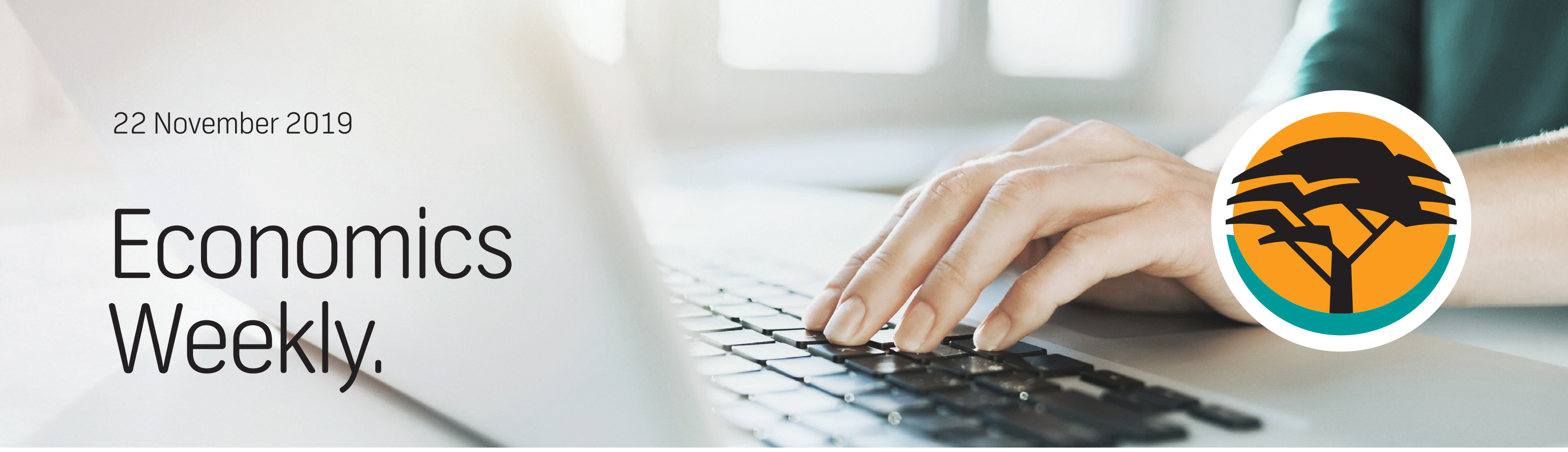
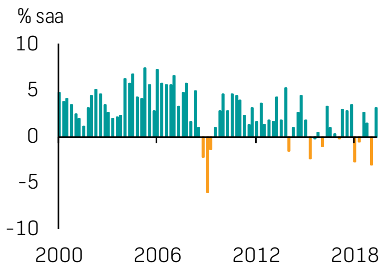
22 November 2019

Economics Weekly.



A round up of data for third-quarter GDP

Figure 1: Q3 GDP expected to be weak



Source: EconoStat, Stats SA

According to our assessment of high-frequency data, we anticipate third-quarter GDP to register a marginal decline of 0.6% quarter-on-quarter (q/q) seasonally adjusted and annualised rate (saar).

Within the primary sector data on hand suggests that the mining sector was a small detractor from economic growth in 3Q19, largely pulled down by lower activity in the platinum group metal sector, in part, due to disruptions from labour negotiations. However, it is worth noting that gold production recovered by about 5.8% q/q in September likely due to a normalisation in production at Sibanye's gold mines, following a prolonged strike period. Moreover, the higher precious metal price may well have been supportive to output in some of the higher cost producing mines.

Discouragingly, the secondary sector is expected to have registered broad-based weakness across the various subsectors. Manufacturing production has been adversely affected by a downturn in basic iron and steel, non-ferrous metal products, metal products and machinery output, plunging 4% q/q and subtracting 0.8 percentage points (ppt) from overall output. Growth in the utilities sector also suffered, with the latest numbers from Stats SA showing a contraction in electricity production. Lastly, subdued public sector fixed investment and low levels of buildings completed, particularly in the residential sector, conceivably weighed on growth in the construction sector.

Growth in the tertiary sector is expected to be mixed in the third-quarter GDP release. The trade sector, largely made up of wholesale and retail purchases, likely made a positive contribution to 3Q19 GDP. We expect that a sizeable portion of sales volumes have been driven by interest-free lay-by sales, deep discounting, lower borrowing costs and a benign inflation backdrop. Moreover, the personal services sector is expected to remain resilient due to its high inelasticity relative to the economic cycle. On a less encouraging note, we expect that the transport, finance and government sectors detracted from 3Q19 GDP. In the transport industry, payloads via road and railway have slowed in the quarter. Moreover, freight income in the mining industry, which accounts for roughly a third of overall freight income generated, has stagnated recently. While growth in the finance sector has been steady, we foresee some weakness for Q3, largely due to a relatively high 2Q19 base of 4.1% q/q (saar). Similarly, we expect that growth in the government sector retreated somewhat, following the election-related spending boost in 2Q19.

In all, we expect growth to come in at a mere 0.3% in 2019, before recovering to a muted 0.9% and 1.2% in 2020 and 2021 respectively. Factors that are likely to keep the overall rate of growth constrained include low confidence, limited fiscal capacity, slow implementation of reformist measures and a lacklustre labour market.

Analysts

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

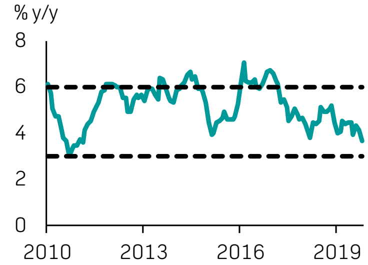
Contact us:

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

Weekly highlights

Inflation slows even further

Figure 2: CPI at its lowest since early 2011



Source: EconoStat, Stats SA

- Stats SA reported that consumer price inflation (CPI) slowed to a notably lower 3.7% y/y in October 2019 from 4.1% in September. This marks the lowest increase since February 2011. Furthermore, the outcome was below Bloomberg market expectations of 3.9% y/y. On a monthly basis, inflation was flat.

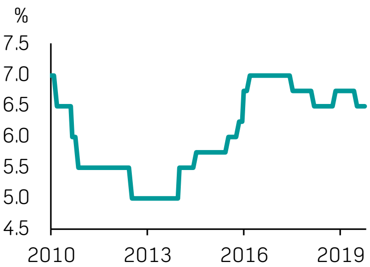
- The slowdown in headline CPI came against a backdrop of further deceleration in food inflation to 3.5% y/y (contributing 0.6ppt to headline, from 3.7% y/y in September [0.7ppt]). Nevertheless, prices were broadly stable for major items within the food inflation basket.

- Transport inflation moderated meaningfully to 0.3% y/y (contributing 0.1ppt to overall inflation), from 2.4% y/y previously (0.4ppt). In fact, lower inflation was evident across all the transport CPI subcomponents and even more so for petrol CPI, which contracted by 4.9% y/y from an increase of 0.2% in September. In October, petrol prices rose by 18c/l for 95 ULP to R16.08/l relative to the previous month. However, prices were significantly lower relative to a year ago when they hit a historic high of R17.08/l.

- Core CPI remained unchanged at 4% y/y in October – well below the midpoint of the target band – and continues to be reflective of weak domestic demand. Looking ahead, we expect headline CPI to remain broadly anchored around the midpoint of the SARB's inflation target band (4.5%) amid an inability to pass on material price increases to the consumer, due to constrained consumer income growth. Moreover, subdued international oil prices will likely continue to contain the overall inflation trajectory.

SARB keeps repo rate on hold

Figure 3: SARB kept repo rate unchanged



Source: EconStat, SARB

- Yesterday the SARB decided to keep the repo rate unchanged at 6.5%, leaving the prime lending rate at 10%. Although the SARB's decision was in line with consensus, it went against our expectation for a 25 basis point (bps) cut.

- The main reasons for the decision to maintain the policy rate were the exacerbation of downside risks from heightened trade tensions and geo-political developments. Over and above this, Governor Lesetja Kganyago highlighted that global investors remain concerned about South Africa's growth prospects and fiscal risks – which continues to pose a risk to the rand exchange rate.

- The bank's medium-term forecasts for consumer inflation remained unchanged at 4.2% for 2019, 5.1% for 2020 and 4.7% in 2021. Although overall risks to this outlook were assessed to be balanced, it was noted that "uncertainty about inflation risks is unusually high". Meanwhile, the outlook for GDP growth was revised lower, with the SARB shaving off a 0.1 percentage point over the medium term in order to incorporate lower domestic growth expectations for 2H19 as well as further downward revisions to global growth since the previous MPC statement. GDP forecasts are now estimated at 0.5% in 2019, followed by 1.4% and 1.7% in 2020 and 2021 respectively.

- In our view, the key difference between the SARB's decision and our expectation lies in the fact that their growth and inflation forecasts exceed ours. Even against this backdrop, we still attach a high level of conviction to our own real GDP and CPI forecasts. It is with this in mind that we expect the SARB to eventually revise its growth and inflation outlook lower, which should widen the scope for a repo rate cut in the near term.

Week ahead

Flurry of data ahead

Next week's first-tier data releases commence with the September SARB leading indicator on Tuesday. Wednesday will see the release of the 4Q19 RMB/BER Business Confidence Index followed by the producer price index (PPI) due on Thursday. The week then closes with October releases of private sector credit extension and trade balance data on Friday.

The SARB leading indicator has contracted for 11 consecutive months, most recently falling 1.3% y/y in August. While we expect a more moderate contraction in the September print, largely due to a softer 2018 base (+0.1% y/y vs. +1.8% in August 2018), the reading will nevertheless likely be indicative of our subdued full-year GDP growth forecast of just 0.3%.

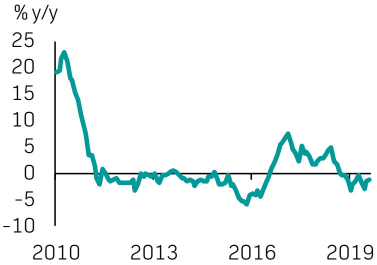
The RMB/BER Business Confidence Index has trundled below the 50-point neutral mark for 19 consecutive quarters, most recently registering a reading of 21 in 3Q19. We expect another disappointing reading for the fourth quarter, given the likely slow implementation of prudent macroeconomic policies and structural reforms domestically that can lower costs and in turn incentivise investment.

The PPI for final manufactured goods has decelerated since April this year, last printing at +4.1% y/y in September. We expect another relatively muted reading in October amid contained international energy prices, as well as a relatively high petrol (+24.1% y/y) and diesel (+28.9% y/y) 2018 base.

Private sector credit extension has slowed more recently, last increasing by 6.2% y/y in September, from a 2019 high of 8% in April. While we expect credit appetite to have remained relatively buoyant in October, we are concerned about the impact of a deterioration in consumer finances adversely impacting the ability to take on further credit. Accordingly, a more pronounced moderation in credit uptake is expected to begin filtering through early next year.

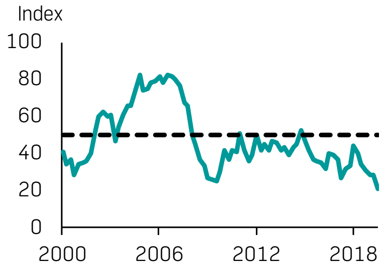
The trade balance has been in surplus territory for the last two readings, most recently rising to a trade surplus of R5.2 billion in September – the largest surplus this year. We expect another relatively upbeat reading in the October print amid higher precious metal prices supporting overall export values.

Figure 4: SARB leading indicator



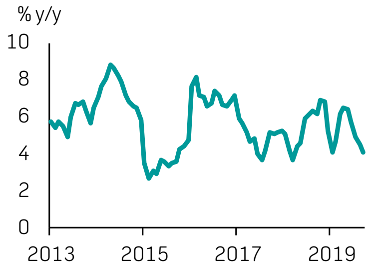
Source: EconStat, SARB

Figure 5: RMB/BER Business Confidence Index



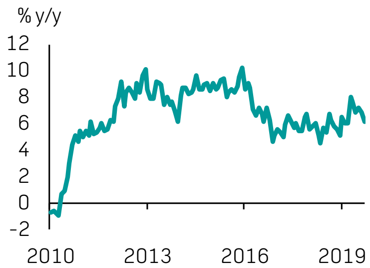
Source: EconoStat, SARB

Figure 6: PPI for final manufactured goods



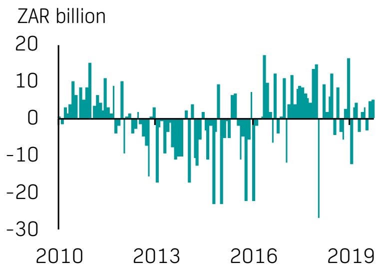
Source: EconoStat, SARB

Figure 7: Private sector credit extension



Source: EconoStat, SARB

Figure 8: Trade balance



Source: EconoStat, SARB

Tables

The key data in review

Date	Country	Release/Event	Period	Act	Prev
15 Nov	Eurozone	CPI (% y/y)	Oct	0.7	0.8
	US	Industrial output (% m/m)	Oct	-0.8	-0.3
20 Nov	SA	CPI (% y/y)	Oct	3.7	4.1
21 Nov	SA	Repo rate (%)	Nov	6.5	6.5
	US	Existing home sales (% m/m)	Oct	1.9	-2.5
22 Nov	Japan	CPI (% y/y)	Oct	0.2	0.2

Data to watch out for this week

Date	Country	Release/Event	Period	Survey	Prev
26 Nov	SA	SARB leading indicator	Sep	104.0	103.8
	US	New home sales (% m/m)	Oct	0.8	-0.7
27 Nov	SA	RMB/BER business confidence	4Q19	-	21
	US	PCE price index (% y/y)	Oct	1.4	1.3
28 Nov	SA	PPI final manufactured goods (% y/y)	Oct	3.1	4.1
29 Nov	SA	Private sector credit (% y/y)	Oct	6.5	6.2
	SA	Trade balance (ZAR billion)	Oct	-1.2	5.2

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

Financial market indicators

Indicator	Close	1 W	1 M	1 Y
All Share	56 540.25	0.5%	0.8%	10.2%
USD/ZAR	14.68	-1.0%	-0.5%	5.6%
EUR/ZAR	16.23	-0.7%	-1.4%	2.5%
GBP/ZAR	18.96	-0.7%	-0.9%	6.5%
Platinum US$/oz	915.41	3.9%	3.0%	8.2%
Gold US$/oz	1 464.41	-0.5%	-1.4%	19.4%
Brent US$/oz	63.97	2.7%	8.5%	0.8%
SA 10-year bond yield	8.32	-1.1%	0.6%	-7.9%

FNB SA Economic Forecast

Economic Indicator	2016	2017	2018	2019f	2020f	2021f
Household consumption expenditure %y/y	0.6	2.1	1.8	1.2	1.4	1.7
Government consumption expenditure %y/y	2.2	0.2	1.9	1.1	1.1	1.2
Gross fixed capital formation %y/y	-3.5	1	-1.4	-1.4	0.4	0.9
Real GDP %y/y	0.4	1.4	0.7	0.3	0.9	1.2
Total exports %y/y	0.4	-0.7	2.6	2.1	1.4	2.2
Total imports %y/y	-3.9	1	3.3	2	2	2
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	4.3	4.5
CPI (year end) %y/y	6.7	4.7	4.5	4.1	4.4	4.4
Repo rate (year end) %p.a.	7.00	6.75	6.75	6.50	6.25	6.25
Prime (year end) %p.a.	10.50	10.25	10.25	10.00	9.75	9.75
USD/ZAR (average)	14.70	13.30	13.25	14.5	14.9	15.5

Source: FNB

Disclaimer

Disclaimer: The information in this publication is derived from sources which are regarded as accurate and reliable, is of a general nature only, does not constitute advice and may not be applicable to all circumstances. Detailed advice should be obtained in individual cases. No responsibility for any error, omission or loss sustained by any person acting or refraining from acting as a result of this publication is accepted by FirstRand Group Limited and / or the authors of the material.