BER
BUREAU FOR ECONOMIC RESEARCH

Economic Snapshot

August 2018

Contents:

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

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Highlights

Manufacturing output rebounded in May; mining output contracted

Manufacturing output growth came in higher than expected at 2.3% y-o-y, up from 1% in April. Food and beverages led the annual expansion. Based on the average Absa Purchasing Managers' Index (PMI) for Q2 relative to that of Q1, and the fact that manufacturing output contracted by 1.5% for the three months to May, this sector is unlikely to stage a solid recovery after output contracted on a q-o-q basis in the first quarter. **Mining** output contracted by 2.6% y-o-y in May, with gold the main contributor to the decline. Output in the gold sector contracted by 16.2% y-o-y, subtracting 2.5 percentage points (% pts) from total mining production. The gold sector has come under increasing pressure over recent years with low prices, falling grades, declining productivity, and rising costs weighing on profitability and output. As such, the mining sector is set for another quarterly decline in Q2, weighing on the prospects for a solid GDP recovery.

Consumer inflation up in June on fuel price hikes

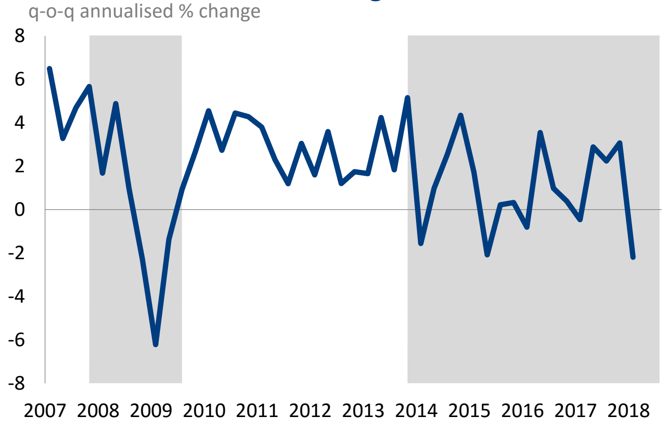
Consumer inflation rose by 4.6% y-o-y in June, up from 4.4% in May. While still comfortably below the upper end of the South African Reserve Bank's (SARB) inflation target, this marks the highest rate this year. Meanwhile, core inflation increased by 4.2% y-o-y. The biggest contributions to headline annual inflation came from the housing and utilities, transport and miscellaneous goods and services component, each adding 1% pt to the total. Under the transport component, the fuel sub-index rose by 16.3% y-o-y, reflecting the sharp 82c/litre increase in the petrol price at the start of June.

SARB keeps repo rate unchanged despite deteriorating inflation outlook

On 19 July, the Monetary Policy Committee (MPC) of the SARB unanimously decided to keep the repo rate unchanged at 6.5%. This was despite the SARB lifting their average 2019 headline and core (excluding food and energy) consumer inflation forecasts by 0.4% pts to 5.6 and 5.5% respectively. The MPC judged the risks to these forecasts to be on the upside. The statement said that the MPC would not hesitate to increase the repo rate if second-round price effects push inflation 'significantly' above the 4.5% midpoint of the inflation target range. In that sense, the SARB's inflation forecast is already at the point where a rate hike should be considered. However, the poor state of the real economy helps to explain the on-hold decision.

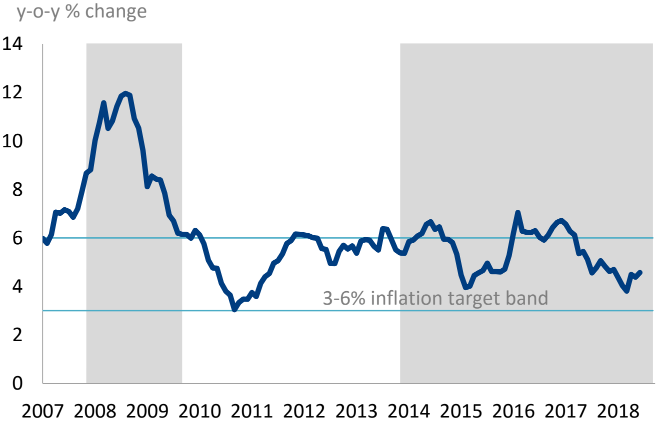
Core indicators

Real GDP growth



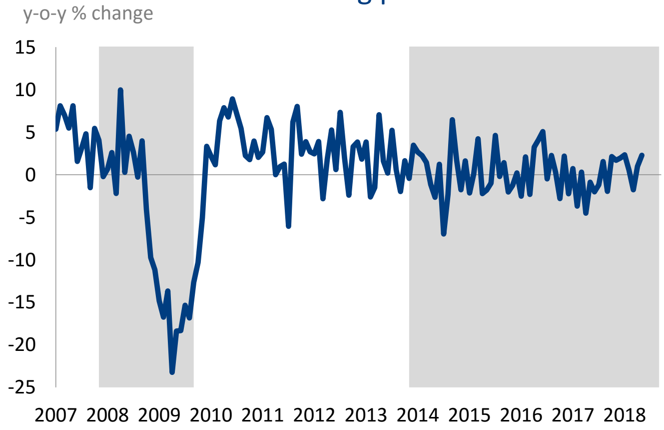
Source: Stats SA

CPI inflation



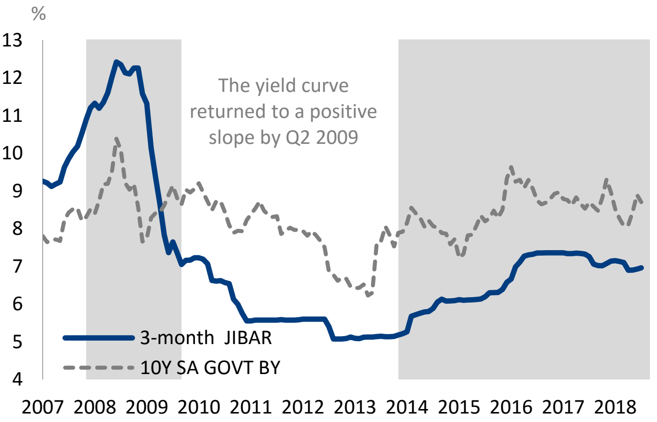
Source: Stats SA

Manufacturing production



Source: Stats SA

Interest rates



Source: Thomson Reuters

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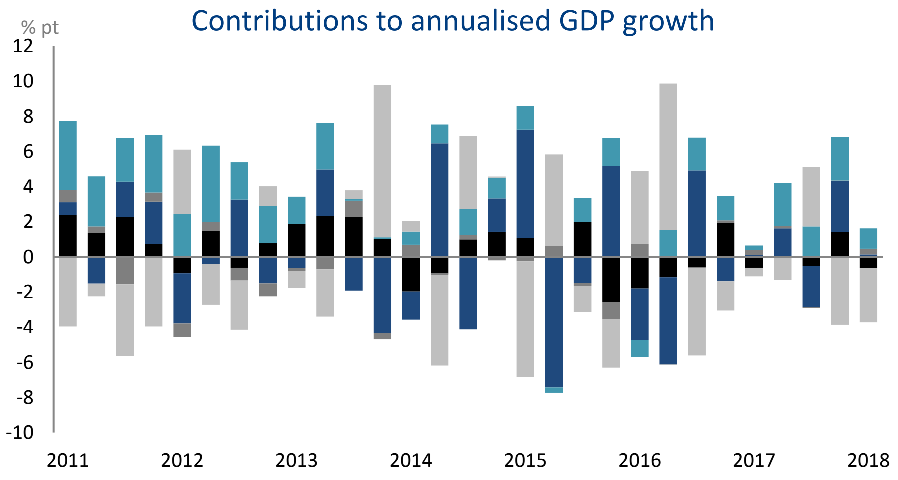
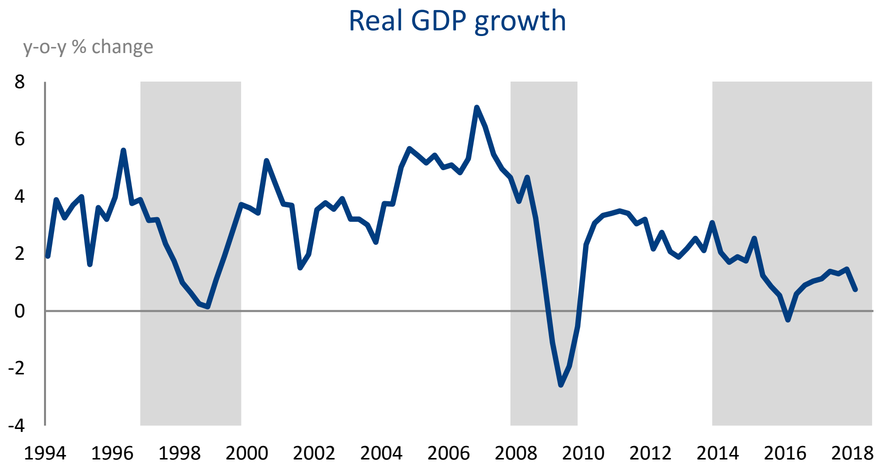
GDP growth



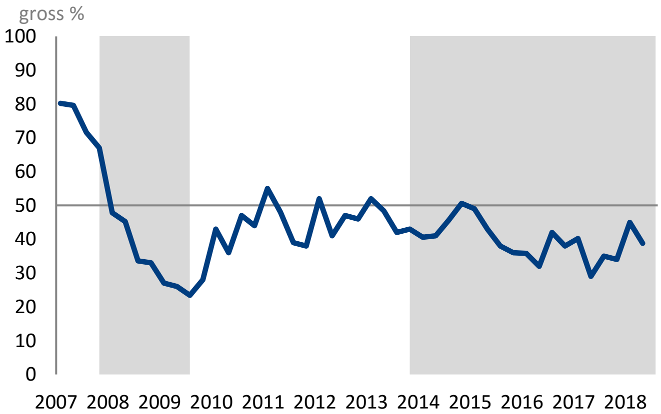
Source: Stats SA



Source: Stats SA

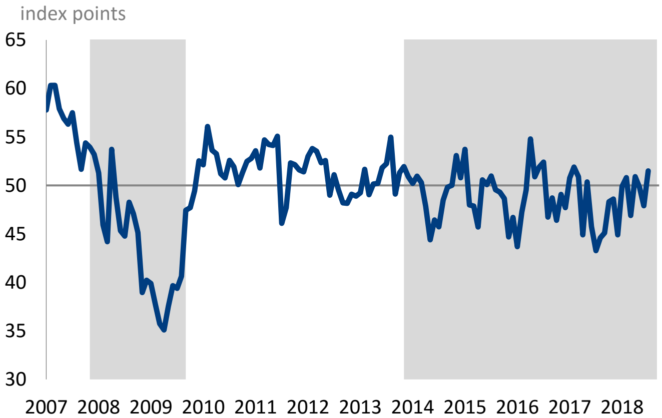
Business environment

RMB/BER Business Confidence Index



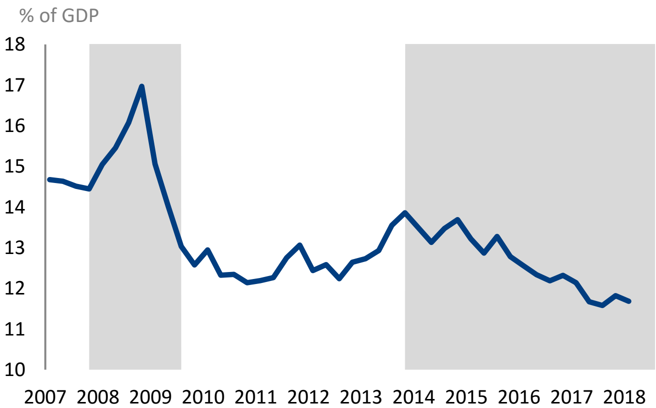
Source: BER

Absa Purchasing Managers Index



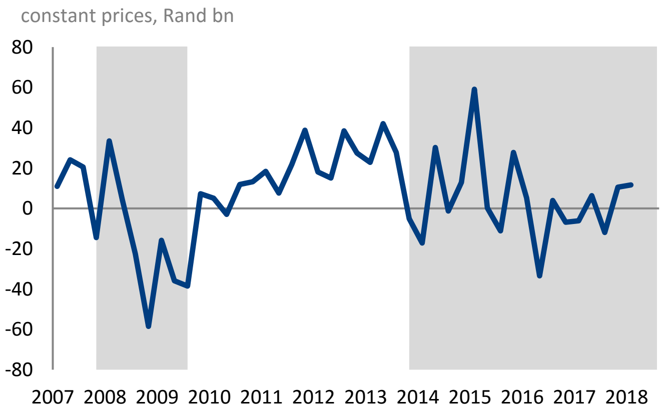
Source: BER

Private fixed investment



Source: SARB, Stats SA

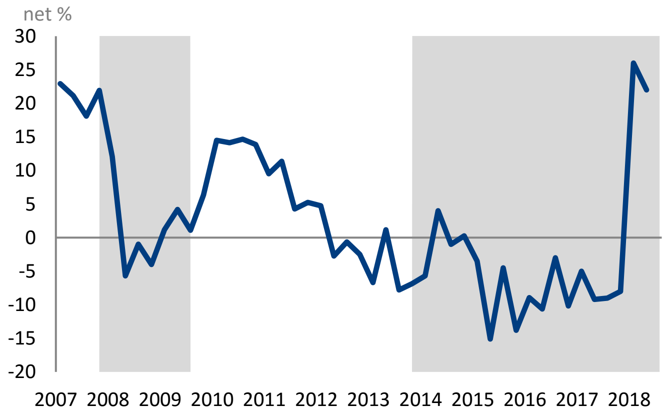
Changes in inventories



Source: SARB, Stats SA

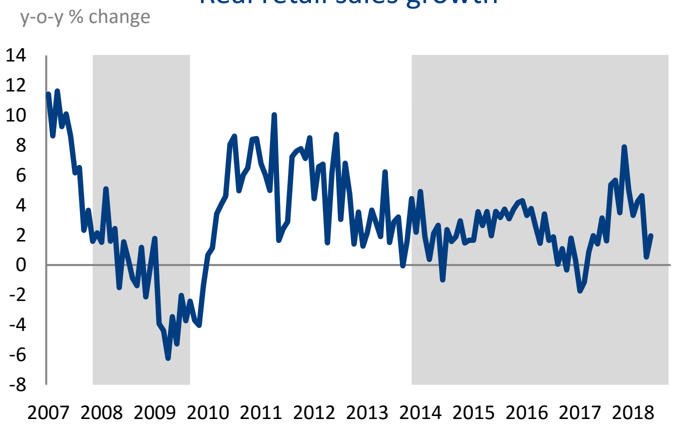
Household consumption

FNB/BER Consumer Confidence Index



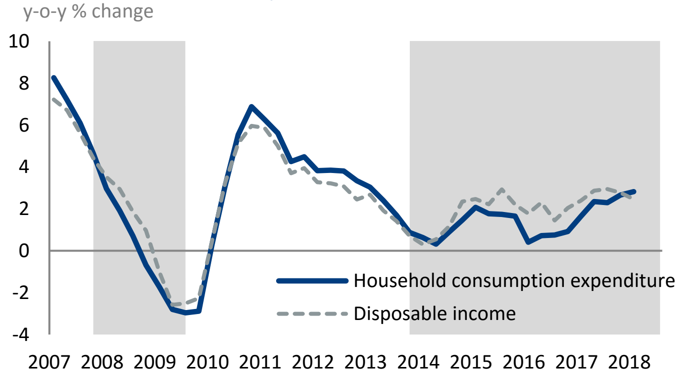
Source: BER

Real retail sales growth



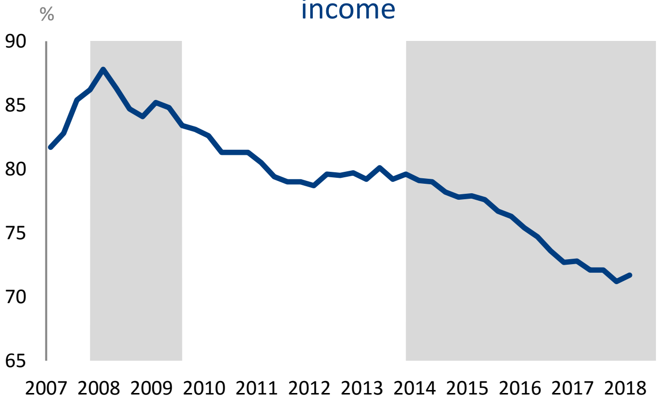
Source: Stats SA

Household consumption and real disposable income



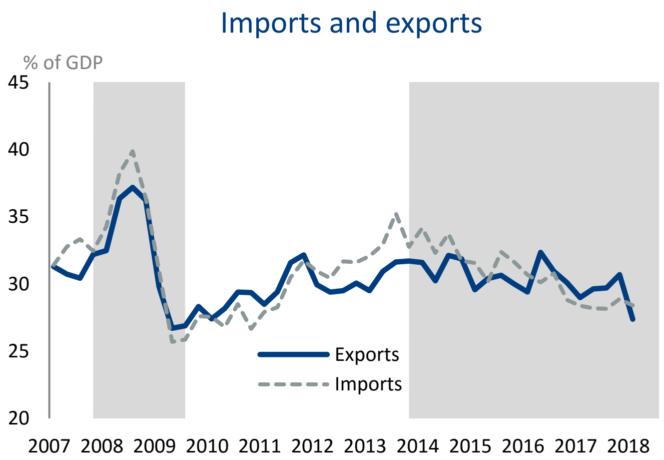
Source: SARB, Stats SA

Ratio of household debt to disposable income

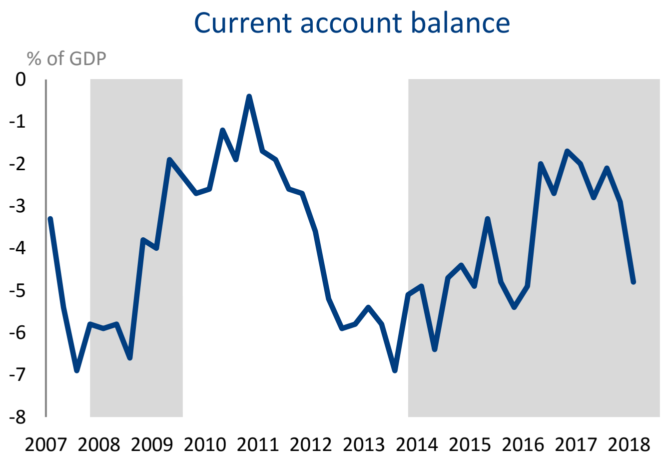


Source: SARB

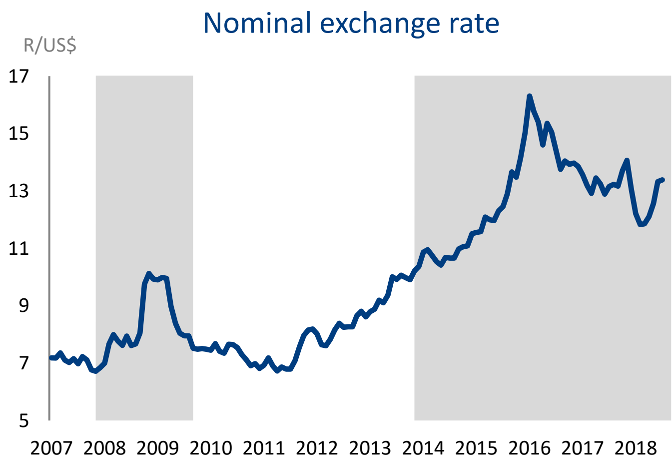
International trade



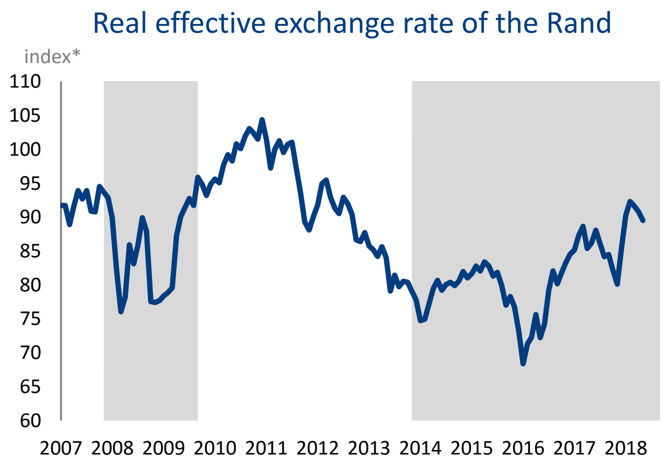
Source: SARB, Stats SA



Source: SARB



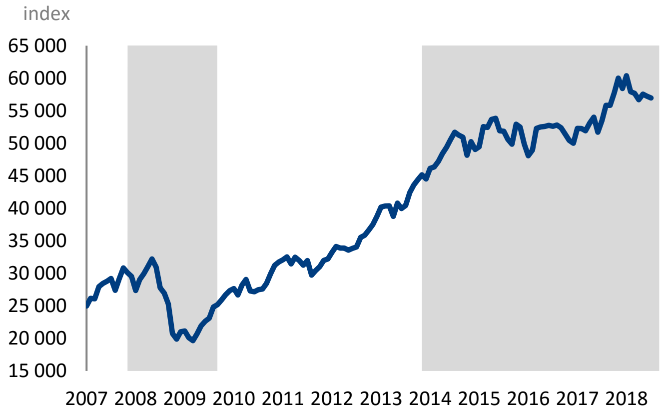
Source: Thomson Reuters



Source: SARB *higher values denote a stronger rand

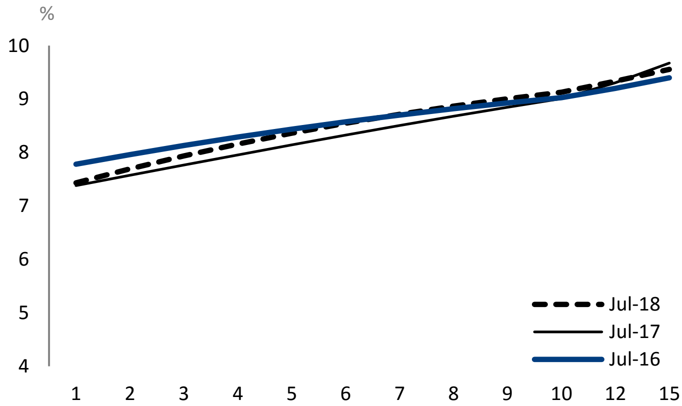
Financial markets

JSE all share index



Source: Thomson Reuters

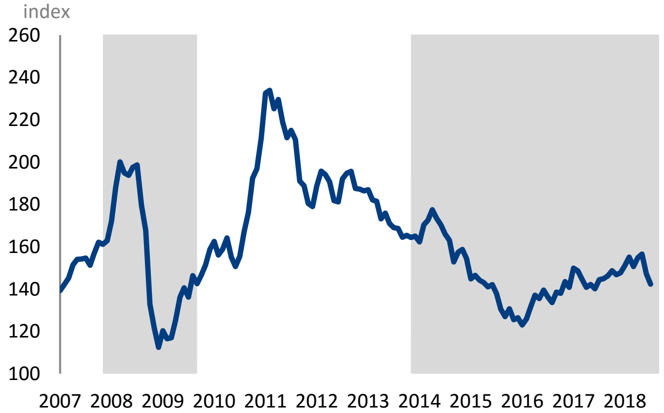
Yield curve comparisons



Source: Thomson Reuters

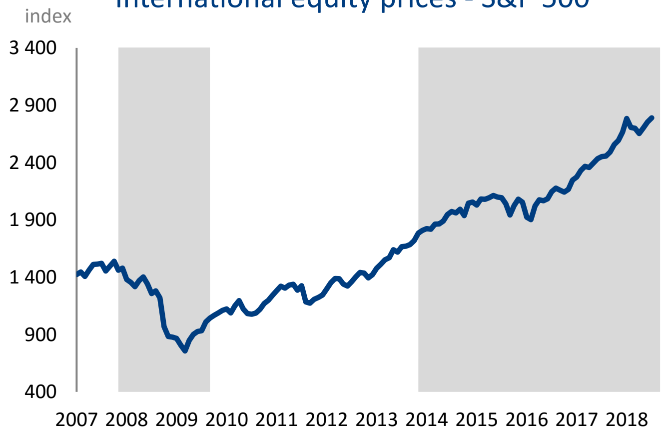
Years to maturity

Economist all commodities index



Source: Economist

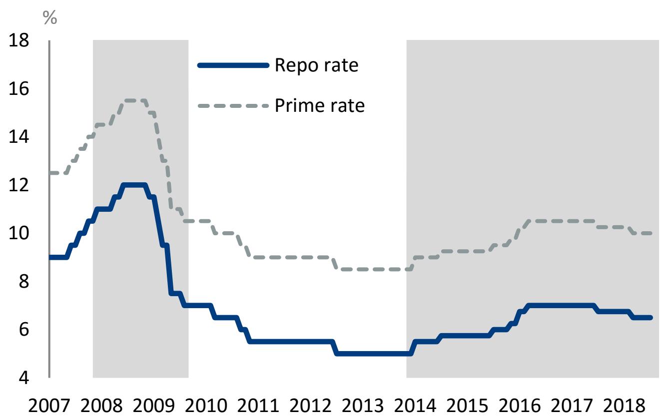
International equity prices - S&P 500



Source: Thomson Reuters

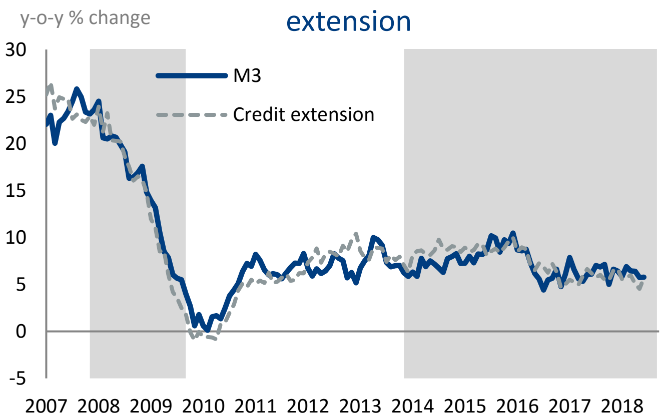
Money and prices

Repo and prime interest rate



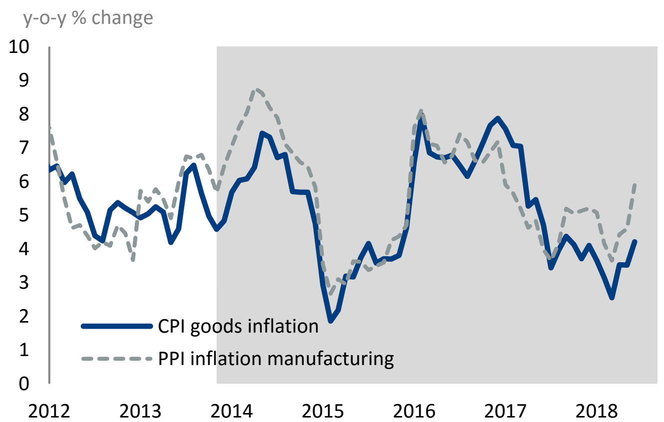
Source: SARB

M3 monetary aggregates and credit extension



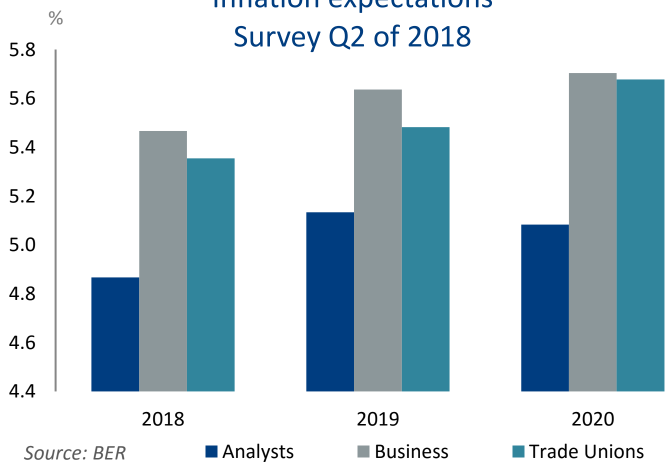
Source: SARB

Consumer and producer prices



Source: Stats SA

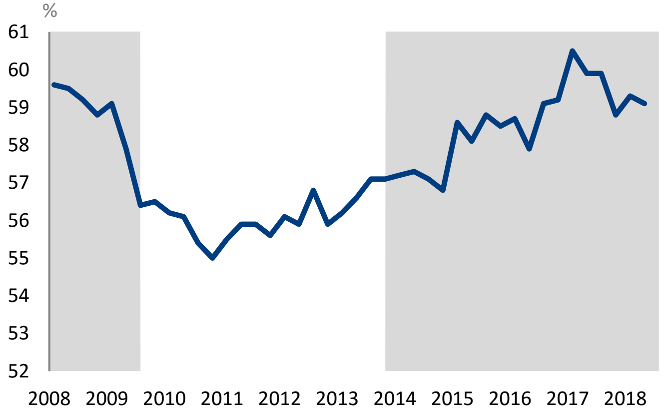
Inflation expectations Survey Q2 of 2018



Source: BER

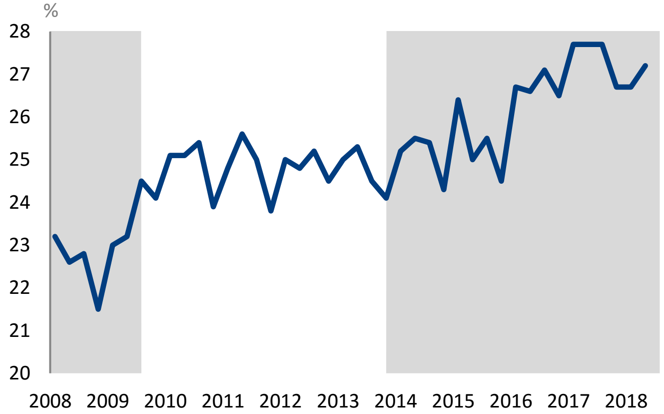
Labour

Labour force participation



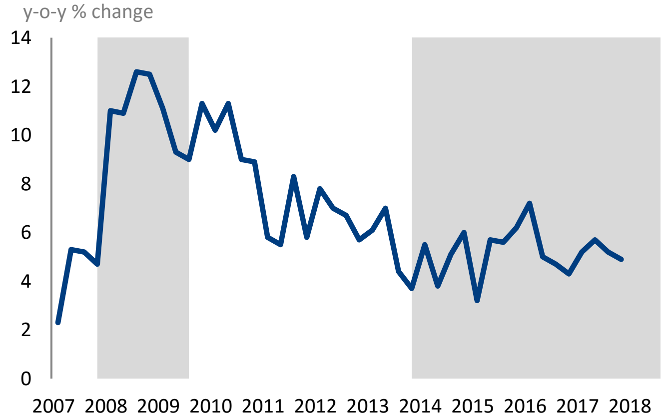
Source: Stats SA

Unemployment rate



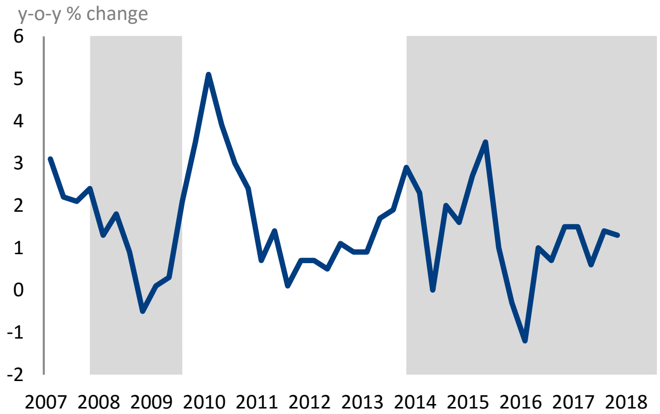
Source: Stats SA

Unit labour cost



Source: SARB

Labour productivity



Source: SARB

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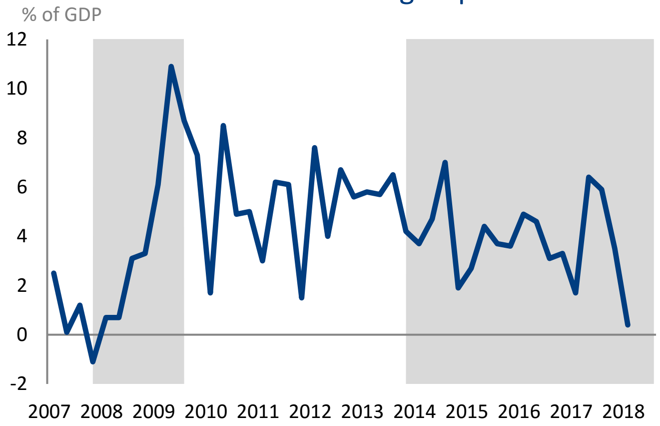
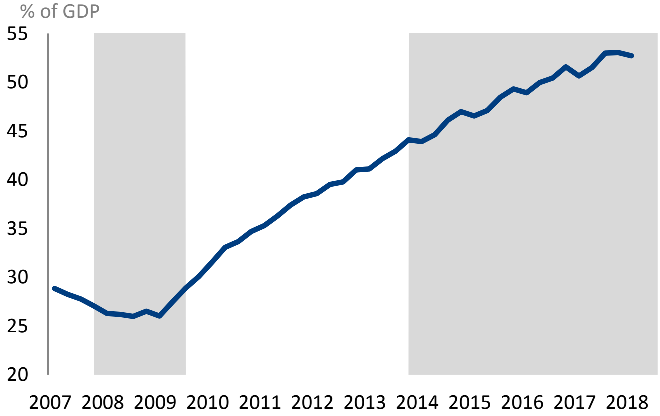
Government

Public sector borrowing requirement



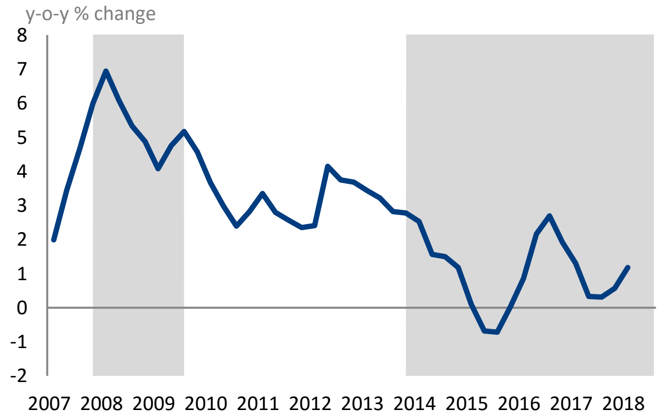
Source: SARB

Gross government debt



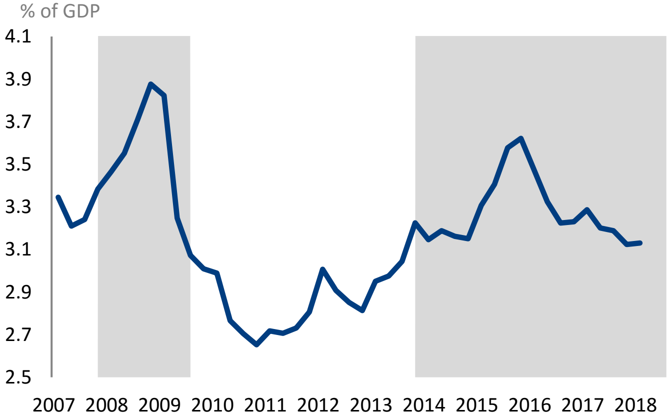
Source: SARB

Real government consumption



Source: SARB, Stats SA

Government fixed investment



Source: SARB, Stats SA

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