

# Domestic constraints and external headwinds expose economic fragilities

**Public Sector Economist Forum**

**24 November 2014**

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# Outline

Global - US shining, but renewed Eurozone / China concerns

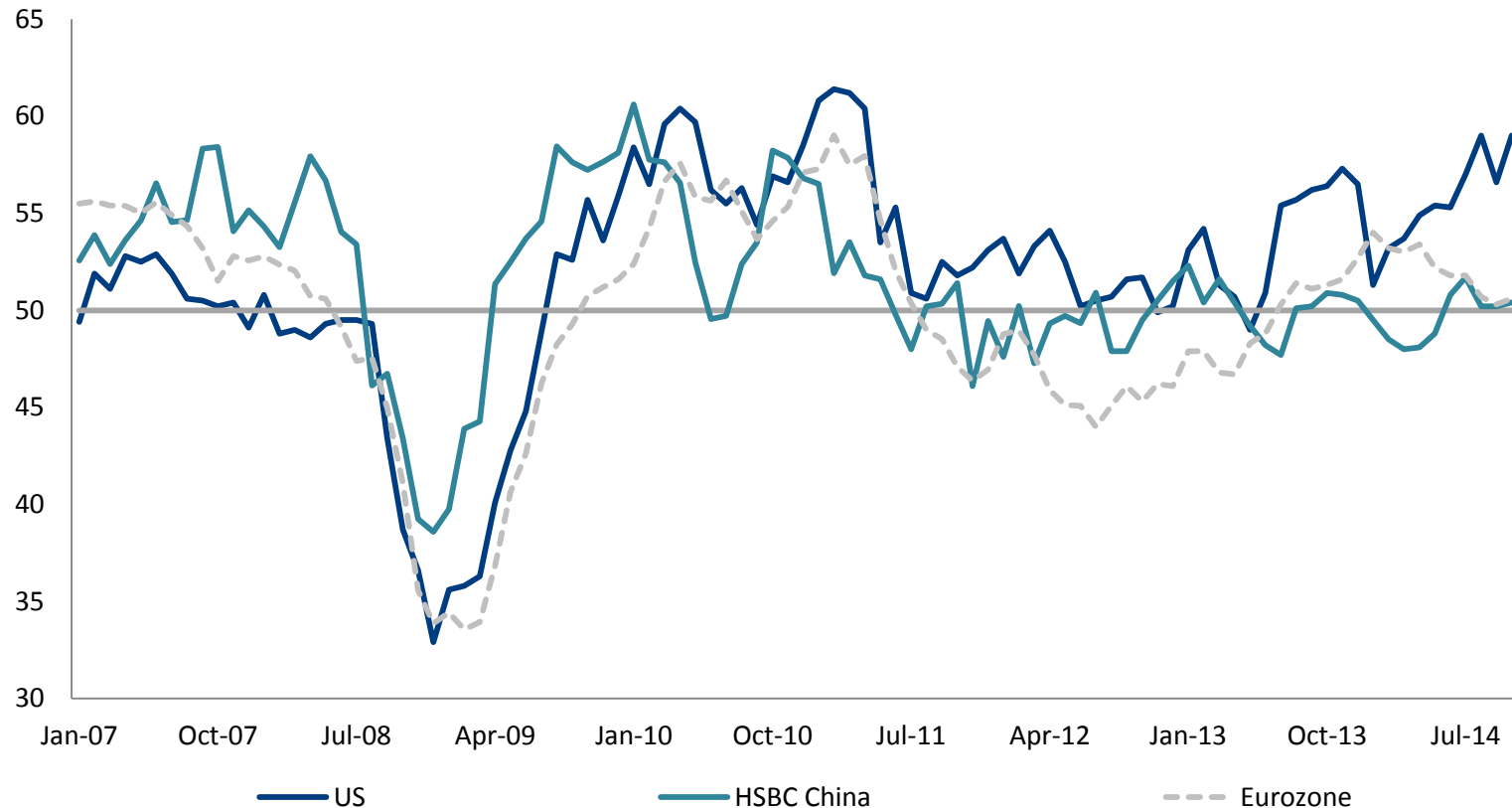
Implications of domestic growth underperformance

The rand, inflation and the policy interest rate

Summary - Subdued GDP growth with downside risks

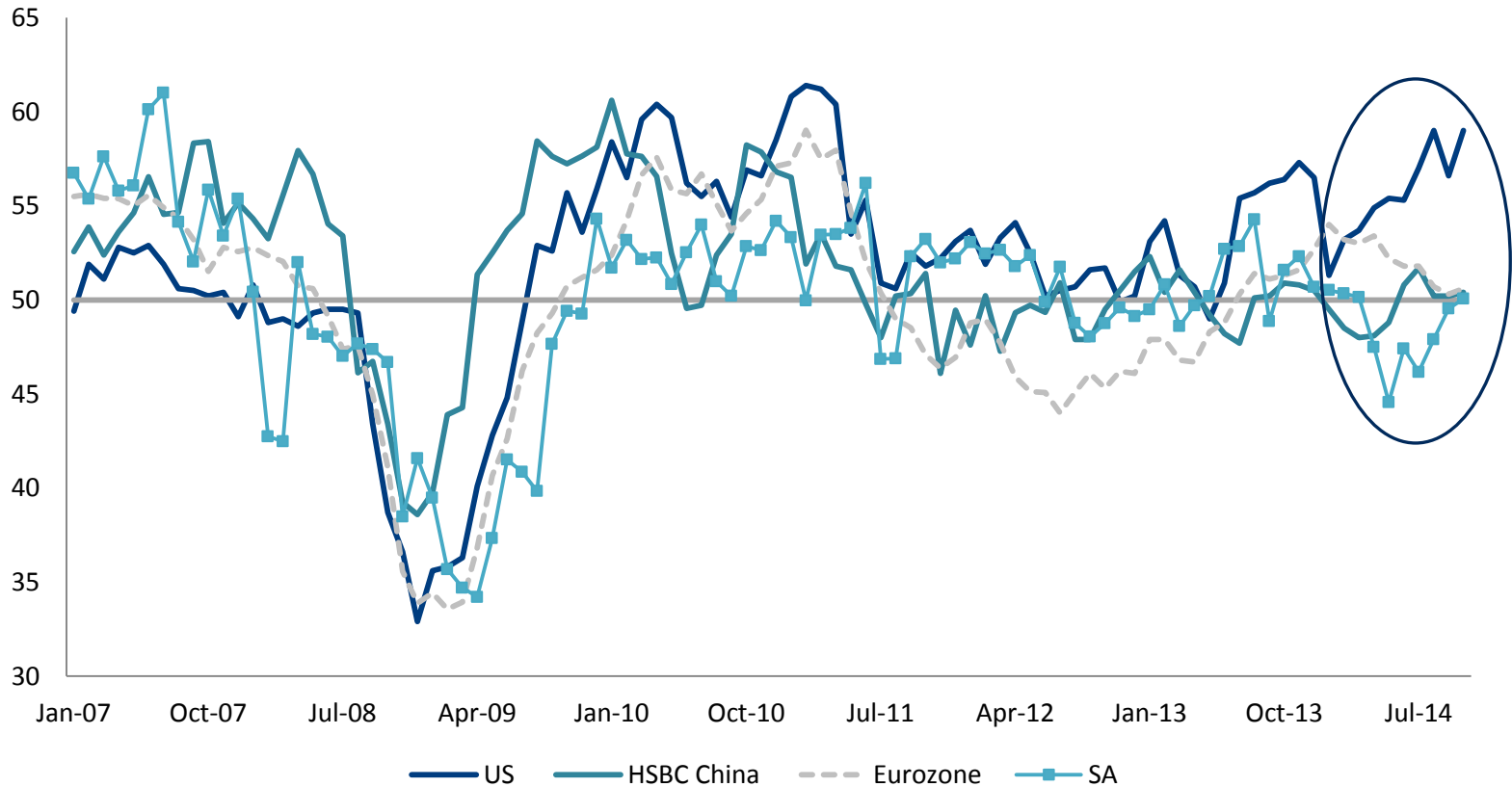
# Global economic recovery “brittle, uneven and beset by risks” – Christine Lagarde, October 2014

Manu PMI, index points

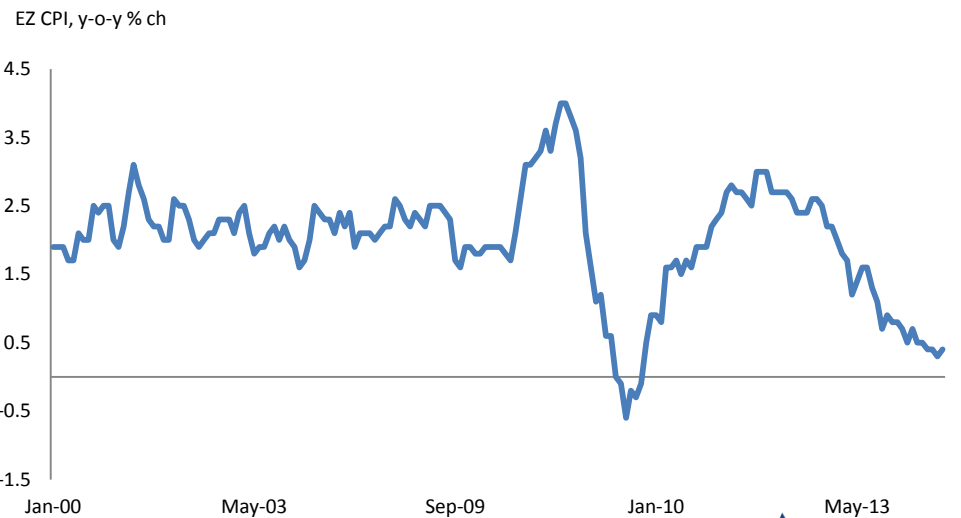
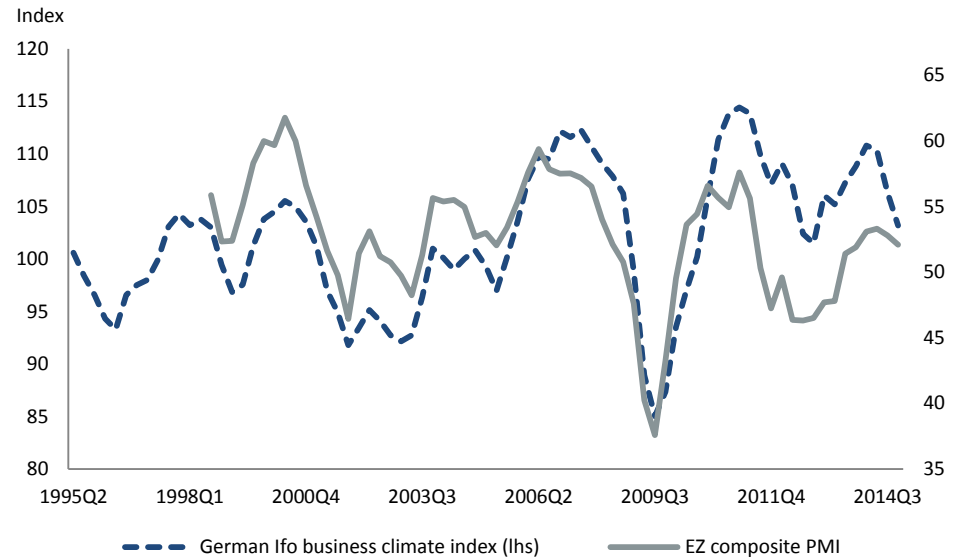


# SA manufacturing sector recovering from July strike

Manu PMI, index points

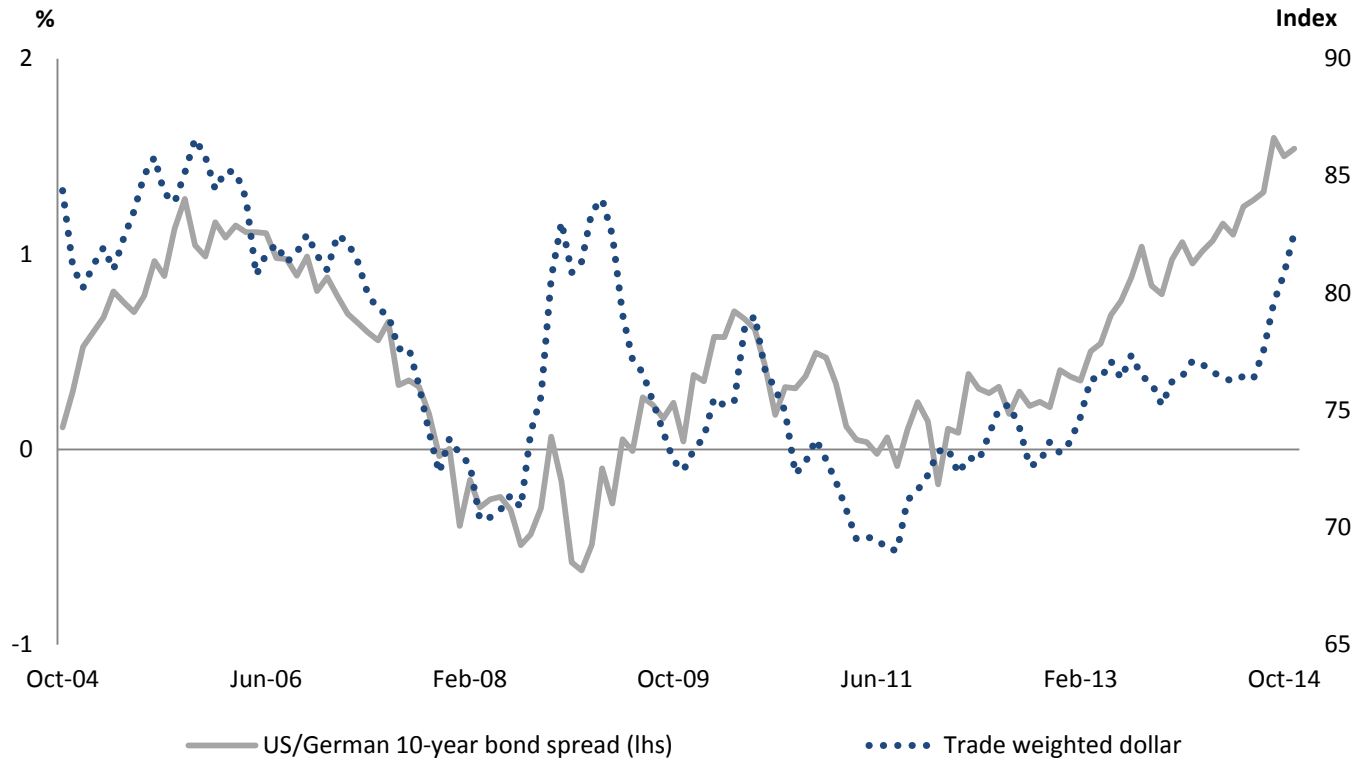


# Weak Eurozone growth, disinflation could see further stimulus measures



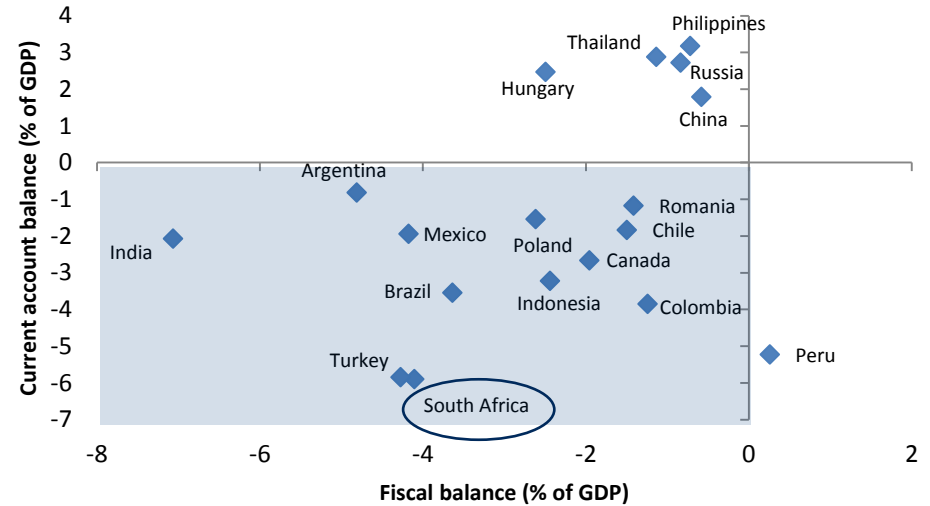
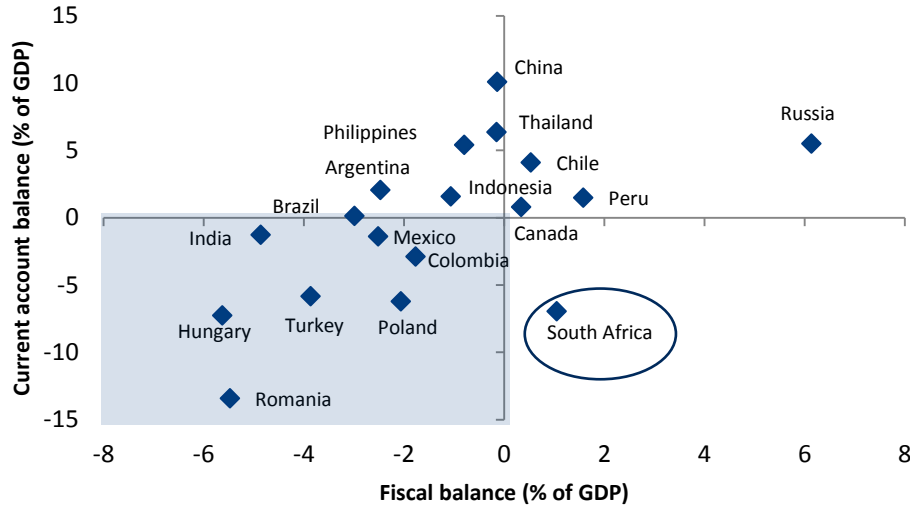
Source: Eurostat, Markit, Ifo Institute

# Interest rate divergence reflected in surging US dollar



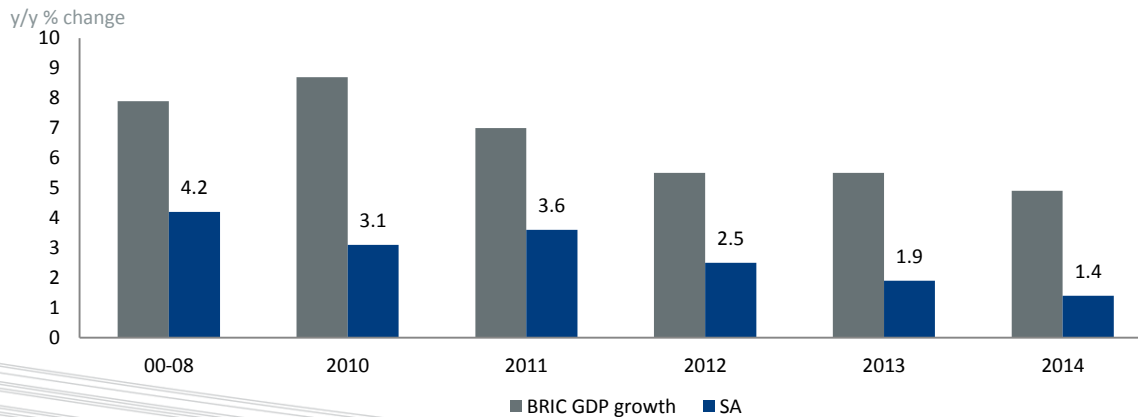


# SA/EM fundamentals deteriorating – the twin deficit problem

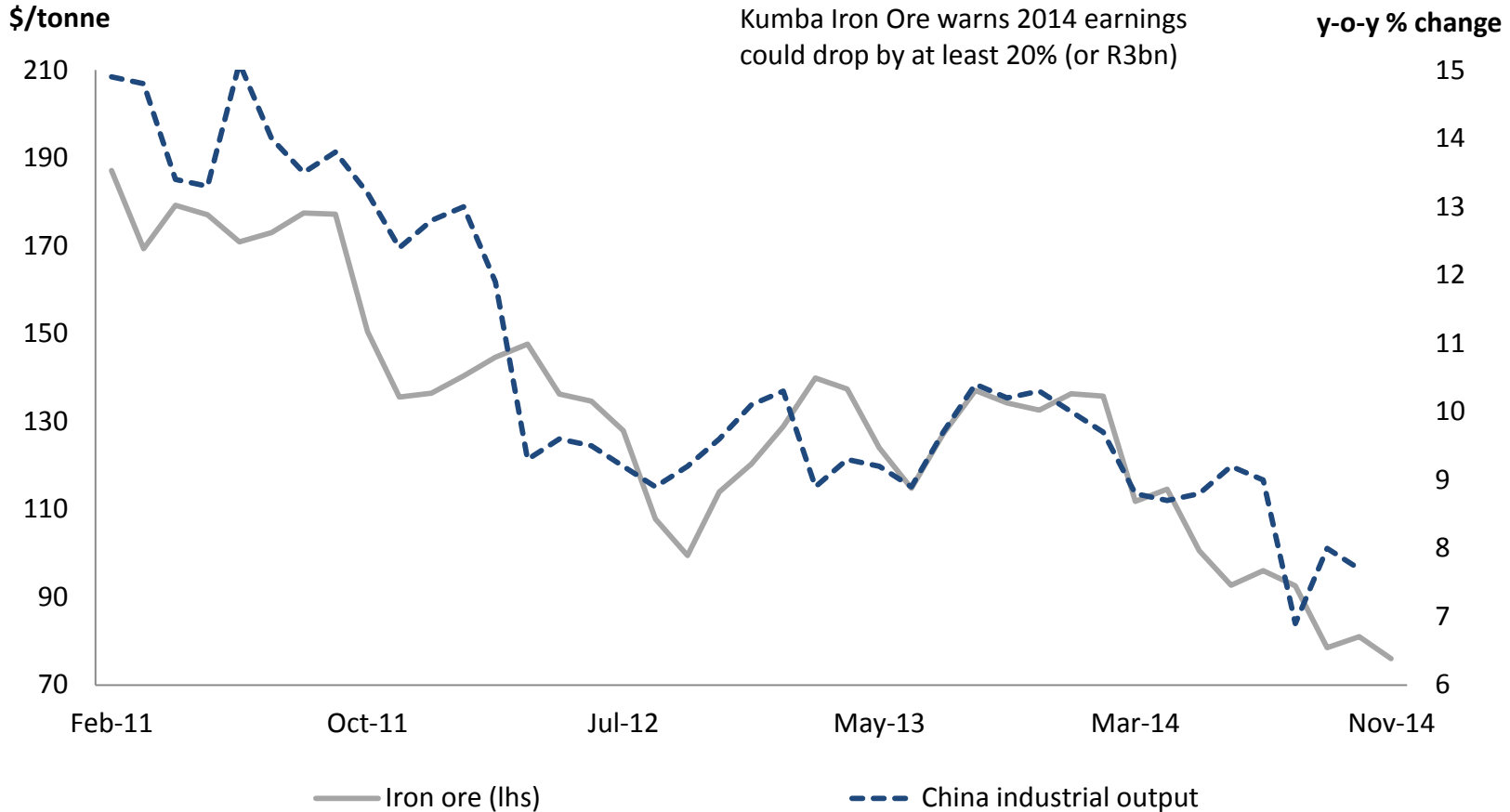


**2007**  
 7 out of 18 EMs twin deficits  
 SA large C/A shortfall, but budget surplus

**2014**  
 12 out of 18 EMs twin deficits  
 SA large C/A and budget deficit



# Chinese weakness negatively impacting SA export commodities





# Outlook for global GDP growth

	2012	2013	2014		2015		2016
	Actual		Jan	Oct	Jan	Oct	
<b>Global</b>	3.4	3.3	3.7	3.3	3.9	3.8	4.0
<b>Advanced</b>	1.2	1.4	2.2	1.8	2.3	2.3	2.4
<b>USA</b>	2.3	2.2	2.8	2.2	3.0	3.1	3.0
<b>Euro area</b>	-0.7	-0.4	1.0	0.8	1.4	1.3	1.7
<b>Japan</b>	1.5	1.5	1.7	0.9	1.0	0.8	0.8
<b>Developing</b>	5.1	4.7	5.1	4.4*	5.4	5.0	5.2
<b>China</b>	7.7	7.7	7.5	7.4	7.3	7.1	6.8
<b>India</b>	4.7	5.0	5.4	5.6	6.4	6.4	6.5
<b>SS-Africa</b>	4.4	5.1	6.1	5.1	5.8	5.8	6.0

\*Brazil, Russia & SA '14 revised down sharply

Source: IMF World Economic Outlook, October 2014

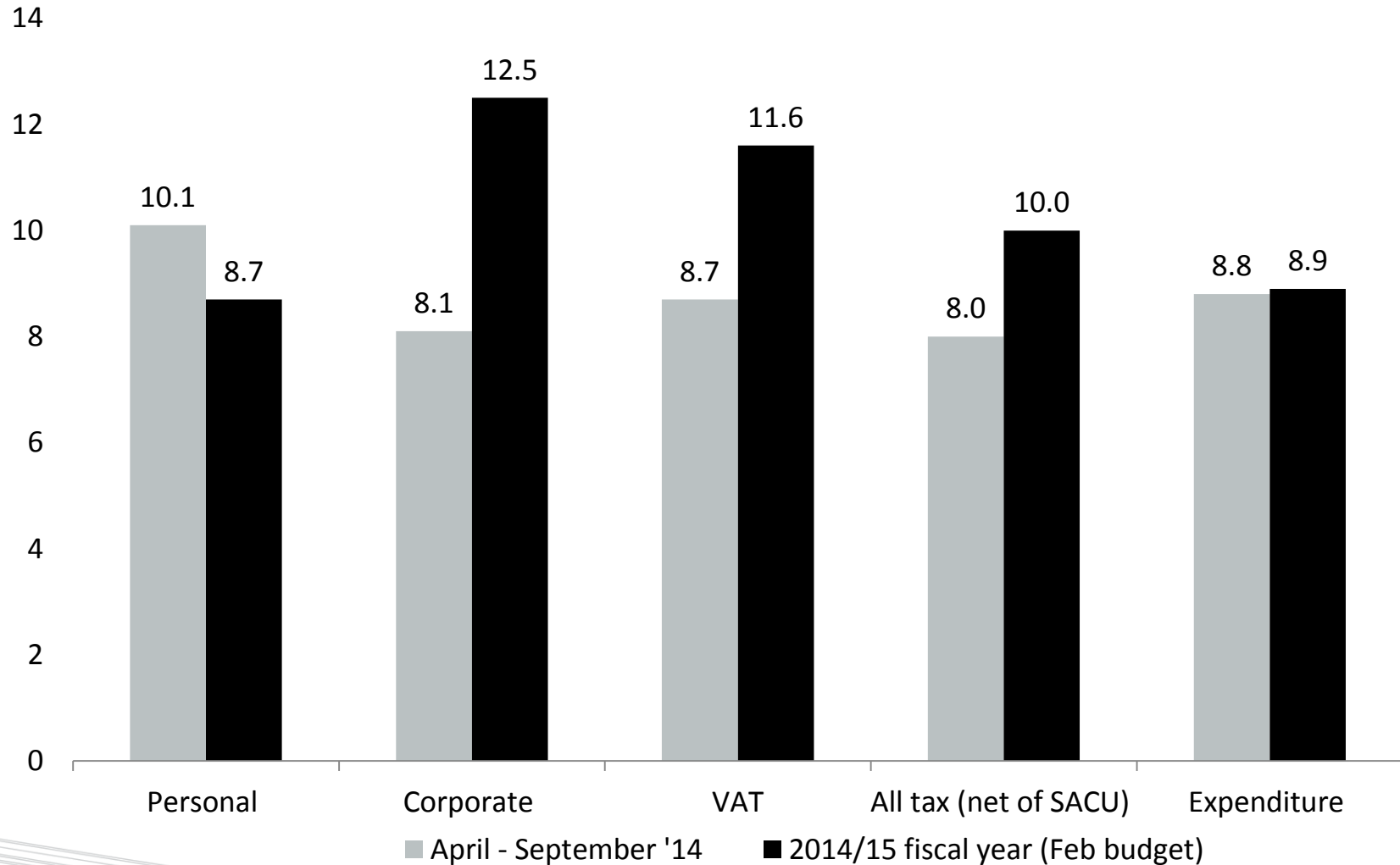
# SA trends and outlook

# Mining strikes weighed heavily on growth in 2014H1

	y-o-y %	
	2013	2014H1
Agriculture	2.3	3.3
Mining	3.1	-2.6
Manufacturing	0.8	1.2
Electricity	-0.4	0.1
Construction	2.8	3.4
Trade	2.2	1.8
Transport	1.9	2.1
Financial	2.4	1.8
Government	1.5	1.2
Personal services	1.8	1.3
Total	1.9	1.5

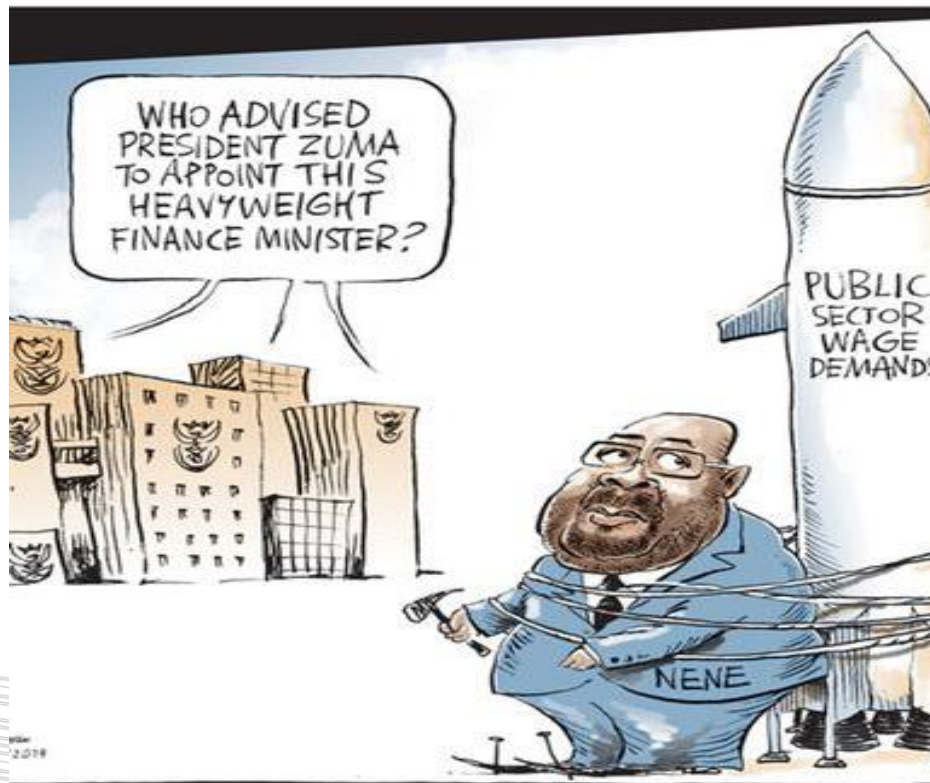
## Implication: Softer GDP growth depress revenue collections

y-o-y % change

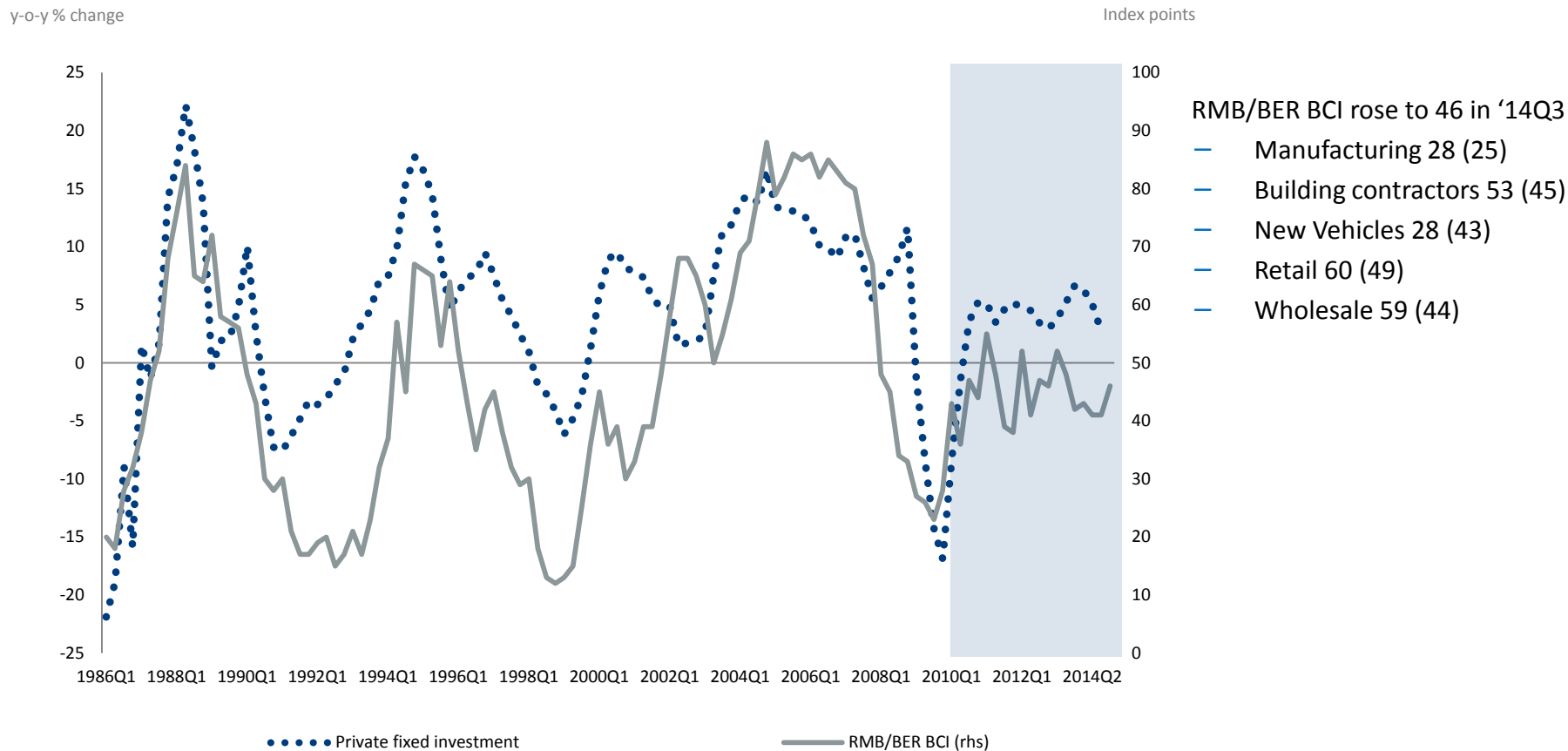


# Implication: “Fiscal consolidation can no longer be postponed”

R billion	2014/15		MTBPS		Ave: 2014/15 to 2016/17		MTBPS
	Budget '14	MTBPS '14	2015/16	2016/17	Budget '14	MTBPS '14	2017/18
<b>Revenue</b>	<b>1 099.2</b>	<b>1 093.9</b>	<b>1 199.5</b>	<b>1 323.0</b>			<b>1 434.6</b>
% of GDP	29.0	29.5	29.7	30.2	29.0	29.8	30.0
<b>Expenditure</b>	<b>1 252.3</b>	<b>1 247.1</b>	<b>1 344.0</b>	<b>1 437.1</b>			<b>1 553.4</b>
% of GDP	33.0	33.6	33.3	32.8	32.5	33.2	32.5
<b>Budget balance</b>	<b>-153.1</b>	<b>-153.2</b>	<b>-144.5</b>	<b>-114.1</b>			<b>-118.7</b>
% of GDP	-4.0	-4.1	-3.6	-2.6	-3.5	-3.4	-2.5



# Implication: Business confidence remains low, weighing on private sector fixed investment



Source: SARB / BER



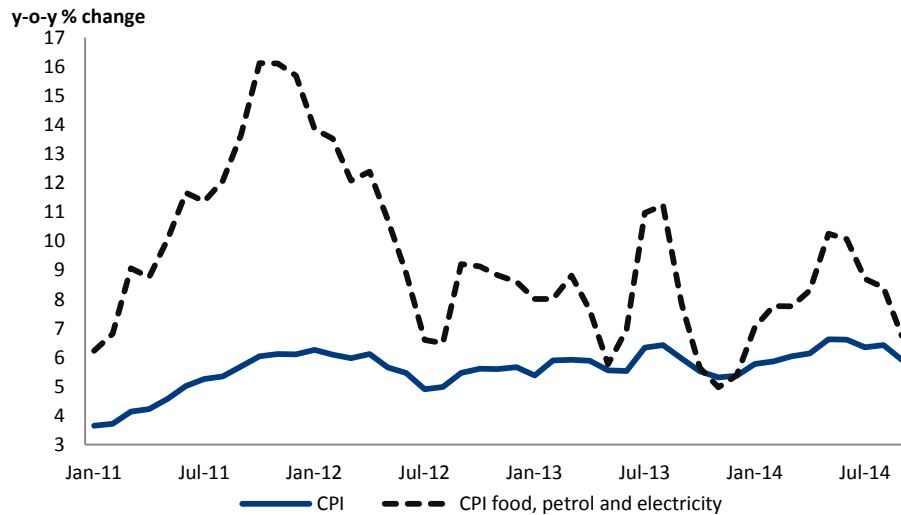
# Implication: Weak business confidence bodes ill for private employment



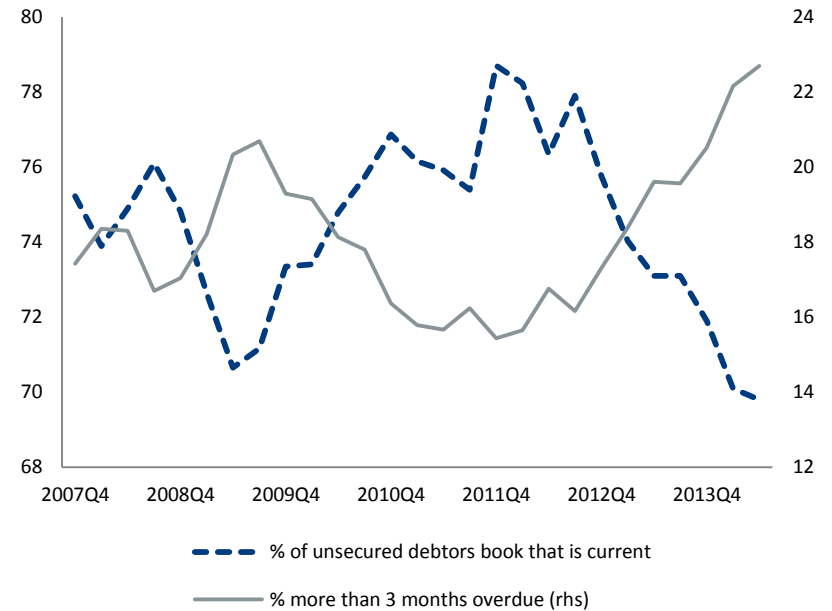
Source: Stats SA / BER

# The two consumer worlds – low income households remain under pressure

## Hurt by soaring food and fuel prices



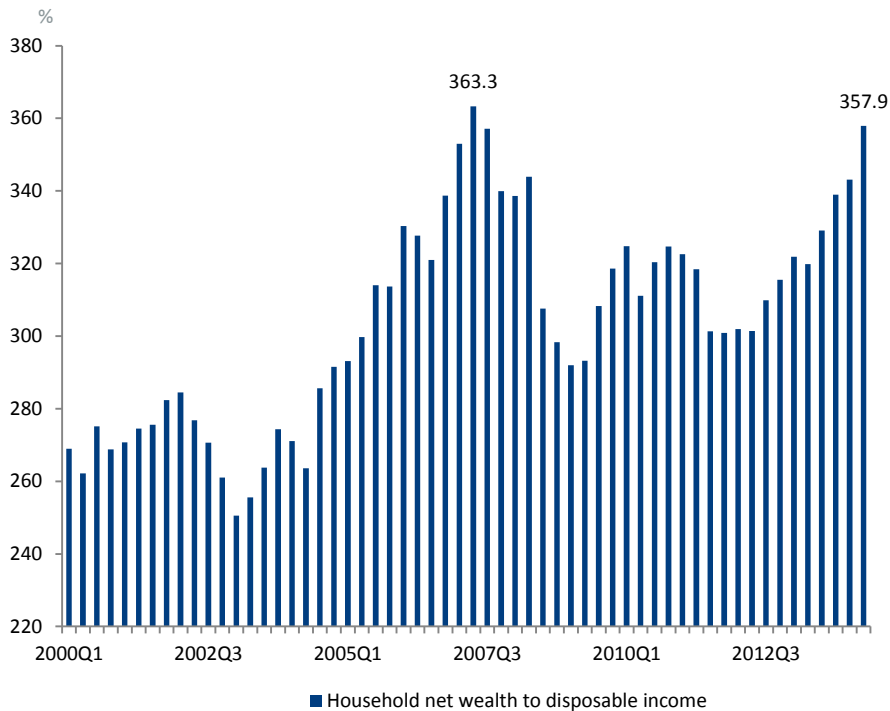
## Heavily exposed to unsecured lending market



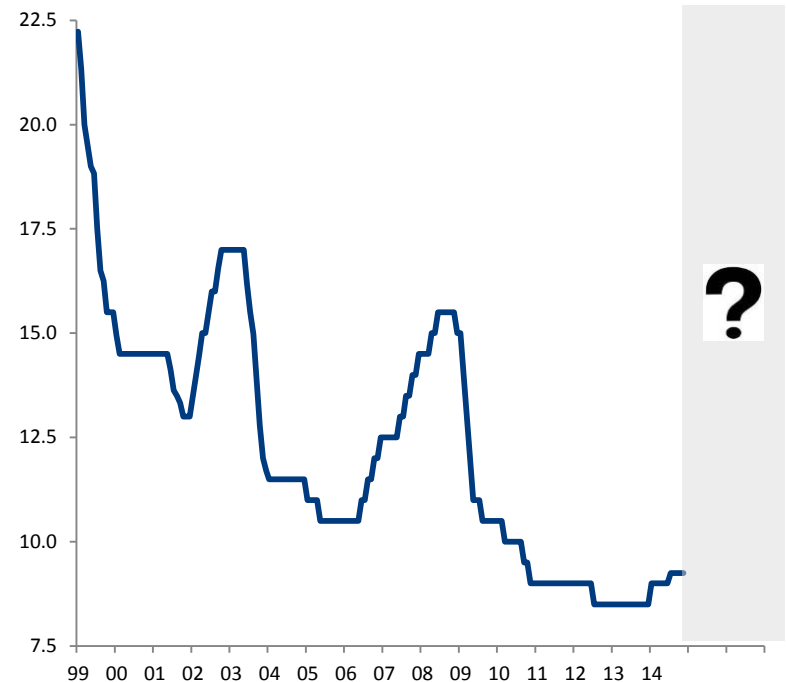
Sources: Stats SA, National Credit Regulator

# The two consumer worlds – high income households well supported

HH wealth ratio at highest level since 2007Q2



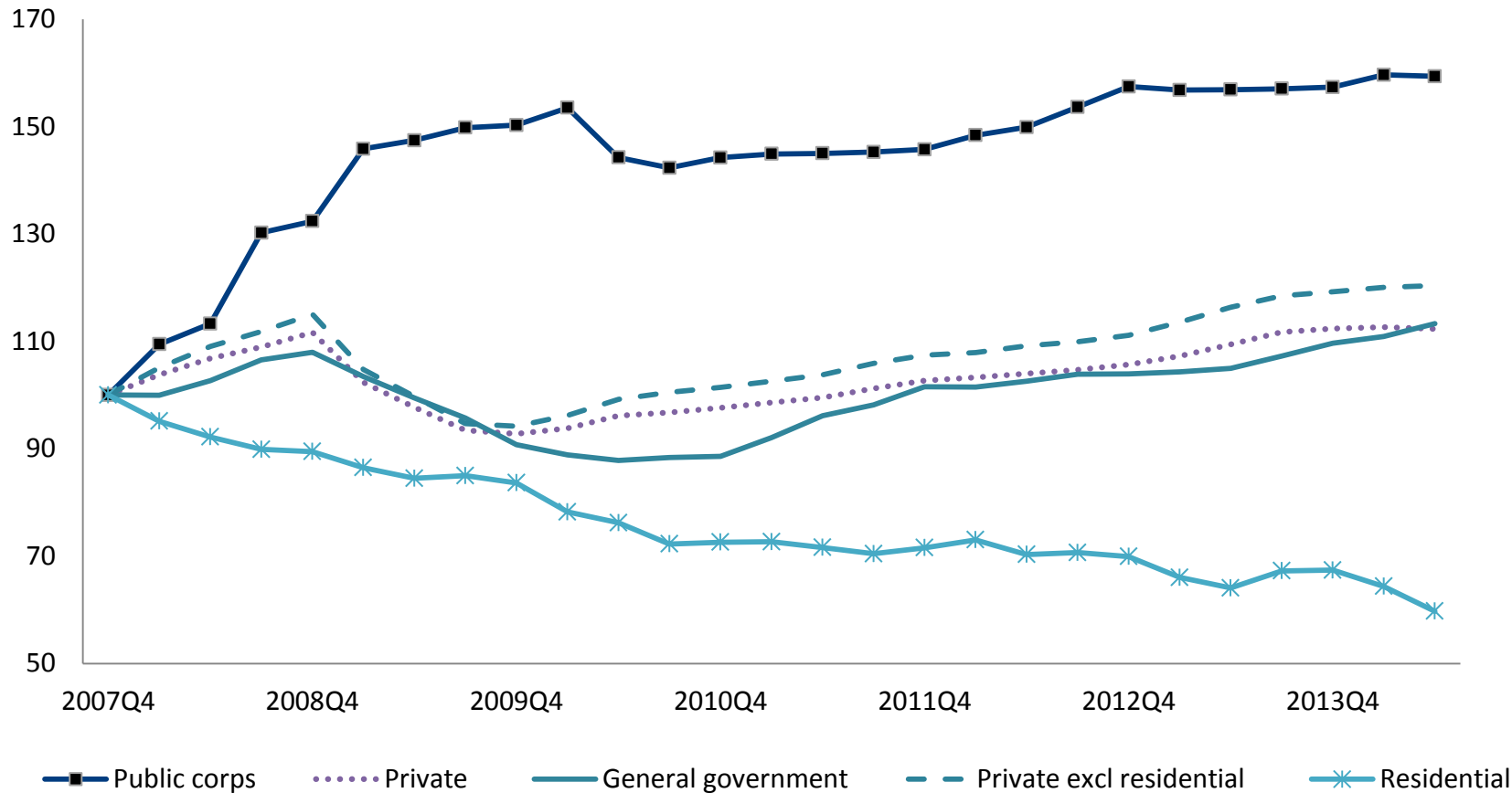
Prime interest rate remains at multi-decade low



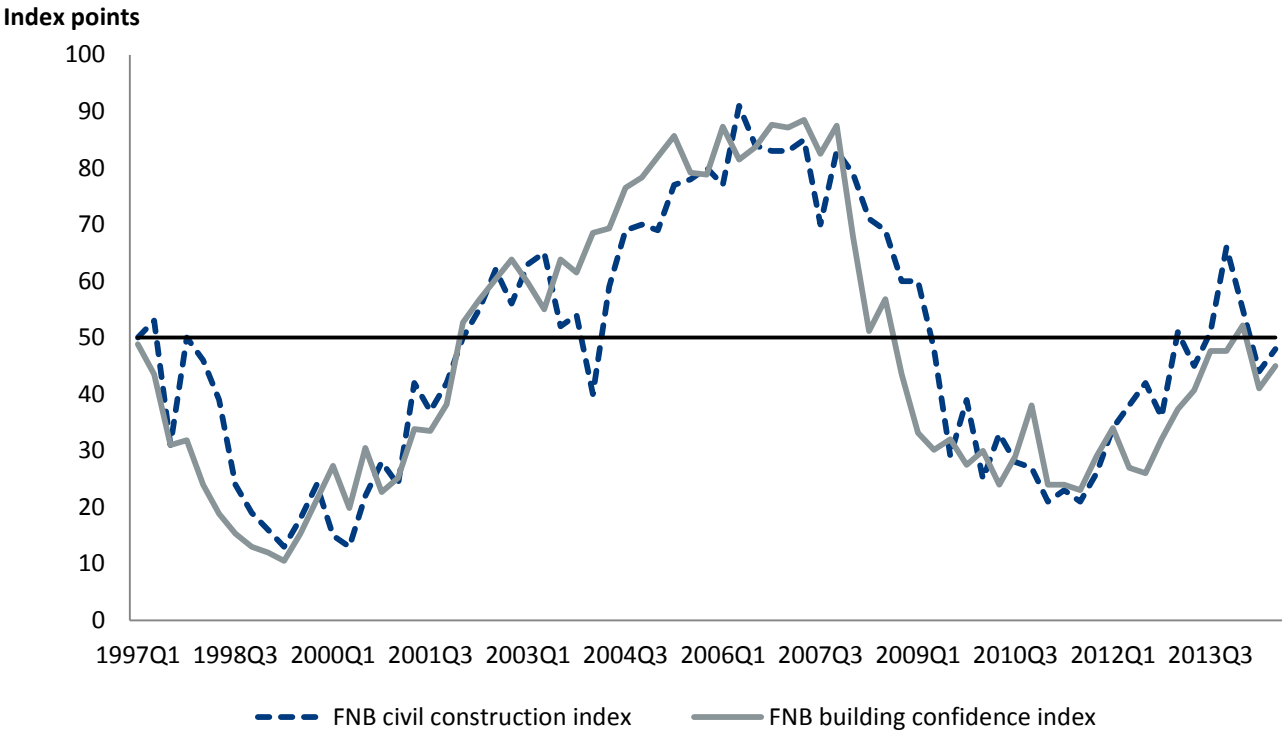
Sources: Stats SA, National Credit Regulator

# Mixed fixed investment performance

Index, '07Q4 = 100

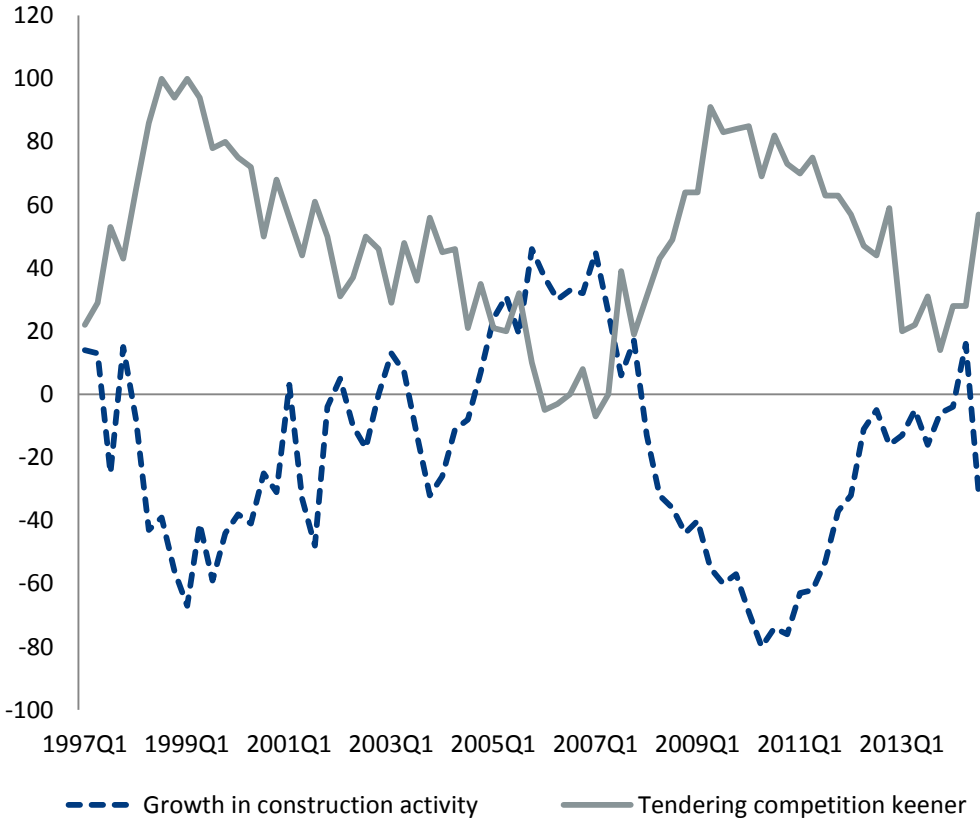


# Construction sector confidence remains depressed, albeit improving



# Underlying civil construction conditions remain challenging

Net balance



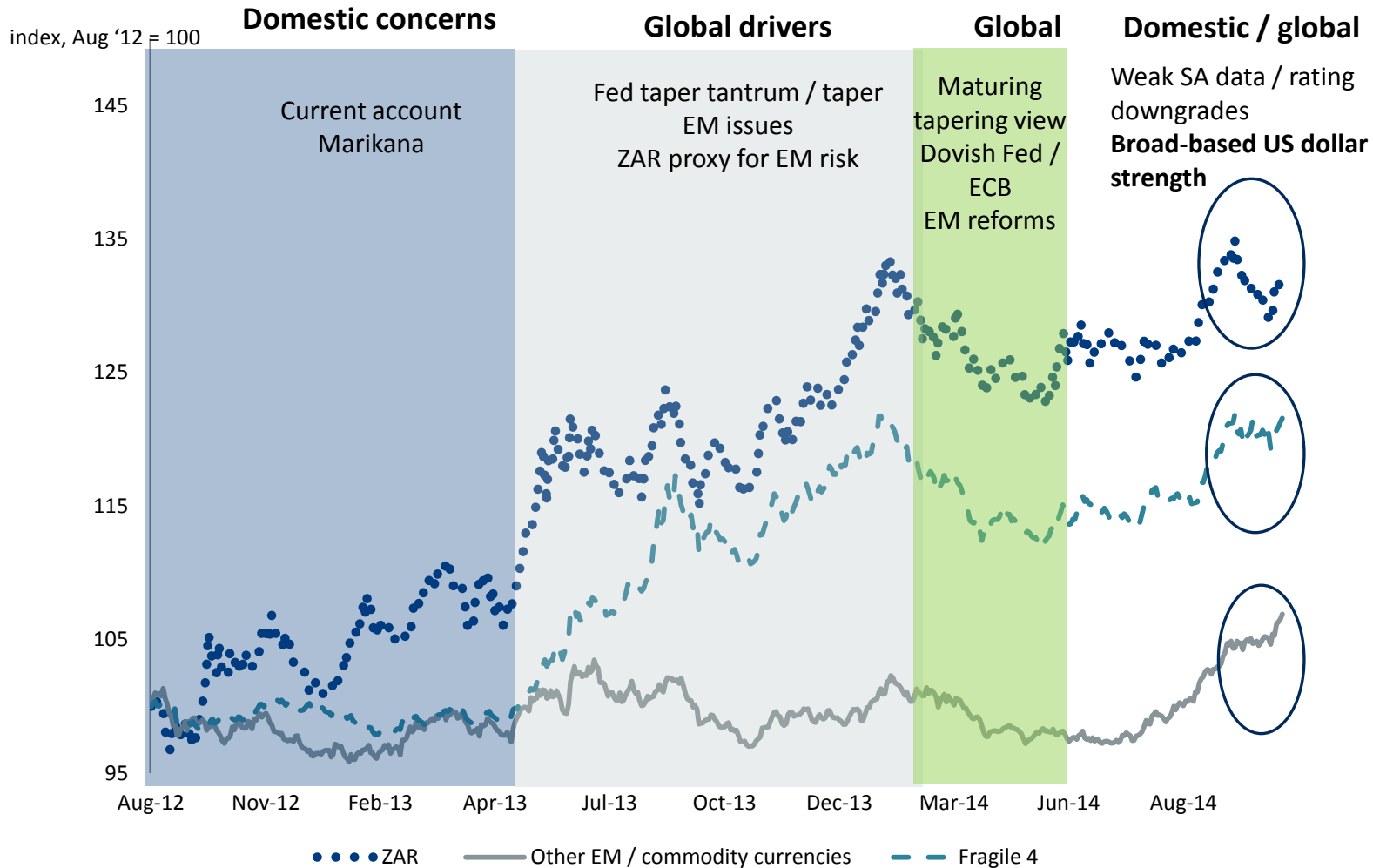
Conditions in construction remained competitive, with low margins, although tender volumes were up.

Raubex results commentary, *Business Day*, 11 November



# Rand, inflation and interest rates

# Key rand drivers since 2012

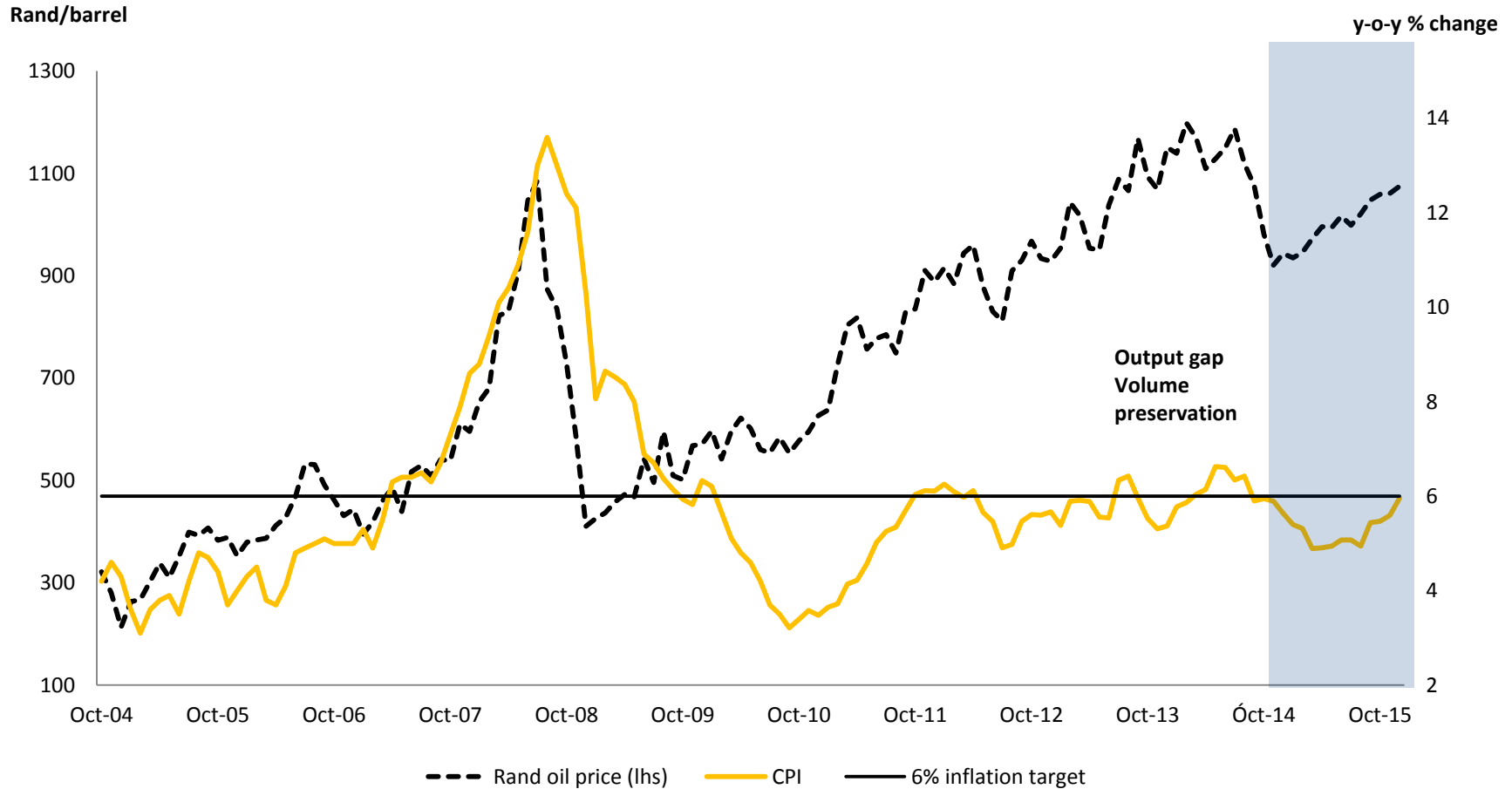


\*Other EM = Colombia, Hungary, Poland, Israel, Australia, South Korea & Mexico

\*\*Fragile 4 = Brazil, India, Indonesia & Turkey

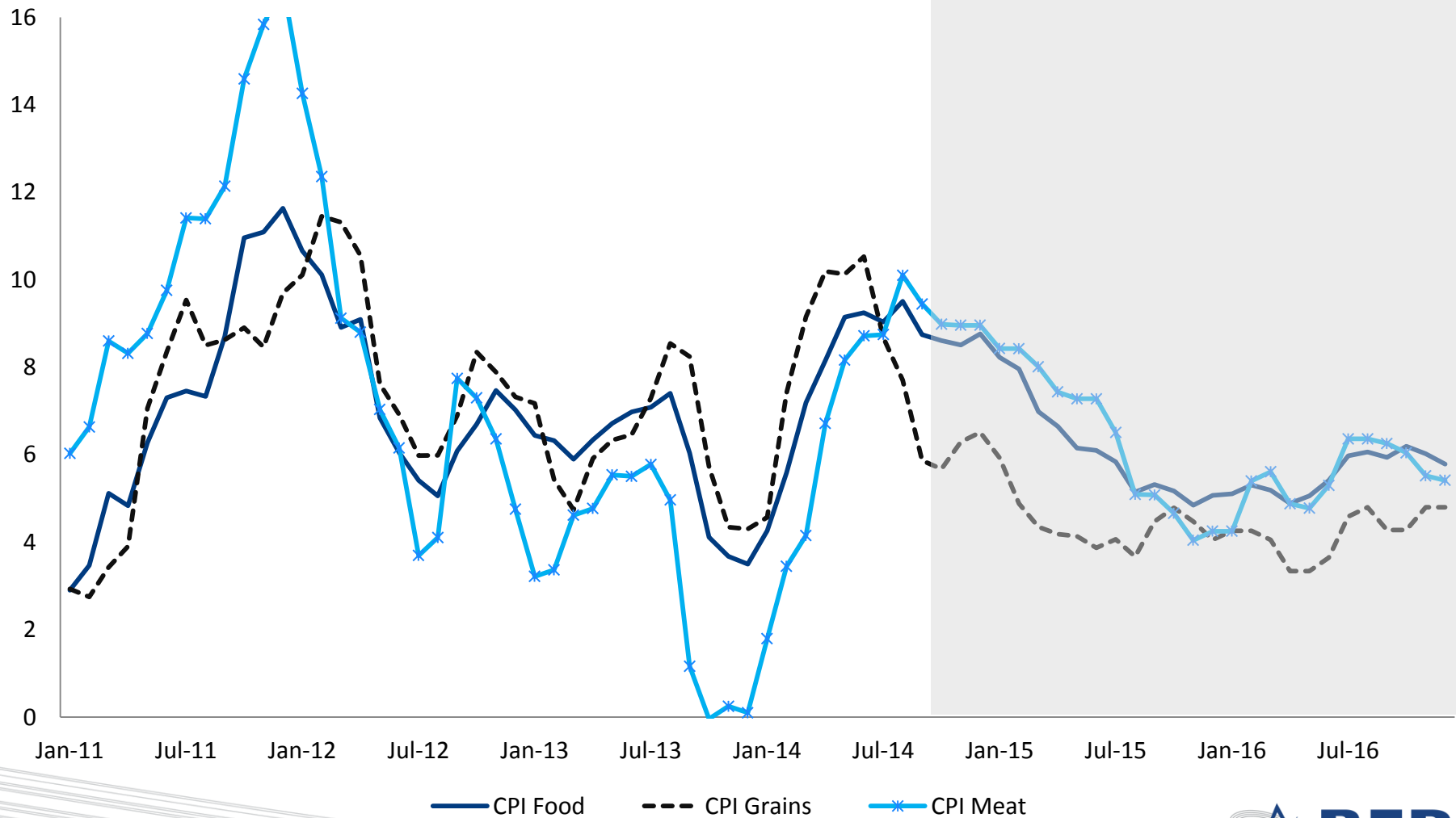
Source: Reuters

# Lower rand oil price bodes well for CPI outlook



# Food prices set to moderate on conducive global and domestic environment

y-o-y % change



Source: StatsSA and BER forecasts

# Interest rate normalisation pushed out

## Reasoning behind last week's decision to keep the repo rate unchanged

- The sharp decline in the **oil price**. *Improved inflation outlook*
- Last month's **MTBPS**, a potential game changer. *Fiscal tightening in a weak economy*
- Renewed **electricity supply concerns**. *Downside GDP growth risks*
- **Eurozone** and **China** growth outlook deteriorated. *Bad news for SA export recovery*
- **Rand exchange rate** remains under pressure

**Debate on timing:** Should SARB pre-empt Fed rate hikes or wait?

Given SA's vulnerabilities, we favour pre-emptive hikes.

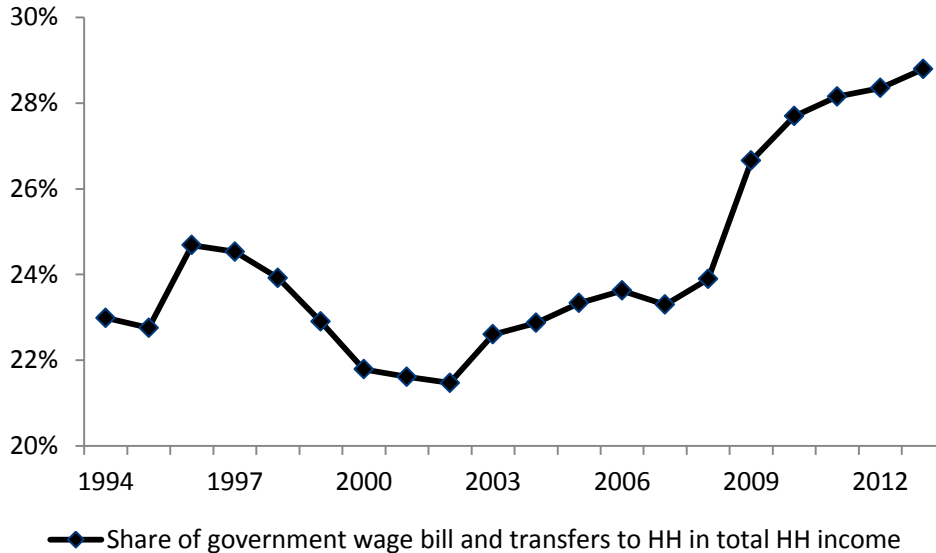
## SA macro outlook in a nutshell

	2013	2014	2015	2016
Consumer spending	2.6	2.0	3.0	3.5
Govt consumption	2.4	1.8	2.3	2.2
Fixed investment	4.7	2.9	3.4	4.1
Inventories (R bn)	1.3	<b>-8.6</b>	<b>1.0</b>	<b>4.6</b>
<b>Gross domestic expend</b>	<b>2.2</b>	<b>1.0</b>	<b>3.4</b>	<b>3.5</b>
Exports	4.2	4.2	6.1	4.9
Imports	4.7	2.3	7.0	6.2
<b>GDP</b>	<b>1.9</b>	<b>1.4</b>	<b>2.9</b>	<b>3.0</b>
Employment (formal)	0.4	0.6	0.9	1.3
CPI (ave)	5.7	6.2	5.3	5.7
PPI (ave)	6.0	7.5	5.4	5.6
Prime rate (eop)	8.50	9.25	10.00	10.50
R/\$ (Q4 ave)	10.16	10.95	11.18	11.42



# SA macro outlook in a nutshell – downside risks

	2012	2013	2014	2015
Consumer spending	3.5	2.6	2.0	3.0



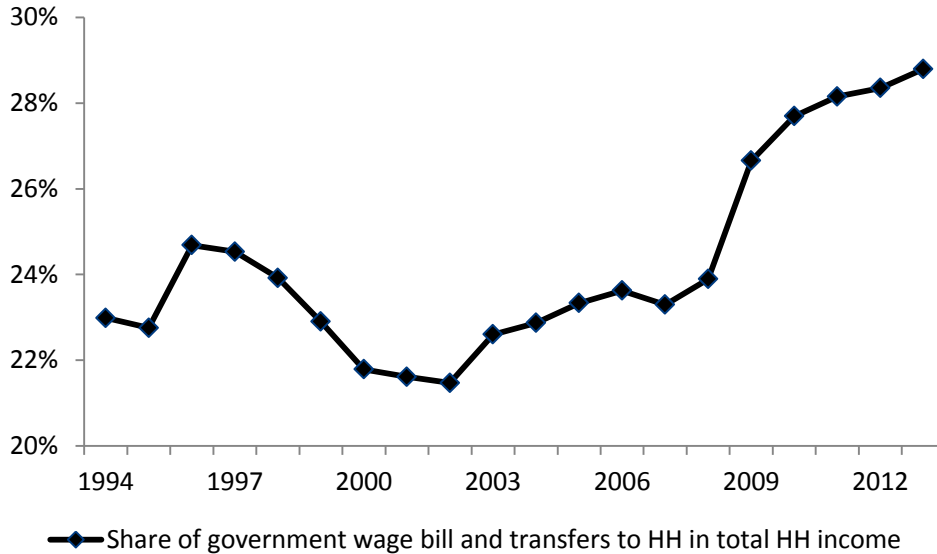
- Assume 1% rise in gov. employment, limited personal tax rise

### Downside risks:

- Possible tax increases
- Freeze on gov. employment
- Weaker than expected private employment
- Income lost through (unknown) strikes

# SA macro outlook in a nutshell – downside risks

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Consumer spending	3.5	2.6	2.0	3.0	2.7



- Assume 1% rise in gov. employment , limited personal tax rise

### Downside risks:

- Possible tax increases
- Freeze on gov. employment
- Weaker than expected private employment
- Income lost through (unknown) strikes
- **Lower inflation may compensate**

## SA macro outlook in a nutshell – downside risks

	2012	2013	2014	2015	2015
Govt consumption	4.0	2.4	1.8	2.3	1.5

- MTBPS forecasts significantly slower rise in government consumption
- Labour disruptions / Eskom problems = downside risk to exports / private fixed investment

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	2012	2013	2014	2015	2015
Consumer spending	3.5	2.6	2.0	3.0	2.7
Govt consumption	4.0	2.4	1.8	2.3	1.5
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Inventories (R bn)	9.6	1.3	<b>-8.6</b>	<b>1.0</b>	<b>-1.0</b>
<b>Gross domestic expend</b>	<b>4.0</b>	<b>2.2</b>	<b>1.0</b>	<b>3.4</b>	<b>2.9</b>
Exports	0.4	4.2	4.2	6.1	5.1
Imports	6.0	4.7	2.3	7.0	6.3
<b>GDP</b>	<b>2.5</b>	<b>1.9</b>	<b>1.4</b>	<b>2.9</b>	<b>2.3</b>

- End November: Stats SA rebase GDP numbers (to 2010), revised GDP estimates from 2002Q1

# Economic information that works for you

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