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

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Highlights

GDP contracts on lower exports in 2018Q1

The South African economy contracted by 2.2% (saa) in the first quarter of 2018, after robust growth of 3.1% in the previous quarter. Overall, the print reflected broad-based weakness as contractions were recorded in agriculture, manufacturing, mining, as well as in retail and wholesale trade. From a demand-side perspective, household and government consumption slowed, while total fixed investment and net exports contracted. The contraction in net exports was particularly sharp and deducted 3.1 percentage points (% pts) from overall GDP.

Current account deficit widens in 2018Q1

South Africa's current account deficit increased to 4.8% of GDP in the first quarter, from 2.9% previously. The wider-than-expected deficit resulted from a switch in the trade balance from a surplus of R74 billion in the fourth quarter to a deficit of R25 billion in 2018Q1. This was mainly as a result of a bigger slowdown in the value of merchandise exports compared to imports. Meanwhile, the shortfall on the services, income and current transfer account narrowed, but not enough to offset the trade deficit.

Inflation virtually sideways in May

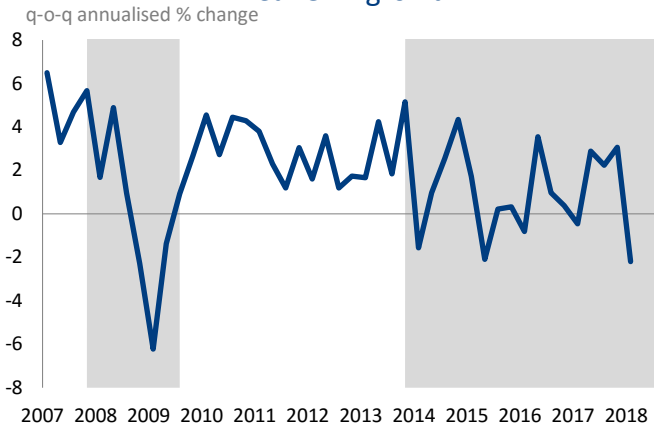
Consumer inflation, as measured by the CPI, unexpectedly decelerated to 4.4% y-o-y in May, from 4.5% in April. The softer inflation print was largely due to muted food price inflation. Prices of food and non-alcoholic beverages rose 3.4% y-o-y, its slowest pace since December 2013. This helped to counter the price impact of a higher VAT rate, weaker rand and higher fuel prices. Looking ahead however, these factors pose an upside risk to inflation and could see it trend higher in coming months.

Business confidence dips back below 40 in 2018Q2

After surging from 34 to 45 in the first quarter, the RMB/BER Business Confidence Index deteriorated to 39 in the second quarter of 2018. This number implies that close to six out of ten respondents now regard prevailing business conditions as unsatisfactory. Among the business sub-sectors, confidence was down especially for new vehicle dealers, manufacturers and retailers. Only wholesalers were more confident in the second quarter.

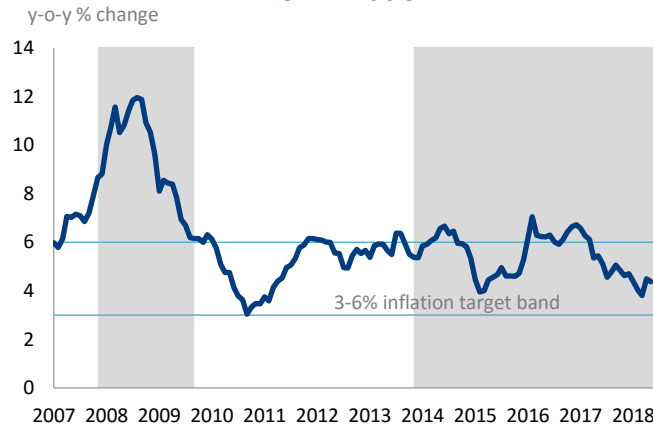
Core indicators

Real GDP growth



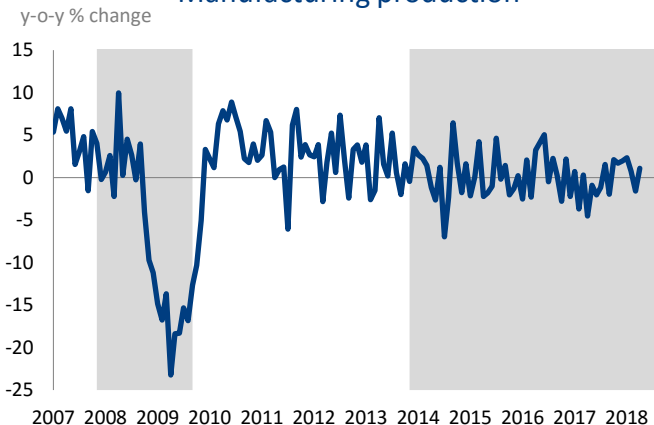
Source: Stats SA

CPI inflation



Source: Stats SA

Manufacturing production



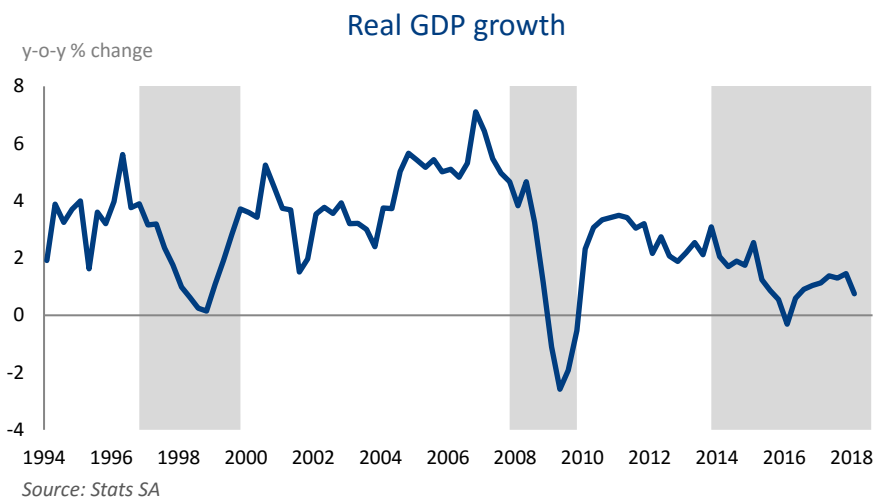
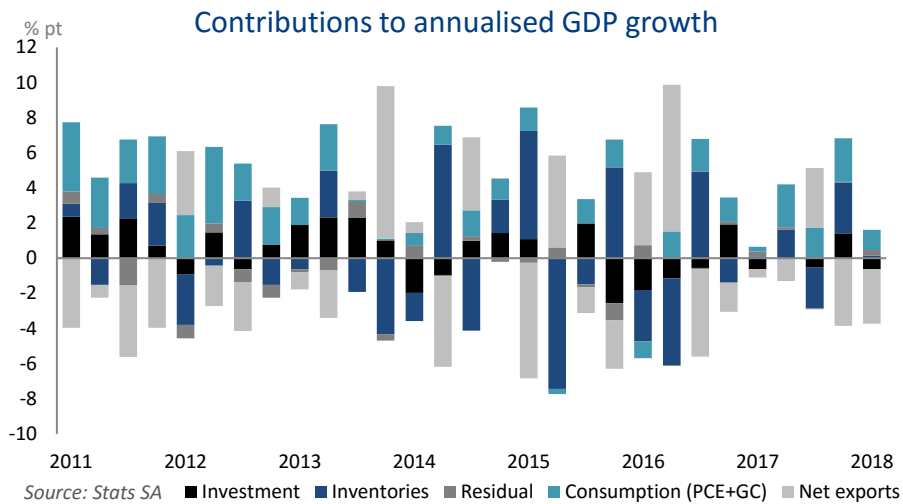
Source: Stats SA

Interest rates



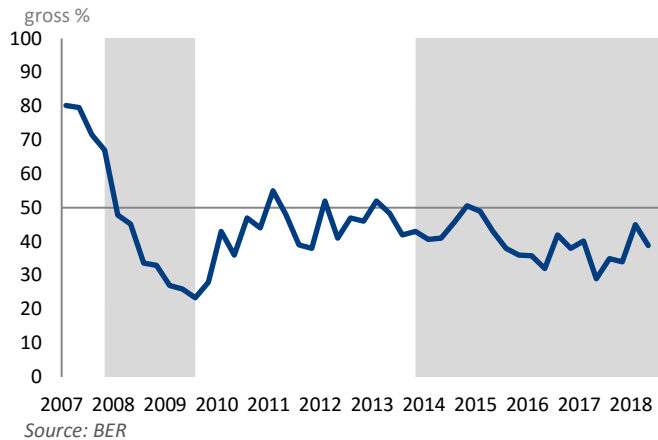
Source: Thomson Reuters

GDP growth

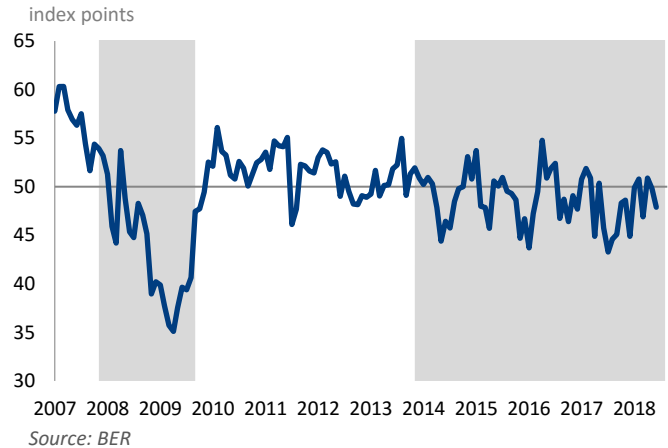


Business environment

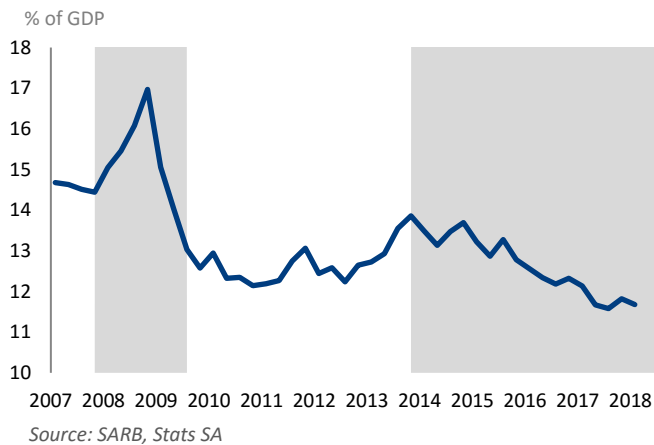
RMB/BER Business Confidence Index



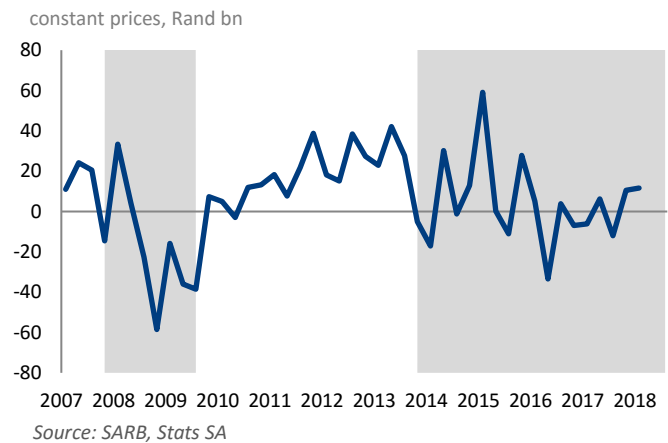
Absa Purchasing Managers Index



Private fixed investment

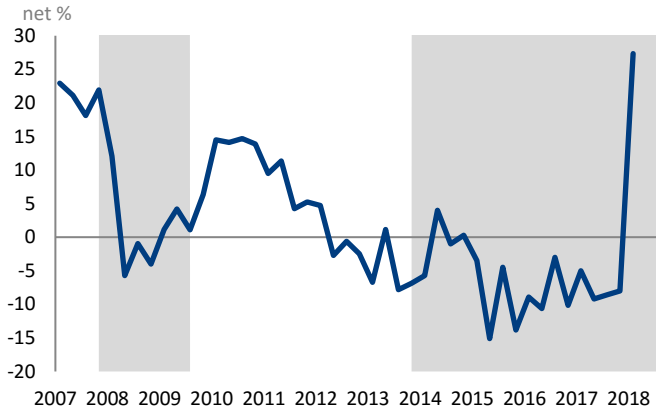


Changes in inventories



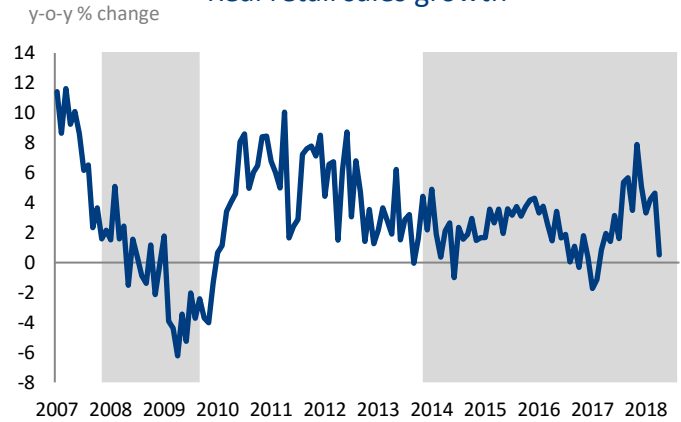
Household consumption

FNB/BER Consumer Confidence Index



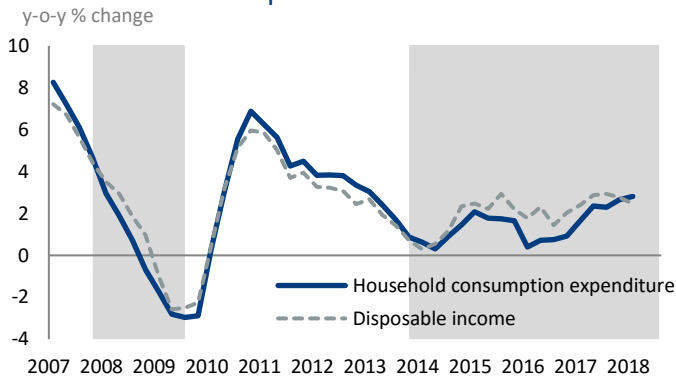
Source: BER

Real retail sales growth



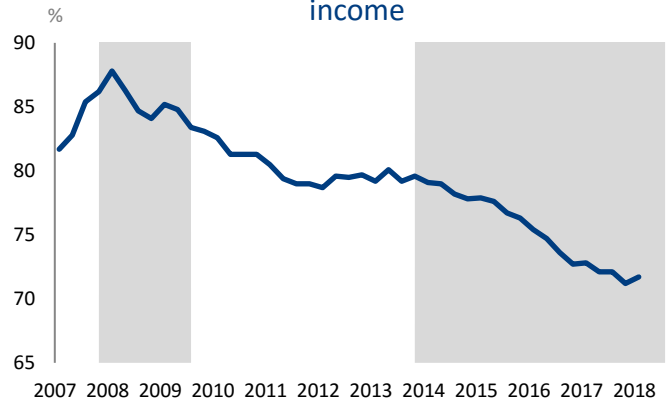
Source: Stats SA

Household consumption and real disposable income



Source: SARB, Stats SA

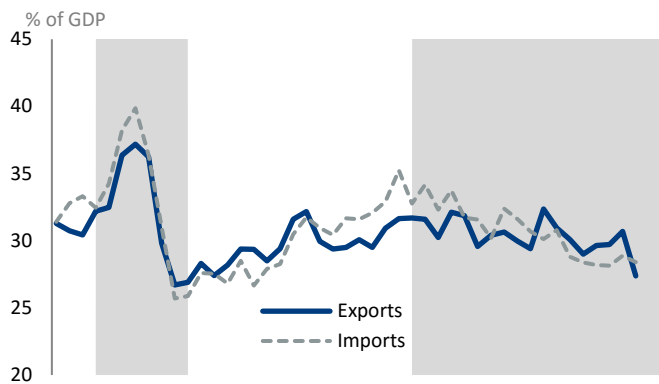
Ratio of household debt to disposable income



Source: SARB

International trade

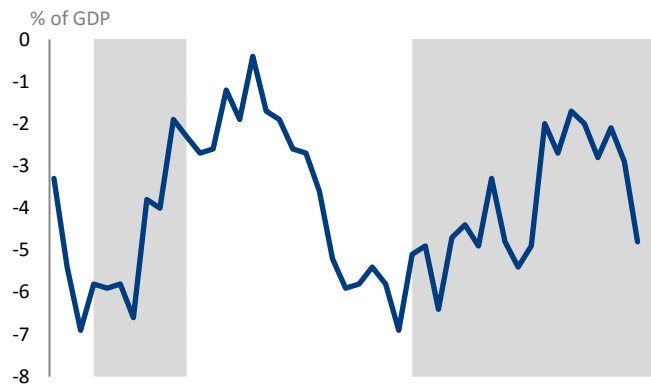
Imports and exports



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

Source: SARB, Stats SA

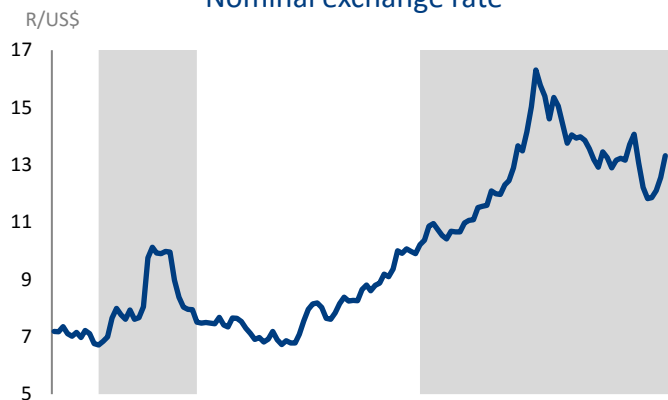
Current account balance



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

Source: SARB

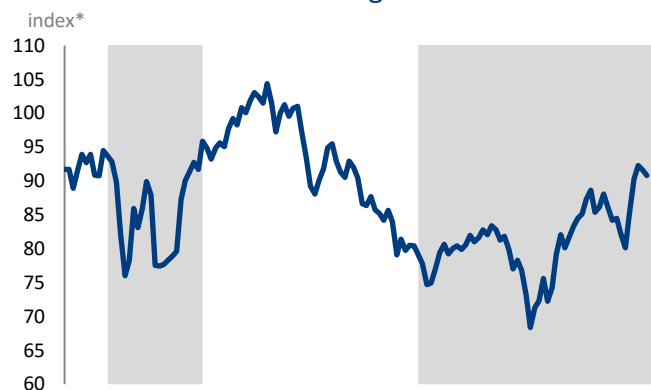
Nominal exchange rate



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

Source: Thomson Reuters

Real effective exchange rate of the Rand

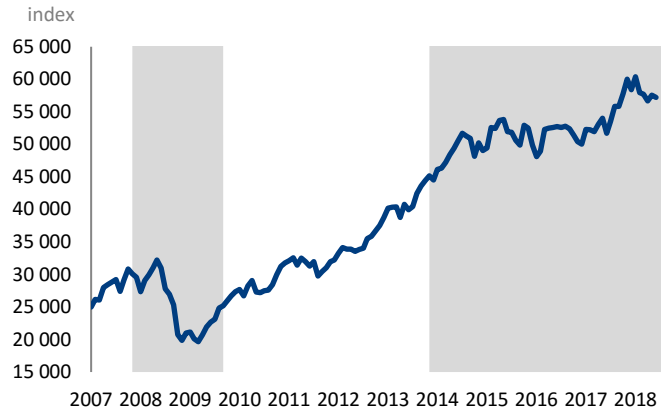


2007 2008 2009 2010 2011 2012 2013 2014 2015 2016 2017 2018

Source: SARB *higher values denote a stronger rand

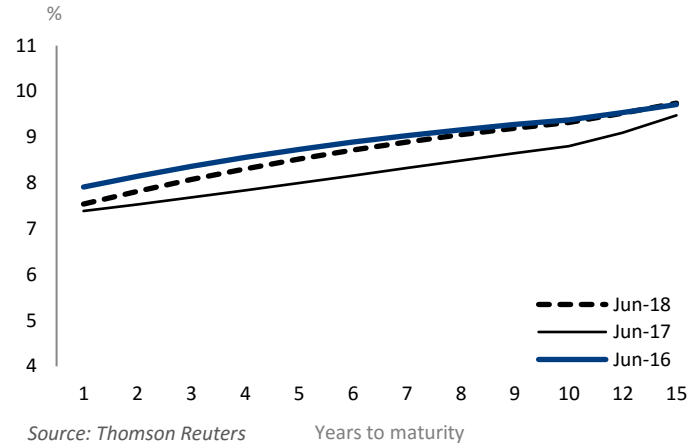
Financial markets

JSE all share index



Source: Thomson Reuters

Yield curve comparisons



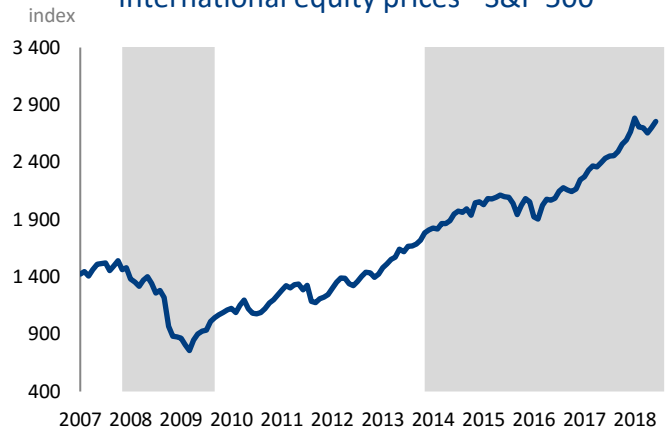
Source: Thomson Reuters

Economist all commodities index



Source: Economist

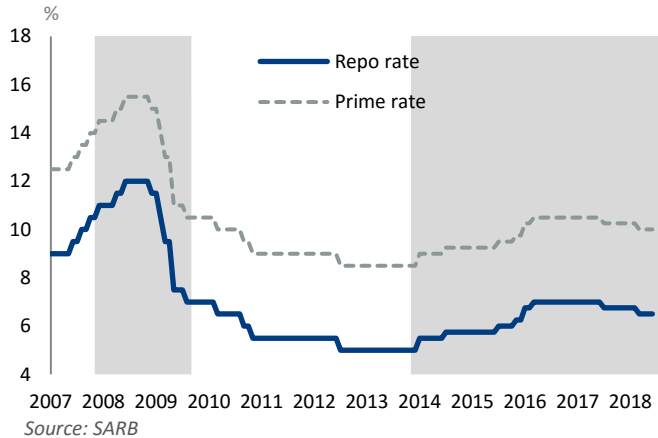
International equity prices - S&P 500



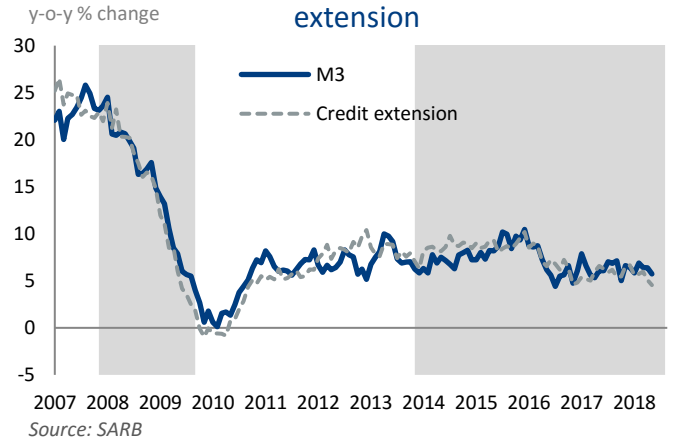
Source: Thomson Reuters

Money and prices

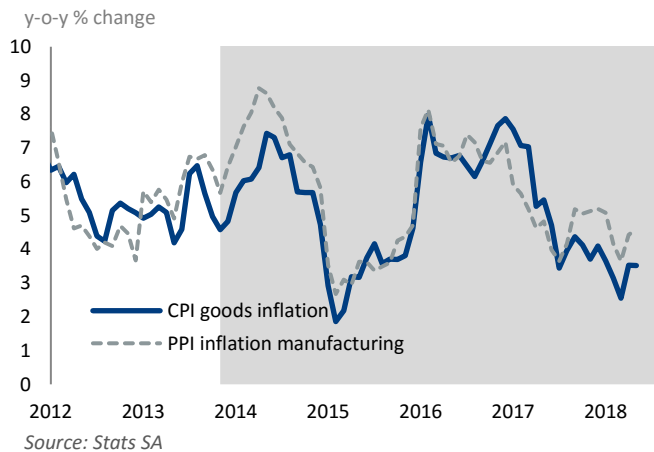
Repo and prime interest rate



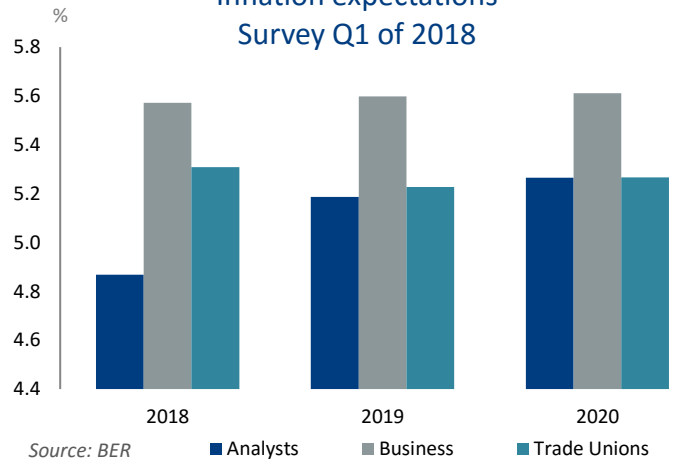
M3 monetary aggregates and credit extension



Consumer and producer prices

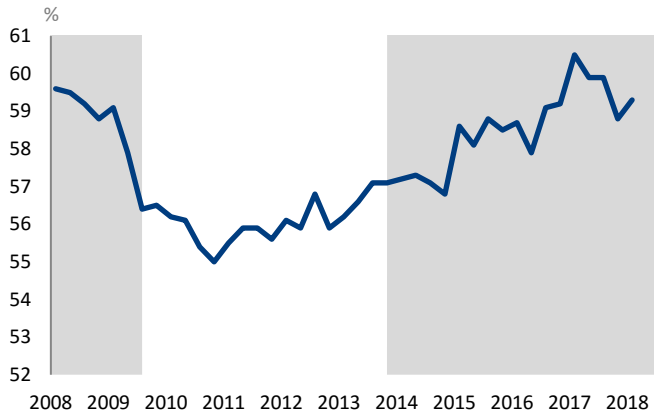


Inflation expectations Survey Q1 of 2018



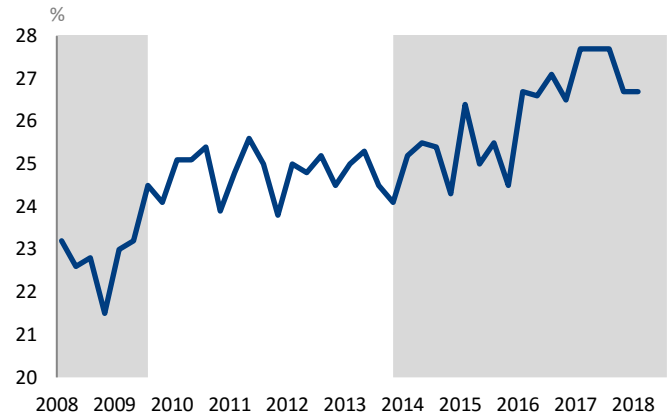
Labour

Labour force participation



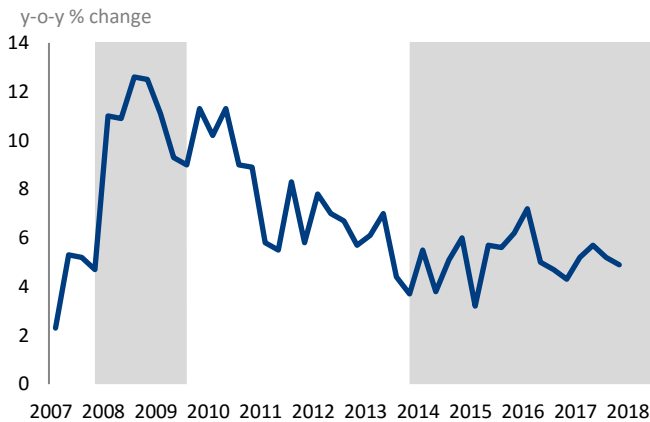
Source: Stats SA

Unemployment rate



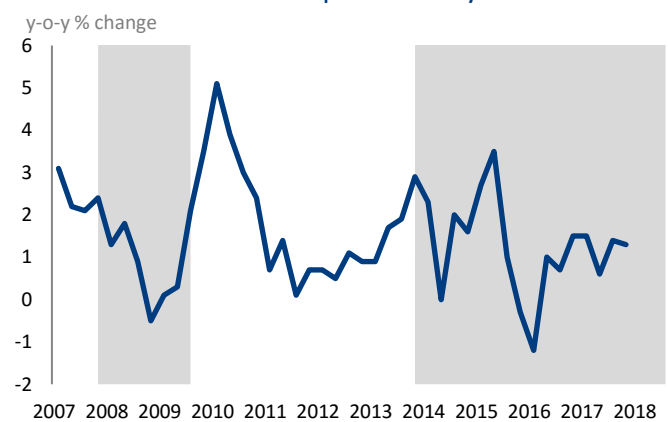
Source: Stats SA

Unit labour cost



Source: SARB

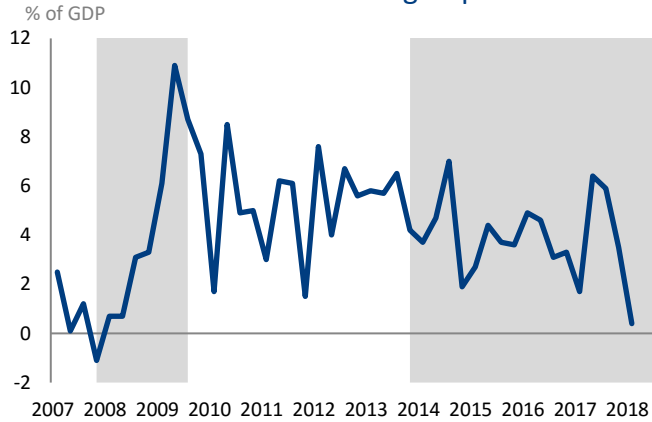
Labour productivity



Source: SARB

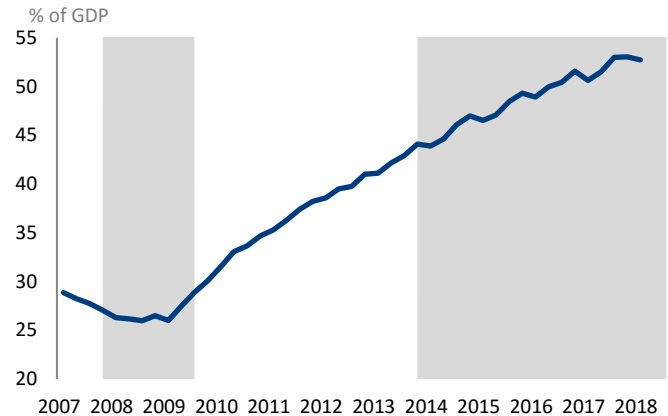
Government

Public sector borrowing requirement



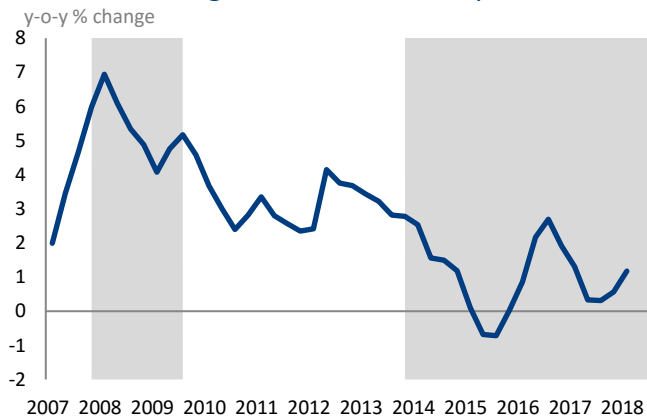
Source: SARB

Gross government debt



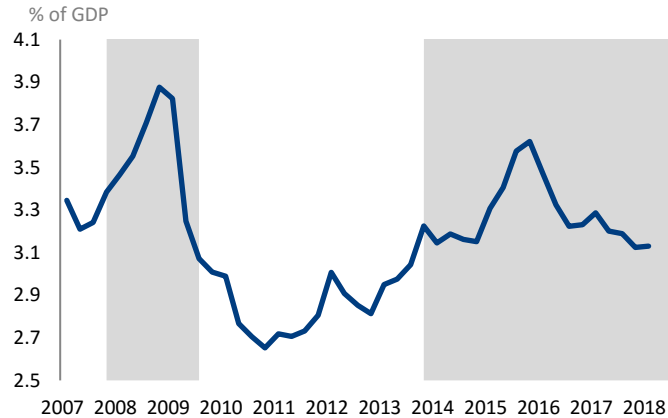
Source: SARB

Real government consumption



Source: SARB, Stats SA

Government fixed investment



Source: SARB, Stats SA

Recession algorithm¹

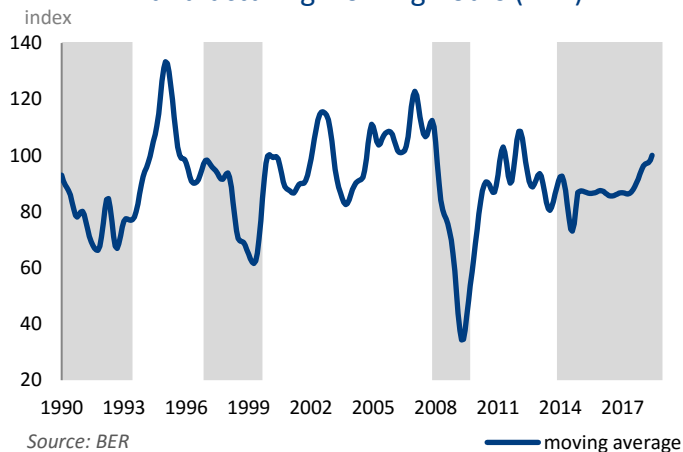
Real GDP contracted by 2.2% (annualised) during the first quarter of 2018. This number was shocking even though some contraction was expected. Closer inspection reveals that the economic weakness was widespread. Not only did agricultural real value added contract sharply (24%, annualised), mining also contracted (9.9%), followed by contractions in the secondary sector (4.9%) and the non-government services sector (0.2%). Some perspective is necessary. The real economy expanded by 2.8% annualised between the first and final quarters of 2017 (or 2.1% over the three-quarter period). The high base established towards the end of last year is therefore an important reason for the poor showing during the first quarter. In year-on-year terms, real GDP was still up 0.8% during 2018Q1. Last year, the growth was strongly driven by the agricultural sector, which also had wider spin-offs in manufacturing, transport and financial services. This year, we anticipate a negative contribution from agriculture following the record maize crop in the 2016/17 season not to be repeated and the impact of the drought in the Western Cape. It follows that the non-agricultural sectors will have to accelerate firmly to achieve a higher real economic growth rate in 2018. Unfortunately, the January-April 2018 mining, manufacturing, construction, retail and wholesale real economic indicators are less than robust, tending to reveal further contractions.

There appears to be resilience on the demand side of the economy as real gross domestic expenditure was still up by 2.8% year-on-year during the first quarter. Net exports made a sharp negative contribution (1.1%) due to weak export growth. The current account deficit shot up from 2.9% of GDP in 2017Q4 to 4.8% in 2018Q1. Weak and mineral prices have been an important source of the weakness in exports, as well as a weak manufacturing export response to the improved global growth conditions. The RMB/BER business confidence index retreated by 6 points during the second quarter as these economic realities re-asserted themselves in the wake of Mr. Ramaphosa's election as president. The BER's recession-dating algorithm continues to indicate a lower turning point in the economy around the second quarter of 2017 and the SARB's composite leading business cycle indicator remains in strong positive territory, suggesting a sustained economic recovery. However, the latest economic developments have sobered expectations. The reality is that the damage wrought on the economy in recent years will not reverse overnight.

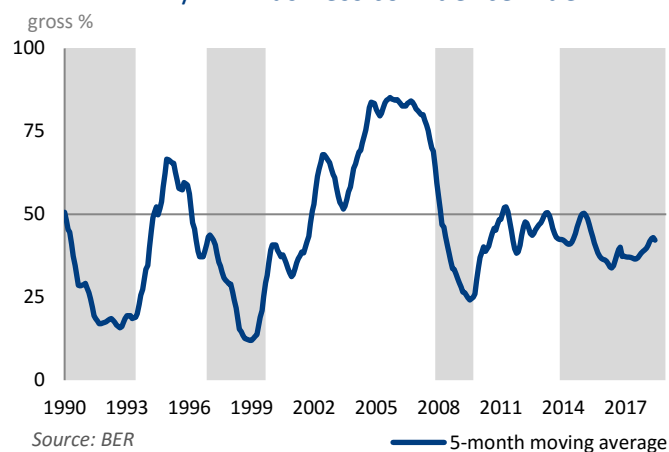
¹ Recession-dating algorithm for South Africa, which allows the BER to make accurate calls on business cycle turning points substantially sooner after the event than is the case with the official SARB determination. Read more at [this link](#).

Recession algorithm

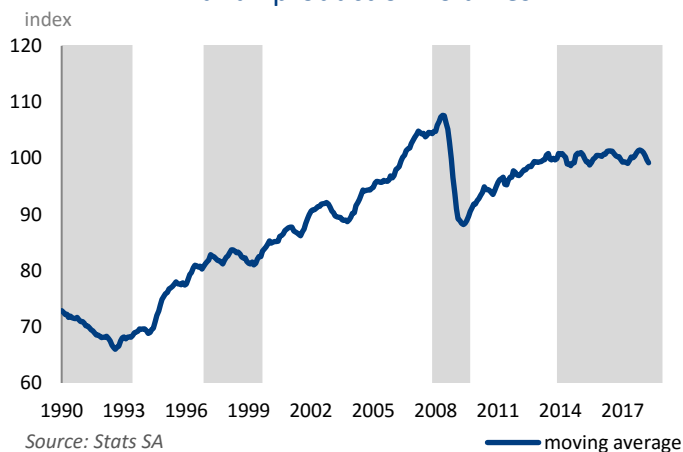
Manufacturing working hours (BER)



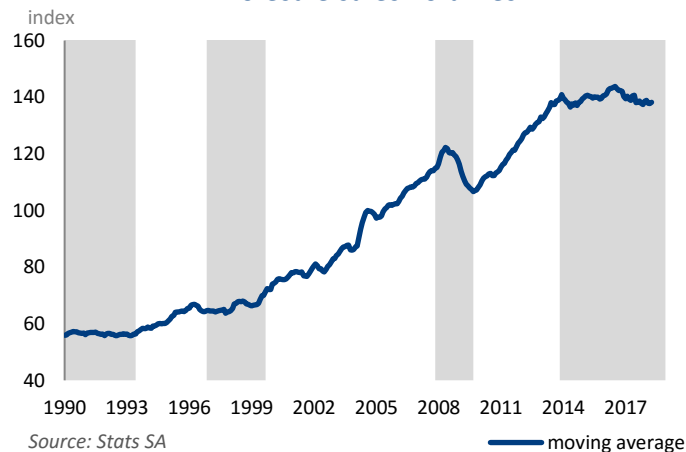
RMB/BER Business confidence index



Manuf. production volumes



Wholesale sales volumes



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