

GDP comment

Recession bites as GDP declines again

If ever there was any doubt that the SA economy is in serious trouble, the shocking 2017Q1 GDP figures removed any uncertainty about the extent of the malaise. Stats SA reported that GDP declined by 0.7% (q-o-q¹) in the first quarter. This follows the decline of 0.3% recorded in 2016Q4 and signals that the country suffered its first technical recession since 2009. The Q1 figure was significantly weaker than the Bloomberg consensus of 0.9% q-o-q. We expected +0.6%. However, the wide range of forecasts, stretching from -0.2% to +1.5%, highlights the uncertainty that surrounded the number.

A number of factors increased the difficulty of forecasting GDP in Q1. These include divergent trends for mining and manufacturing output, uncertainty regarding the agricultural sector and very weak consumer-related data. On the consumer front, wholesale trade sales in particular were very poor. While the mining and manufacturing GDP data came out largely in line with our expectations and we also plugged in a sizeable contraction for the trade GDP, agriculture surprised on the upside.

Table 1: Broad based sectoral weakness in 2017Q1

Seasonally adjusted	q-o-q % (annualised)		y-o-y %	
	2016Q4	2017Q1	2016Q4	2017Q1
Agriculture	-0.1	22.2	-4.3	2.9
Mining	-11.5	12.8	-4.6	4.5
Manufacturing	-3.1	-3.7	0.4	-0.7
Electricity	2.4	-4.8	-2.2	-2.1
Construction	0.4	-1.3	0.5	0.0
Trade	2.1	-5.9	0.9	-1.1
Transport	2.6	-1.6	1.5	1.2
Financial	1.6	-1.2	1.7	1.0
Government	0.9	-0.6	1.4	0.9
Personal services	1.0	-0.1	1.4	1.0
GDP (total)	-0.3	-0.7	0.4	0.6

Source: Stats SA

As outlined in Table 1, the more significant downside surprise was in the fact that so many of the other sectors either contracted or showed no growth in Q1. Indeed, only **agricultural** and **mining** GDP increased in Q1, while all the other sectors either declined or stagnated. If the **primary sector** (mining and agriculture) is stripped from GDP, the deterioration at the start of the year is even more striking. Measured in this way, GDP contracted by 2.2% q-o-q in Q1 after a rise of 0.7% in 2016Q4. At -3.4%, the

¹ Unless specified otherwise, all the quoted figures are expressed at a seasonally adjusted and annualised rate.

quarterly decline in the **secondary sector** deepened from -1.8% in 2016Q4. Perhaps of most concern is that the **tertiary sector** contracted by a large 2% after still posting growth of 1.6% in 2016Q4. All of the tertiary sector GDP components declined, led by the **trade** (retail, wholesale, restaurants and hotels) and **financial** sectors.

Table 2: Consumer spending and net exports weigh heavily on GDP

Seasonally adjusted	q-o-q % (annualised)		y-o-y %	
	2016Q4	2017Q1	2016Q4	2017Q1
Private consumption	2.2	-2.3	1.0	0.8
Government consumption	0.3	-1.0	1.6	1.0
Fixed investment	1.7	1.0	-3.9	-0.9
Inventories (R bn)	-16.4	2.7		
Residual (R bn)	-7.3	-5.9		
Gross Domestic Expenditure	-1.9	1.2	-0.7	0.5
Exports	12.5	-3.2	-0.2	0.1
Imports	6.1	3.2	-3.8	-0.2
GDP (total)	-0.3	-0.7	0.4	0.6

Source: Stats SA, BER calculations

Measured from the demand side (see Table 2), the 2017Q1 GDP data reversed many of the trends witnessed in 2016Q4. Perhaps of most concern is the weakness seen in **household consumption expenditure**, which declined by 2.3% q-o-q. The demand weakness was broad based with Stats SA highlighting notable declines for the **food, clothing** and **transport** categories. Given the likely confidence shock that spilled over to 2017Q2 in the wake of the cabinet reshuffle and credit rating downgrades, spending is likely to remain depressed. Despite the decline in consumer spending, **gross domestic expenditure** (GDE) recovered as inventories moved back in positive terrain after a large decline in 2016Q4. Total **fixed investment** remained in positive territory.

A big disappointment was the weak performance from **net exports** with exports declining by more than 3% q-o-q (driven by weaker coal and gold exports), while a rise in crude oil imports lifted the import bill.

Growth outlook and implications

In recent months, the consensus for GDP growth in 2017 has gotten stuck around the 1% mark. There are of course exceptions – we revised the 2017 growth forecast down to 0.6% in April. This was based on a 2017Q1 GDP figure in the region of 1% y-o-y. This turned out to be 0.6%, implying downside risk to our below-consensus GDP growth outlook. We await the release of the June Quarterly Bulletin and the BER's 2017Q2 business survey results and will update the macro forecast at the end of June. Along with renewed indications that inflation may surprise on the downside in 2017, a crucial implication of the Q1 GDP disappointment is that it will fuel concerns about the outlook for **government revenue**, the **budget deficit** and overall **public debt** levels. If the October Medium-Term Budget Policy Statement indicates

slippage on the fiscal numbers presented in February, the risk of further credit rating downgrades will increase.

This was an important reason why we took a conservative view on the outlook for the **rand exchange rate** in April (average of R14.70/\$ in 2017Q4). While we acknowledge that a supportive global environment could see the currency end the year at substantially stronger levels, heightened concern about the fiscal position and domestic politics as we near the ANC's elective conference in December provides room for caution. *The weaker than expected SA growth numbers, positive (recent) domestic inflation developments and the benign global interest rate environment raise the likelihood that the SA Reserve Bank could reduce the **policy interest rate** in the second half of 2017. At this stage, our baseline forecast remains for a flat interest rate profile through 2018.*

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