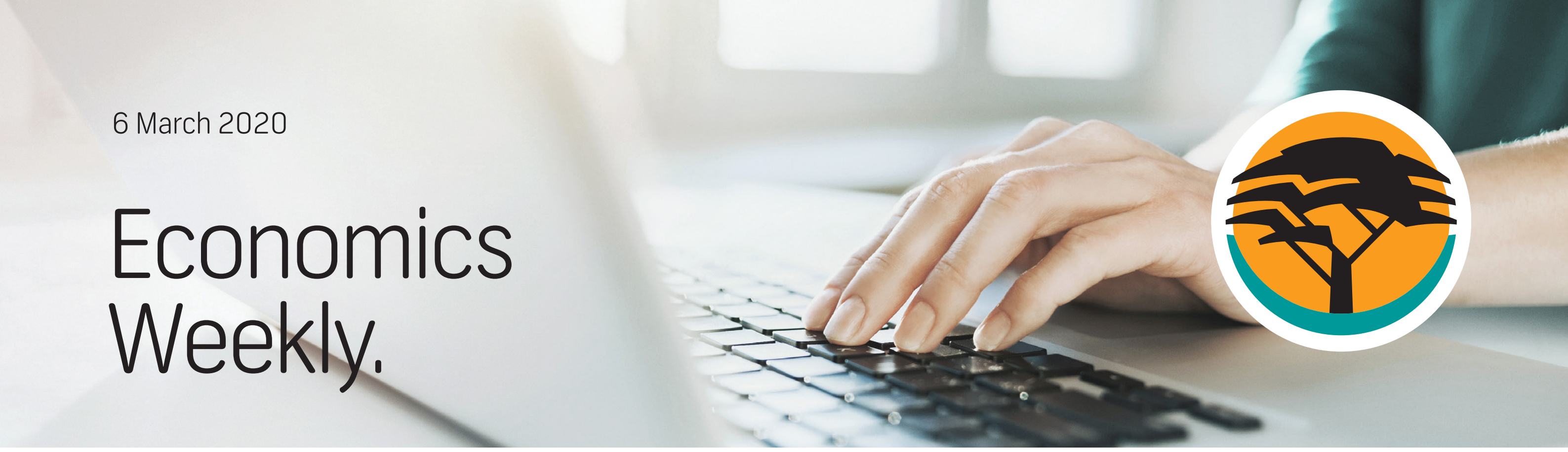
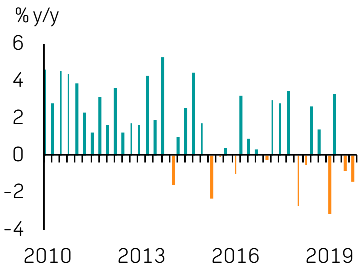


6 March 2020

Economics Weekly.

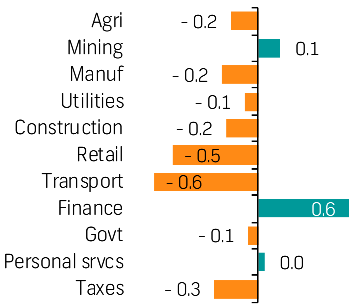
GDP contracts in 4Q19, confirming a 2H19 technical recession

Figure 1: GDP growth, q/q



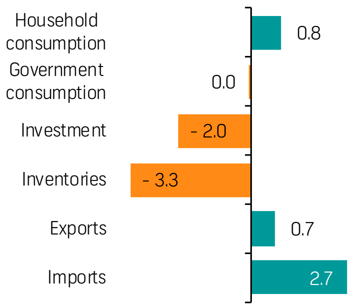
Source: Stats SA

Figure 2: Production contribution to 4Q19 growth



Source: Stats SA

Figure 3: Expenditure contribution to 4Q19 growth



Source: Stats SA

The 4Q19 SA GDP growth contracted by 1.4% q/q on a seasonally adjusted annualised basis, highlighting that the economy endured a technical recession during 2H19. This outcome marked the third quarterly contraction in 2019. Q4 growth was significantly worse than our (-0.1% q/q) and Bloomberg (-0.2%) expectations.

In the primary sector, agriculture contracted by 7.6% q/q mainly as a result of a decrease in horticultural products and field crop production. By contrast, mining increased by 1.8%, primarily due to increased gold, platinum group metals and iron ore production.

In the secondary sector, manufacturing decreased by 1.8% q/q as seven out of the ten divisions had negative growth. Unsurprisingly, utilities contracted by 4% as a result of increased load-shedding in Q4. Declines in quarterly volumes for residential and non-residential buildings contributed to the 5.9% contraction in construction.

The tertiary sector was also uninspiring, with decreases in accommodation, motor trade and wholesale trade which resulted in retail contracting by 3.8% q/q. Decreases in land and air transport, as well as support services, meant transport declined by 7.2%. Government declined by 0.4% due to lower employment numbers. Encouragingly, within the tertiary sector, the finance and personal services sectors increased by 2.7% and 0.7% respectively.

From an expenditure perspective, growth in household consumption expenditure (HCE) recovered to an increase of 1.4% q/q after a mere 0.3% increase in Q3. The main contributors to HCE were expenditure on clothing and footwear (0.5ppt); the "other" category (0.4ppt) and household furnishings and equipment (0.3ppt). Expenditure on transport was the only detractor from HCE growth during the quarter (-0.5ppt). The improvement came against the backdrop of weak disposable income growth, low consumer confidence and a persistently high unemployment rate.

Government expenditure fell into negative territory (-0.2% q/q), after a 1.4% increase in Q3. This decline came on the back of a decrease in government employment during the quarter and weakness in government finances.

Gross fixed capital formation plunged by 10% q/q . Although extreme, the decline was in line with our expectation of a deterioration in private fixed investment. Contractions in investments were evident across all asset types and organisations. Notably, the contraction in private sector fixed investment (-10.3%, subtracting over 7ppt from total fixed investment) fell at the fastest pace in four years.

Net trade contributed positively to overall growth (3.3ppt), after exports of goods and services increased by 2.3% q/q (increased trade in precious metals and stones) and imports contracted by 8.5% (mainly driven by a downturn in imports of machinery and equipment, as well as vehicles and transport equipment).

The Q4 print leaves GDP growth at just 0.2% for the full year of 2019 – more disappointing than the still-low 0.8% print for 2018. Looking forward, we see material downside risks to our 2020 forecast of just 0.6%. In fact, we are in the process of revising all our forecasts. Overall, low confidence levels, load-shedding, policy inertia, as well as the disruptions to supply chains and tourism from the global spread of covid-19 cloud SA's growth outlook.

Analysts

Mamello Matikinca-Ngwenya
Jarred Sullivan
Matlhodi Matsei
Siphamandla Mkhwanazi
Geoff Nölting

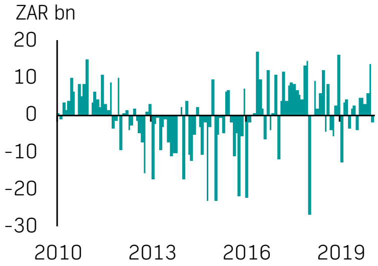
Contact us:

Website: fnb.co.za/economics-commentary
Email: FNBEconomics@fnb.co.za
Tel: 087 343 1678

Weekly highlights

Trade balance registers a deficit

Figure 4: Trade balance



Source: EconoStat, SARS

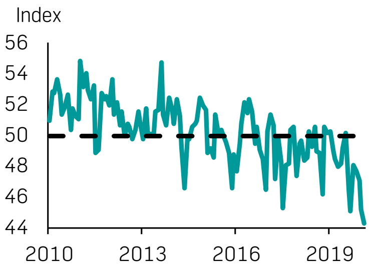
As we anticipated, South Africa recorded a trade deficit of R1.9 billion in January 2020, above the downwardly revised surplus of R13.9 billion in December 2019 (previously R14.8 billion). Although the trade balance swung to a deficit, it is an improvement from the R12.6 billion deficit recorded in January 2019.

On a month-on-month basis, imports grew by 16.1% m/m to R103.3 billion mainly due to an increase in original equipment components imports by 169% m/m, followed by machinery & electronics (+15% m/m) and base metals (+62% m/m). Exports decreased by 1.4% m/m to R101.4 billion mainly as a result of a decrease in prepared foodstuffs by 28% m/m, followed by machinery & electronics (-16% m/m) and precious metals & stones (-3% m/m).

Looking ahead, exports should be supported by the relatively buoyant platinum group metal (PGM) and gold prices.

Absa manufacturing PMI remains depressed

Figure 5: Absa manufacturing PMI



Source: Absa, BER, EconoStat

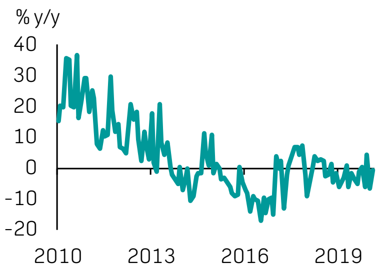
The Absa manufacturing PMI dove even deeper into contractionary territory, printing at 44.2 index points in February from 45.2 the previous month and registers as the lowest reading since August 2009.

Four out of the five subcomponents deteriorated in the month, particularly business activity and new sales orders subcomponents, which registered subdued readings of 33.7 and 31.2 index points respectively. The only improvement stemmed from supplier deliveries, which surged 7.8 index points over the month to 58.6 – likely a function of suppliers being less busy amid subdued domestic demand.

It is worth noting that some survey respondents cited that load-shedding had adversely affected business operations. We anticipate this to be the status quo over for the next year and a half while Eskom's power stations undergo some much-needed maintenance. This idiosyncrasy, combined with the reality of a fragile consumer domestically, will likely continue to be major impediments to the manufacturing sector in the coming year.

New vehicles sales contracts again

Figure 6: New vehicle sales

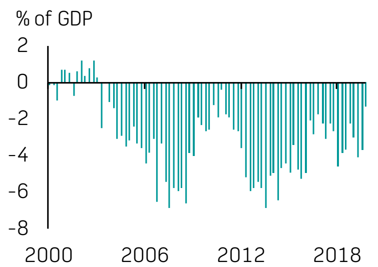


Source: EconoStat, Naamsa

New vehicle sales in South Africa contracted at a more moderate pace in February, falling 0.7% y/y after declining 6.3% the month before. While new vehicle sales are likely to turn positive in the coming months supported by recent interest rate cuts and mild tax relief on income tax, the improvement is expected to be marginal at best. The reality is that structurally low consumer confidence and dire economic fundamentals will likely continue to weigh on overall purchases in the foreseeable future.

Current account deficit narrows

Figure 7: Current account



Source: EconoStat, Stats SA

In line with our expectations, the current account deficit (as a percentage of GDP) narrowed to -1.3% in 4Q19 from -3.7% in 3Q19. This can largely be ascribed to a marked improvement in the goods trade balance to R102 billion during the quarter due to higher PGM sales from a trade surplus of R44 billion in the previous quarter. For 1Q20, we will likely see a slight widening in the current account deficit (as a percentage of GDP) as local producers replenished inventories through higher imports, particularly in January, following Black Friday sales and shopping related to the festive season.

Week ahead

Business confidence and production data ahead

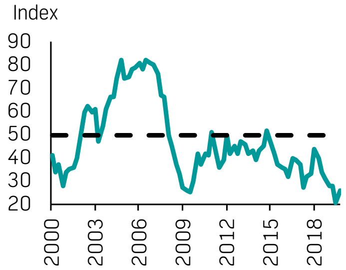
First-tier data releases commence with the 1Q20 Business Confidence Index on Wednesday. January mining and manufacturing data are due out on Thursday.

The **RMB/BER Business Confidence Index** has been lingering below the 50-point neutral mark for five consecutive years, last printing at 26 index points in 4Q19. We envisage that the 1Q20 release will be even more depressed amid the persistence of intermittent power outages adversely affecting sentiment and business activity.

After a marked improvement in **mining production** in December on the back of a 24.9% y/y surge in gold production, albeit supported by a low base in 2018 (-30.9% y/y), we anticipate overall volumes to have contracted on a year-on-year basis in the January print. The combination of intermittent power outages, the dissipation of favourable base effects, and the spread of the coronavirus in China likely adversely affecting export prospects are among the main factors informing our expectation of a January downturn.

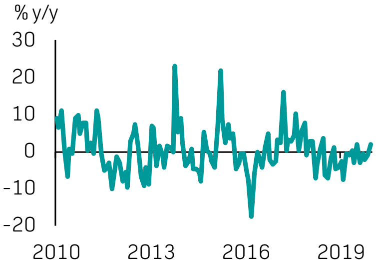
After a dreary 5.9% y/y plunge in **manufacturing production** in December, we expected a very similar print in the January reading. The marked downturn in the Absa manufacturing PMI in January, depressed sentiment in the survey, as well as the irreparable effect of load-shedding provide credence to our downbeat expectations.

Figure 8: RMB/BER Business Confidence Index



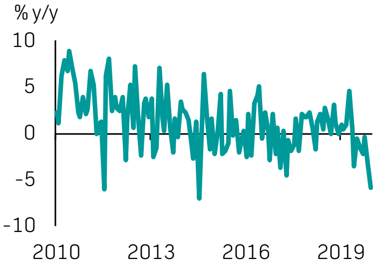
Source: EconoStat, Naamsa

Figure 9: Mining production



Source: EconoStat, Stats SA

Figure 10: Manufacturing production



Source: EconoStat, Stats SA

Tables

The key data in review

Date	Country	Release/Event	Period	Act	Prev
28 Feb	SA	Trade balance	Jan	-1.9	13.9
2 Mar	SA	Absa manufacturing PMI	Feb	44.2	45.2
	SA	New vehicle sales (% y/y)	Feb	-0.7	6.3
3 Mar	SA	GDP growth (% q/q saar)	4Q19	-1.4	-0.8
5 Mar	SA	Current account (% of GDP)	4Q19	-1.3	-3.7

Data to watch out for this week

Date	Country	Release/Event	Period	Survey	Prior
6 Mar	US	Non-farm payrolls (000s)	Feb	175.0	225.0
7 Mar	China	Trade balance (US$ bn)	Jan-Feb	40.0	57.8
11 Mar	SA	RMB/BER business confidence	1Q20	24.0	26
	US	CPI (% y/y)	Feb	0.0	2.5
12 Mar	SA	Mining production (% y/y)	Jan	1.4	1.8
	SA	Manufacturing production (% y/y)	Jan	-4.5	-5.9

Source: Bloomberg ("Survey" is the consensus forecast)

Financial market indicators

Indicator	Close	1 W	1 M	1 Y
All Share	52 936.27	-1.0%	-5.2%	-5.6%
USD/ZAR	15.63	0.9%	5.0%	9.5%
EUR/ZAR	17.56	3.1%	6.7%	8.9%
GBP/ZAR	20.25	1.5%	4.7%	7.7%
Platinum US$/oz	867.55	-3.9%	-10.5%	4.9%
Gold US$/oz	1 672.23	1.7%	6.1%	30.0%
Brent US$/oz	49.99	-4.2%	-8.2%	-24.2%
SA 10-year bond yield	7.87	0.2%	-1.0%	-9.2%

FNB SA Economic Forecast

Economic Indicator	2016	2017	2018	2019f	2020f	2021f
Household consumption expenditure %y/y	0.6	2.1	1.8	1.1	1.0	1.3
Government consumption expenditure %y/y	2.2	0.2	1.9	1.4	0.7	0.9
Gross fixed capital formation %y/y	-3.5	1.0	-1.4	-0.9	-0.1	0.8
Real GDP %y/y	0.4	1.4	0.7	0.3	0.6	0.8
Total exports %y/y	0.4	-0.7	2.6	-1.2	-0.4	0.9
Total imports %y/y	-3.9	1.0	3.3	1.8	2.1	1.4
Current account (% of GDP)	-2.8	-2.5	-3.5	-3.3	-3.6	-3.7
CPI (average) %y/y	6.3	5.3	4.6	4.1	4.2	4.2
CPI (year end) %y/y	6.7	4.7	4.5	4.1	4.0	4.2
Repo rate (year end) %p.a.	7.00	6.75	6.75	6.50	6.00	5.75
Prime (year end) %p.a.	10.50	10.25	10.25	10.00	9.50	9.25
USD/ZAR (average)	14.70	13.30	13.25	14.50	14.90	15.50

Source: FNB

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