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

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Highlights

Repo rate unchanged

In its first monetary policy meeting of the year, the SA Reserve Bank (SARB) decided to keep the repo policy interest rate unchanged at 6.75%. While the interest rate decision was in line with expectations, the surprise (at least relative to our expectations) was the extent of the downward adjustment to the SARB's inflation forecast. The most significant revision was for 2019, with the headline CPI forecast to average 4.8%, down 0.7 percentage points (% pts) from the 5.5% expected at the time of the November MPC meeting. A key driver of the downward revision was a significantly lower Brent crude oil price assumption. In addition, the SARB now sees a delayed acceleration in food prices. Clients can access the BER's detailed comment [here](#).

Mining output sharply down in November

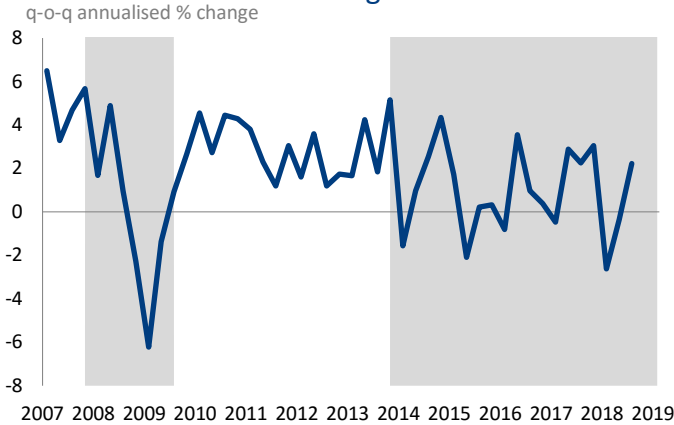
Manufacturing production rose by 1.6% y-o-y in November 2018 after a 2.8% gain was registered in October. Seasonally adjusted output expanded by 0.7% m-o-m after a 1.1% gain in October. This means that the manufacturing sector is likely to contribute positively to GDP growth in 2018Q4, unless output declined sharply in December. Total **mining** production fell by 5.6% y-o-y in November after a 0.2% uptick in October. The largest negative contributions came from iron ore and gold, which fell by 19.7% and 14% respectively. On a seasonally adjusted basis, total mining output fell by 5.8% m-o-m after a 3% rise in October. The poor performance of the mining industry can partly be ascribed to load shedding and strike activity in the gold mining sector towards the end of last year.

Consumer inflation moderated on the back of lower fuel prices in December

Consumer price inflation moderated to 4.5% y-o-y in December 2018 from a reading of 5.2% in November, in line with expectations. A sharp fall in the petrol price and moderating food price inflation contributed to the decline. After being hit hard by fuel price increases for much of 2018, motorists welcomed a record fuel price drop in December. This resulted in an 8% m-o-m decline in the fuel price index of the CPI, bringing the category down to 8.7% y-o-y (23.1% in November). Food prices also moderated, slowing to 2.4% from 2.8% in November. The lower December headline CPI print, combined with downward adjustments to our inflation forecast, supports the BER's view that the SARB will hold off on further rate hikes for now.

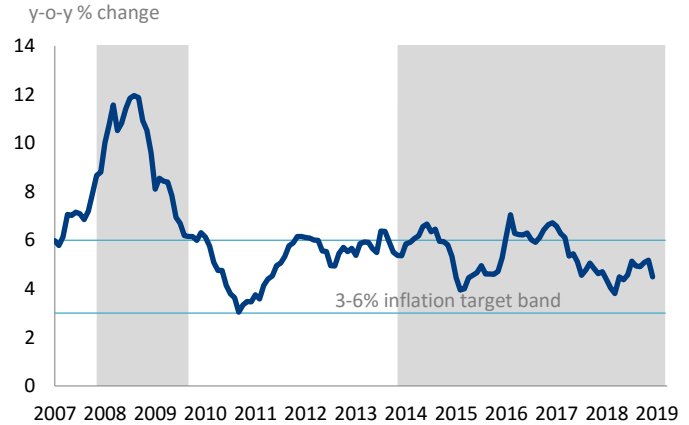
Core indicators

Real GDP growth



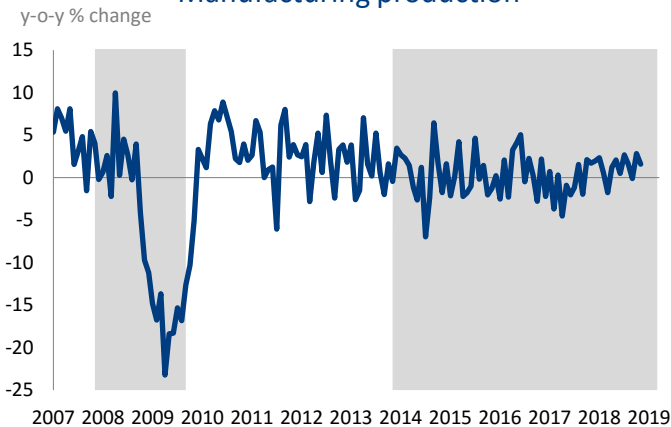
Source: Stats SA

CPI inflation



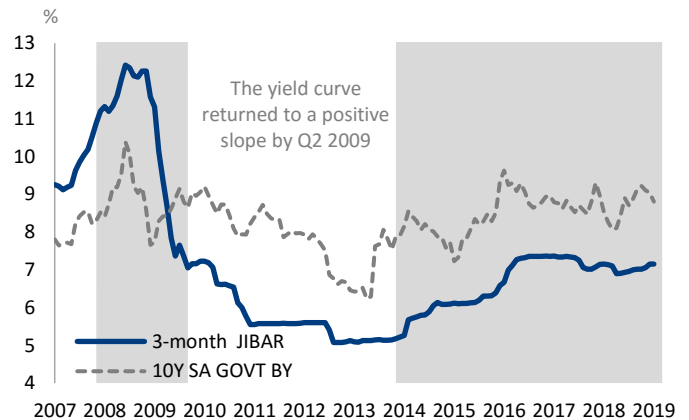
Source: Stats SA

Manufacturing production



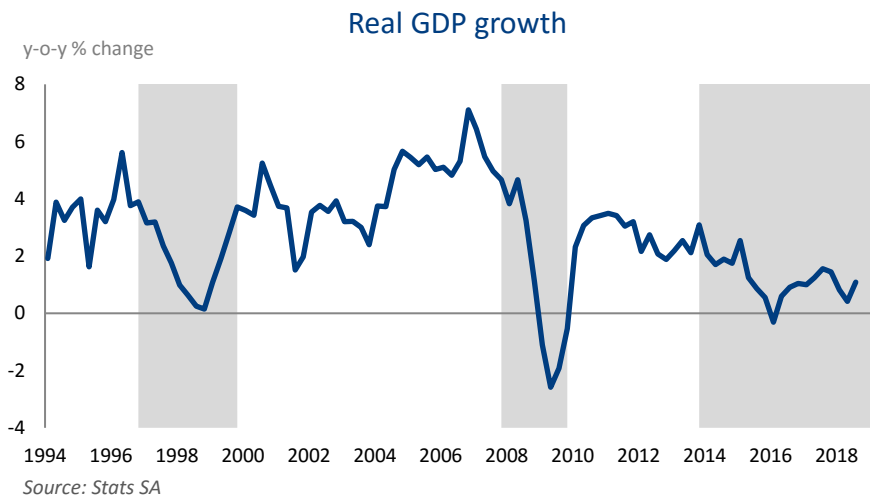
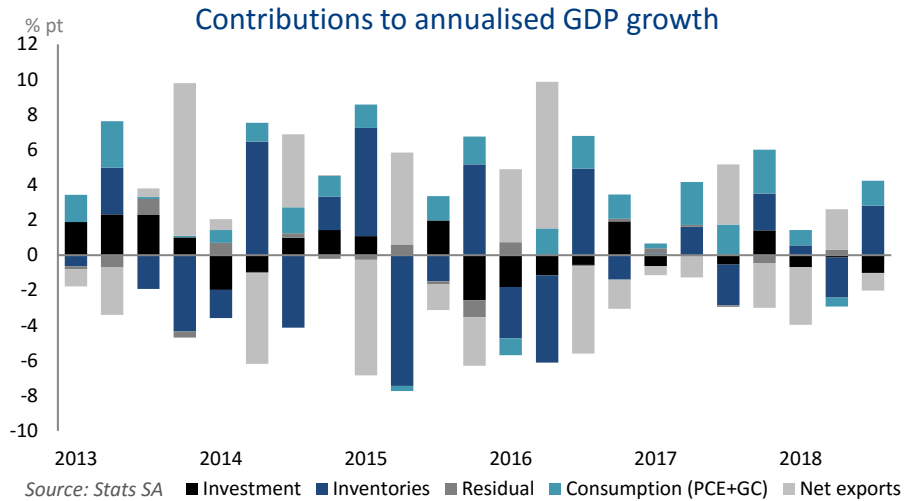
Source: Stats SA

Interest rates



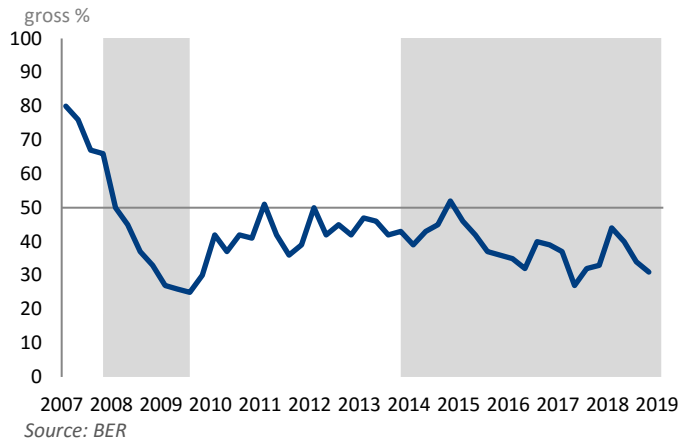
Source: Thomson Reuters

GDP growth

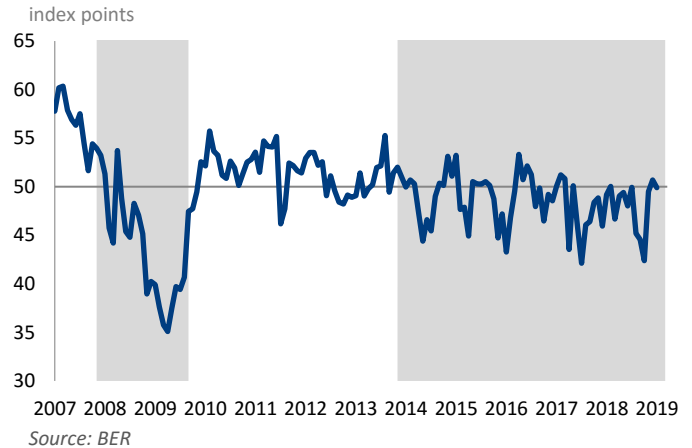


Business environment

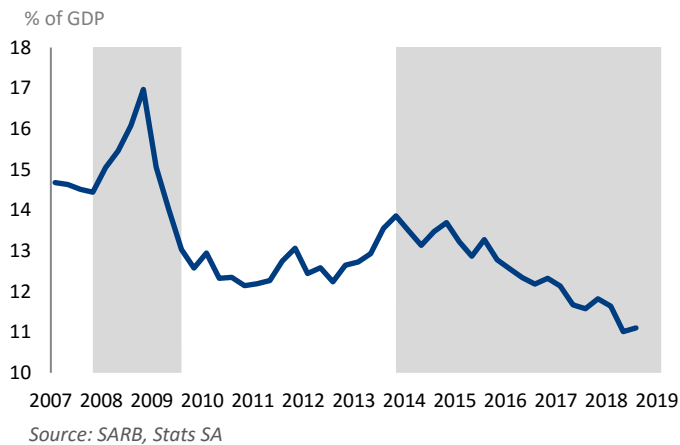
RMB/BER Business Confidence Index



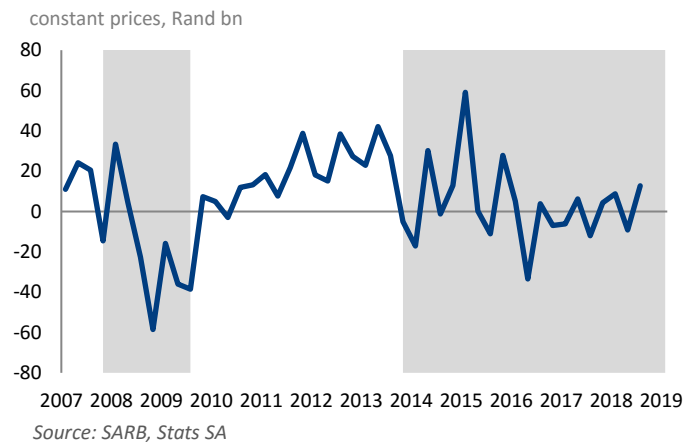
Absa Purchasing Managers Index



Private fixed investment

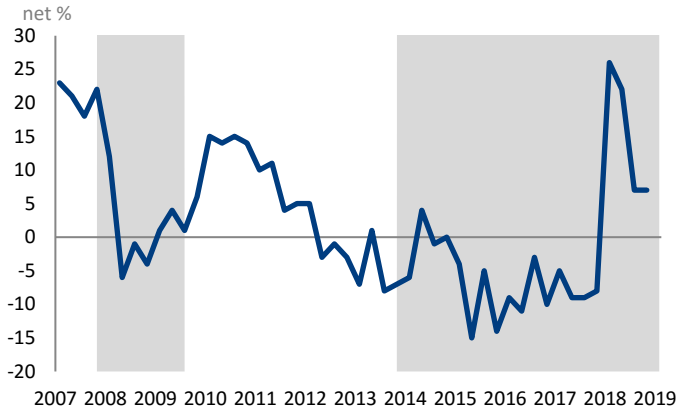


Changes in inventories



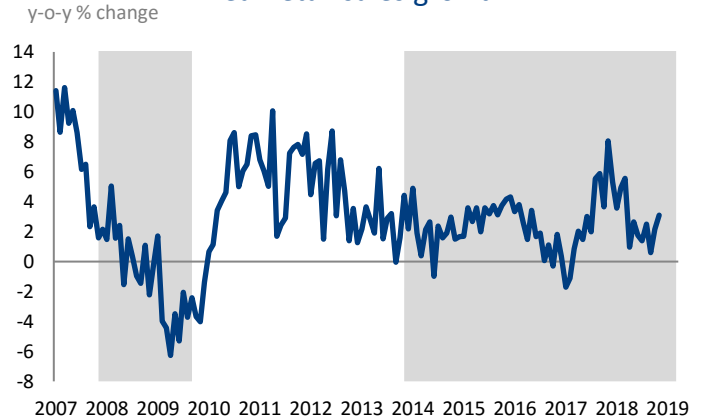
Household consumption

FNB/BER Consumer Confidence Index



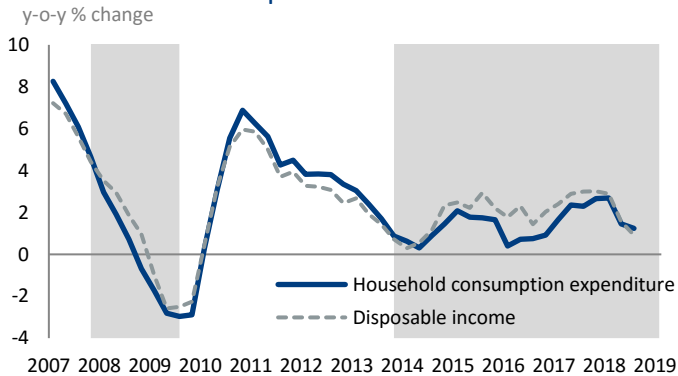
Source: BER

Real retail sales growth



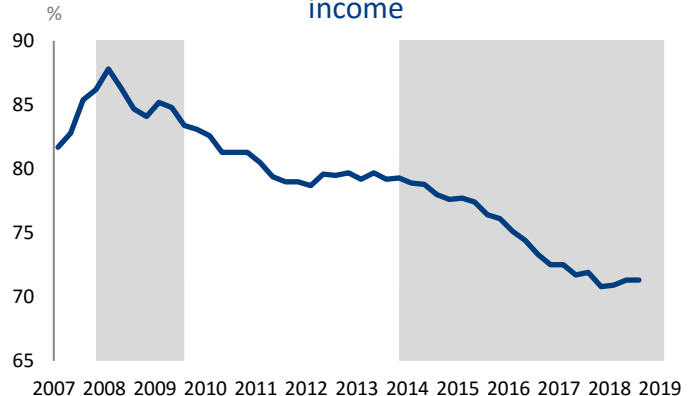
Source: Stats SA

Household consumption and real disposable income



Source: SARB, Stats SA

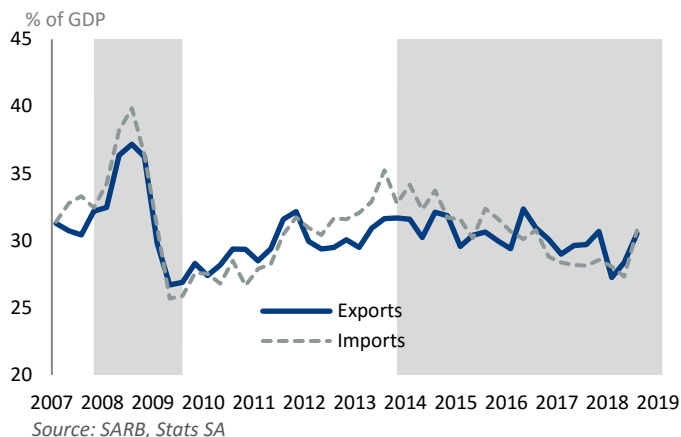
Ratio of household debt to disposable income



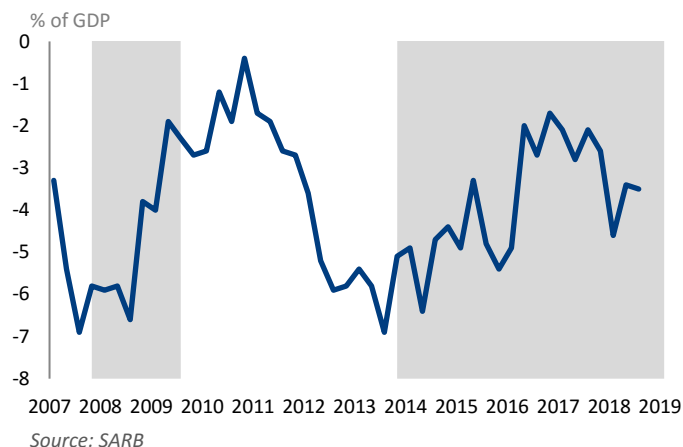
Source: SARB

International trade

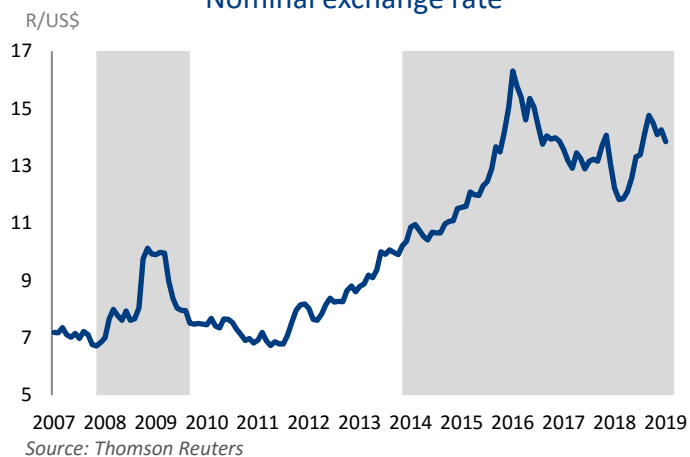
Imports and exports



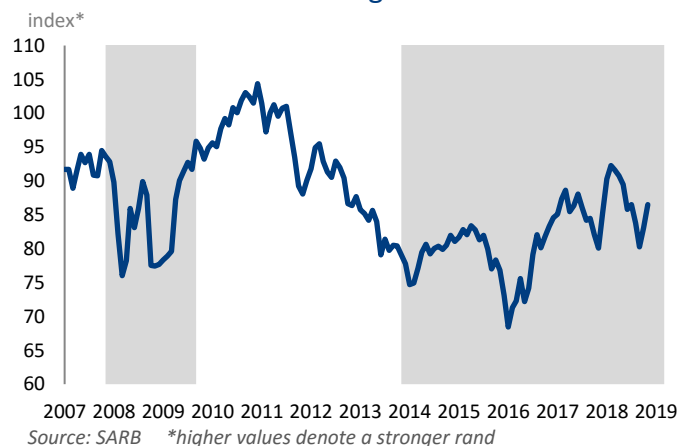
Current account balance



Nominal exchange rate

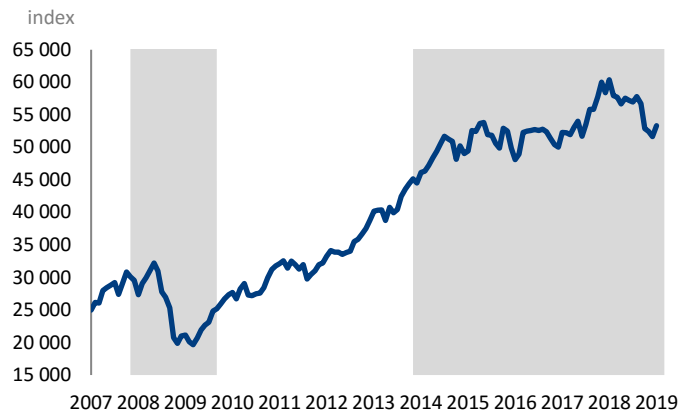


Real effective exchange rate of the Rand



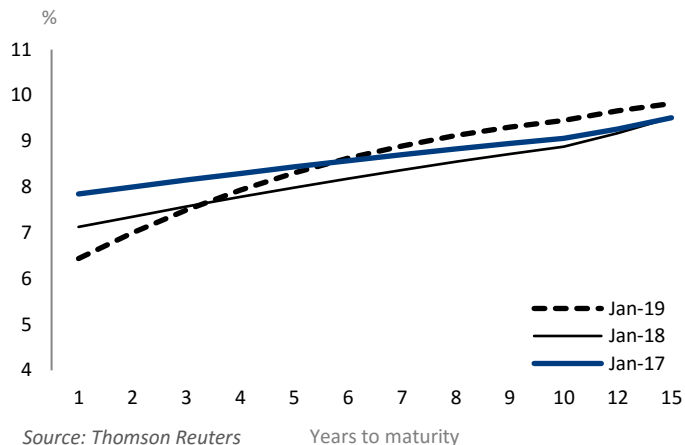
Financial markets

JSE all share index



Source: Thomson Reuters

Yield curve comparisons



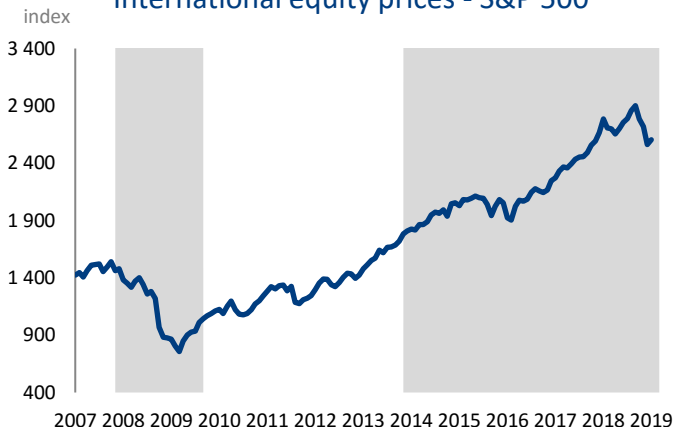
Source: Thomson Reuters

Economist all commodities index



Source: Economist

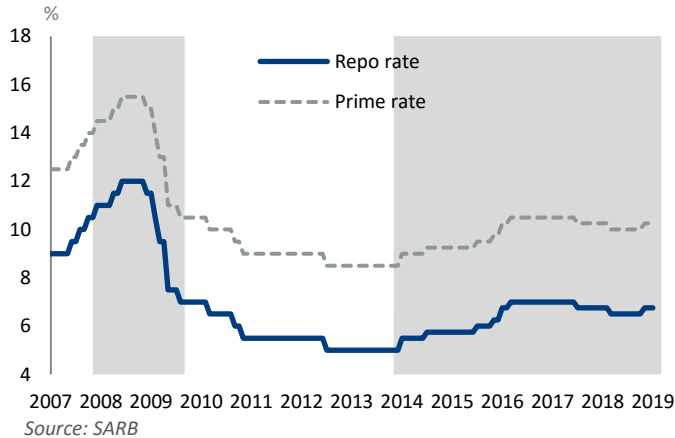
International equity prices - S&P 500



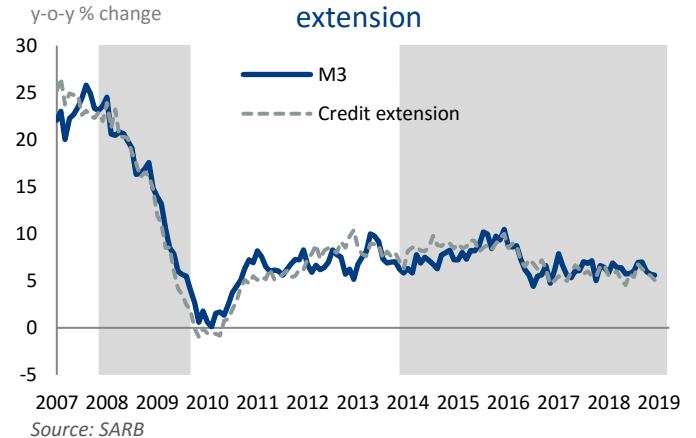
Source: Thomson Reuters

Money and prices

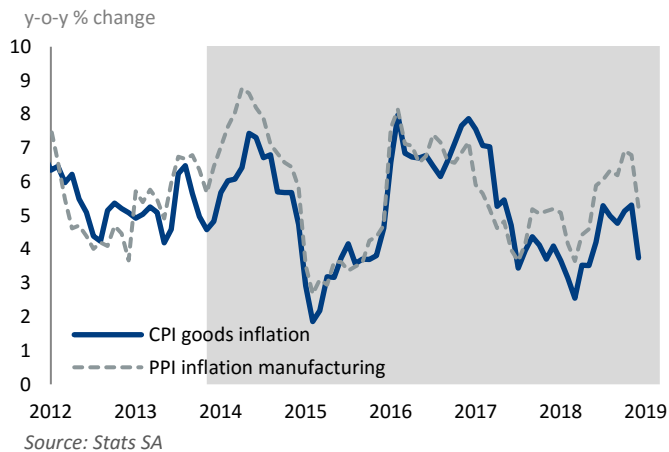
Repo and prime interest rate



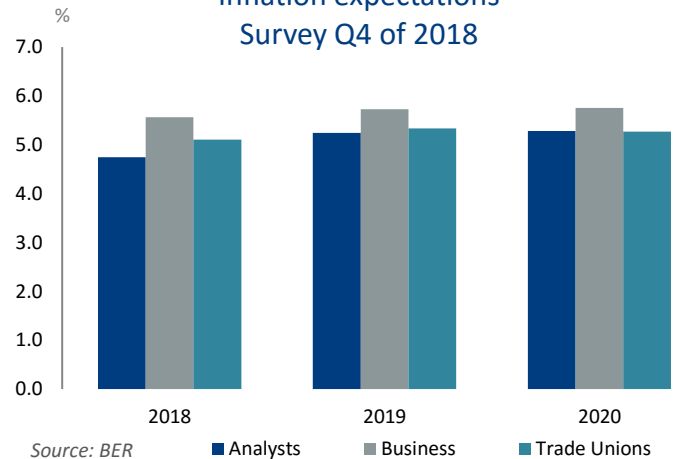
M3 monetary aggregates and credit extension



Consumer and producer prices

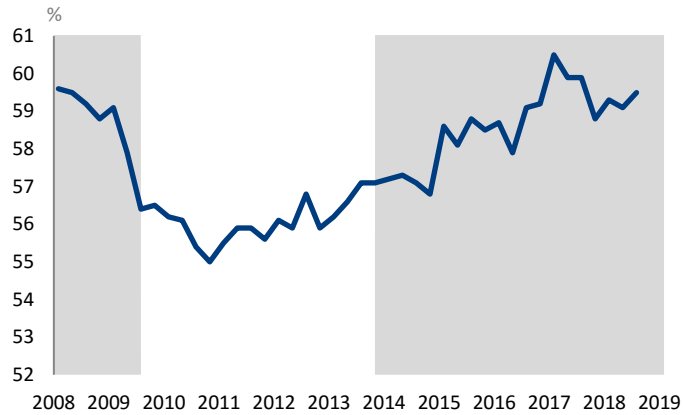


Inflation expectations Survey Q4 of 2018



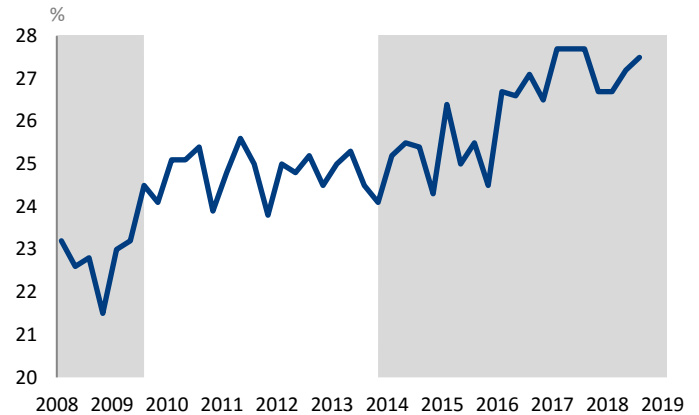
Labour

Labour force participation



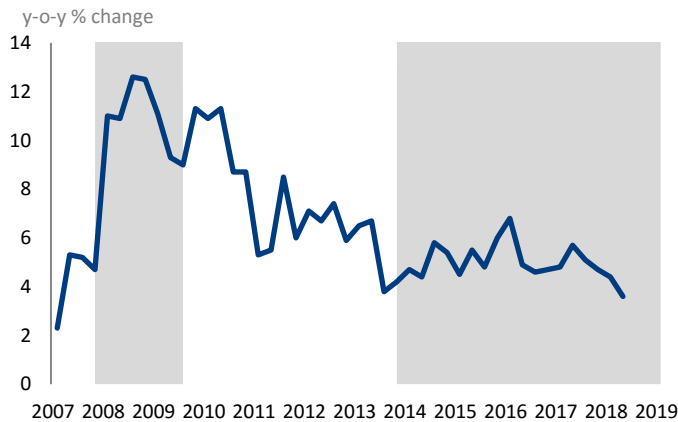
Source: Stats SA

Unemployment rate



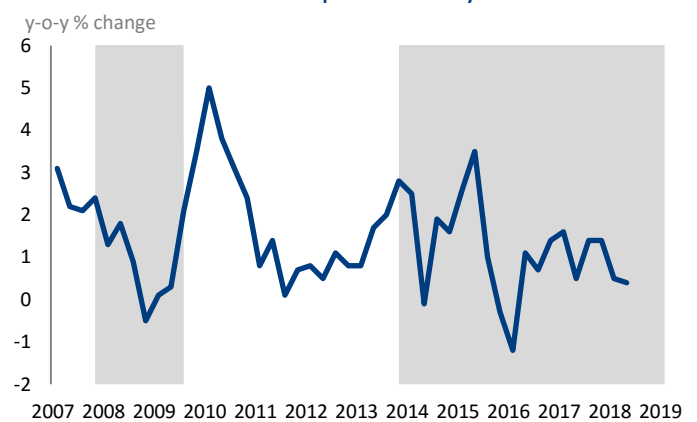
Source: Stats SA

Unit labour cost



Source: SARB

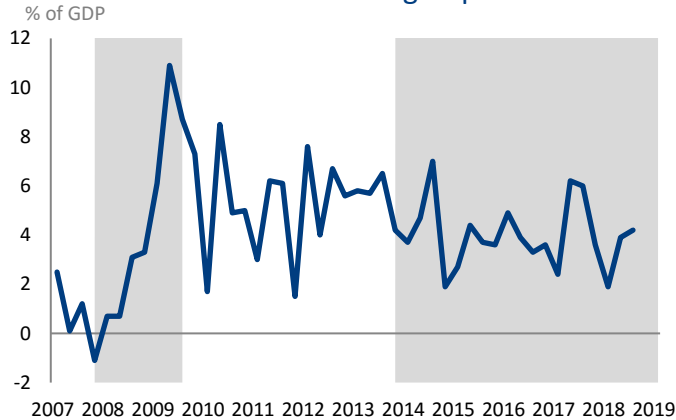
Labour productivity



Source: SARB

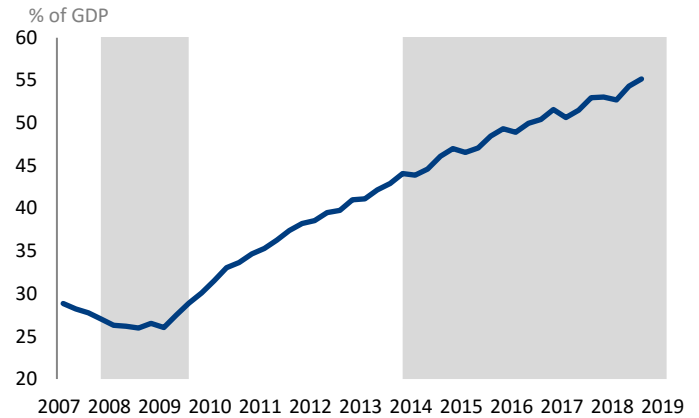
Government

Public sector borrowing requirement



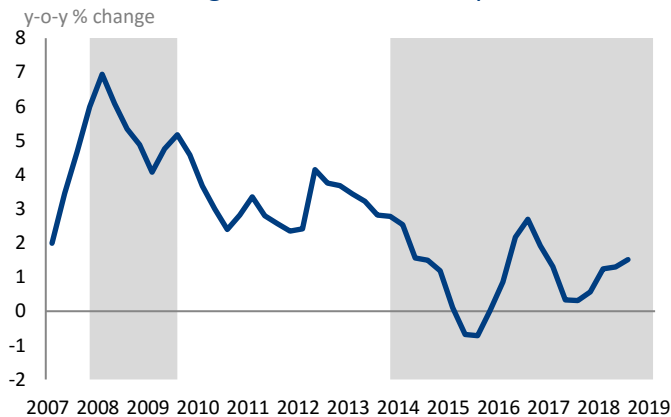
Source: SARB

Gross government debt



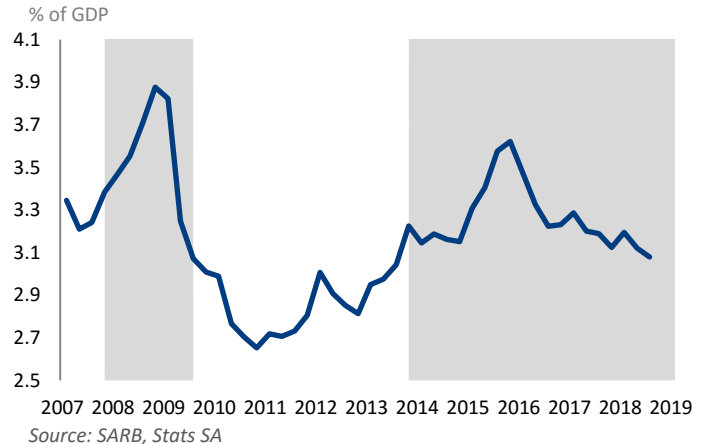
Source: SARB

Real government consumption



Source: SARB, Stats SA

Government fixed investment



Source: SARB, Stats SA

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