BER
BUREAU FOR ECONOMIC RESEARCH

Economic Snapshot

October 2015

Contents:

Highlights

Inflation down on account of the lower petrol price

The headline consumer price index (CPI) moderated from 5.0% year-on-year (y-o-y) in July to 4.6% in August, while the market anticipated a rate of 4.8%. The decline was mostly due to the housing and utilities index, as well as the transport index. The decline in the petrol price pulled the annual rate for transport inflation down from 0.8% to -0.7%. Core inflation, which excludes food, fuel and electricity, moderated from 5.4% in July to 5.3% in August. Looking forward, the BER expects the current dip in inflation to be temporary and anticipates a peak above 6% in the first quarter of 2016, mainly due to base effects.

SARB left repo rate on hold, for now

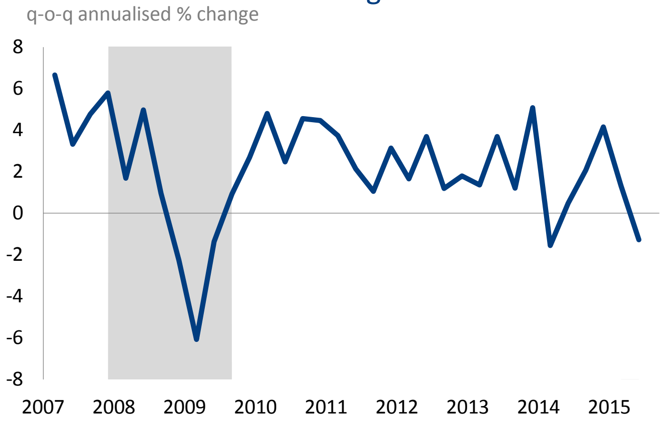
The Monetary Policy Committee (MPC) voted unanimously to keep the repo rate unchanged at 6.0% per annum. Weak domestic growth prospects, combined with a moderation in their near-term inflation outlook, prompted the Bank to keep the policy interest rate on hold. The MPC remains concerned about the global economic outlook, especially the impact of the slowing Chinese economy on commodity producers such as South Africa. Although the MPC members do not expect another quarterly growth contraction in 2015Q3, the domestic growth forecast was revised down to 1.5% in 2015, and to 1.6% and 2.1% in the next two years. However, the committee also remains concerned about the inflation outlook. The primary upside risk to inflation is the weak rand exchange rate which is expected to depreciate even further on the back of US monetary policy tightening. The Bank's strong emphasis on the upside risks to inflation indicates that they are ready to resume the upward hiking cycle once the secondary effects of cost-push inflation start to show.

Current account improves

The deficit on the current account narrowed from 4.7% of GDP in the first quarter, to 3.1% in 2015Q2. This improvement came on the back of the trade account, which recorded a surplus for the first time in more than three years. Exports rose significantly (led by platinum, gold, iron ore, chemical products and vehicles), while imports declined due to lower crude oil imports, the weak real exchange rate, as well as depressed domestic demand. The improvement in the current account could have been more pronounced, were it not for a decline in tourist receipts due to stricter South African visa regulations.

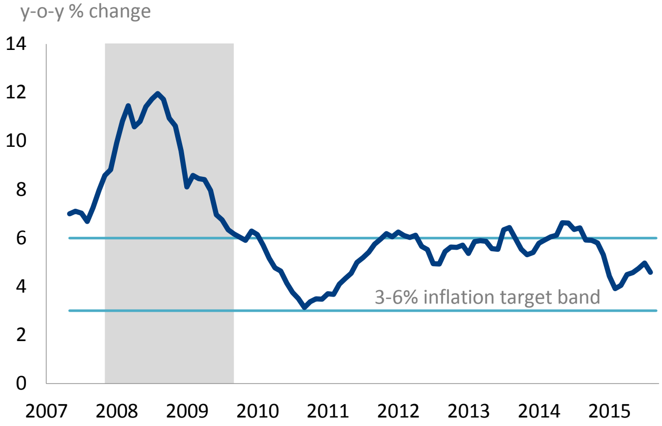
Core indicators

Real GDP growth



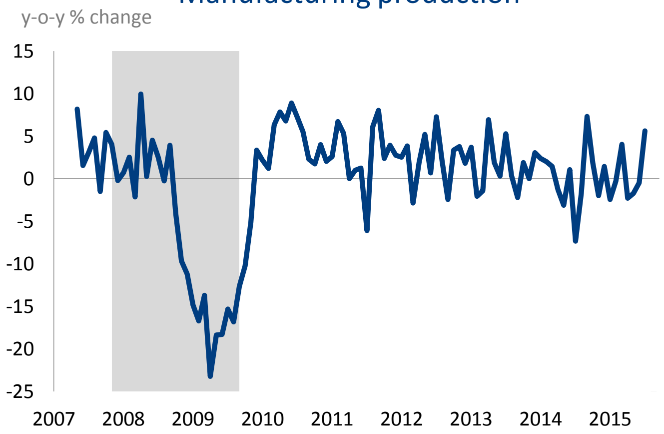
Source: SARB

CPI inflation



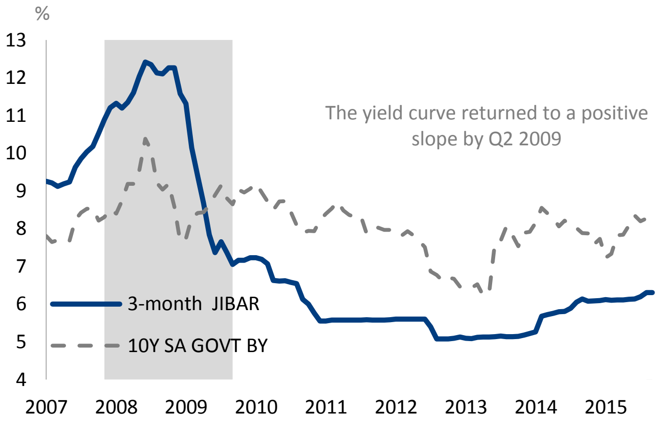
Source: StatsSA

Manufacturing production



Source: StatsSA

Interest rates



Source: Thomson Reuters

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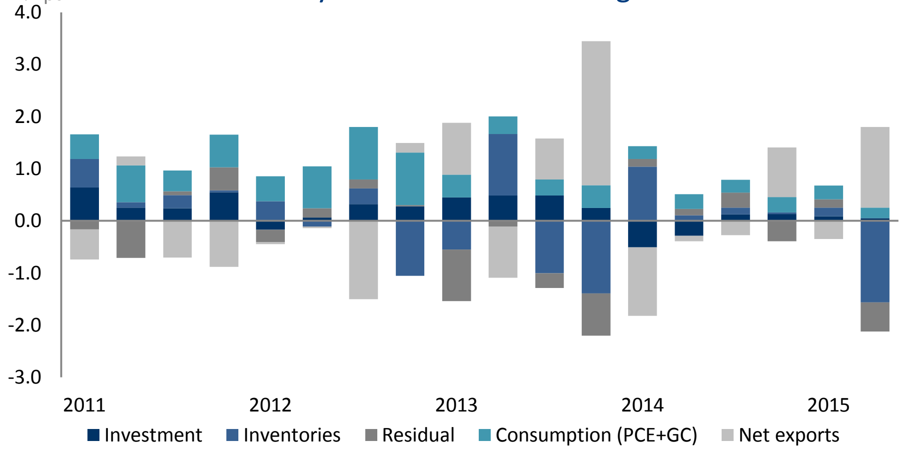
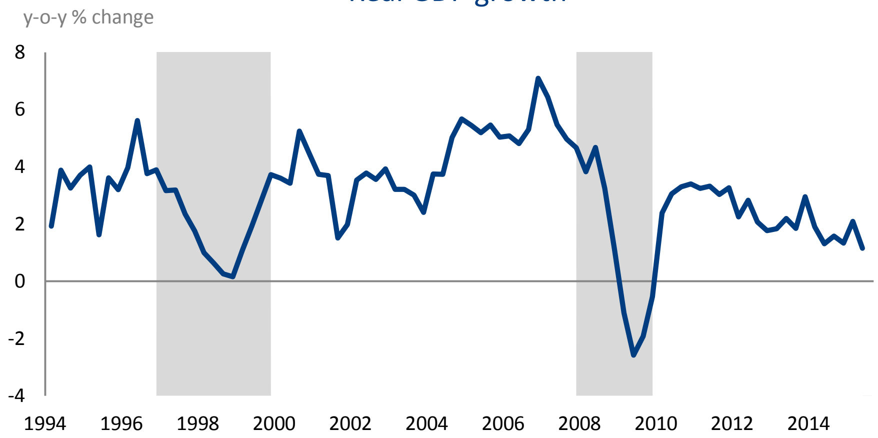
GDP growth

Quarterly contributions to GDP growth



Source: SARB

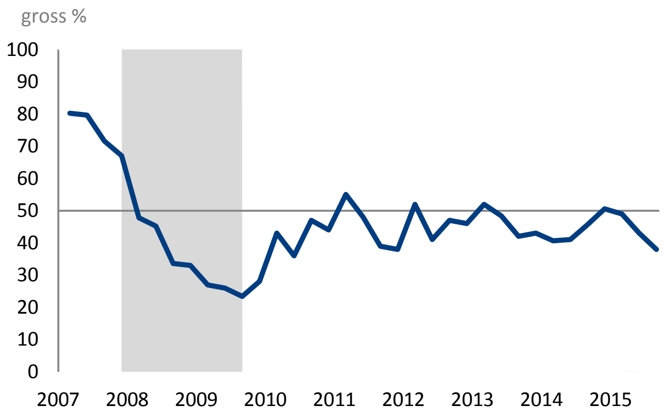
Real GDP growth



Source: SARB

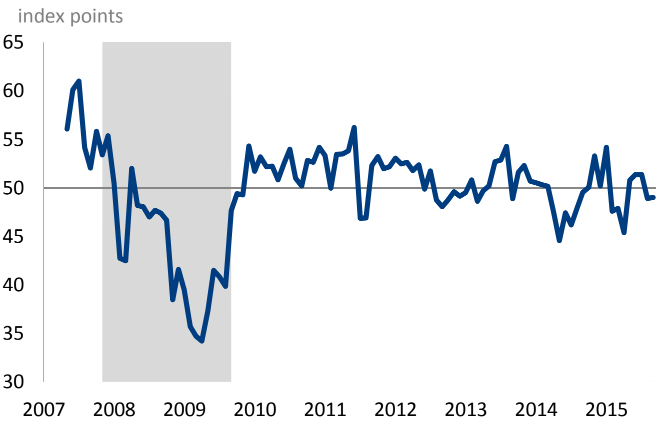
Business environment

RMB/BER Business Confidence Index



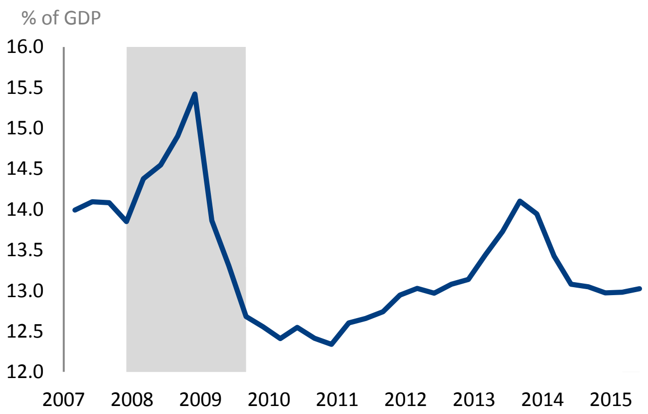
Source: BER

Barclays Purchasing Managers Index



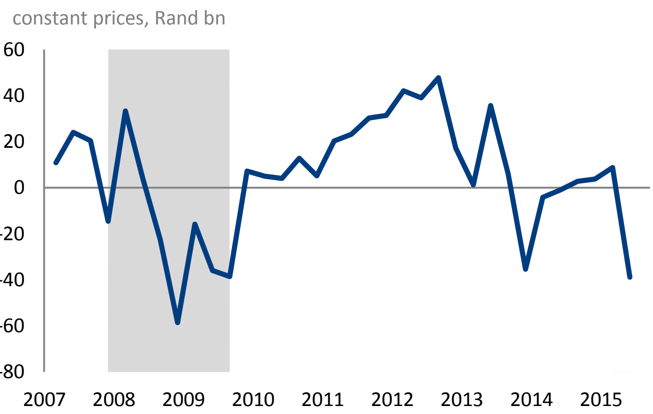
Source: BER

Private fixed investment



Source: SARB

Changes in inventories



Source: SARB

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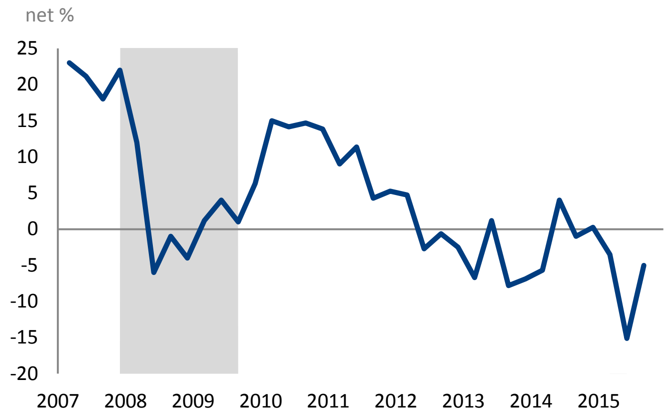
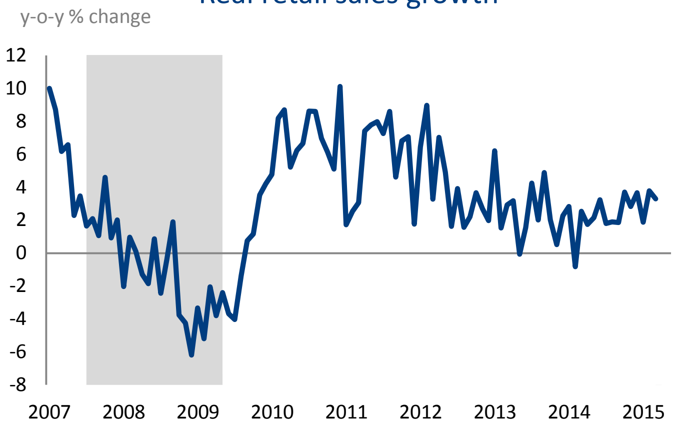
Household consumption

FNB/BER Consumer confidence index



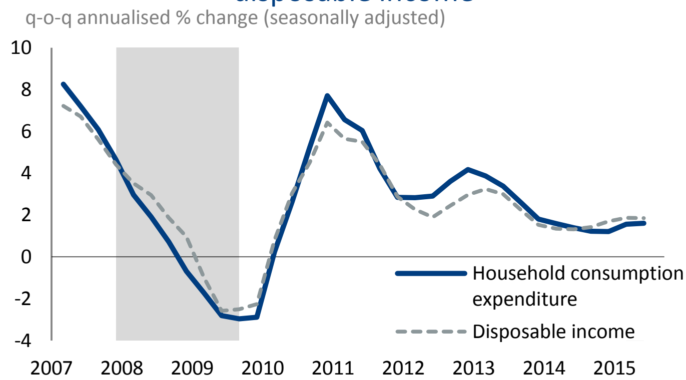
Source: BER

Real retail sales growth



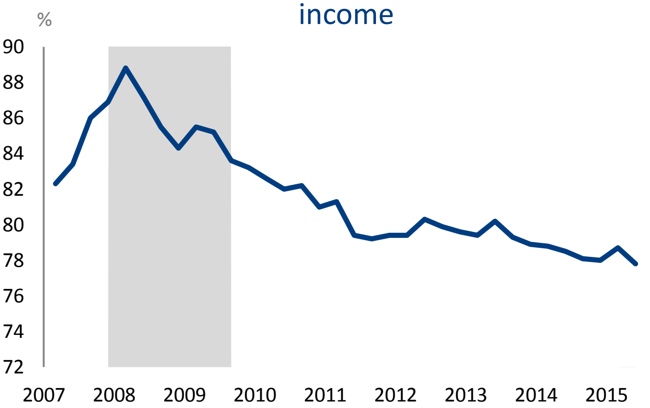
Source: StatsSA

Household consumption and real disposable income



Source: SARB

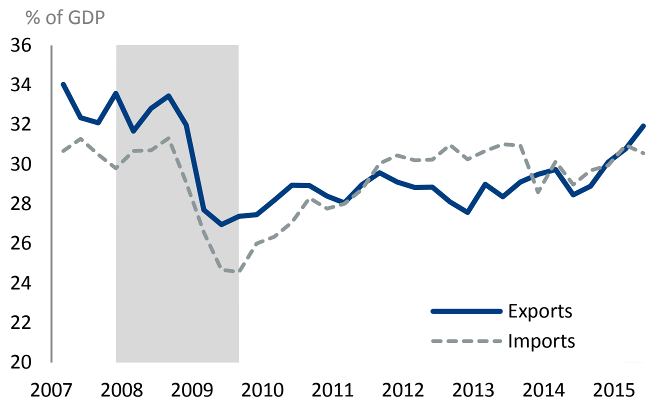
Ratio of household debt to disposable income



Source: SARB

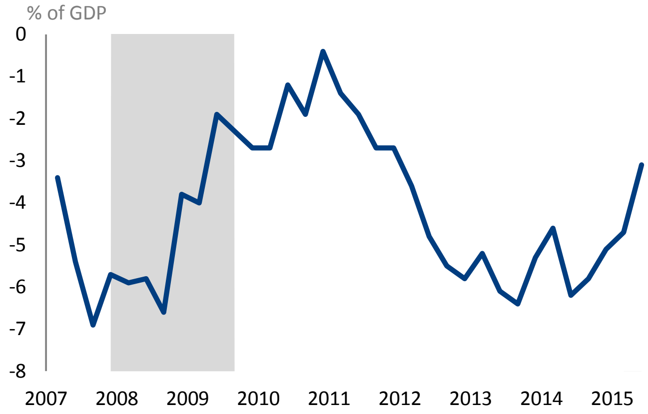
International trade

Imports and exports



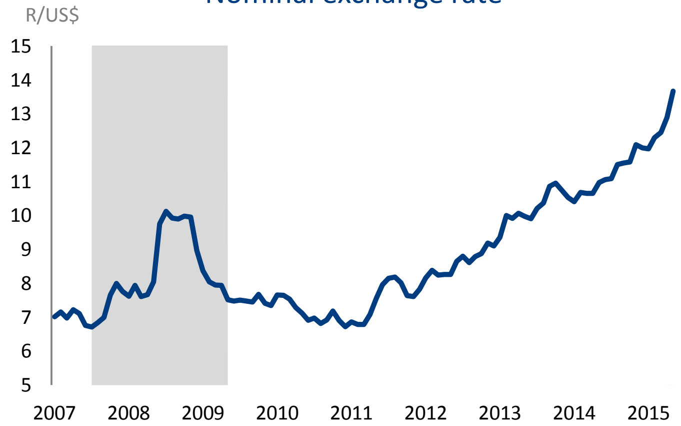
Source: SARB

Current account balance



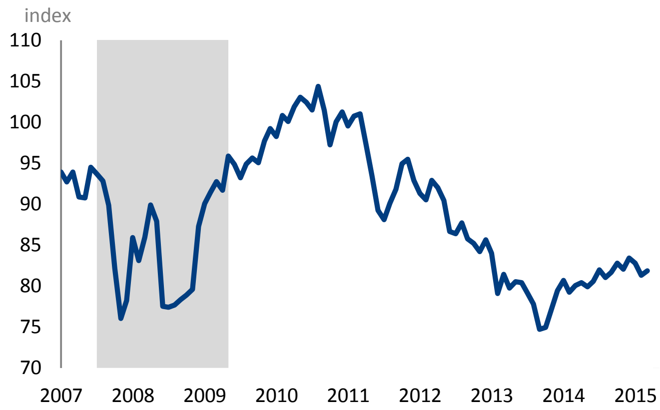
Source: SARB

Nominal exchange rate



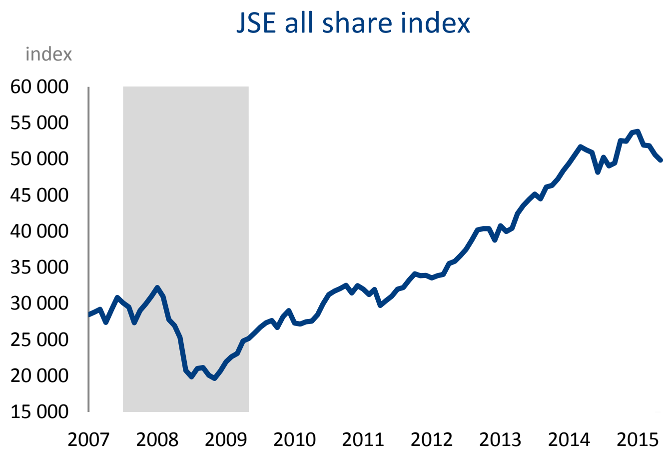
Source: Thomson Reuters

Real effective exchange rate of the Rand



Source: SARB

Financial markets



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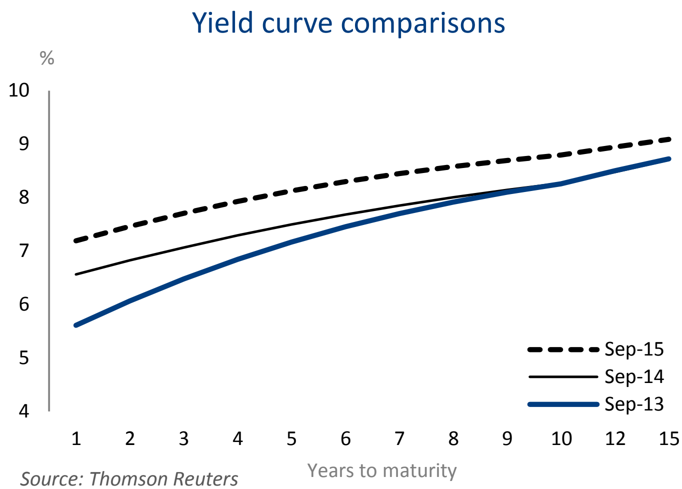

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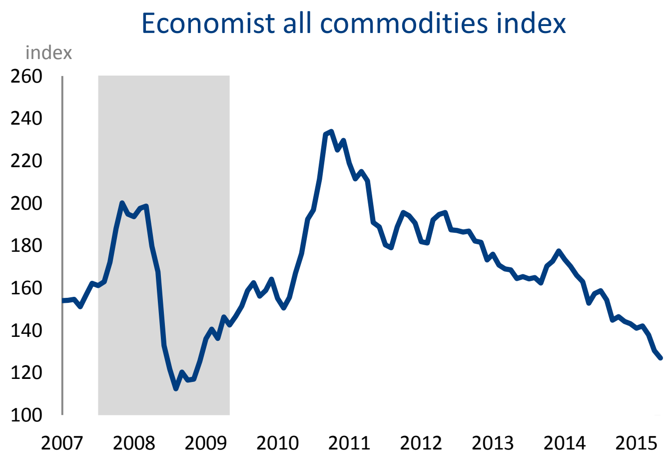
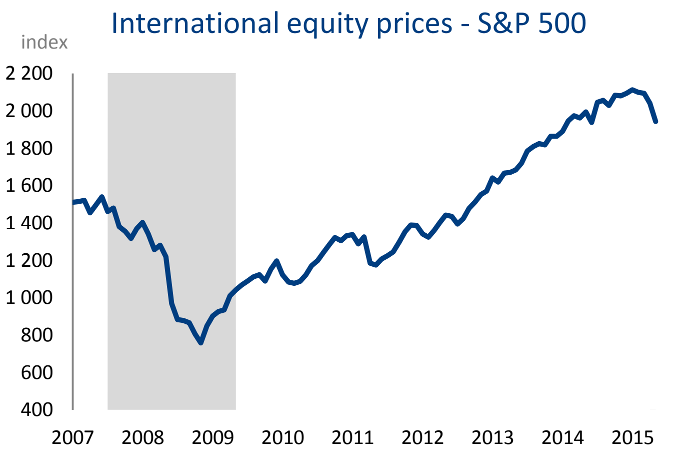


Source: Economist



Source: Thomson Reuters

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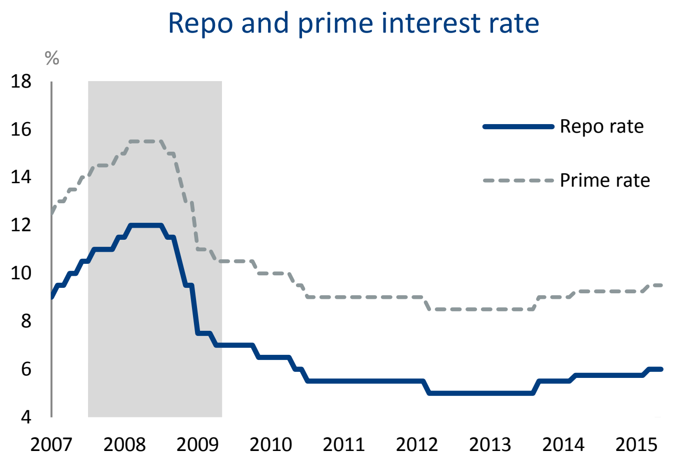
Money and prices



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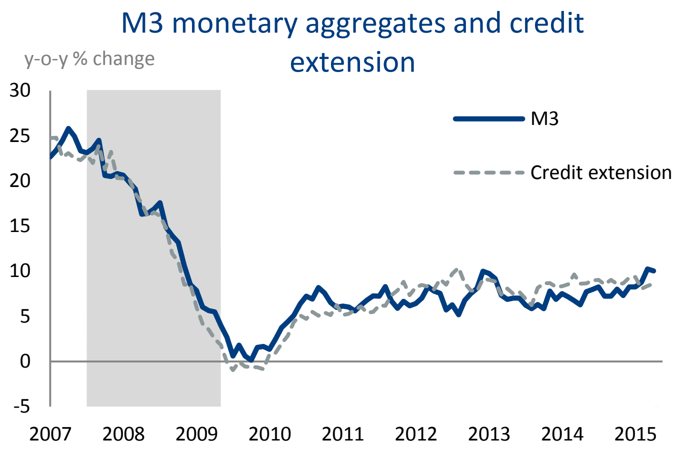

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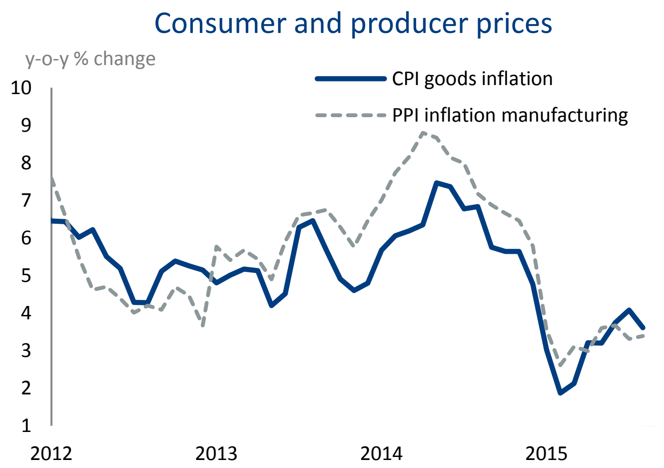

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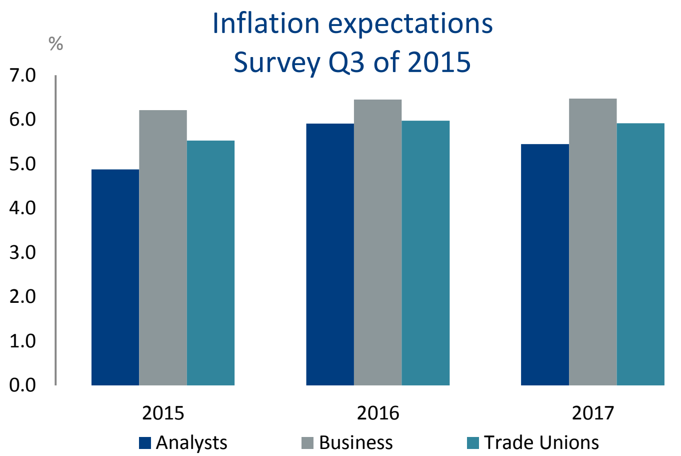
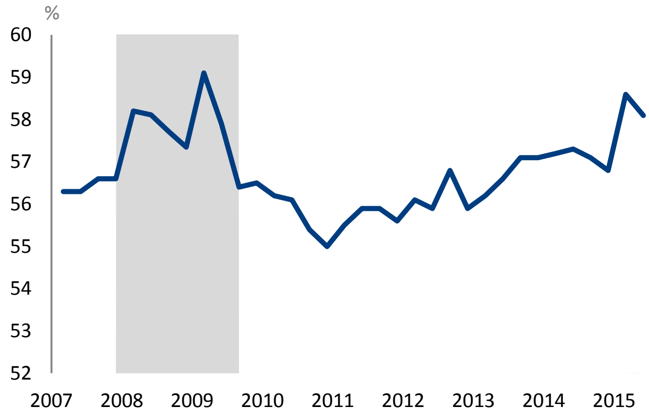


Source: BER

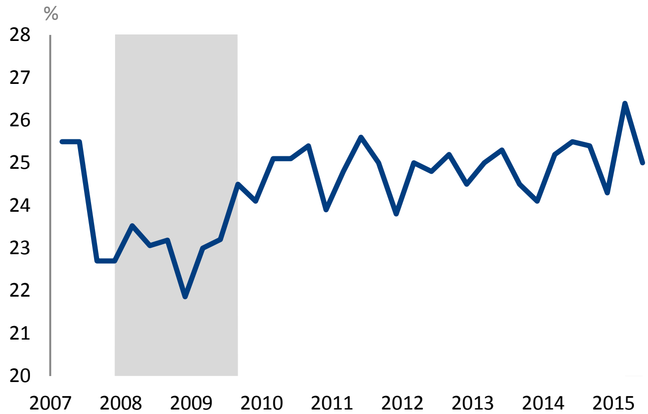
Labour

Labour force participation



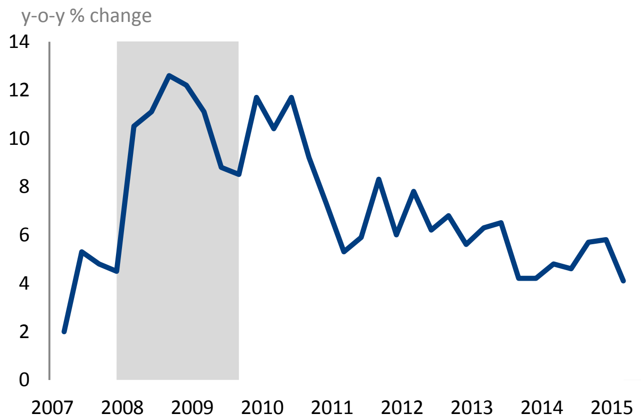
Source: StatsSA

Unemployment rate



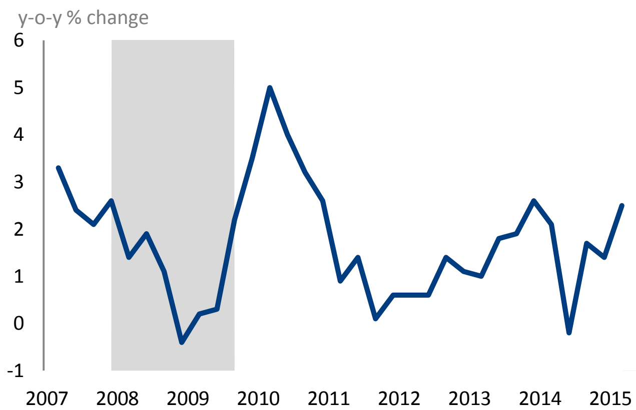
Source: StatsSA

Unit labour cost



Source: SARB

Labour productivity



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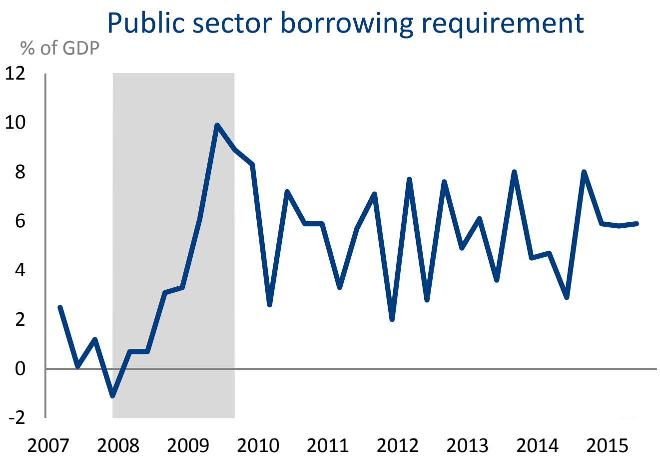
Government



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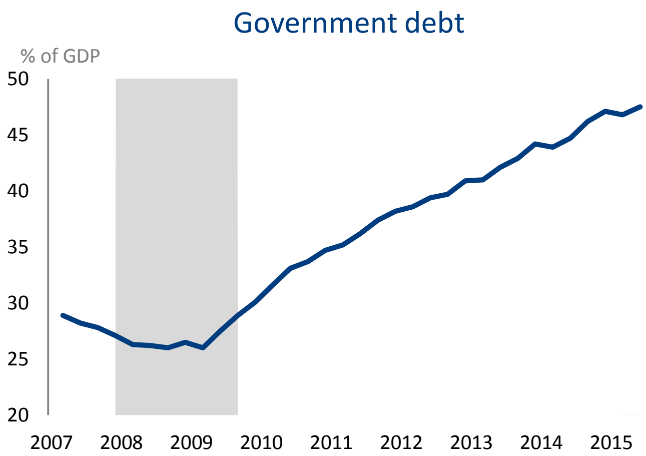

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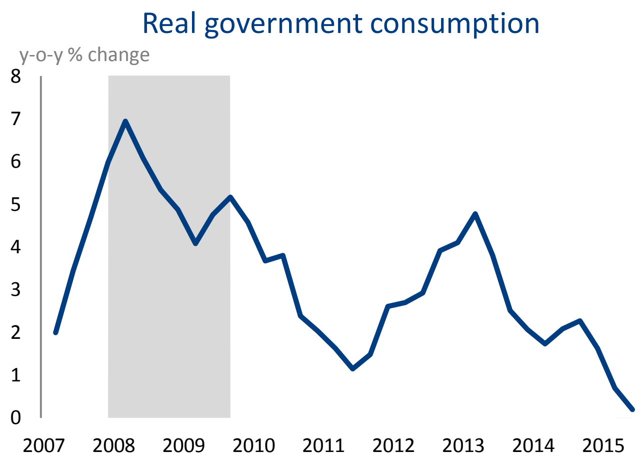

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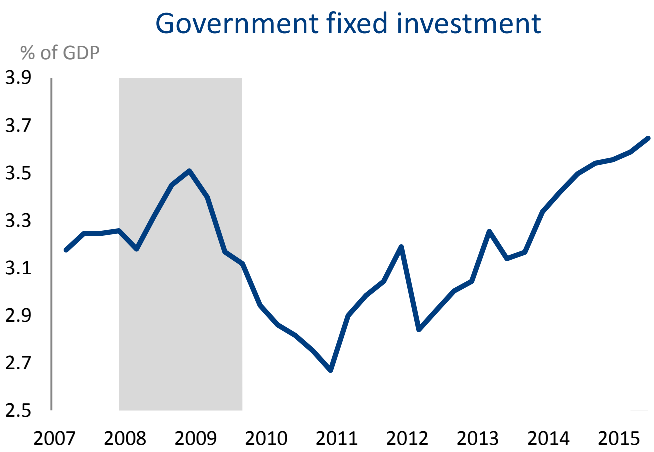

Source: SARB

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Recession algorithm[1]

Real GDP contracted by 1.3% (annualised) during the second quarter of 2015. The contraction was worse than expected mainly due to a sharp contraction in agriculture (17.4%), mining (6.8%) and manufacturing (6.3%). The electricity sector also declined (2.9%) and - what invokes the spectre of recession - the trade sector contracted by 0.4%. While the weakness in the trade sector has to be qualified, it signals the fact that the deteriorating economic conditions are spreading wider, beginning to impact the services industries. The weakness of the economy clearly originated on the supply-side. Real value added growth has averaged 1% per annum since the end of 2011 in both the primary and secondary sectors, pointing to virtual stagnation. While the drought in agriculture is currently adding insult to injury in the primary sector, secondary sector GDP has contracted during both the first and second quarters of 2015. The manufacturing sector is in recession. Electricity supply constraints and load-shedding explain the contraction of GDP in the electricity sector (including the negative implications for the wider economy). Growth in construction activity has come to a standstill during the first half of the year.

In these primary and secondary sector production conditions, the slowdown in the tertiary sector is to be expected. This broad sector has prevented the economy to experience a recession thus far. It decelerated from growth of 4% (y-o-y) at the end of 2011, to 2.6% at the end of 2013 and 1.7% during the second quarter of 2015. It is also evident that the weakening economic conditions have caught up with consumers. Real household spending decelerated to annualised growth of 1.2% during 2015Q2, from 3% in 2013. Both business and consumer confidence declined sharply during the second quarter. Business confidence declined further during 2015Q3 to a level where less than 4 out of every 10 business executives surveyed reported satisfactory business conditions. The South African Reserve Bank’s leading economic indicator has declined by 5.1% from its peak at the end of 2013 to June 2015. Four of the recession-dating algorithm's five components indicate upper turning points and that the economy may already be in a business cycle downturn. However, it remains too early for such a call.

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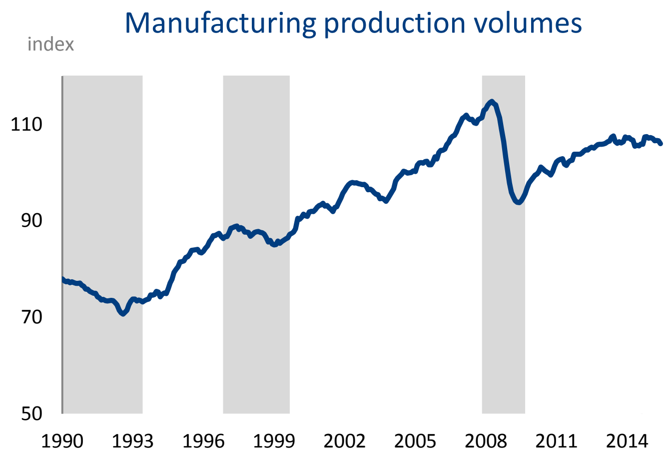
[1] Recession-dating algorithm for South Africa, which allows the BER to make accurate calls on business cycle turning points substantially sooner after the event than is the case with the official SARB determination. Read more at this link.

Recession algorithm



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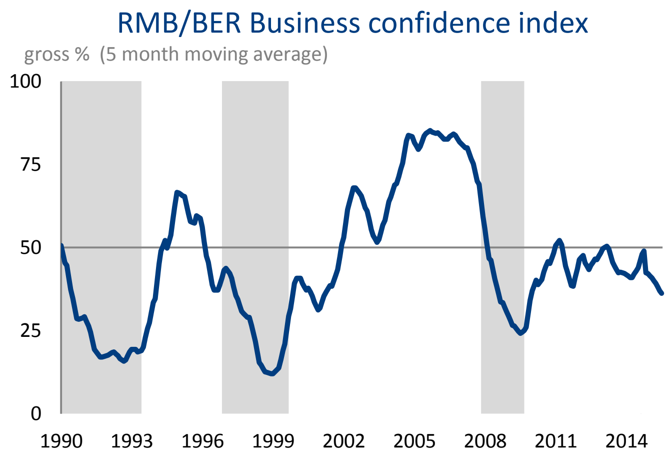

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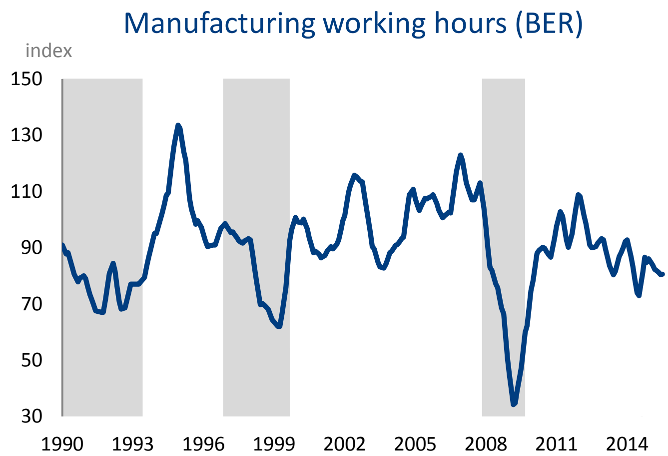

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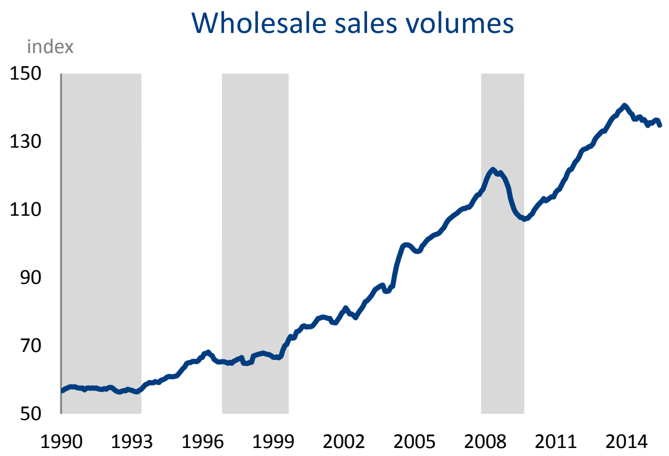

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