

GDP comment

GDP ends 2016 on a negative note

The SA economy stalled in 2016 with growth of only 0.3% recorded, the third year in a row that growth slowed. After growing by (an upwardly revised) 2.5% in 2013, growth has been on a sustained moderating trend. Stats SA reported that GDP shrank by 0.3% quarter-on-quarter (q-o-q¹) in 2016Q4, down from growth of (an upwardly revised) 0.4% in the third quarter. The Q4 outcome was worse than the Bloomberg consensus of a flat reading. At the time of our January forecast update, we also pencilled in no growth, but subsequently revised the view down to -0.2% as the monthly data for the fourth quarter became available.

Other revisions to the historic GDP data include that real GDP growth is now recorded at 1.7% for 2014 versus the previous estimate of 1.6%. Growth for 2015 remained unchanged at 1.3%. However, the result of the revisions to the historic data is that the level of real GDP is now estimated to be R7.9bn higher in 2015 than previously thought. This is despite a downward adjustment to the level of real household consumption and government consumption in 2015 and is explained by a significant adjustment (roughly +R15bn) to the residual (error term). [Table 1](#) provides the details of the sectoral GDP performance in the second half of 2016. As was already clear from the monthly Stats SA data for 2016Q4, a poor showing from the mining and manufacturing sectors was largely responsible for the GDP contraction.

Table 1: Mining and manufacturing derailed Q4 GDP

Seasonally adjusted	q-o-q % (annualised)		y-o-y %	
	2016Q3	2016Q4	2016Q3	2016Q4
Agriculture	-0.2	-0.1	-5.9	-4.3
Mining	4.2	-11.5	-1.0	-4.6
Manufacturing	-3.3	-3.1	0.6	0.4
Electricity	-2.5	2.4	-2.7	-2.2
Construction	0.7	0.4	0.7	0.5
Trade	-2.0	2.1	1.0	0.9
Transport	1.7	2.6	0.5	1.5
Financial	1.3	1.6	1.8	1.7
Government	2.0	0.9	1.5	1.4
Personal services	1.4	1.0	1.2	1.4
GDP (total)	0.4	-0.3	0.6	0.4

Source: Stats SA

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

The sharp drop in mining resulted in the **primary sector** declining by a large 9% q-o-q after posting growth of around 3% in Q3. As was the case in Q3, value added in the **agricultural sector** was flat during Q4. With the National Crop Estimates Committee expecting a bumper (13.9 million tonnes) 2017 maize crop, output in the agricultural sector should move back into positive territory, if not in 2017Q1, most likely from 2017Q2 onwards. Mining is a different story. While sustained higher commodity prices should be a plus, the recent strength of the rand exchange rate will erode some of the positive impetus. Perhaps more important is that the perennial delay in finalising key legislation for the mining sector suggests that local mining houses are unlikely to expand capacity to any significant degree in the foreseeable future.

Despite the sharp fall in manufacturing output, the decline in value added for the **secondary sector** eased in Q4 as electricity output rebounded. Looking forward to 2017, the Absa PMI numbers for the first two months of the year indicate that manufacturing output should recover in 2017Q1. This may, to an extent, be correlated with the improved prospects for the agricultural sector. We will receive more clues about the health of the factory sector when the BER's quarterly manufacturing survey is released later in March.

Value added growth in the **tertiary sector** recovered to 1.6% q-o-q in Q4, up from 0.8% recorded in the third quarter of 2016. This was driven by a much improved performance from the trade sector (retail and wholesale trade, catering and accommodation). Stats SA mentioned that the improved performance was as a result of better retail and wholesale trade conditions. The **transport** and **financial** sectors also recorded faster growth in Q4.

Table 2: Sharp inventory decline dragged down Q4 demand-side GDP, net exports positive

Seasonally adjusted	q-o-q % (annualised)		y-o-y %	
	2016Q3	2016Q4	2016Q3	2016Q4
Private consumption	2.2	2.2	0.8	1.0
Government consumption	1.9	0.3	2.2	1.6
Fixed investment	-3.5	1.7	-5.4	-3.9
Inventories (R bn)	10.8	-16.4		
Residual (R bn)	-6.1	-7.3		
Gross Domestic Expenditure	7.5	-1.9	0.2	-0.7
Exports	-21.2	12.5	-3.0	-0.2
Imports	-1.0	6.1	-4.2	-3.8
GDP (total)	0.4	-0.3	0.6	0.4

Source: Stats SA, BER calculations

Measured from the demand side (see Table 2), the 2016Q4 GDP data was a complete reversal from the trends in Q3. The third quarter saw a sharp bounce in **gross domestic expenditure** (GDE), driven by an inventory build after a sharp decline in Q2. In Q4, inventories declined again, mainly in the mining sector. Along with another negative value for the residual, this outweighed a recovery in real fixed investment growth and a solid (albeit surprising) gain in household expenditure. The result is that GDE contracted in 2016Q4.

The overall GDP contraction would have been worse if not for the recovery in **net exports**. After plunging in Q3, Q4 export growth picked up on the back of improved shipments of precious metals and mineral products. Although not to the same extent, import volume growth also swung back into growth territory during Q4 amid higher imports of machinery and equipment.

Growth outlook: Some light at the end of the tunnel, but caution warranted

Early indications are for an improved performance from the agricultural and manufacturing sector in 2017. This supports a view that real GDP growth picks up somewhat towards a still pedestrian 1% during 2017. Driven by rand strength, the sharp fall in maize futures prices and a relatively stable oil price, a sharper than expected **inflation moderation** in 2017 should provide some support to the demand-side of the economy. However, the significant **personal income tax hikes** announced in the February Budget may go some way to nullify the real disposable income boost from lower inflation.

Furthermore, looming risks have the potential to put a further dent in already fragile business and consumer confidence. These include global factors such as political turmoil in Europe and faster than expected US interest rate hikes. Domestically, a potential cabinet reshuffle by President Zuma and likely subsequent credit rating downgrades present notable risks.

Although none of these events form part of our baseline forecast at this stage, in our view they suggest that, on balance, the risks to growth over the next 12 to 18 months are on the downside. A revised BER baseline forecast, which will incorporate the latest information from our 2017Q1 business surveys, will be available in early April.

Hugo Pienaar

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