BETI REPORT

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June shows positive upswing, balances previous poor month

The mercurial current climate of the economy continues, with the BankservAfrica Economic Transaction Index (BETI) showing its strongest year-on-year (YOY) increase since August 2013 following a relatively weak May.

What makes this performance all the more surprising is its occurrence in the face of persistent challenges, including power constraints, weak commodity prices and strikes. Despite the current depressed climate, June's index highlights that perhaps the economy is adjusting to the new situation.

Volatility remains the name of the game, as indicated by the below figures. The quarterly changes increased by a whole percentage to 0.4% from the -0.5% it was in May. This 1% increase shows the unpredictable nature of the current economic cycle, which looks even bigger examining the month-on-month decline of nearly 1% between April and May, to an increase of 0.7% between May and June. This is a 1.6% upswing to the positive – a very strong change of direction, particularly considering that the effects of holidays and seasonality have been accounted for in these figures.

In comparison to the last two years, the overall performance in June is impressive, although, in terms of the performance of the last decade, it may be considered average. Nevertheless, in the current depressed economic climate this average month stands out.

Explanation - How times change: monthly changes can be volatile, but tell their own story.

Business and economic cycles tell tales; as does the BETI. Over the last twelve and a half years one can easily see the current climate in the data – although one monthly change alone does not make for good analysis.

To demonstrate the nature of the very short term economic cycle:
- four of the last twelve months have seen monthly decline
- two months showed no change
- six months showed increases, of which two increases were bigger than 1% between months.

That means 33% of the time, the economic transactions declined on a month-to-month basis.

Over the last 60 months, 20 of them saw month-on-month declines, meaning that a third of the time economic activity has declined in the last five years. So far the 2015 trends seem similar to the last five years, although some years did see fewer declines and other years more.

Compared to the five years leading up to December 2007, there were only 12 negative months in the BETI, meaning 20% of month-on-month changes showed a decline. The economy was, at least in South African terms, “booming” in those years.

However, in the following recession and first power crisis period of January 2008 to June 2010, the BETI had 18 monthly declines in the 30 month period which meant that 60% of the time the economy was in decline, compared to half that rate over the last 60 months.

The percentage of monthly declines puts the current climate into perspective. SA is neither in a boom period nor is it in a recession period, but rather is hovering between those two states.

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The stronger April and June BETI performances indicate that the economy is growing, despite intermittent power supply constraints, labour strike action and weaker than expected global commodity prices – which all conspire to create a level of uncertainty.

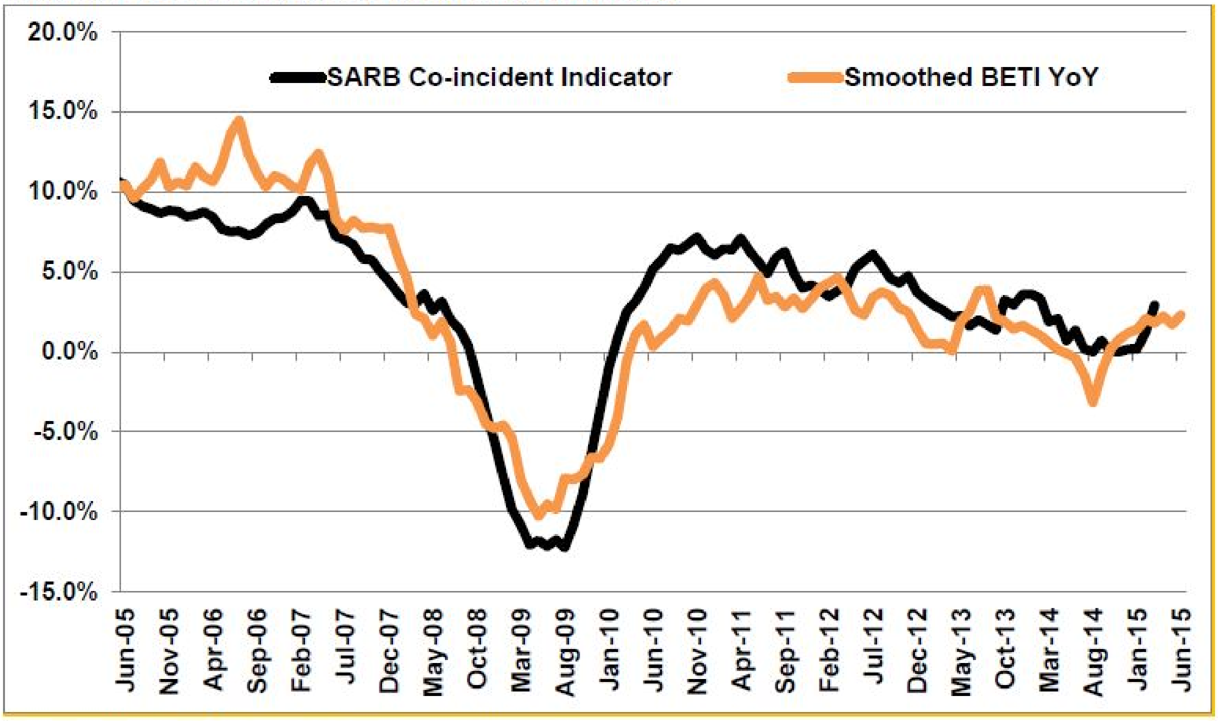
Despite all the negative factors, the BETI shows that underlying growth trends are still strong, if held back by the uncertain factors mentioned above – in the fine print, the figures are still surprisingly robust.

Should South Africa experience any further positive economic inputs, such as lower oil prices or stronger currency for example, the economy is likely to see much higher growth than the 2% it is currently managing. A 15% drop in the oil price along with a Rand that stays closer to R12 than R12.60 to the dollar, would certainly help our growth over 2.5%. The elimination of load shedding for a year could help the economy grow by nearly 3%.

Number of transactions increase

The actual number of transactions grew for the first time in two months, and is at 3.7% for June. This is the fastest growth since December and the standardised value of transactions was R709.6 billion – the first time it was over the R700 billion mark, with the exception of December, which is a seasonally high turnover month.

Graph 1: The BETI and the SARB co-incident indicator



Source: BankservAfrica and Economists dotcoza