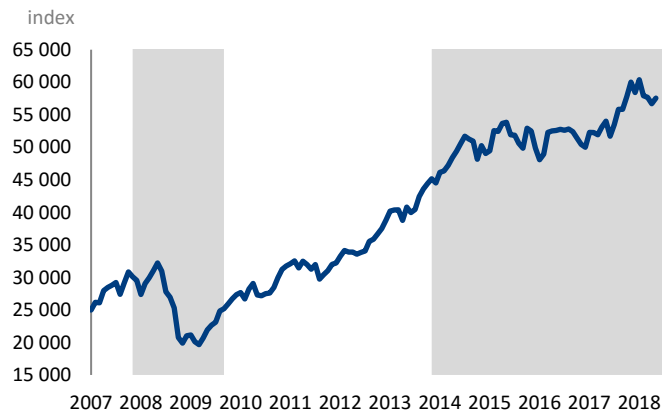
Real effective exchange rate of the Rand



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

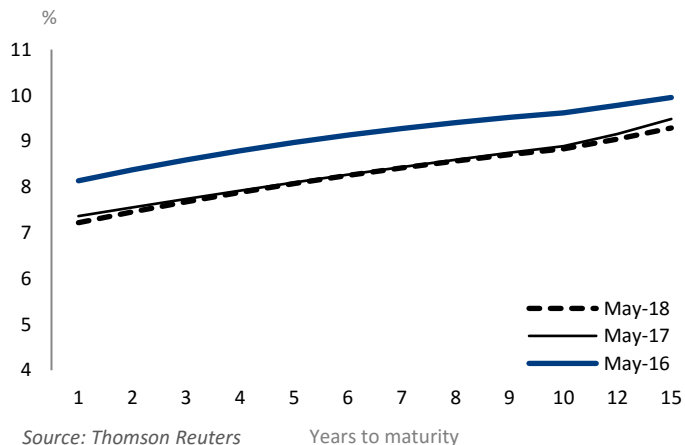
Financial markets

JSE all share index



Source: Thomson Reuters

Yield curve comparisons



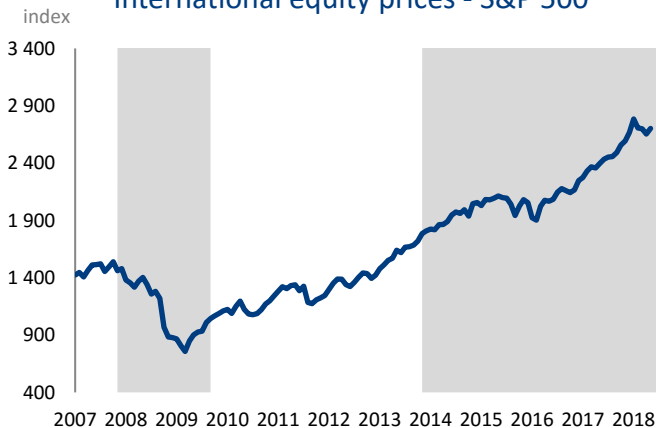
Source: Thomson Reuters

Economist all commodities index



Source: Economist

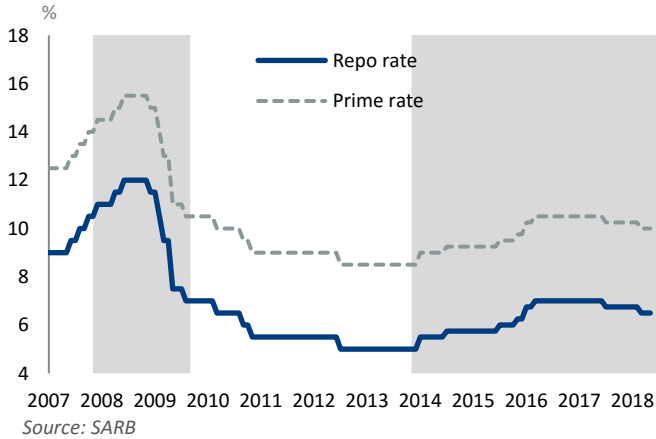
International equity prices - S&P 500



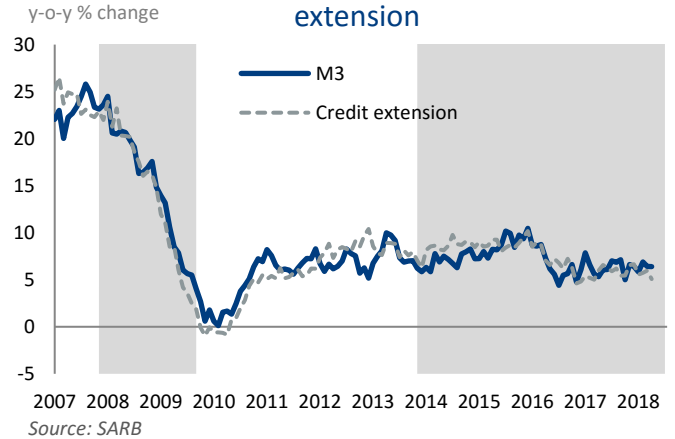
Source: Thomson Reuters

Money and prices

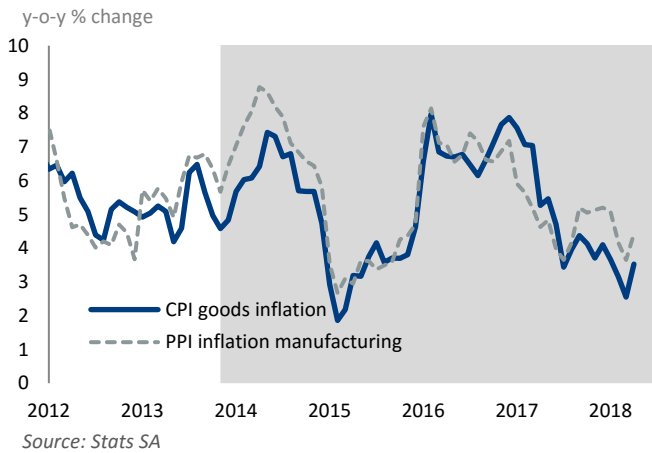
Repo and prime interest rate



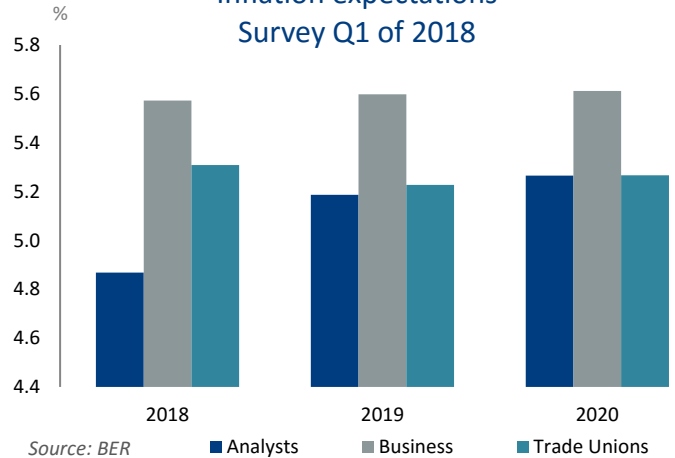
M3 monetary aggregates and credit extension



Consumer and producer prices

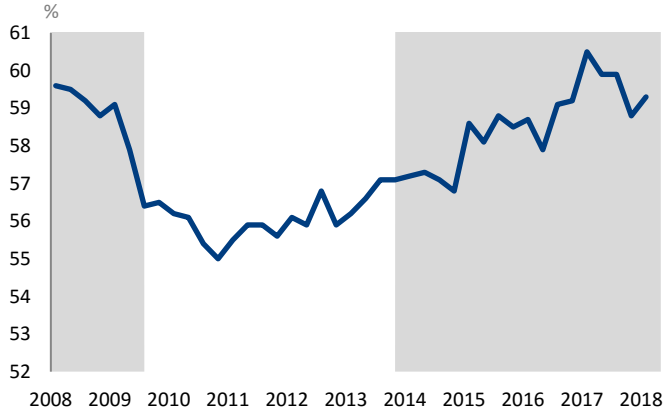


Inflation expectations Survey Q1 of 2018



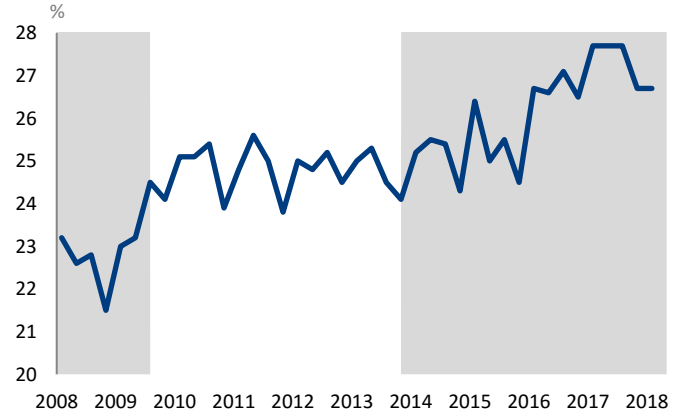
Labour

Labour force participation



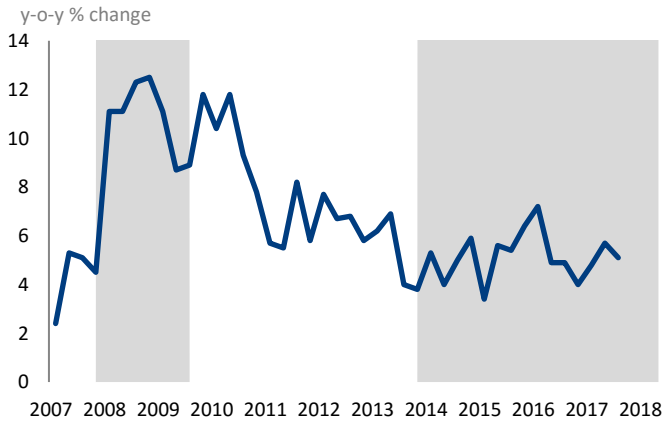
Source: Stats SA

Unemployment rate



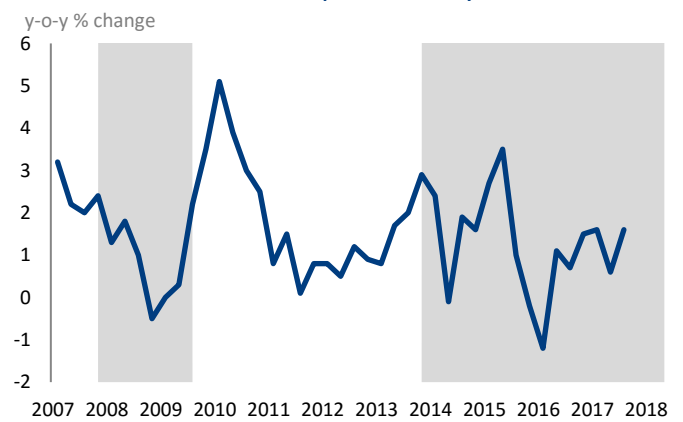
Source: Stats SA

Unit labour cost



Source: SARB

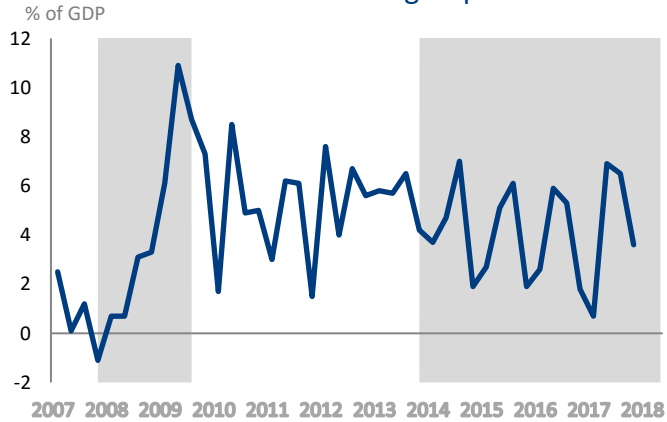
Labour productivity



Source: SARB

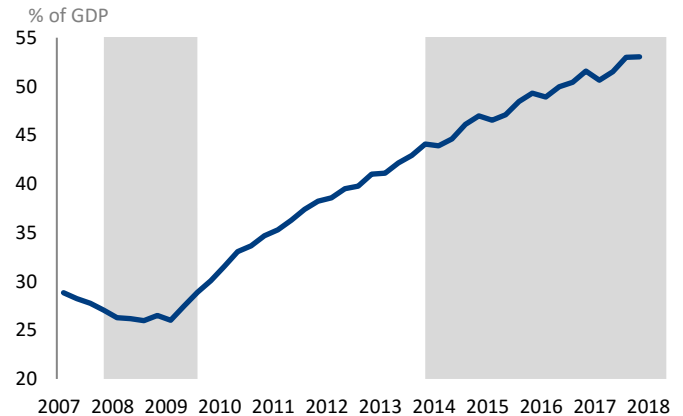
Government

Public sector borrowing requirement



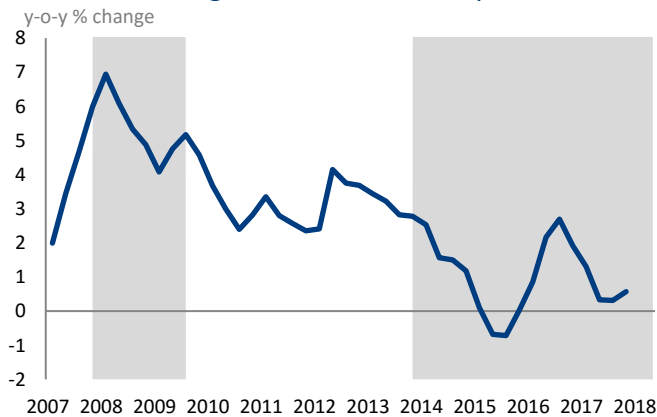
Source: SARB

Gross government debt



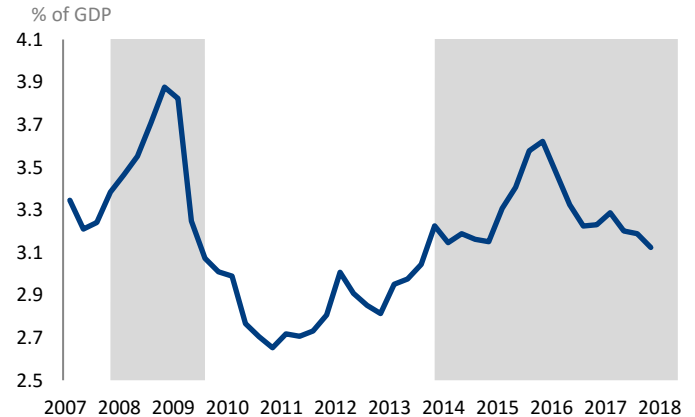
Source: SARB

Real government consumption



Source: SARB, Stats SA

Government fixed investment



Source: SARB, Stats SA

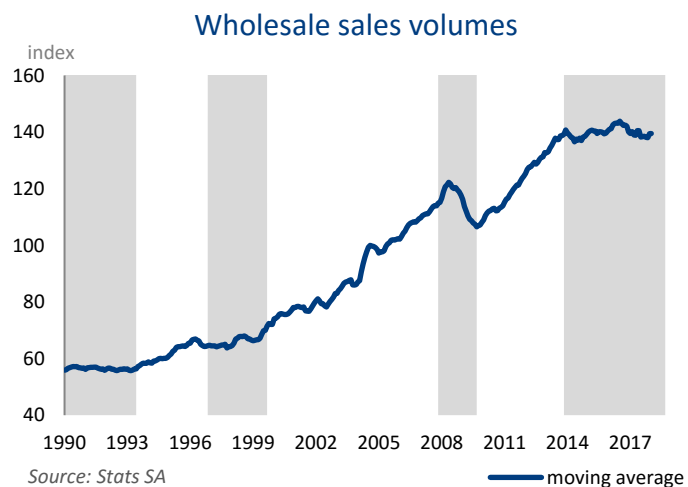
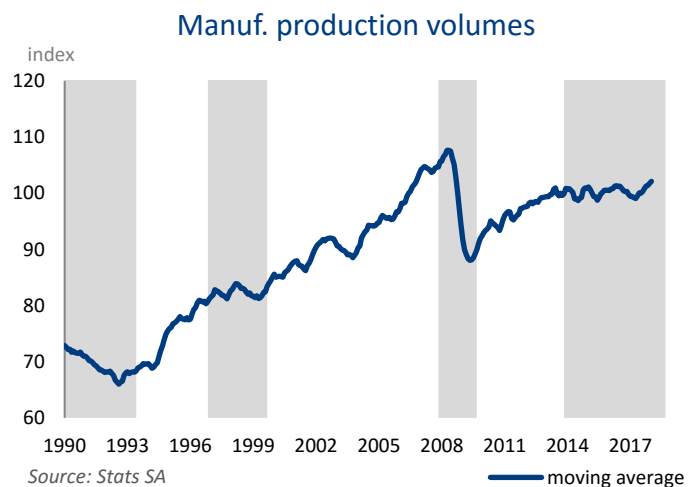
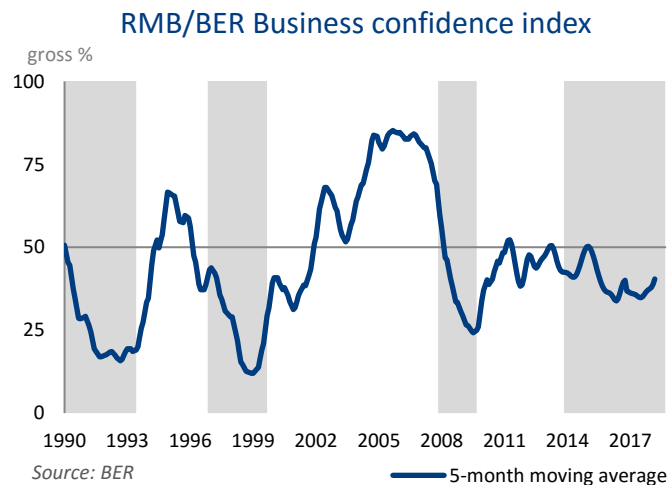
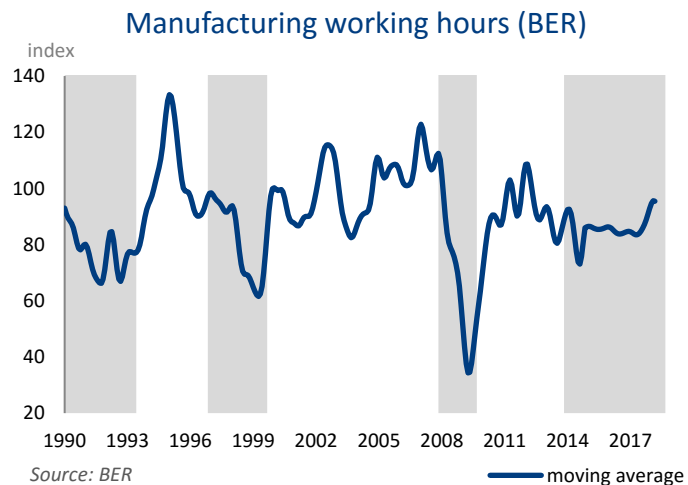
Recession algorithm¹

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



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