

GDP comment

Recession ends as GDP recovers in Q2

Stats SA reported that the economy exited the technical recession in 2017Q2 with GDP growing at a faster than expected rate of 2.5% q-o-q (seasonally adjusted and annualised rate, or saar). The Bloomberg consensus and our forecast was for a number closer to 2% q-o-q. The Q2 figure represented a notable recovery from the (upwardly) revised GDP decline of 0.6% q-o-q during 2017Q1. Despite the much improved quarterly GDP profile, the annual (seasonally adjusted) GDP growth rate moderated to 0.5% y-o-y in Q2, down from the 0.7% recorded in the first quarter.

The Q2 GDP recovery was driven by the **secondary** and **tertiary** sectors. The former expanded by 1.9% q-o-q (saar) after a large contraction of 3.3% during 2017Q1. The recovery was driven by the **electricity** sector. Although **manufacturing** also put in an improved output performance, it disappointed relative to the expectations generated by the high frequency monthly Stats SA output numbers. Looking forward, the Absa PMI data already available for 2017Q3 indicated that manufacturing production struggled in the quarter. We will receive more information on Thursday when Stats SA is scheduled to release the actual July manufacturing production data.

Table 1: Agriculture and finance drive recovery in GDP (production)

Seasonally adjusted	q-o-q % (annualised)		y-o-y %	
	2017Q1	2017Q2	2017Q1	2017Q2
Agriculture	23.1	33.6	3.1	13.1
Mining	13.1	3.9	4.6	2.0
Manufacturing	-3.7	1.5	-0.7	-2.2
Electricity	-4.8	8.8	-2.1	0.8
Construction	-0.8	-0.5	0.1	0.0
Trade	-5.9	0.6	-1.1	-1.3
Transport	-1.6	2.2	1.2	1.2
Financial	-1.2	2.5	1.0	1.0
Government	-0.7	-0.6	0.9	0.4
Personal services	-0.1	1.1	1.0	0.9
GDP (total)	-0.6	2.5	0.7	0.5

Source: Stats SA

The **construction** sector continued to struggle in Q2.

Growth in the **tertiary** sector measured +1.2% after a contraction of 2.1% was recorded in 2017Q1. It was a mixed bag with the **trade** (retail, wholesale and motor trade: catering and accommodation) sector performing weaker than expected, albeit a return to positive territory. The **government** sector also remained under pressure. At the other end of the scale, **finance** snapped back to record growth of 2.5%

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Please refer to the [glossary on the BER's website](#) for explanations of technical terms.

q-o-q after the unexpected contraction in Q1. The finance sector contributed 0.5 percentage points (% pts) to overall GDP. Stats SA mentioned that the improved finance performance was driven by increased activity in financial intermediation, insurance and auxiliary activities.

Growth in the **primary sector** eased to a still robust 10.3% q-o-q, down from 15.3% in Q1. The moderation was due to softer growth emanating from the mining sector. While cash flow in the mining sector is currently benefitting from a resurgence in precious (gold and platinum), as well as bulk (coal and iron ore) commodity prices, regulatory uncertainty related to the third edition of the Mining Charter should curtail near-term mining fixed investment and potentially also output.

Agricultural production put in an even better performance than the very strong growth recorded in the first quarter. At 0.7% pts, agriculture made the largest positive contribution to Q2 GDP. Compared to the second quarter of 2016, real value added by the agricultural sector rose by just more than 13% y-o-y. This reflects the impact of the start of the harvesting season of the record 2016/17 maize crop. While we would not expect to see such strong quarterly growth rates as recorded during Q2 in the second half of 2017, agriculture should continue to boost overall GDP growth in the rest of the year, particularly in 2017Q3.

Table 2: Consumer spending major force behind improved Q2 GDP (expenditure)

Seasonally adjusted	q-o-q % (annualised)		y-o-y %	
	2017Q1	2017Q2	2017Q1	2017Q2
Private consumption	-2.7	4.7	0.7	1.6
Government consumption	-1.7	0.8	0.5	0.3
Fixed investment	1.3	-2.6	-0.9	-0.8
Inventories (R bn)	6.7	5.4		
Residual (R bn)	-6.7	-5.6		
Gross Domestic Expenditure	1.3	2.4	0.5	2.2
Exports	-3.2	14.4	0.1	-0.5
Imports	3.2	13.3	-0.2	5.3
GDP (total)	-0.6	2.5	0.7	0.5

Source: Stats SA, BER calculations

Besides a 0.2% pts positive contribution from government expenditure and net exports, the expenditure-based measure of GDP was totally dominated by a significant improvement in **consumer spending** after surprising weakness in 2017Q1. Real household consumption expenditure contributed 2.8% pts to Q2 GDP, courtesy of a 4.7% q-o-q (saar) increase. This represents a significant turnaround after spending contracted by 2.7% in 2017Q1. Stats SA highlighted that the main positive contributors to household spending growth were food and non-alcoholic beverages (growth of 10.1% q-o-q), as well as clothing and footwear (growth of 26.7%). There are mixed signals on the consumer outlook with lower food prices and general inflation, combined with a somewhat lower lending rate, expected to provide some consumer support in the second half of the year. However, a particularly weak employment outlook and low consumer confidence argue against a continuation of the strong Q2 performance.

As expected, the rise in real **fixed investment** recorded in 2016Q4 and 2017Q1 was not sustained. Total real fixed investment declined by 2.6% q-o-q (saar) in Q2 after growth of 1.3% was recorded in Q1. The weaker numbers were driven by the private sector where capital formation declined sharply by 6.9% q-o-q. This followed a surprise 2.9% rise in the first quarter. Of interest is that machinery and equipment fixed investment actually made a positive contribution to the overall number with residential fixed investment dragging down the private sector number during the second quarter. In our view, the business sector will be in no mood to start investing until there is greater clarity on the fiscal and political outlook. This suggests that they will continue to accumulate cash reserves (or invest offshore) at least through 2018Q1.

Outlook

The somewhat smaller GDP contraction in Q1 than initially reported and, more importantly, the better than expected Q2 data put some upside risks on our below-consensus 2017 real GDP growth forecast of 0.3%. So far we have seen mixed signals for the third quarter with the monthly level of new vehicle sales picking up nicely in recent months. On the other hand, both the Absa and Standard Bank PMIs point to a softening of growth momentum in Q3. We will gain further insight about the Q3 growth momentum when Stats SA publishes the monthly activity data for July in the next week and the BER reports on Q3 business confidence trends.

Along with the Q2 GDP data, this will inform any changes to our forecast. A detailed update of our macro forecasts will be done at the end of September. The better than expected GDP figures do not change our expectation that the SA Reserve Bank (SARB) will reduce the repo policy interest rate by another 25bps (to 6.5%) at their September 21 meeting.

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