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during 2019 and 2020

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Forecast in a nutshell

Real annual % change*	2018	2019	2020
Final household consumption expenditure	**1.8**	**1.2**	**1.5**
Durable goods	4.5	0.5	2.9
Semi-durable goods	3.0	2.6	2.9
Non-durable goods	0.8	1.3	1.0
Services	1.9	1.1	1.4
Gross fixed capital formation	**-1.4**	**-0.4**	**1.8**
Private	2.1	-0.3	2.5
Government	-4.4	-3.4	-2.0
Public Corporations	-12.5	2.6	2.7
Gross domestic expenditure	**1.0**	**0.9**	**1.6**
Exports of goods and services	2.6	2.2	1.9
Imports of goods and services	3.3	1.9	2.8
Gross domestic product	**0.8**	**1.0**	**1.4**
Current account as % of GDP	**-3.6**	**-2.3**	**-3.1**
Interest rates (%, end of period)			
3 month NCD rate	7.06	7.14	7.14
10-year government bond yield	9.11	9.80	9.86
Prime overdraft rate (end of period)	10.10	10.25	10.25
Inflation rates (%)			
Producer prices	5.5	4.2	5.4
Consumer prices	4.7	4.8	5.2
Labour and employment			
Nominal wage rate	2.8	4.3	5.4
Employment growth	1.4	0.8	0.5
Exchange rates (Q4 average)			
R/US dollar	14.25	14.45	14.85
R/Euro	16.27	16.62	17.08
R/Pound sterling	18.34	19.22	19.75
R/100 Japanese Yen	12.64	13.14	13.50
Fiscal indicators as % of GDP	**2018/19**	**2019/20**	**2020/21**
Budget deficit	-4.7	-5.0	-5.0
Gross debt	-57.0	-58.1	-59.8

** Unless specified otherwise*

Executive summary

Following the pedestrian real GDP growth performance of 2018, 2019 is shaping up to be another challenging year for the SA economy. Incoming data for 2019Q1 suggests that a sizeable contraction might be on the cards. Beyond the first quarter, the short-run outlook for the domestic economy is further clouded by signs of slowing global growth momentum, low levels of private sector confidence, a subdued domestic demand environment, and constrained fiscal and monetary policy.

Following a broad-based, synchronised upswing in growth that lasted nearly two years, the **global economic expansion** decelerated in the second half of 2018. Incoming data suggests that the slowdown continued into early-2019. According to the IMF, global growth is expected to moderate from 3.6% in 2018 to around 3.3% in 2019 before recovering somewhat in 2020. Risks to the outlook are tilted to the downside, and mainly stem from persistent global trade tensions, a disorderly UK exit from the Eurozone and a larger-than-expected growth slowdown in China.

As highlighted in the previous edition of *Economic Prospects*, we remain cautious with respect to the outlook for the **rand exchange rate**. While the rand benefited in early-2019 from the dovish turn in global central bank commentary and, more recently, the ratings reprieve offered by Moody's, several risk factors suggest that the rand could weaken from current levels. These include concern over the precarious domestic fiscal situation, the unwinding of unrealistic expectation after the election, and increased risk-off sentiment in the face of the global slowdown. In all, the rand is expected to trend weaker in a range of between R14 and R15 (on average) to the US dollar over the next 12 to 18 months.

The possibility of a post-election reform agenda provides some hope that domestic **real GDP growth** could recover from current subdued levels. This will be the case particularly if private sector business confidence recovers on the back of a (perceived) favourable election outcome. However, we expect that major structural reforms will remain elusive. This, combined with weak domestic demand conditions (including subdued investment prospects), explains the downward adjustment to our growth outlook. We now expect real GDP growth to average 1% in 2019 (1.3% before) and 1.4% in 2020 (1.9% before).

Consumer price inflation is expected to remain firmly within the SARB's target range over the forecast horizon on the back of weak demand and subdued food price inflation. Key risks to the outlook include the possibility of additional electricity tariff hikes, higher petrol price increases and a weaker exchange rate than currently assumed. In all, headline CPI inflation is expected to average 4.8% and 5.2% in 2019 and 2020 respectively. The benign inflation and weak growth outlook suggests that further hikes in the **repo rate** are unlikely. However, given the SARB's renewed commitment to anchoring inflation expectations closer to the midpoint of the target range, a cut is also not on the cards.

Finally, consumer spending is expected to remain subdued on the back of weak income growth, while **fixed investment** will be weighed down by constrained public sector balance sheets and low private sector confidence.

This report was completed on 18 April 2019.
Please refer to the glossary on the BER's website for explanations of technical terms.

Contents

Introduction 1
Global outlook 1
US dollar weathers Fed pivot 4
Subdued global growth outlook weighing on commodity prices 5
Summary and risks 6
Domestic outlook 8
Balance of forces keeps rand in check 9
Subdued inflation, weak growth informs unchanged policy rate outlook 12
Weak income growth set to weigh on overall consumer spend 14
Subdued outlook for gross fixed capital formation 16
Summary and risks 18
Appendix 19
Statistics of the quarterly forecast, 2019 - 2020 19

List of tables

Table 1: Global growth prospects 4
Table 2: Commodity price outlook 6
Table 3: Forecast for real consumer spending 16
Table 4: Outlook for gross fixed capital formation 17

List of figures

Figure 1: PMI data points to global growth slowdown in 2019Q1...2
Figure 2: Recent polls point to declinining ANC support 10
Figure 3: Tax-to-GDP ratio stagnating despite large tax increases 11
Figure 4: PPI for agriculture points to subdued food price inflation outlook..............................13
Figure 5: Inflation expectations trending lower..14
Figure 6: Slowdown in retail volume growth...15
Figure 7: Household credit expanding 15
Figure 8: Upward revision to historic PSFI data 16
Figure 9: Per capita GDP declining 18

Introduction

The SA economy faces several challenges in 2019 and beyond. Following a period of synchronised global growth, momentum slowed in 2018H2 and early-2019. This will constrain the ability to reignite SA GDP growth. Other notable headwinds include constrained public sector finances, political uncertainty in the aftermath of the national and provincial elections, and perennially low business and consumer confidence levels.

This report sets out the BER's latest short-term baseline forecast for the SA economy. The risks to the baseline outlook are highlighted throughout the report.

Global outlook

This section provides an overview of the international assumptions underlying the BER's latest forecast.

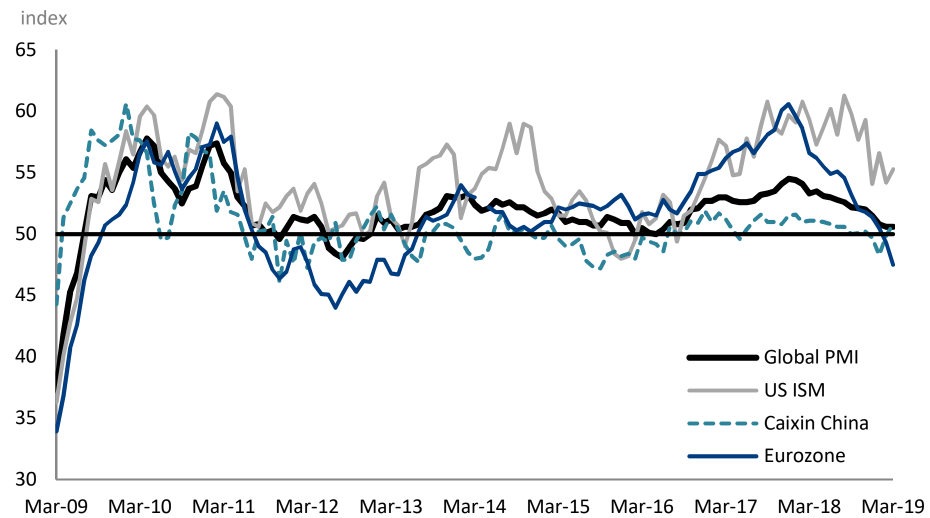
Global growth momentum slows

Following a broad-based, synchronised upswing in growth that lasted nearly two years, the global economic expansion decelerated in the second half of 2018. Activity softened amid an increase in trade tensions and tariff hikes between the US and China, a decline in business confidence, tighter financial conditions, and increased policy uncertainty across many economies. After peaking at close to 4% in 2017, global growth remained strong at 3.8% in 2018H1, but dropped to 3.2% in the second half of the year. Industrial production figures and surveys of purchasing managers (PMIs) suggest that the slower momentum during the second half of 2018 continued into early-2019. Manufacturing PMIs in particular point to subdued real activity in the first three months of 2019 (see Figure 1).

EZ growth under pressure

Among advanced economies, the **Eurozone (EZ)** slowed more than expected in 2018H2 as a combination of factors weighed on activity across countries. Some of the reasons for the slowdown were idiosyncratic: adverse weather conditions, rail strikes, and the yellow-vest protests weighed on growth in France, while Germany's automotive sector was disrupted by changes in car emissions regulations. Elsewhere, activity weakened in **Japan**, largely due to natural disasters in the third quarter. One exception to the broader pattern was that momentum in the **US** remained robust amid a tight labour market and strong consumption growth, resulting in full-year growth coming in at 2.9% in 2018.

Figure 1: PMI data points to global growth slowdown in 2019Q1



Source: IHS Markit, ISM

Looking ahead, EZ growth is expected to recover in 2019H1 as some of the temporary factors that held activity back dissipate. However, carryover from the weakness in the second half of 2018 is expected to hold the 2019 growth rate down. In all, the IMF forecast pins EZ growth at 1.3% in 2019 (down from 1.8% in 2018) before picking up marginally in 2020.

Brexit remains key uncertainty

One factor that is weighing on growth in the broader region is the persistent uncertainty surrounding the outcome of the ongoing **Brexit** negotiations. The UK's official departure date has been pushed out to 31 October 2019, but UK lawmakers' apparent inability to agree on a deal makes the prospect of a so-called "no-deal" Brexit all the more likely. That being said, current baseline projections assume that a Brexit deal is reached in 2019 and that the UK transitions gradually to the new regime, although the exact form of the agreement remains uncertain.

Slowdown in US on government shutdown, less fiscal stimulus

In the **US**, the growth rate is expected to decline to just over 2% in 2019 before softening further in 2020. The government shutdown of early-2019 and the winding down of fiscal stimulus will likely weigh on 2019 growth, while the ongoing US-China trade war could limit any upside going forward. The US and China appear close to signing a trade deal, but trade barriers remain high, weighing on expected business investment and corporate earnings. The current administration will likely maintain its focus on trade protectionism and reducing the trade deficit in the interests of maintaining campaign promises ahead of the 2020 election. However, relatively strong domestic demand, driven by tight labour market conditions (full employment and rising wages) and more

accommodative monetary policy, should provide some support to overall economic growth going forward.

Chinese growth set to slow

In **China**, regulatory measures aimed at reining in debt and constraining shadow financial intermediation contributed to slower domestic investment, particularly in infrastructure, during 2018. This, combined with further pressure from diminishing export orders in 2018H2 as US tariffs began to bite, resulted in China's growth declining from 6.8% in the first half of 2018 to 6.5% in the final six months of the year. Looking ahead, Chinese authorities face the challenge of supporting economic growth while limiting financial risks. The People's Bank of China cut the reserve requirement ratio by a cumulative 100 basis points (bps) in January in order to shore up growth, while recently announced fiscal stimulus measures are also aimed at supporting the flagging economy. However, given the need for financial stabilisation, further support will likely be limited. In all, growth is expected to slow towards 6% in 2019/20, reflecting weaker underlying growth in 2018 and the impact of lingering trade tensions with the US.

Mixed bag for EMs

Elsewhere across **emerging market** (EM) economies, activity moderated as tighter global financial conditions in the second half of 2018 compounded country-specific factors. Looking ahead, activity in *emerging and developing Europe* is expected to moderate sharply, mainly due to a projected contraction in Turkey in 2019. In *India*, growth is projected to pick up in 2019 and 2020, supported by the continued recovery of investment and robust consumption amid more expansionary monetary policy. In *Latin America*, Argentina's economy is forecast to contract in 2019H1 as domestic demand slows on the back of tighter monetary policy, returning to growth in the second half of the year. Venezuela's economy is expected to contract by 25% in 2019, and a further 10% in 2020, generating a sizeable drag on regional growth. On the other hand, the projected recovery in Brazil should provide some support. In *sub-Saharan Africa*, average growth is projected to rise from 3% in 2018 to around 3.5% in 2019/20, mainly due to stronger growth in Angola and Nigeria on the back of recovering oil production and prices.

Global growth set to slow to 3.3% in 2019

In all, according to the IMF's April forecast update, **global growth** is set to moderate from 3.6% in 2018 to 3.3% in 2019 (see Table 1). This mainly reflects the slowdown in activity in the latter half of 2018 and the first half of 2019. In terms of our assumptions, growth in the G7 countries is an important driver of SA export volume growth. This forecast was scaled down by 0.3% pts relative to the January projection, with growth now expected to measure 1.4% in 2019.

Despite the downward revision to the outlook for 2019, there are signs that the current phase of sluggish global growth might be followed by a more substantial

pick-up later in the year. The global services PMI, compiled by JP Morgan, rose for a second consecutive month in March, pushing the composite PMI to a level consistent with above-trend global growth. Positive labour market news reinforces the message of resiliency in the face of weak activity in the manufacturing sector, with Germany, Japan and the US reporting solid job gains over recent months. Crucially, for this resilience to translate into a growth pick-up, policy support is required. Fortunately, there are encouraging signs on this front as well. The US and China appear close to signing a trade deal, while the dovish pivot (i.e. more accommodative monetary policy stance) by the US Federal Reserve (Fed) and the European Central Bank (ECB) continue to reverberate across the globe with monetary authorities in several key emerging markets easing policy in early-2019. In all, global growth is projected to recover to 3.6% in 2020, mainly due to faster growth in the developing world.

Marginal recovery pencilled in for 2020

Table 1: Global growth prospects

y-o-y % change	2018	2019	2020
World	**3.6**	**3.3**	**3.6**
Advanced countries	**2.2**	**1.8**	**1.7**
USA	2.9	2.3	1.8
Euro area[1]	1.8	1.3	1.5
United Kingdom	1.4	1.2	1.4
Japan	0.8	1.0	0.5
Developing countries	**4.5**	**4.4**	**4.8**
China	6.6	6.3	6.3
India	7.1	7.3	7.5
Emerging and Developing Europe	3.6	0.8	2.8
Latin America and the Caribbean	1.0	1.4	2.4
Sub-Saharan Africa	3.0	3.5	3.7

[1]19 Eurozone Countries

Source: IMF World Economic Outlook, April 2019

US dollar weathers Fed pivot

The **US dollar** strengthened by more than 9% against the euro over the last 12 months. Divergent growth trends between the US and the EZ, and differing policy stances, supported the greenback during 2018. In early 2019, the expectation was that the dollar would come under pressure on the back of a significant shift in Fed communication. At its latest policy meeting, the median Federal Open Market Committee (FOMC) member forecast was for no change in the benchmark policy rate in 2019 and only one increase in 2020, a significant change from just a couple of months ago. The accompanying statement was decidedly dovish, with the Fed noting that it will be patient before embarking on

No Fed rate hikes expected in 2019

possible further policy tightening amid global economic and financial headwinds and muted inflationary pressures.

Despite the Fed's dovish turn, the dollar has remained resilient as concerns over global growth and ongoing geopolitical tension in key regions fuelled safe-haven flows. Additionally, weak growth and inflation outcomes have prompted the ECB to push out the expected start of monetary policy normalisation. In fact, at its recent meeting, the ECB noted that it stands ready to implement *additional* stimulus measures should growth continue to disappoint.

Dollar to remain well-supported in 2019/20

Looking ahead, the dollar is expected to remain range-bound between $1.13 and $1.15 to the euro. While US growth is expected to slow over the next 12 to 18 months, the US economy remains in better shape than that of the EZ. This, combined with the dollar's safe-haven status and the fact that US long-term bond yields remain relatively attractive, should counter the dovish shift in the Fed's policy stance. Over the medium term, the dollar is expected to weaken as slower US growth, a higher US fiscal deficit, a potentially wider current account deficit, and an expected recovery in the EZ starts to weigh on the greenback.

Subdued global growth outlook weighing on commodity prices

Oil prices range-bound over forecast horizon

Global **oil prices** have recovered relatively quickly after having entered bear market territory in late 2018, declining by more than 40% between the start of October 2018 and the end of December. Several factors are likely to work in opposite directions for oil prices in 2019/20. OPEC and Russia-led production cuts will help keep a floor under prices, while political and security concerns in Libya, Venezuela and Iran could see sharp periodic price movements. At the same time, oil demand is forecast to slow as global growth moderates, while the continued expansion in US production could also serve to keep a lid on prices. In all, the price of Brent crude oil is expected to remain range-bound between $60 and $70 per barrel over the 2019-2020 period.

Increased geopolitical tension and a pick-up in safe-haven demand could provide some support for **gold** over the short term, but the relatively strong dollar could limit any upside. **Platinum** continues to be weighed down by soft demand from the European autocatalyst sector. Platinum is mainly used in diesel-driven engines and the continued fallout from emission scandals is depressing demand in Europe. In contrast, increased demand for gasoline vehicles is supporting palladium demand. **Palladium** is currently trading above $1300/oz and is expected to remain elevated over the forecast horizon.

Table 2: Commodity price outlook

quarterly average	2018Q4	Forecast 2019Q4	2020Q4
Iron ore ($/tonne)	71.1	73.0	69.0
Coal ($/tonne)	96.8	84.8	85.1
Brent crude oil ($/barrel)	68.7	65.0	65.0
Gold ($/oz)	1228.8	1278.8	1317.7
Platinum ($/oz)	820.7	910.4	896.5
Palladium ($/oz)	1154.8	1296.2	1234.6

Source: Reuters, BER forecast

Global growth slowdown weighs on industrials

For **industrial commodities** such as iron ore and coal, moderating global growth, and the projected slowdown in China in particular, will likely weigh on prices in 2019/20. Combined with a steady shift to more "green" energy sources, the expected recovery in Brazilian output and an increase in low-cost supplies out of Australia, lower Chinese demand suggests that the outlook for iron ore and coal prices remains subdued.

Summary and risks

Following several years of strong growth, incoming data indicates a softening of global growth momentum, both in developed and developing economies. As a result, we have downscaled the outlook for global growth in 2019. Furthermore, risks to the outlook are tilted on the downside. Some of the main risks to the outlook include:

Risks to the outlook tilted to the downside

- *Trade tensions*
  Global trade, investment, and output remain under threat from ongoing trade disputes. While a US-China trade deal appears to be on the horizon, the outcome remains subject to a fraught negotiation process. In addition, a proposal to raise tariffs on all imported cars and car parts remains under consideration in the US. Renewed uncertainty on trade policy and/or any escalation in trade barriers could weigh on investment, disrupt supply chains, and slow productivity growth.
- *Brexit*
  A no-deal Brexit that severely disrupts supply chains and raises trade costs could potentially have large and long-lasting negative impacts on the economies of the UK and the European Union (EU) and, by extension, the world in general.
- *Tighter global financial conditions*
  Should economic data in the US turn out stronger than expected, it could prompt a reassessment of the Fed's expected policy path. This could result in higher US interest rates, renewed dollar appreciation, and

tighter financial conditions. As mentioned in the previous edition of *Economic Prospects*, a decade of low interest rates has resulted in a substantial increase in both private sector and sovereign debt levels. An environment of higher interest rates and weaker growth has the potential to exacerbate these debt imbalances.

- *Medium-term risks*
  Ageing populations in the developed world, combined with a slowdown in productivity growth, will likely limit potential growth in these economies over the medium- to long-term. Slower-moving risks with a large impact on the medium-term outlook include the effects of climate change and the decline in trust with respect to existing multilateral institutions and political parties.

While not our baseline assumption, should some or all of these risks materialise, it is not inconceivable that some parts of especially the developed world could slip into recession during the forecast period.

Domestic outlook

This section discusses the BER's outlook for the domestic economy.

Apart from global developments, several domestic factors have resulted in another downward revision to the short-term outlook for domestic economic growth.

Incoming data points to '19Q1 contraction

Stats SA reported that the SA economy expanded by 1.4% q-o-q in 2018Q4, bringing full-year growth to 0.8% y-o-y. Disconcertingly, incoming data for 2019Q1 does not inspire confidence in a meaningful acceleration in early-2019. In fact, both qualitative survey data and real activity data suggest that a contraction in overall activity might be on the cards. The Absa PMI averaged 47 index points in 2019Q1, well below the neutral 50-point mark, while mining and manufacturing output contracted by 5% and 0.6% respectively[1] in the three months to February. Additionally, the RMB/BER Business Confidence Index (BCI) dipped to levels last seen in 2017, while retail and wholesale sales remain subdued.

Adverse developments weigh on growth outlook

In terms of the forecast, several adverse developments are expected to weigh on real GDP growth over the next 12 to 18 months:

- Renewed concern over **electricity supply** will likely weigh on real economic activity in 2019Q1 and beyond. While national government has proposed a turnaround strategy for Eskom, which might include unbundling, the significant challenges faced by the utility are unlikely to be resolved soon.
- As mentioned in previous editions of *Economic Prospects*, we do not expect a major improvement in the domestic **policy environment** post-election, while major economic reforms will likely remain elusive. This suggests that **private sector fixed investment** (PSFI) growth will remain subdued. Combined with the fact that public sector fixed investment continues to be impaired by constrained public sector balance sheets, it implies that the outlook for total fixed investment remains downbeat.
- **Fiscal risks** have also increased, with government facing substantial pressure on both the revenue and expenditure side. This suggests that fiscal policy might be even more restrictive than previously assumed, with additional tax increases and/or spending restraint required to

[1] Seasonally adjusted

balance the books. Importantly, should the situation not improve over the next 12 to 18 months, a credit rating downgrade by Moody's to sub-investment grade remains a distinct possibility.

- While the **rand exchange rate** benefited in early-2019 from the dovish comments of major central banks, increased risk-aversion on the back of moderating global growth and trade disputes could weigh on riskier EM assets, including the rand, going forward. Upcoming risk events, including the 2019 election and the tabling of the Medium Term Budget Policy Statement (MTBPS) in October suggest that a meaningful recovery in the rand exchange rate is not on the cards.
- On the **interest rate** front, the combination of weak domestic demand and subdued inflation outcomes suggest that the SARB will hold off on rate increases for the time being. However, the clear shift in focus from the SARB to the midpoint of the inflation target range suggest that a hike(s) could be in the offing should the inflation outlook and, more importantly, inflation expectations start to deteriorate.

Real GDP growth of 1.2% pencilled in for 2019/20

The above factors have resulted in another substantial downward revision to our forecast. We now expect real GDP growth to average 1% in 2019 (1.3% previously) and 1.4% in 2020 (1.9% previously).

The rest of the report sets out our revised forecast for the key domestic macro variables.

Balance of forces keeps rand in check

The rand remains one of the most volatile currencies in the world. Since the start of 2019, the domestic unit has traded in a wide range of between R13.20 and R14.80 against the US dollar as global and domestic factors alternated in driving day-to-day movements.

Rand volatility remains elevated

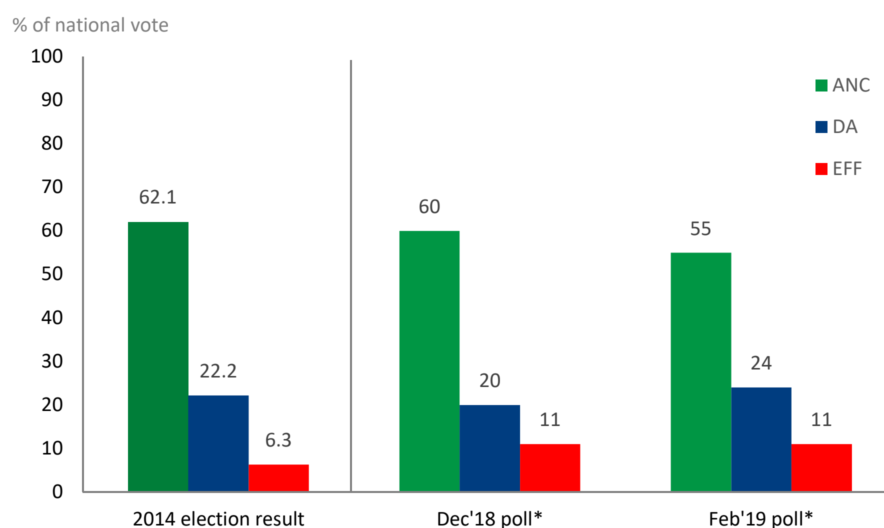
In early-2019, the rand strengthened on the back of dovish comments from leading global central banks. This supported riskier assets, including the rand, as it is expected to interrupt the trend of a narrowing in the yield gap between developed and EM countries. However, a raft of adverse domestic developments resulted in renewed rand weakness in subsequent weeks. These included renewed bouts of load shedding, weak incoming domestic activity data for 2019Q1, significant fiscal slippage and the associated concerns over a possible credit rating downgrade, and continued policy and political uncertainty. These factors, combined with increased risk aversion in the face of a global growth slowdown, resulted in the rand depreciating to just shy of R15/$ in late-March.

The domestic unit recovered somewhat in early-April, mainly due to the Moody's ratings reprieve and even more dovish comments from global central banks. However, several factors suggest that the rand will remain under pressure over the next 12 to 18 months.

Election outcome key short-term rand driver

First, the result of the upcoming **national elections** could prove key in determining the rand's near-term fortunes. Private business and foreign investors have taken a position that a sizeable ANC victory would strengthen President Ramaphosa's hand and accelerate his reform agenda. As such, the rand could strengthen substantially should the ANC end up with around 60% of the vote. However, the ANC is currently polling at 55% (see Figure 2). Depending on the composition of the new cabinet and the perceived strength of Ramaphosa within the ANC, such an outcome could result in a significant depreciation in the currency given the weight of expectations. Importantly, irrespective of the margin of victory, major reforms (including that of the labour market and educational sector) are likely to remain elusive. As such, over the medium term, we do not expect the rand to benefit from a sizeable ANC victory in any meaningful way.

Figure 2: Recent polls point to declinining ANC support



Source: Institute for Race Relations

**Based on the assumption of a 71% turnout*

Further fiscal slippage implies downgrade risk remains

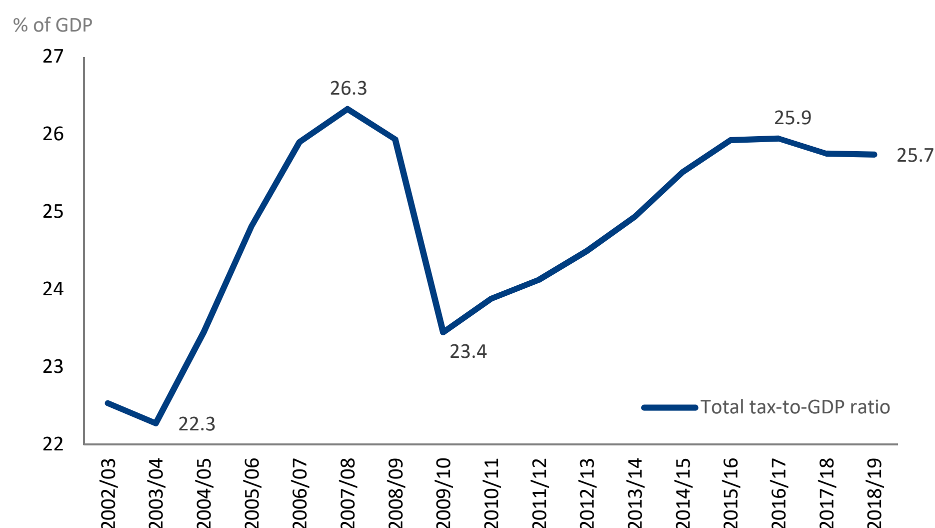
Second, **fiscal risks** and a persistently large **current account deficit** (albeit narrowing in 2019) suggest that credit rating downgrade concerns are likely to remain, which is expected to weigh on the rand exchange rate over the forecast period. Moody's delivered an unexpected (at least relative to our expectations) ratings reprieve in late-March when it declined to publish a ratings update, keeping SA's sovereign credit rating at one notch above junk while also leaving the stable outlook unchanged. This came as somewhat of a surprise given the

fiscal slippage detailed in the February budget and the extent of the deterioration in Moody's own macroeconomic forecasts.

Significant risks to the outlook for public finances

That being said, significant fiscal risks remain. Government revenue is under pressure on the back of weak economic growth, while the scope to raise additional revenue through further tax increases appears limited. In fact, despite legislated tax increases amounting to R90bn over the previous five years, total tax revenue as a percentage of GDP has stagnated (see Figure 3). Additionally, we expect further pressure on the expenditure side as it is highly likely that Eskom will require additional support to remain afloat. Add to that a projected increase in the allocation for fee-free higher education and increased support for other troubled SOEs, and the fiscal accounts are expected to deteriorate substantially over the forecast horizon. We expect the main budget deficit-to-GDP ratio to measure 4.7% in 2018/19 and 5% in 2019/20 and 2020/21, before improving over the medium term. As a result, we expect the debt-to-GDP ratio to increase to around 59% by the end of the forecast period (2020Q4).

Figure 3: Tax-to-GDP ratio stagnating despite large tax increases



Source: National Treasury

Importantly, while the expected deterioration of the fiscal accounts places SA's sovereign credit rating at risk, the current baseline does not include a Moody's downgrade to sub-investment grade. That being said, the risk of a downgrade remains and presents a key downside risk to the currency forecast.

Finally, increased global **risk aversion** in the face of a broad-based global growth slowdown is not supportive of riskier assets, including the rand. While the Fed has turned decidedly dovish, the prospect of additional monetary stimulus in

other regions, particularly Europe, and increased safe-haven flows due to slowing global growth continues to support the dollar.

Rand outlook revised weaker

In all, the rand exchange rate is expected to trend weaker in a range of between R14 and R15 (on average) to the US dollar over the forecast period. This represents a marginal downward adjustment relative to our January projection. Despite the revision, short-term risks to the rand outlook remain tilted to the downside. Over the medium term, more accommodative international monetary policy and/or a further easing in SA inflation expectations could limit the extent of the depreciation.

Subdued inflation, weak growth informs unchanged policy rate outlook

Headline consumer inflation accelerated to 4.5% y-o-y in March from 4.1% in February. Despite the pick-up, CPI inflation remains firmly below the upper end of the SARB's inflation target of between 3% and 6%. Several factors are likely to work in opposite directions on CPI inflation over the next 12 to 18 months.

Weaker rand, higher oil fuelling petrol price inflation

After declining sharply in December and January, the **price of petrol** increased by over R2 per litre between February and April, resulting in transport inflation accelerating from 2.9% y-o-y in January to 6.4% in March with a further increase expected in April. Looking ahead, a weaker-than-previously assumed path for the rand exchange rate and an oil price that remains sticky at higher levels should see petrol price inflation continue to exert upward pressure on headline inflation over the short term.

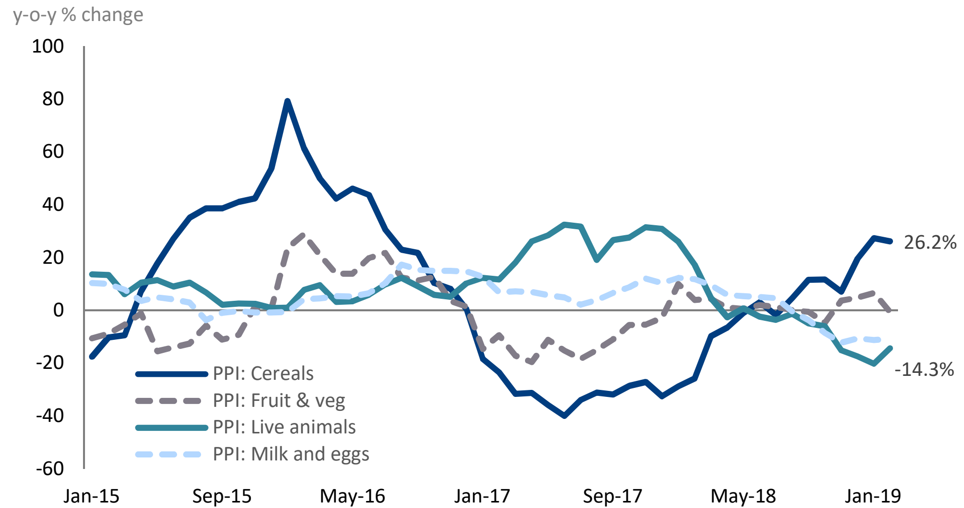
Furthermore, higher **electricity tariffs** pose a significant upside risk to the inflation outlook. The National Energy Regulator of SA (NERSA) recently granted Eskom a total increase of 13.8% for the 2019/20 financial year, with additional increases of 8.1% and 5.2% granted for 2020/21 and 2021/22. However, these tariff adjustments will prove insufficient in alleviating Eskom's long-standing financial difficulties. As such, Eskom will likely apply for further tariff escalations in coming years, which, if granted, pose an upside risk to headline inflation.

Contained food price inflation over forecast period

On the other hand, **food inflation** continues to surprise on the downside, with higher prices for bread and cereals being countered by lower meat price inflation. While bread and cereal prices are expected to trend up over coming months, the recent improvement in the domestic weather outlook and a marginal upward adjustment in the expected maize harvest should keep a lid on increases. Looking ahead, food price inflation should remain relatively contained as a steady increase in bread and cereal prices is countered by low meat price inflation. This is confirmed by the trends evident in recent PPI prints (see Figure

4). In all, we expect food price inflation to average around 5% over the forecast horizon.

Figure 4: PPI for agriculture points to subdued food price inflation outlook



Source: Stats SA

Subdued demand conditions weigh on core

Finally, **demand-side pressures** on inflation remain subdued. This partly reflects the weak consumer demand environment which has reduced the pricing power of retailers. Retailers have been absorbing cost increases for some time and the question remains as to how long this trend can continue. However, with consumer demand set to remain subdued in the foreseeable future, retailers may feel that in order to boost sales, they need to continue to absorb these costs. That being said, second-round effects emanating from rising fuel and electricity prices should see core inflation trend up slowly from current levels. In all, we expect core inflation to average 4.8% in 2019 (down from 5.1% in January) and 5.0% (5.2%) in 2020.

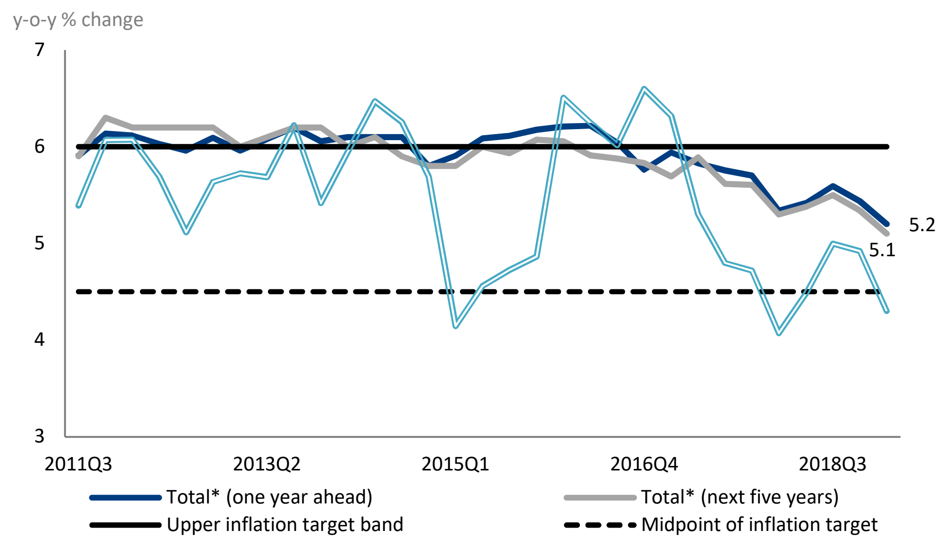
Everything considered, consumer inflation is expected to average 4.8% in 2019 and 5.2% in 2020, unchanged from our previous forecast update (published in March). On balance, the risk is that inflation comes in better (lower) than expected, at least in the immediate future.

No change in policy rate over forecast horizon

Against this inflation backdrop, our baseline assumption is for the repo policy interest rate to remain unchanged over the forecast horizon. The Monetary Policy Committee (MPC) of the SARB unanimously decided to keep the repo policy interest rate unchanged at 6.75% at its March meeting. In previous years, the combination of a benign inflation forecast and weak real GDP growth may well have resulted in an interest rate reduction. The fact that this did not transpire again highlights the MPC's commitment to manage inflation expectations down further towards 4.5%. While inflation expectations have been trending lower

since late 2017 (see Figure 5), it remains to be seen whether this declining trend is structural or simply a result of the decline in actual inflation. All things considered, it appears as if the hurdle for an interest rate reduction has become quite steep. However, given the pedestrian growth outlook, the MPC is equally unlikely to increase the policy rate any time soon.

Figure 5: Inflation expectations trending lower



Source: BER Inflation Expectations Survey, Stats SA

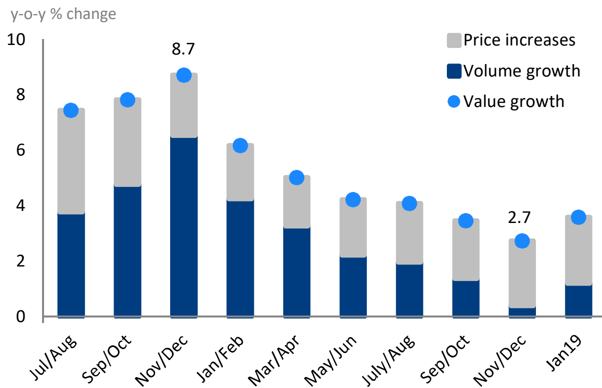
**Total refers to the average headline CPI expectation of analysts, firms & trade unions*

Weak income growth set to weigh on overall consumer spend

Real consumer spending slowed notably in 2018

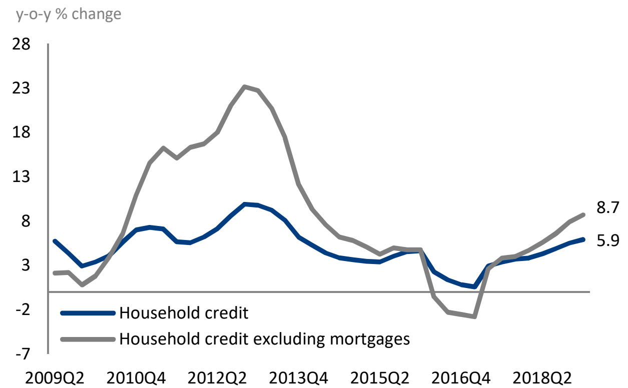
Real household consumption expenditure held up reasonably well in 2017, boosted by moderating price inflation and slowly improving credit growth. However, 2018 saw a marked deterioration in the lot of the consumer. In fact, after registering growth of 2.1% y-o-y in 2017, real household consumption expenditure expanded by a modest 1.8% y-o-y in 2018. Total retail sales volume growth slowed significantly during 2018 (see Figure 5), despite a marked moderation in retail inflation. Retail inflation remained contained at around 2% for most of 2018 despite the VAT hike, a weaker rand and increasing fuel prices. This points to low pricing power in the retail sector amid a very weak consumer demand environment. Importantly, household credit growth continues to accelerate, albeit from low levels (see Figure 7), pointing to a deterioration in disposable income growth as the main factor behind the slowdown in overall spending.

Figure 6: Slowdown in retail volume growth



Source: Stats SA

Figure 7: Household credit expanding



Source: SARB

Numerous factors keep a lid on real income growth

In fact, real disposable income growth slowed from 3.2% y-o-y in 2017 to just 1.5% in 2018, despite moderating inflation. Adjusted for debt-servicing costs, this figure drops to 1.4% y-o-y. Lacklustre private sector employment growth, a rising tax burden and moderating wage settlements conspired to keep a lid on income growth during 2018. Disconcertingly, we do not expect this situation to improve meaningfully going forward. On the employment front, cost-cutting measures in the face of weak demand imply that the private sector is unlikely to expand employment significantly. At best, private firms will continue to push for more moderate wage settlements/salary increases in an effort to save. Additionally, measures to contain the public sector wage bill in the face of increased fiscal risks suggest that government employment growth will also moderate. The weak employment picture, combined with a moderate pick-up in consumer price inflation, suggest that real income growth will remain under pressure over the foreseeable future. We project real disposable income growth of 1.1% in 2019 and 1.3% in 2020. While credit growth has risen from the low levels recorded during 2017, it is unlikely to provide much of a boost to overall spending.

Against this backdrop, we have made a downward adjustment to the consumer spending outlook for 2020 in particular. Total real consumer spending is projected to expand by 1.2% y-o-y in 2019 (unchanged) and by 1.5% in 2020 (1.8% previously).

Outlook revised down across spending categories

The outlook has been revised down across all spending categories. Real outlays on **non-durable goods** (mainly food and beverages) slowed notably in 2018, despite moderating food price inflation. The outlook for the category does not look much better, with lacklustre employment growth and marginally higher food prices weighing on projected spending. Real spending on **durable goods** expanded by 4.5% in 2018, mainly due to significant growth in spending on furniture and household appliances. Growth is expected to moderate going

forward on the back of a weaker rand exchange rate and a possible decline in consumer confidence due to weak income growth. While spending on **semi-durable goods** is also expected to slow, an increase in household credit extension, and in-store credit in particular, could underpin growth in the category.

Table 3: Forecast for real consumer spending

y-o-y % change	2018	2019	2020
Durable goods	4.5	0.5	2.9
Semi-durable goods	3.0	2.6	2.9
Non-durable goods	0.8	1.3	1.0
Services	1.9	1.1	1.4
Total	**1.8**	**1.2**	**1.5**

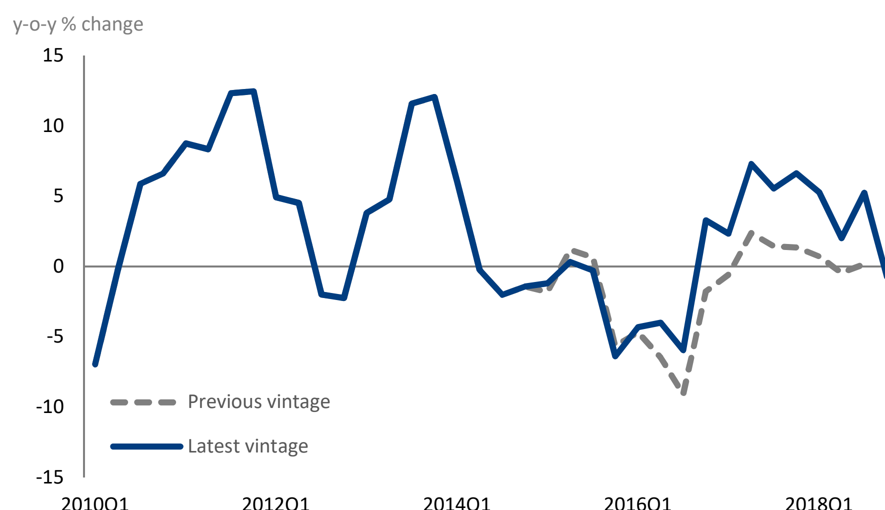
Source: Stats SA, BER

Subdued outlook for gross fixed capital formation

Significant revisions to fixed investment data

In its latest update to the national accounts data, Stats SA made significant revisions to historic investment data, particularly with respect to **private sector fixed investment (PSFI)**. According to the latest data vintage, PSFI outlays (excluding residential buildings) expanded by 2.9% in 2018 following a 5.5% expansion in 2017. This represents a significant upward revision to historic growth rates (see Figure 8).

Figure 8: Upward revision to historic PSFI data



Source: Stats SA, SARB Quarterly Bulletin

According to the latest data, growth in non-residential PSFI was largely driven by construction works – of the R28.2bn increase recorded in real non-residential PSFI in 2017/18, construction works contributed R23.7bn (or 84%). When

excluding construction works, non-residential PSFI expanded by a meagre 1.3% in 2017 and by 0.4% in 2018. Private construction activity, in turn, was dominated by outlays in mining and quarrying, with real investment in the sector expanding by 25% per year (on average) in 2017 and 2018. While the strong expansion came off a very low base (investment outlays in the sector contracted by 42% between 2014 and 2016), the size of the recovery is surprising. Given the persistent difficulties faced by the mining sector, including ongoing policy uncertainty, subdued commodity price increases and widespread labour unrest, the recent surge in mining sector construction activity is unlikely to continue.

PSFI set to slow as policy-uncertainty and weak demand weigh

The expected moderation in mining investment, combined with a subdued outlook for residential investment as a result of weak consumer demand, and our assumption of continued post-election policy uncertainty, has resulted in a significant downward revision to the outlook for total PSFI relative to our January forecast. Real PSFI is expected to contract by 0.3% in 2019 (+1.3% previously) before expanding by 2.5% in 2020 (3.3% previously) – see Table 4 below.

Table 4: Outlook for gross fixed capital formation

y-o-y % change	2018	2019	2020
Private	2.1	-0.3	2.5
Residential	*-3.2*	*-2.8*	*2.0*
Non-residential	*2.9*	*0.1*	*2.5*
General government	-4.4	-3.4	-2.0
Public corporations	-12.5	2.6	2.7
Total	**-1.4**	**-0.4**	**1.8**

Source: Stats SA, BER

Delays in the commencement and completion of large infrastructure projects, together with funding and governance challenges at several SOEs, resulted in total **public sector fixed investment** contracting by 8.5% in 2018.

Weak balance sheets limiting public investment

Unfortunately, the fiscal constraints outlined above suggest that we should not expect much impetus on either general government or SOE fixed investment outlays. As mentioned in the previous editions of *Economic Prospects*, existing projects are likely to be completed, but the finances and business models of key SOEs will first need to be sorted out before faster rates of investment are likely. In all, total public sector fixed investment is projected to contract by 0.5% in 2019 before registering marginal growth in 2020.

Total fixed investment is expected to contract by 0.4% in 2019 before returning to growth in 2020 (see Table 4). In 2020 and beyond, there may be a few pockets of strength that could support both private and public sector investment. These include the green energy programme, increased investment in cost-plus mines by Eskom, and network-related infrastructure roll-out once broadband

spectrum licences have been allocated. However, any upside will depend crucially on the implementation of outstanding policy initiatives.

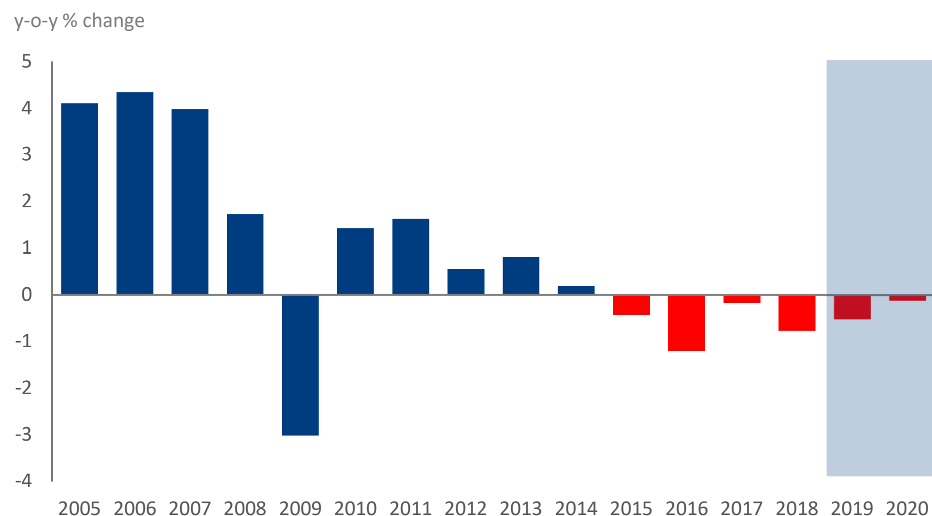
Summary and risks

The weak performance of the SA economy in 2018, combined with the materialisation of several other previously flagged risks, has necessitated a significant downward adjustment to our outlook for real GDP growth. We now expect real GDP growth to average 1% in 2019 and 1.4% in 2020. Should this forecast materialise, real per capita GDP would have declined for six straight years by 2020 – the longest losing streak since the mid-1980s.

Risks to the outlook tilted to the downside

The projections detailed in this report assume that policy uncertainty and low confidence levels remain a constraint over most of the forecast horizon. Additional concern stems from the international arena where a sharper-than-expected GDP growth slowdown could negatively affect domestic growth outcomes. Notwithstanding the risks posed by global developments, an alleviation in domestic constraints could result in growth surprising on the upside. Growth-enhancing reforms post the election probably have the biggest potential to lift confidence and growth, albeit that we do not attach a particularly high probability to such an outcome. The prospect for prolonged strikes in the manufacturing and mining sectors are also clouding the GDP growth outlook. In all, the risk to the outlook is firmly tilted toward the downside.

Figure 9: Per capita GDP declining



Source: Stats SA, BER

Appendix

Statistics of the quarterly forecast, 2019 - 2020

Table A 1: International economic indicators 20
Table A 2: Expenditure on gross domestic product at current prices (R billion) 21
Table A 3: Expenditure on gross domestic product at constant prices (R billion, 2010 prices) 22
Table A 4: Final household consumption expenditure, at constant prices (R billion, 2010 prices) 23
Table A 5: Gross fixed capital formation at constant prices (R billion, 2010 prices) 24
Table A 6: Labour sector (million) 25
Table A 7: Personal income and expenditure (R billion at current prices) 26
Table A 8: Current income and expenditure of general government (R billion at current prices) 27
Table A 9: Balance of payments (R billion at current prices) 27
Table A 10: Credit, interest rates and exchange rates 29
Table A 11: Prices (index base year: 2010) 30

Table A 1: International economic indicators

	2018Q1	2018Q2	2018Q3	2018Q4	2019Q1	2019Q2	2019Q3	2019Q4	2020Q1	2020Q2	2020Q3	2020Q4	2018	2019	2020
Real GDP growth rates															
US % growth	2.6	2.9	3.0	3.1	3.0	2.3	1.5	1.3	1.4	1.4	1.5	1.6	***2.9***	***2.0***	***1.5***
UK % growth	1.4	1.5	1.7	1.5	1.5	1.5	1.2	1.4	1.6	1.5	1.5	1.4	***1.5***	***1.4***	***1.5***
Germany % growth	2.4	2.2	1.2	0.6	0.7	0.6	1.3	1.8	1.7	1.6	1.5	1.3	***1.6***	***1.1***	***1.5***
Japan % growth	1.2	1.4	0.2	0.4	0.7	0.1	0.8	0.4	0.5	0.6	0.7	0.8	***0.8***	***0.5***	***0.6***
Eurozone % growth	2.4	2.2	1.6	1.4	1.1	1.0	1.1	0.9	1.1	1.5	1.8	2.1	***1.9***	***1.0***	***1.6***
G7 % growth	2.1	2.2	2.0	1.9	1.8	1.4	1.2	1.2	1.3	1.3	1.4	1.4	***2.0***	***1.4***	***1.4***
CPI inflation rates															
US % CPI	2.2	2.7	2.6	2.2	1.7	1.3	1.6	2.4	2.4	2.1	1.8	1.4	***2.4***	***1.8***	***1.9***
UK % CPI	2.4	2.3	2.3	2.1	1.9	1.5	1.5	1.5	2.0	2.0	2.1	2.1	***2.3***	***1.6***	***2.1***
Germany % CPI	2.0	2.0	1.7	2.1	1.5	1.7	1.7	1.4	1.7	1.7	1.7	1.6	***2.0***	***1.6***	***1.7***
Japan % CPI	1.3	0.6	1.1	0.9	0.5	0.8	0.4	1.8	2.0	2.0	1.9	0.3	***1.0***	***0.9***	***1.5***
G7 % CPI	1.9	2.2	2.3	1.9	1.4	1.1	1.1	1.9	2.1	2.0	1.8	1.3	***2.1***	***1.4***	***1.8***
China % CPI	2.1	1.7	2.3	2.2	2.5	2.5	2.5	2.5	2.8	2.8	2.7	2.5	***2.1***	***2.5***	***2.7***
India % CPI	4.7	4.0	5.6	5.1	5.0	5.0	5.0	5.0	3.9	4.2	4.8	5.4	***4.9***	***5.0***	***4.6***
Interest rates															
US prime rate	4.53	4.79	5.01	5.28	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50	***4.90***	***5.50***	***5.50***
Commodity prices															
Spot oil price: US$/barrel	67.2	75.0	76.0	68.7	63.6	65.0	65.0	65.0	65.0	65.0	65.0	65.0	***71.7***	***64.7***	***65.0***
London gold price: US$/oz	1330	1306	1213	1229	1303	1289	1284	1279	1293	1308	1313	1318	***1269***	***1289***	***1308***
Platinum price: US$/oz	977	901	812	821	822	875	893	910	905	900	898	897	***878***	***875***	***900***
Palladium price: US$/oz	1035	978	952	1155	1431	1350	1323	1296	1273	1250	1242	1235	***1030***	***1350***	***1250***
SA coal price : US$/mt	94.3	100.3	102.5	96.8	85.3	85.0	84.9	84.8	84.9	85.0	85.0	85.1	***98.5***	***85.0***	***85.0***
China iron ore price : US$/mt	74.8	66.6	67.9	71.1	83.0	77.0	75.0	73.0	71.5	70.0	69.5	69.0	***70.1***	***77.0***	***70.0***
Exchange rates															
US$/Sterling exchange rate	1.39	1.36	1.30	1.29	1.30	1.30	1.33	1.33	1.33	1.33	1.33	1.33	***1.34***	***1.32***	***1.33***
YN/$ exchange rate	108.3	109.1	111.5	112.8	110.3	110.0	110.0	110.0	110.0	110.0	110.0	110.0	***110.4***	***110.1***	***110.0***
US$/Euro exchange rate	1.23	1.19	1.16	1.14	1.14	1.13	1.14	1.15	1.15	1.15	1.15	1.15	***1.18***	***1.14***	***1.15***

Table A 2: Expenditure on gross domestic product (R billion at current prices, seasonally adjusted annual rates)

	2018Q1	2018Q2	2018Q3	2018Q4	2019Q1	2019Q2	2019Q3	2019Q4	2020Q1	2020Q2	2020Q3	2020Q4	2018	2019	2020
Nominal GDP expenditure components															
Household consumption	2862.3	2891.1	2939.0	2991.7	3008.8	3054.8	3117.5	3175.7	3208.0	3249.3	3314.1	3378.9	2921.0	3089.2	3287.6
(year % ch.)	6.8	5.8	5.7	5.6	5.1	5.7	6.1	6.1	6.6	6.4	6.3	6.4	6.0	5.8	6.4
Government consumption	999.8	1036.4	1052.1	1060.8	1081.7	1102.4	1118.0	1125.7	1152.7	1168.5	1186.7	1196.4	1037.3	1107.0	1176.0
(year % ch.)	6.5	7.7	7.8	6.7	8.2	6.4	6.3	6.1	6.6	6.0	6.1	6.3	7.2	6.7	6.2
Fixed investment	881.9	872.9	890.0	901.1	909.0	922.7	938.6	962.8	975.2	989.8	1004.8	1026.5	886.4	933.3	999.1
(year % ch.)	2.2	0.1	3.9	0.0	3.1	5.7	5.5	6.8	7.3	7.3	7.1	6.6	1.5	5.3	7.1
Inventory investment	9.5	7.6	24.2	-89.4	-20.6	1.8	4.1	6.7	7.0	7.5	7.9	8.3	-12.0	-2.0	7.7
Residual item	-43.1	31.2	31.6	78.2	-43.1	31.2	31.6	78.2	-43.1	31.2	31.6	78.2	24.5	24.5	24.5
Gross domestic expenditure	4710.3	4839.1	4936.8	4942.4	4935.8	5113.0	5209.9	5349.0	5299.7	5446.3	5545.2	5688.2	4857.1	5151.9	5494.8
(year % ch.)	5.8	5.0	6.9	5.3	4.8	5.7	5.5	8.2	7.4	6.5	6.4	6.3	5.7	6.1	6.7
Exports: goods and services	1347.9	1393.4	1522.0	1567.2	1555.7	1587.0	1618.8	1656.6	1642.8	1652.8	1666.0	1694.4	1457.6	1604.6	1664.0
(year % ch.)	0.6	2.7	11.1	8.2	15.4	13.9	6.4	5.7	5.6	4.1	2.9	2.3	5.7	10.1	3.7
Imports: goods and services	1362.1	1372.4	1522.5	1506.5	1474.6	1506.8	1535.5	1578.0	1585.5	1604.7	1631.2	1667.1	1440.9	1523.7	1622.1
(year % ch.)	5.5	3.3	18.4	9.9	8.3	9.8	0.9	4.7	7.5	6.5	6.2	5.6	9.2	5.7	6.5
Expenditure on GDP	4696.1	4860.1	4936.2	5003.1	5016.9	5193.2	5293.2	5427.7	5356.9	5494.4	5579.9	5715.6	4873.9	5232.7	5536.7
(year % ch.)	4.3	4.8	4.9	4.9	6.8	6.9	7.2	8.5	6.8	5.8	5.4	5.3	4.7	7.4	5.8

Table A 3: Expenditure on gross domestic product (R billion at constant 2010 prices, seasonally adjusted annual rates)

	2018Q1	2018Q2	2018Q3	2018Q4	2019Q1	2019Q2	2019Q3	2019Q4	2020Q1	2020Q2	2020Q3	2020Q4	2018	2019	2020
Real GDP expenditure components															
Household consumption	1931.8	1932.4	1935.1	1950.4	1948.9	1954.4	1964.4	1977.5	1977.2	1984.3	1995.3	2009.0	1937.4	1961.3	1991.4
(year % ch.)	2.8	1.9	1.4	1.2	0.9	1.1	1.5	1.4	1.5	1.5	1.6	1.6	1.8	1.2	1.5
Government consumption	638.4	641.8	642.4	643.4	643.7	644.0	644.1	644.1	647.1	650.1	651.0	652.0	641.5	644.0	650.1
(year % ch.)	1.7	2.0	1.9	1.9	0.8	0.3	0.3	0.1	0.5	0.9	1.1	1.2	1.9	0.4	0.9
Fixed investment	615.6	609.6	608.5	604.7	603.4	604.4	606.8	614.7	614.0	615.5	618.5	625.0	609.6	607.3	618.2
(year % ch.)	0.1	-1.8	0.2	-4.1	-2.0	-0.9	-0.3	1.6	1.8	1.8	1.9	1.7	-1.4	-0.4	1.8
Inventory investment	13.1	4.6	14.5	-53.9	-11.9	2.3	3.6	4.7	4.9	5.1	5.3	5.1	-5.4	-0.4	5.1
Residual item	-1.1	-1.5	2.6	1.2	-1.1	-1.5	2.6	1.2	-1.1	-1.5	2.6	1.2	0.3	0.3	0.3
Gross domestic expenditure	3197.8	3186.9	3203.1	3145.8	3182.9	3203.5	3221.5	3242.2	3242.0	3253.5	3272.7	3292.3	3183.4	3212.5	3265.1
(year % ch.)	2.2	1.3	2.0	-1.3	-0.5	0.5	0.6	3.1	1.9	1.6	1.6	1.5	1.0	0.9	1.6
Exports: goods and services	890.1	898.9	952.4	977.8	937.7	947.9	953.3	962.5	963.3	964.4	968.4	978.6	929.8	950.3	968.7
(year % ch.)	0.2	-1.4	5.8	5.8	5.3	5.4	0.1	-1.6	2.7	1.7	1.6	1.7	2.6	2.2	1.9
Imports: goods and services	953.1	955.2	1004.5	961.8	961.4	980.4	994.2	1011.9	1007.3	1008.8	1016.0	1025.6	968.7	987.0	1014.4
(year % ch.)	2.3	0.5	10.2	0.6	0.9	2.6	-1.0	5.2	4.8	2.9	2.2	1.4	3.3	1.9	2.8
Expenditure on GDP	3134.8	3130.7	3151.0	3161.7	3159.2	3170.9	3180.5	3192.8	3198.1	3209.1	3225.2	3245.3	3144.5	3175.8	3219.4
(year % ch.)	1.6	0.7	0.7	0.2	0.8	1.3	0.9	1.0	1.2	1.2	1.4	1.6	0.8	1.0	1.4

Table A 4: Final household consumption expenditure (R billion at constant 2010 prices, seasonally adjusted annual rates)

	2018Q1	2018Q2	2018Q3	2018Q4	2019Q1	2019Q2	2019Q3	2019Q4	2020Q1	2020Q2	2020Q3	2020Q4	2018	2019	2020
Household consumption categories															
Durable goods	193.4	191.6	189.8	193.4	189.3	191.2	194.1	197.6	195.5	196.9	199.2	202.8	***192.0***	***193.1***	***198.6***
(year % ch.)	9.4	6.5	2.0	0.7	-2.1	-0.2	2.3	2.2	3.3	2.9	2.6	2.6	***4.5***	***0.5***	***2.9***
Semi-durable goods	184.5	185.0	189.1	193.0	189.4	189.9	193.4	198.2	195.0	195.6	198.9	203.3	***187.9***	***192.7***	***198.2***
(year % ch.)	5.6	2.5	2.9	1.0	2.7	2.7	2.3	2.7	3.0	3.0	2.9	2.6	***3.0***	***2.6***	***2.9***
Non-durable goods	710.3	707.1	711.8	717.1	719.1	719.9	721.1	722.9	724.7	726.5	728.5	730.7	***711.6***	***720.8***	***727.6***
(year % ch.)	1.2	-0.2	0.9	1.1	1.2	1.8	1.3	0.8	0.8	0.9	1.0	1.1	***0.8***	***1.3***	***1.0***
Services	843.6	848.7	844.4	846.8	851.1	853.4	855.8	858.9	862.0	865.3	868.6	872.2	***845.9***	***854.8***	***867.0***
(year % ch.)	2.1	2.5	1.3	1.6	0.9	0.5	1.3	1.4	1.3	1.4	1.5	1.5	***1.9***	***1.1***	***1.4***
Total household consumption	1931.8	1932.4	1935.1	1950.4	1948.9	1954.4	1964.4	1977.5	1977.2	1984.3	1995.3	2009.0	***1937.4***	***1961.3***	***1991.4***
(year % ch.)	2.8	1.9	1.4	1.2	0.9	1.1	1.5	1.4	1.5	1.5	1.6	1.6	***1.8***	***1.2***	***1.5***
Disposable income of households															
Real disposable income	1926.5	1939.4	1934.3	1941.4	1955.3	1953.9	1953.0	1961.7	1971.2	1973.5	1982.3	1998.8	***1935.4***	***1956.0***	***1981.5***
(year % ch.)	2.5	2.0	1.0	0.6	1.5	0.7	1.0	1.0	0.8	1.0	1.5	1.9	***1.5***	***1.1***	***1.3***
Adjusted for debt-service cost (real)	1894.7	1908.0	1903.4	1910.8	1924.8	1923.8	1923.3	1932.4	1942.2	1944.8	1954.0	1970.9	***1904.2***	***1926.1***	***1953.0***
(year % ch.)	2.4	2.0	0.8	0.5	1.6	0.8	1.0	1.1	0.9	1.1	1.6	2.0	***1.4***	***1.1***	***1.4***

Table A 5: Gross fixed capital formation (R billion at constant 2010 prices, seasonally adjusted annual rates)

	2018Q1	2018Q2	2018Q3	2018Q4	2019Q1	2019Q2	2019Q3	2019Q4	2020Q1	2020Q2	2020Q3	2020Q4	2018	2019	2020
Private sector															
Total private sector	421.4	420.0	423.0	421.5	419.1	418.0	418.8	424.8	425.8	428.1	431.1	437.2	***421.5***	***420.2***	***430.5***
(year % ch.)	4.5	1.9	3.8	-1.7	-0.5	-0.5	-1.0	0.8	1.6	2.4	2.9	2.9	***2.1***	***-0.3***	***2.5***
Public sector															
Government	100.9	99.8	97.5	96.5	95.7	95.5	95.3	94.9	94.0	93.3	93.3	93.3	***98.7***	***95.4***	***93.4***
(year % ch.)	-0.8	-2.3	-6.4	-8.0	-5.2	-4.3	-2.2	-1.7	-1.8	-2.4	-2.2	-1.7	***-4.4***	***-3.4***	***-2.0***
Public corporations	93.2	89.8	88.0	86.7	88.6	90.9	92.7	95.0	94.1	94.1	94.1	94.5	***89.4***	***91.8***	***94.2***
(year % ch.)	-15.2	-15.4	-7.9	-10.8	-5.0	1.1	5.3	9.5	6.3	3.6	1.6	-0.5	***-12.5***	***2.6***	***2.7***
Total public sector	194.2	189.7	185.5	183.2	184.3	186.4	188.0	189.9	188.1	187.4	187.4	187.8	***188.1***	***187.1***	***187.7***
(year % ch.)	-8.3	-9.0	-7.1	-9.3	-5.1	-1.7	1.3	3.6	2.1	0.5	-0.3	-1.1	***-8.5***	***-0.5***	***0.3***
Total															
Total fixed capital formation	615.6	609.6	608.5	604.7	603.4	604.4	606.8	614.7	614.0	615.5	618.5	625.0	***609.6***	***607.3***	***618.2***
(year % ch.)	0.1	-1.8	0.2	-4.1	-2.0	-0.9	-0.3	1.6	1.8	1.8	1.9	1.7	***-1.4***	***-0.4***	***1.8***

Table A 6: Labour sector (million)

	2018Q1	2018Q2	2018Q3	2018Q4	2019Q1	2019Q2	2019Q3	2019Q4	2020Q1	2020Q2	2020Q3	2020Q4	2018	2019	2020
Employment															
Total labour force	22.36	22.37	22.59	22.67	22.81	22.82	23.04	22.78	23.17	23.18	23.41	23.15	***22.50***	***22.86***	***23.23***
(year % ch.)	-0.3	0.4	0.8	2.8	2.0	2.0	2.0	0.5	1.6	1.6	1.6	1.6	***0.9***	***1.6***	***1.6***
Private sector employment	14.26	14.24	14.33	14.47	14.44	14.41	14.44	14.47	14.55	14.52	14.56	14.62	***14.33***	***14.44***	***14.56***
(year % ch.)	0.7	1.3	1.2	2.5	1.2	1.2	0.7	0.0	0.8	0.8	0.9	1.0	***1.4***	***0.8***	***0.9***
Government employment	2.12	2.05	2.05	2.06	2.11	2.16	2.06	2.05	2.05	2.05	2.05	2.05	***2.07***	***2.09***	***2.05***
(year % ch.)	3.3	0.5	0.9	0.5	-0.5	5.3	0.2	-0.2	-2.5	-4.8	-0.2	-0.1	***1.3***	***1.2***	***-2.0***
Total employment (incl. informal)	16.38	16.29	16.38	16.53	16.54	16.57	16.49	16.52	16.60	16.57	16.61	16.67	***16.39***	***16.53***	***16.61***
(year % ch.)	1.0	1.2	1.2	2.2	1.0	1.7	0.7	0.0	0.4	0.0	0.7	0.9	***1.4***	***0.8***	***0.5***
Unemployment rate	26.7	27.2	27.5	27.1	27.5	27.4	28.4	27.5	28.3	28.5	29.0	28.0	***27.1***	***27.7***	***28.5***
Wage rates (year % change)															
Unit labour cost	2.8	3.6	3.3	4.0	4.5	3.5	4.2	4.5	4.5	4.2	4.4	4.8	***3.4***	***4.2***	***4.4***
Wage bill (R billion at current prices)															
Total wage bill	2250.0	2305.4	2343.2	2373.0	2368.9	2416.6	2464.7	2504.8	2505.0	2547.8	2608.1	2667.6	***2317.9***	***2438.7***	***2582.1***
(year % ch.)	4.5	4.4	4.0	4.1	5.3	4.8	5.2	5.6	5.7	5.4	5.8	6.5	***4.2***	***5.2***	***5.9***

Table A 7: Personal income and expenditure (R billion at current prices, seasonally adjusted annual rates)

	2018Q1	2018Q2	2018Q3	2018Q4	2019Q1	2019Q2	2019Q3	2019Q4	2020Q1	2020Q2	2020Q3	2020Q4	2018	2019	2020
Income and expenditure															
Remuneration of employees	2250.0	2305.4	2343.2	2373.0	2368.9	2416.6	2464.7	2504.8	2505.0	2547.8	2608.1	2667.6	***2317.9***	***2438.7***	***2582.1***
(year % ch.)	4.5	4.4	4.0	4.1	5.3	4.8	5.2	5.6	5.7	5.4	5.8	6.5	***4.2***	***5.2***	***5.9***
Disposable income	2854.4	2901.5	2937.8	2978.0	3018.7	3054.2	3099.3	3150.2	3198.3	3231.8	3292.5	3361.7	***2918.0***	***3080.6***	***3271.1***
(year % ch.)	6.5	5.9	5.3	4.9	5.8	5.3	5.5	5.8	5.9	5.8	6.2	6.7	***5.6***	***5.6***	***6.2***
Less household consumption	2862.3	2891.1	2939.0	2991.7	3008.8	3054.8	3117.5	3175.7	3208.0	3249.3	3314.1	3378.9	***2921.0***	***3089.2***	***3287.6***
(year % ch.)	6.8	5.8	5.7	5.6	5.1	5.7	6.1	6.1	6.6	6.4	6.3	6.4	***6.0***	***5.8***	***6.4***
Saving	-7.8	10.5	-1.1	-13.7	9.9	-0.6	-18.2	-25.5	-9.7	-17.5	-21.6	-17.1	***-3.0***	***-8.6***	***-16.5***
Households: ratio to disposable income															
Saving	-0.3	0.4	0.0	-0.5	0.3	0.0	-0.6	-0.8	-0.3	-0.5	-0.7	-0.5	***-0.1***	***-0.3***	***-0.5***
Debt	71.7	71.5	71.8	72.7	71.7	72.0	72.5	72.9	72.2	72.6	72.7	73.0	***71.9***	***72.3***	***72.6***
Debt-service cost	9.1	9.0	9.1	9.3	9.3	9.4	9.5	9.5	9.4	9.4	9.4	9.5	***9.1***	***9.4***	***9.4***
Net wealth	371.9	372.5	368.0	357.5	353.1	351.6	350.4	350.4	347.2	346.3	342.3	338.2	***367.5***	***351.4***	***343.5***

Table A 8: Current income and expenditure of general government (R billion at current prices, seasonally adjusted annual rates)

	2018Q1	2018Q2	2018Q3	2018Q4	2019Q1	2019Q2	2019Q3	2019Q4	2020Q1	2020Q2	2020Q3	2020Q4	*2018*	*2019*	*2020*
Income															
Direct taxes	764.8	816.2	710.0	718.3	766.7	853.6	758.0	783.1	830.1	919.6	805.5	831.0	***752.4***	***790.3***	***846.6***
(year % ch.)	5.7	6.6	7.9	1.1	0.2	4.6	6.8	9.0	8.3	7.7	6.3	6.1	***5.3***	***5.1***	***7.1***
Value added tax (VAT)	330.5	302.5	344.7	321.0	329.8	292.0	346.6	369.2	408.3	314.9	377.9	406.0	***324.7***	***334.4***	***376.8***
(year % ch.)	5.3	19.6	17.9	1.5	-0.2	-3.5	0.5	15.0	23.8	7.9	9.0	10.0	***10.5***	***3.0***	***12.7***
Other indirect taxes	252.9	369.6	321.0	347.6	257.8	395.5	345.3	328.0	303.9	428.6	372.4	351.7	***322.8***	***331.6***	***364.2***
(year % ch.)	5.9	6.1	5.0	20.2	2.0	7.0	7.5	-5.6	17.9	8.4	7.9	7.2	***9.2***	***2.7***	***9.8***
Expenditure															
Consumption	999.8	1036.4	1052.1	1060.8	1081.7	1102.4	1118.0	1125.7	1152.7	1168.5	1186.7	1196.4	***1037.3***	***1107.0***	***1176.0***
(year % ch.)	6.5	7.7	7.8	6.7	8.2	6.4	6.3	6.1	6.6	6.0	6.1	6.3	***7.2***	***6.7***	***6.2***
Interest Payments	168.8	158.0	184.8	181.1	210.2	193.8	200.8	208.7	216.3	214.4	220.8	228.4	***173.2***	***203.4***	***220.0***
(year % ch.)	12.2	3.6	17.0	9.7	24.6	22.6	8.6	15.3	2.9	10.7	10.0	9.4	***10.7***	***17.4***	***8.2***
Saving	-114.7	-49.4	-99.2	-116.4	-262.4	-132.9	-153.8	-168.4	-205.6	-135.0	-174.9	-189.6	***-94.9***	***-179.3***	***-176.3***
Ratios to GDP															
Total tax revenue	28.7	30.6	27.9	27.7	27.0	29.7	27.4	27.3	28.8	30.3	27.9	27.8	***28.7***	***27.8***	***28.7***
Budget deficit	-4.1	-3.6	-3.9	-4.1	-7.2	-5.0	-4.2	-4.8	-5.9	-4.8	-4.2	-4.9	***-3.9***	***-5.3***	***-4.9***
Gross debt	-53.0	-54.9	-56.0	-56.7	-57.0	-55.7	-56.6	-57.0	-58.1	-57.6	-58.6	-58.9	***-56.7***	***-57.0***	***-58.9***

Table A 9: Balance of payments (R billion at current prices, seasonally adjusted annual rates)

	2018Q1	2018Q2	2018Q3	2018Q4	2019Q1	2019Q2	2019Q3	2019Q4	2020Q1	2020Q2	2020Q3	2020Q4	2018	2019	2020
Current account															
Exports: goods and services	1347.9	1393.4	1522.0	1567.2	1555.7	1587.0	1618.8	1656.6	1642.8	1652.8	1666.0	1694.4	***1457.6***	***1604.6***	***1664.0***
(year % ch.)	0.6	2.7	11.1	8.2	15.4	13.9	6.4	5.7	5.6	4.1	2.9	2.3	***5.7***	***10.1***	***3.7***
Net receipts	-45.6	-33.7	-30.3	-33.1	-30.0	-30.0	-30.0	-33.0	-30.0	-30.0	-30.0	-30.0	***-35.7***	***-30.8***	***-30.0***
(year % ch.)	58.9	-23.1	-25.6	-17.3	-34.3	-11.0	-1.0	-0.2	0.0	0.0	0.0	-9.1	***-6.9***	***-13.8***	***-2.4***
Less imports: goods and services	1362.1	1372.4	1522.5	1506.5	1474.6	1506.8	1535.5	1578.0	1585.5	1604.7	1631.2	1667.1	***1440.9***	***1523.7***	***1622.1***
(year % ch.)	5.5	3.3	18.4	9.9	8.3	9.8	0.9	4.7	7.5	6.5	6.2	5.6	***9.2***	***5.7***	***6.5***
Less net factor payments	158.2	170.6	149.6	137.8	178.1	168.2	169.0	172.0	180.6	182.9	186.7	190.6	***154.0***	***171.9***	***185.2***
(year % ch.)	34.1	32.8	2.1	-16.6	12.6	-1.4	13.0	24.8	1.4	8.7	10.5	10.8	***10.4***	***11.6***	***7.8***
Current account balance	-218.0	-183.3	-180.4	-110.2	-127.0	-118.0	-115.7	-126.4	-153.4	-164.8	-182.0	-193.2	***-173.0***	***-121.8***	***-173.3***
Current account in US$	-18.2	-14.5	-12.8	-7.7	-9.1	-8.3	-8.1	-8.7	-10.5	-11.2	-12.4	-13.0	***-13.3***	***-8.6***	***-11.8***
Current account as % of GDP	-4.6	-3.8	-3.7	-2.2	-2.5	-2.3	-2.2	-2.3	-2.9	-3.0	-3.3	-3.4	***-3.6***	***-2.3***	***-3.1***
Financing of the current account															
Total net capital flows	58.2	48.1	54.7	23.3	50.0	15.0	30.0	15.0	45.0	35.0	45.0	45.0	***184.3***	***110.0***	***170.0***
SDR + Valuation adjustment	-17.1	79.8	22.1	21.5	1.9	-6.3	5.2	5.1	2.5	5.0	5.1	0.0	***106.2***	***5.9***	***12.6***
Change in gross reserves	-31.7	103.4	18.3	27.6	1.9	0.5	-7.1	-1.1	-9.1	20.0	-8.8	7.1	***117.6***	***-5.8***	***9.3***
Gross reserves: quarter end	593.1	696.4	714.7	742.3	744.2	744.7	737.6	736.5	727.4	747.5	738.7	745.8	***742.3***	***736.5***	***745.8***
Gross reserves: quarter end (US$)	50.0	50.6	50.4	51.6	51.6	52.1	51.2	50.8	50.0	51.0	50.1	50.6	***51.6***	***50.8***	***50.6***
Terms of trade															
Index (2010 = 100)	106.0	107.9	105.4	102.3	108.2	108.9	110.0	110.4	108.3	107.7	107.1	106.5	***105.4***	***109.4***	***107.4***
(year % ch.)	-2.7	1.2	-2.3	-6.4	2.1	1.0	4.3	7.9	0.1	-1.1	-2.6	-3.5	***-2.6***	***3.8***	***-1.8***

Table A 10: Credit, interest rates and exchange rates

	2018Q1	2018Q2	2018Q3	2018Q4	2019Q1	2019Q2	2019Q3	2019Q4	2020Q1	2020Q2	2020Q3	2020Q4	2018	2019	2020
Money supply and credit extension															
M3 money supply	3397.4	3390.3	3548.9	3545.8	3560.5	3566.1	3747.0	3783.4	3814.3	3836.3	4019.1	4064.2	***3545.8***	***3783.4***	***4064.2***
(year % ch.)	6.4	5.8	7.0	5.6	4.8	5.2	5.6	6.7	7.1	7.6	7.3	7.4	***5.6***	***6.7***	***7.4***
Private sector credit to households	1564.6	1579.8	1599.9	1630.3	1655.5	1675.0	1703.3	1730.2	1765.0	1787.2	1815.9	1847.8	***1630.3***	***1730.2***	***1847.8***
(year % ch.)	3.9	4.5	5.1	5.7	5.8	6.0	6.5	6.1	6.6	6.7	6.6	6.8	***5.7***	***6.1***	***6.8***
Private sector credit to firms	1965.9	1958.7	2013.4	2017.2	2038.1	2039.3	2108.1	2154.9	2182.5	2197.2	2267.5	2318.1	***2017.2***	***2154.9***	***2318.1***
(year % ch.)	7.7	6.7	7.3	4.6	3.7	4.1	4.7	6.8	7.1	7.7	7.6	7.6	***4.6***	***6.8***	***7.6***
Total private sector credit extension	3530.5	3538.5	3613.3	3647.5	3693.6	3714.3	3811.4	3885.1	3947.4	3984.5	4083.5	4165.9	***3647.5***	***3885.1***	***4165.9***
(year % ch.)	6.0	5.7	6.3	5.1	4.6	5.0	5.5	6.5	6.9	7.3	7.1	7.2	***5.1***	***6.5***	***7.2***
Interest rates															
3-month NCD rate	7.11	6.90	6.98	7.06	7.14	7.13	7.13	7.14	7.13	7.14	7.14	7.14	***7.01***	***7.13***	***7.14***
10-year government bond yield	8.28	8.47	8.89	9.11	9.26	9.48	9.71	9.80	9.80	9.86	9.84	9.86	***8.69***	***9.56***	***9.84***
Prime overdraft rate	10.24	10.00	10.00	10.10	10.25	10.25	10.25	10.25	10.25	10.25	10.25	10.25	***10.09***	***10.25***	***10.25***
Effective household lending rate	12.69	12.59	12.67	12.79	12.94	13.06	13.06	13.03	13.00	12.99	12.97	12.97	***12.69***	***13.02***	***12.98***
Effective firm lending rate	9.23	9.12	9.19	8.58	8.68	8.72	8.86	8.90	8.93	8.93	8.94	8.95	***9.03***	***8.79***	***8.94***
Exchange rates															
R/US DOLLAR	11.95	12.63	14.09	14.25	14.02	14.20	14.30	14.45	14.55	14.66	14.70	14.85	***13.23***	***14.24***	***14.69***
(year % ch.)	-9.7	-4.4	7.0	4.5	17.3	12.4	1.5	1.4	3.8	3.2	2.8	2.8	***-0.6***	***7.6***	***3.1***
R/100 Japanese YEN	11.04	11.58	12.64	12.64	12.71	12.91	13.00	13.14	13.23	13.33	13.36	13.50	***11.97***	***12.94***	***13.35***
(year % ch.)	-5.2	-2.6	6.5	4.6	15.1	11.5	2.8	4.0	4.1	3.2	2.8	2.8	***0.9***	***8.1***	***3.2***
R/STERLING	16.63	17.19	18.37	18.34	18.26	18.46	19.02	19.22	19.35	19.50	19.55	19.75	***17.63***	***18.74***	***19.54***
(year % ch.)	1.5	1.8	6.7	1.3	9.8	7.4	3.6	4.8	6.0	5.6	2.8	2.8	***2.8***	***6.3***	***4.3***
R/EURO	14.70	15.06	16.39	16.27	15.92	16.05	16.30	16.62	16.73	16.86	16.91	17.08	***15.60***	***16.22***	***16.89***
(year % ch.)	4.3	3.7	5.9	1.3	8.3	6.6	-0.5	2.1	5.1	5.1	3.7	2.8	***3.8***	***4.0***	***4.1***
R/$ PP parity rate (base PPI 2003)	11.80	11.75	11.91	12.20	12.04	12.14	12.25	12.32	12.51	12.53	12.50	12.57	***11.92***	***12.19***	***12.53***
(year % ch.)	0.4	-0.2	0.7	2.7	2.1	3.3	2.9	1.0	3.9	3.2	2.0	2.0	***0.9***	***2.3***	***2.8***

Table A 11: Prices (index base year: 2010)

	2018Q1	2018Q2	2018Q3	2018Q4	2019Q1	2019Q2	2019Q3	2019Q4	2020Q1	2020Q2	2020Q3	2020Q4	2018	2019	2020
Price deflators															
Exports (incl. services)	151.4	155.0	159.8	160.3	165.9	167.4	169.8	172.1	170.5	171.4	172.0	173.2	156.6	168.8	171.8
(year % ch.)	0.4	4.1	5.0	2.3	9.6	8.0	6.3	7.4	2.8	2.4	1.3	0.6	2.9	7.8	1.8
Export commodities (in rand)	1127.9	1183.6	1302.7	1366.6	1416.0	1409.8	1411.7	1418.5	1414.4	1411.1	1410.3	1420.0	1245.2	1414.0	1413.9
(year % ch.)	-1.0	8.3	11.7	10.3	25.5	19.1	8.4	3.8	-0.1	0.1	-0.1	0.1	7.4	13.6	0.0
Imports (incl. services)	142.9	143.7	151.6	156.6	153.4	153.7	154.4	155.9	157.4	159.1	160.6	162.5	148.7	154.4	159.9
(year % ch.)	3.1	2.8	7.5	9.3	7.3	7.0	1.9	-0.4	2.6	3.5	4.0	4.2	5.7	3.8	3.6
GDE	148.6	150.8	153.3	154.7	156.4	158.6	160.9	162.6	164.7	166.4	168.6	170.5	151.8	159.6	167.5
(year % ch.)	3.6	4.0	4.5	4.4	5.2	5.1	5.0	5.1	5.4	4.9	4.8	4.8	4.1	5.1	5.0
Investment	143.3	143.2	146.2	149.0	150.6	152.7	154.7	156.6	158.8	160.8	162.5	164.2	145.4	153.7	161.6
(year % ch.)	2.1	1.9	3.8	4.3	5.2	6.6	5.8	5.1	5.4	5.3	5.0	4.9	3.0	5.7	5.2
GDP	149.8	155.2	156.7	158.2	158.8	163.8	166.4	170.0	167.5	171.2	173.0	176.1	155.0	164.8	172.0
(year % ch.)	2.7	4.0	4.2	4.7	6.0	5.5	6.2	7.4	5.5	4.5	4.0	3.6	3.9	6.3	4.4
Consumer & producer prices															
Headline inflation (CPI)	105.7	107.3	108.6	109.5	110.3	112.5	114.1	115.0	116.8	118.4	119.8	120.7	107.8	113.0	118.9
(year % ch.)	4.1	4.5	5.0	4.9	4.3	4.9	5.1	5.1	5.9	5.2	5.0	4.9	4.7	4.8	5.2
Core inflation*	105.4	107.0	107.8	108.5	110.2	112.0	113.1	113.9	115.9	117.6	118.8	119.4	107.2	112.3	117.9
(year % ch.)	4.1	4.4	4.2	4.3	4.6	4.7	4.9	5.0	5.1	5.0	5.0	4.8	4.2	4.8	5.0
CPI food and non-alcoholic beverages	106.3	106.8	107.1	107.8	109.5	110.6	112.2	113.8	115.4	116.6	117.9	119.8	107.0	111.5	117.4
(year % ch.)	4.0	3.6	3.6	3.2	3.0	3.6	4.7	5.6	5.4	5.4	5.1	5.3	3.6	4.2	5.3
CPI petrol	110.4	117.4	125.5	130.8	113.6	127.5	128.4	129.6	128.5	129.7	130.1	131.3	121.0	124.8	129.9
(year % ch.)	5.7	11.6	22.4	18.1	2.9	8.7	2.3	-0.9	13.1	1.7	1.3	1.3	14.4	3.1	4.1
Petrol price (R/l coastal unleaded)	13.61	14.49	15.45	15.88	13.71	15.40	15.51	15.65	15.52	15.67	15.71	15.85	14.86	15.07	15.69
(year % ch.)	4.6	11.0	21.5	15.2	0.8	6.3	0.4	-1.4	13.2	1.7	1.3	1.3	13.0	1.4	4.1
CPI electricity	102.2	103.1	110.1	110.1	110.0	110.0	124.3	124.3	124.3	124.3	135.4	135.4	106.4	117.2	129.8
(year % ch.)	2.2	3.1	7.8	7.7	7.6	6.7	12.9	12.9	13.0	13.0	8.9	8.9	5.2	10.1	10.8
Producer price index	105.2	106.9	109.2	111.2	110.3	112.0	113.7	114.9	117.5	118.5	118.9	120.1	108.1	112.7	118.8
(year % ch.)	4.3	5.0	6.2	6.3	4.9	4.7	4.1	3.3	6.5	5.8	4.6	4.5	5.5	4.2	5.4

** CPI excluding food, non-alcoholic beverages, petrol and energy*