

The short term outlook for the SA economy during increasingly uncertain times

Economics Department Seminar
6 March 2017

Monthly Global Economic Policy Uncertainty Index

Zoom 1m 3m 6m 1y 7y All

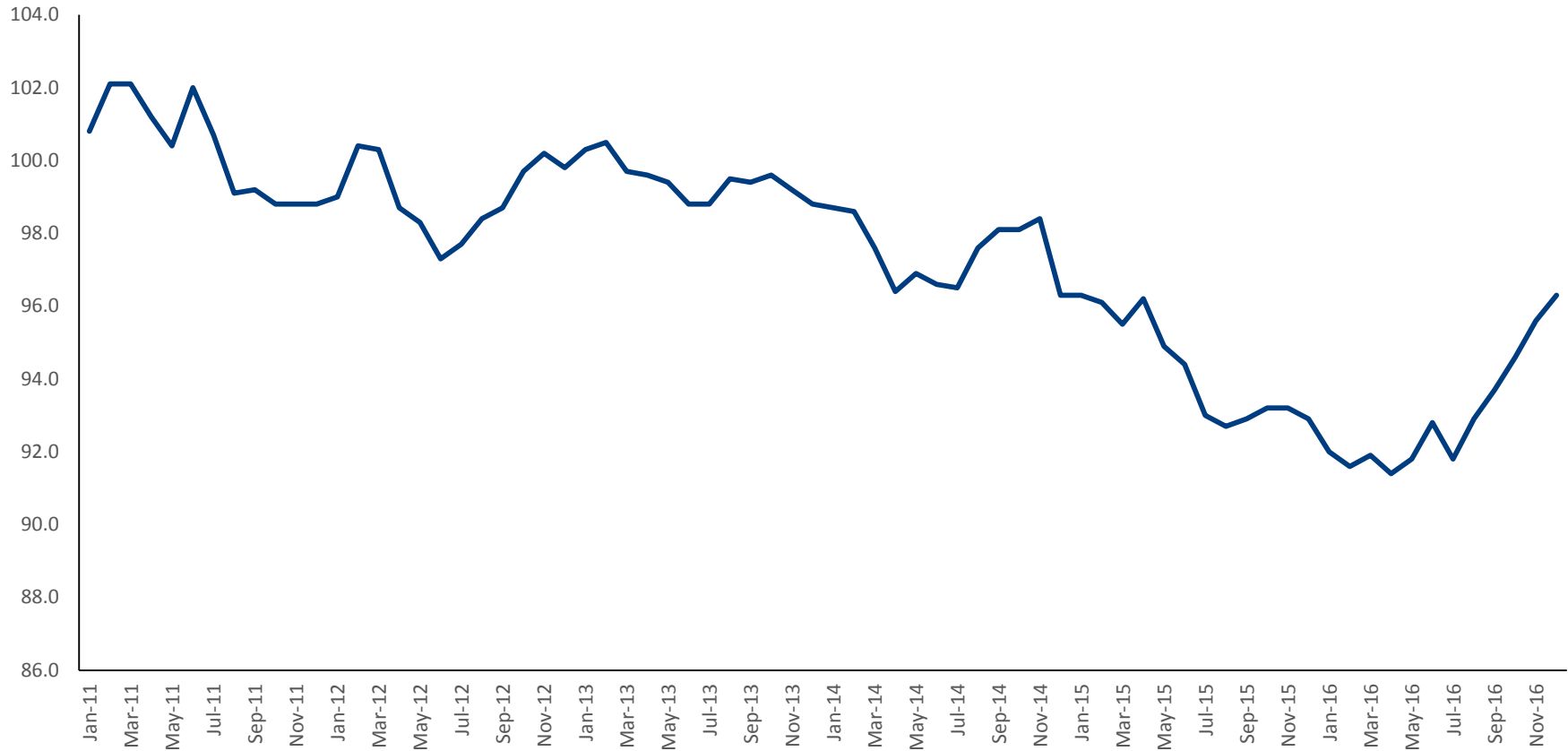


Structure

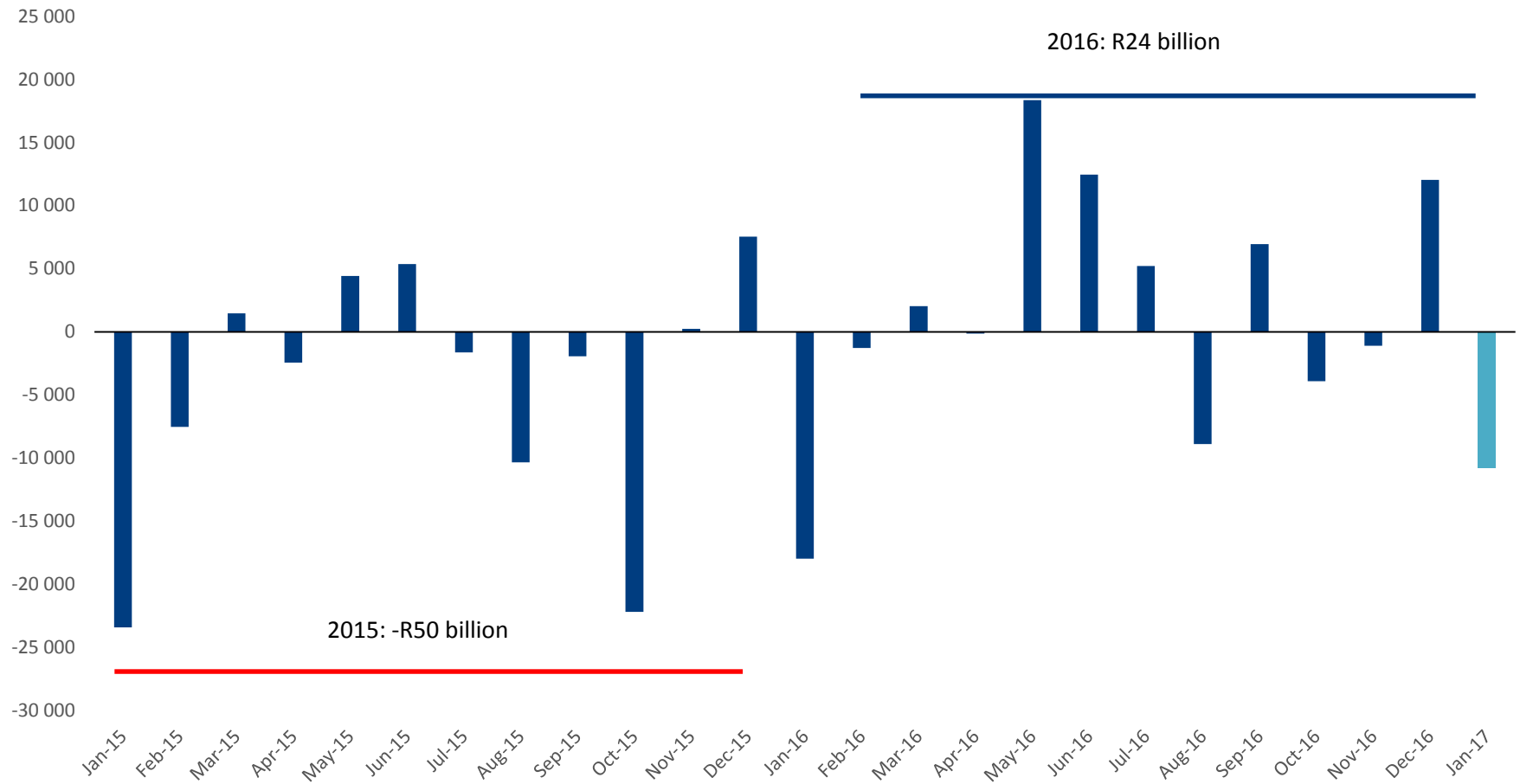
- **What we know**
- **What we think we know**
- **What we don't know**

...2016 end on a relatively solid footing...

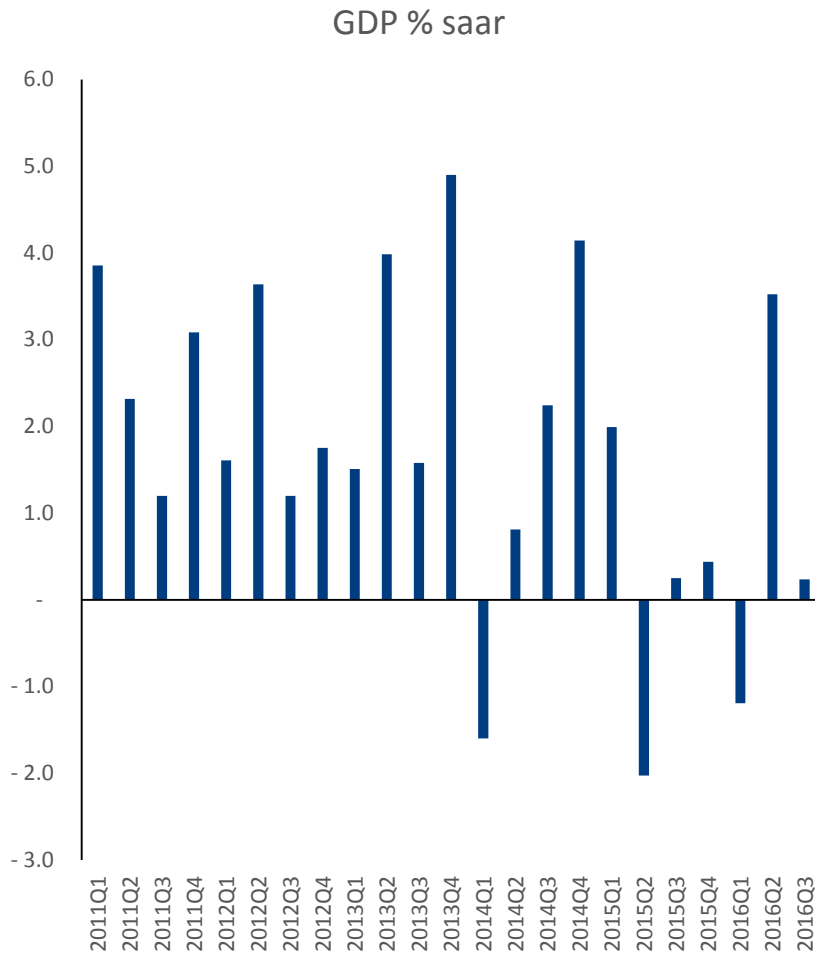
SARB leading indicator



Trade balance also improved in 2016...



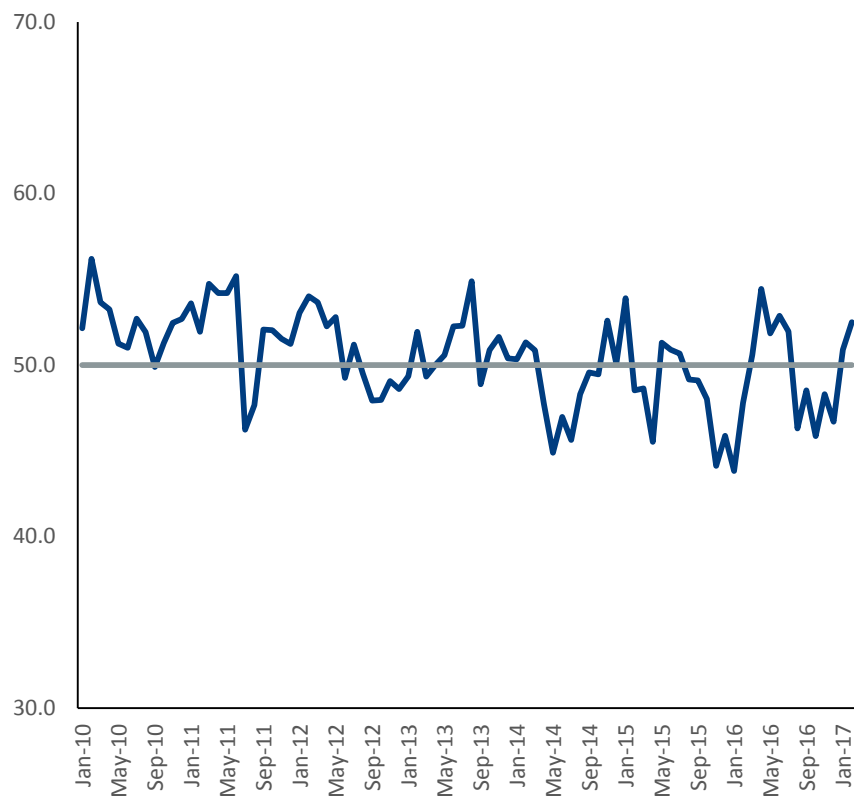
Muted growth in 2016...



	2015	2016 (estimate)
Agriculture	-5.9	-5.8
Mining	3.2	-3.3
Manufacturing	-0.3	0.6
Electricity	-1.0	-2.4
Construction	2.0	0.6
Trade	1.4	1.2
Transport	1.4	-0.1
Financial	2.8	2.0
Government	0.7	1.1
Personal services	1.1	0.6
GDP	1.3	0.4

Momentum seems to be sustained so far in 2017...

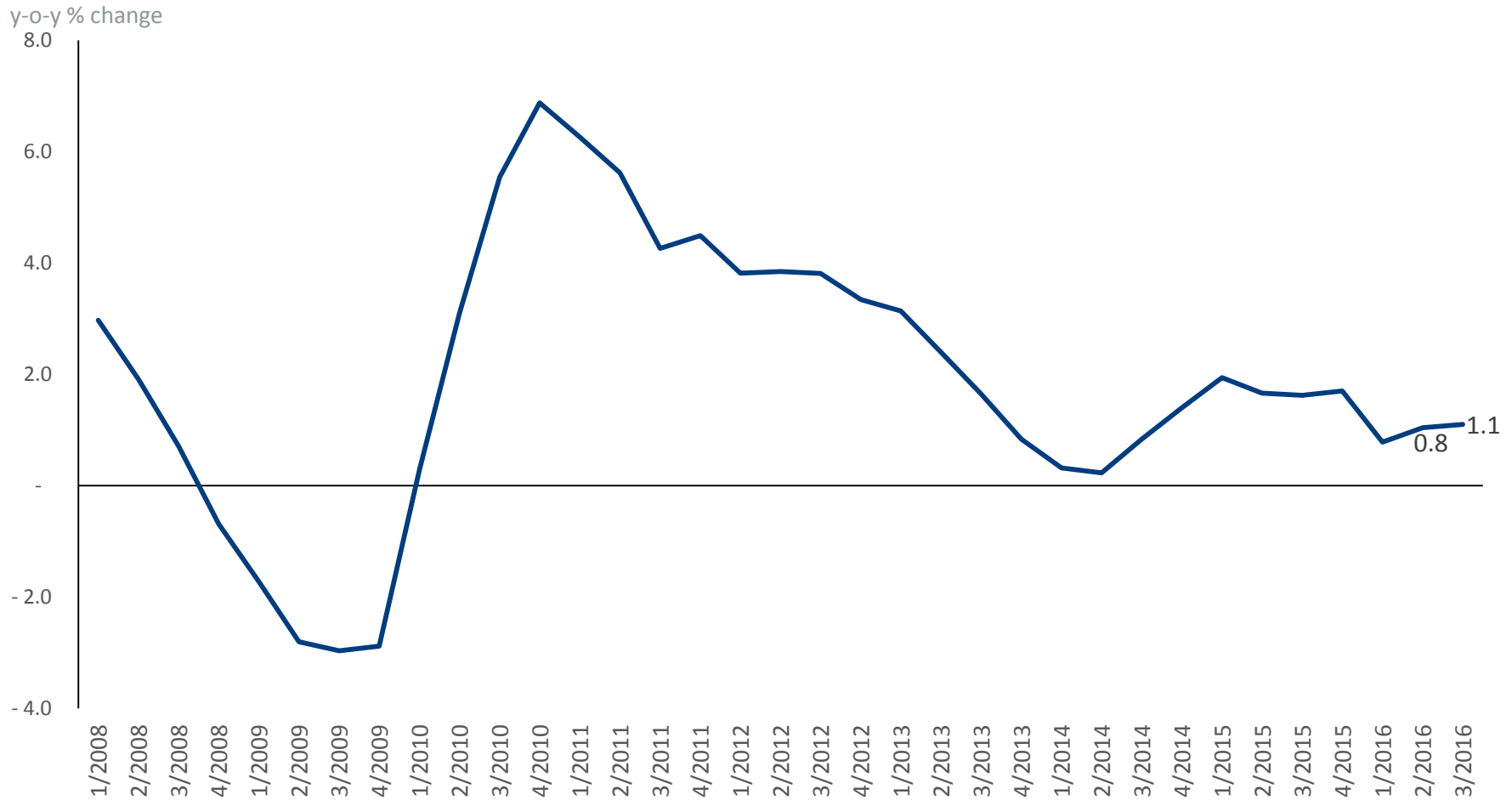
Absa Purchasing Managers Index



R/US\$

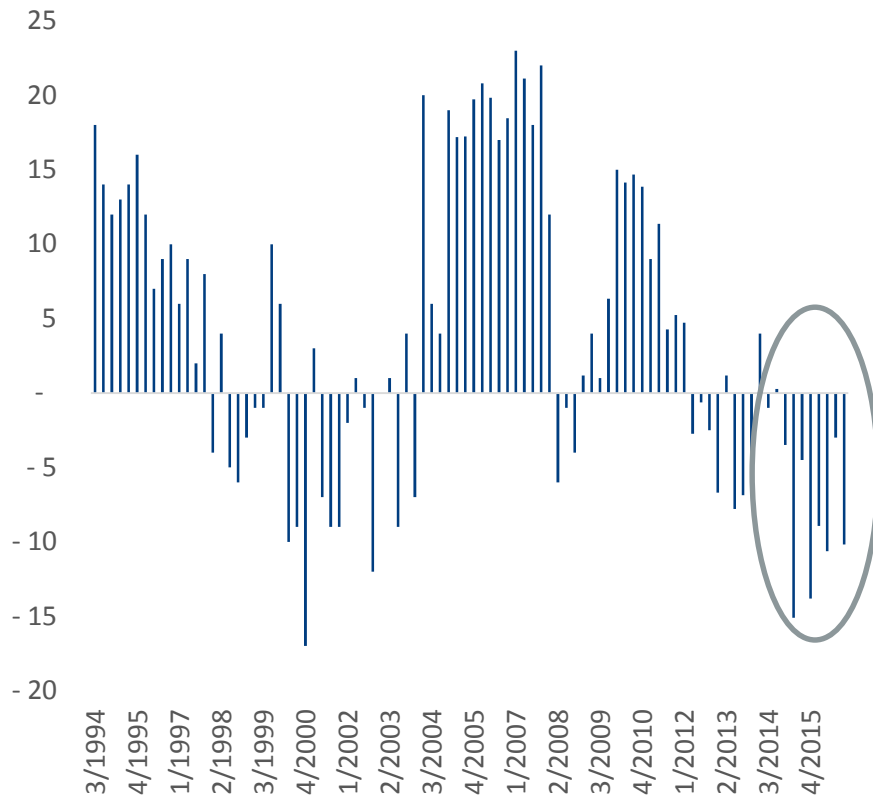


However, consumers spending under pressure...

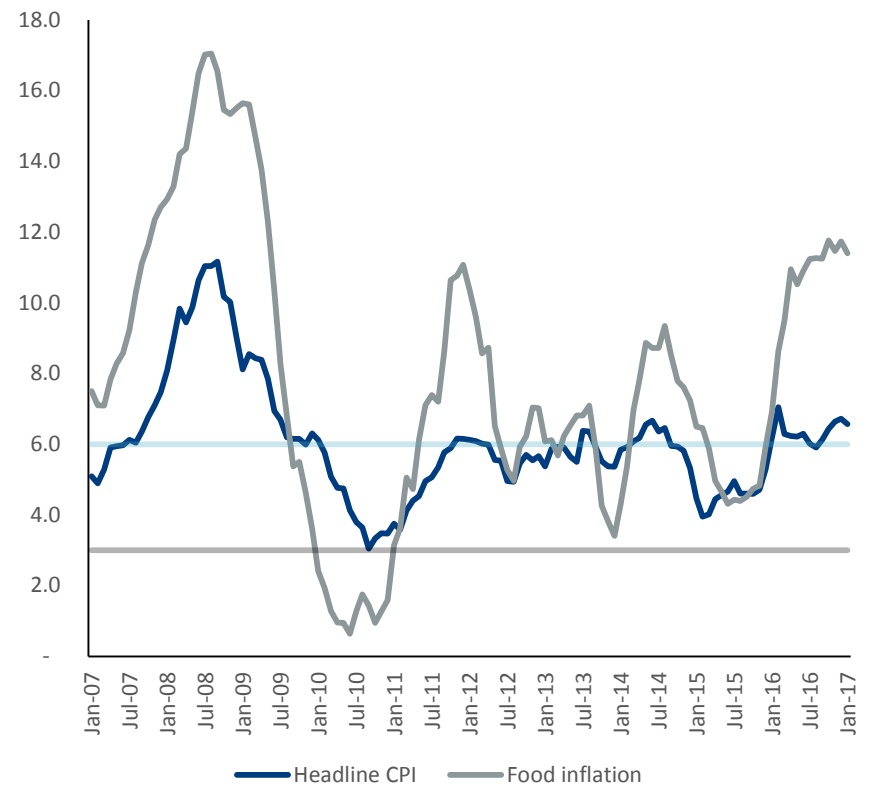


Number of factors weighed on CS in 2016...

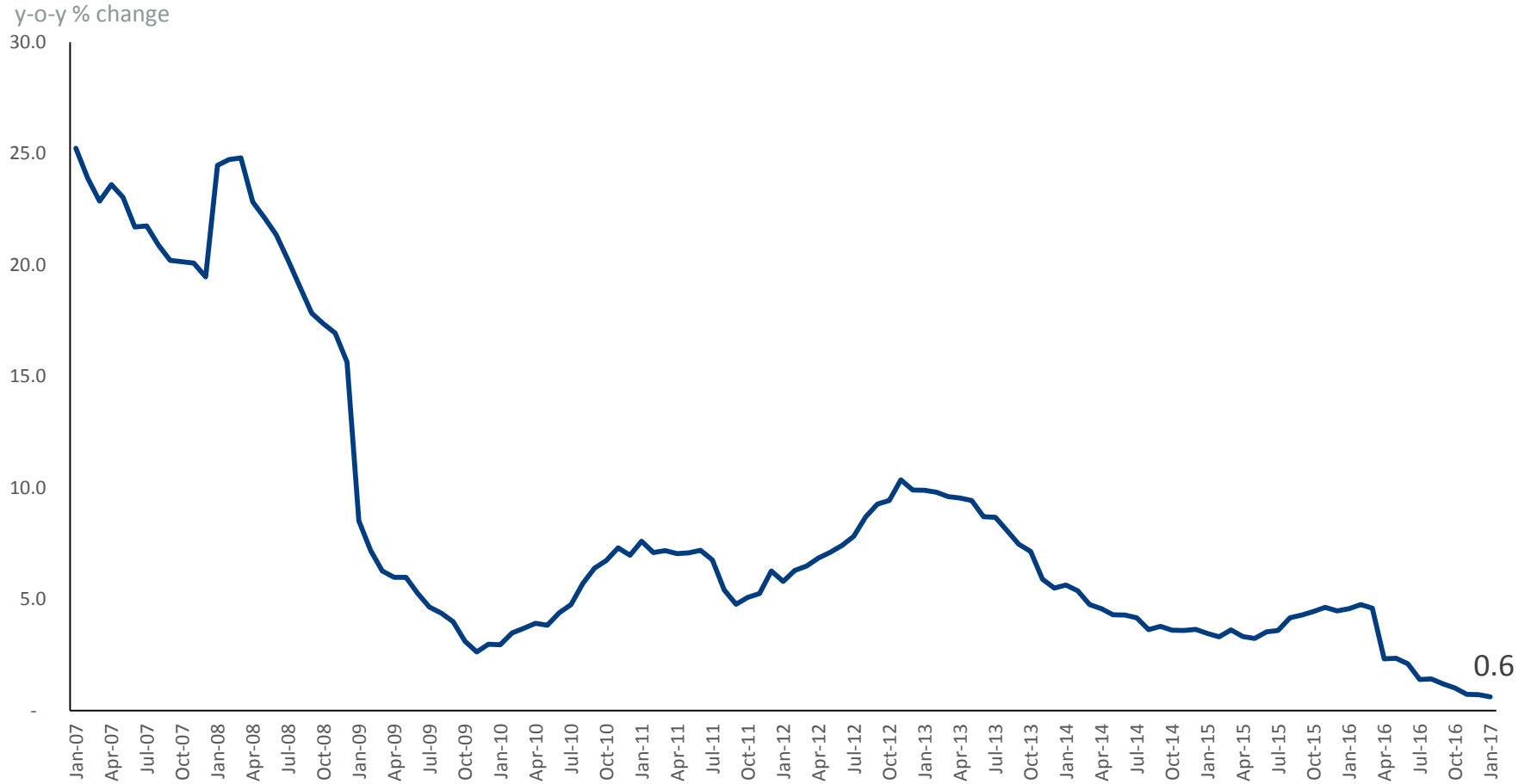
FNB/BER CCI



Inflation

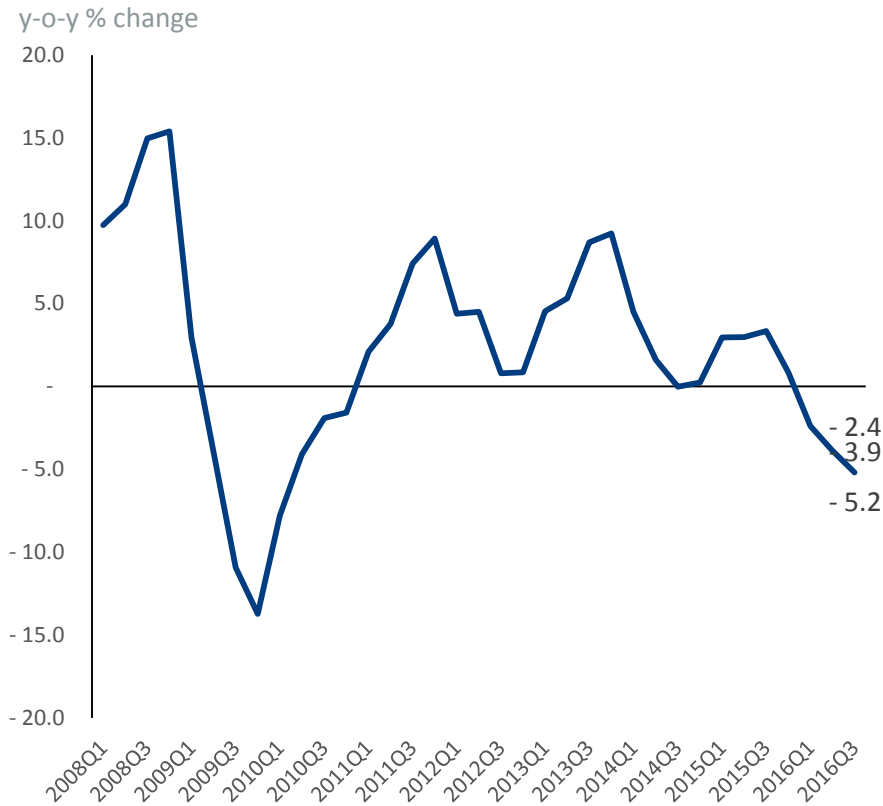


Dismal growth in HH credit...

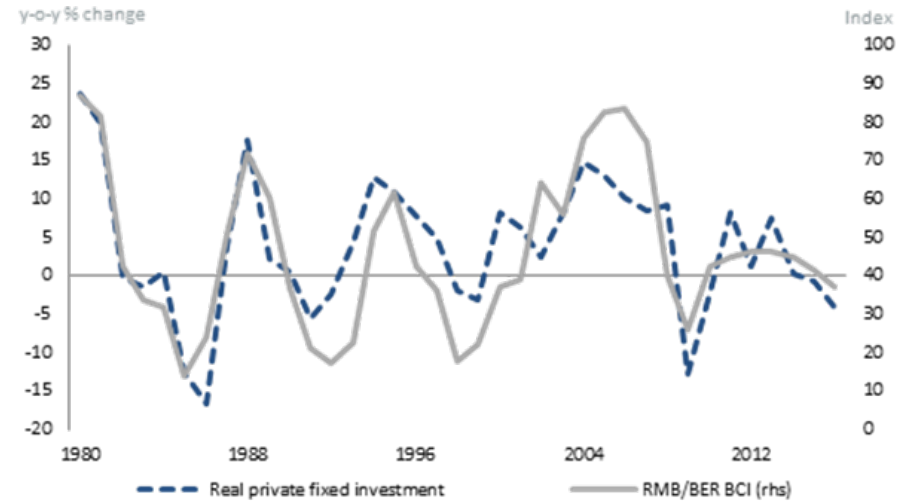


Fixed investment contracts for most of 2016...

Total



Private FI

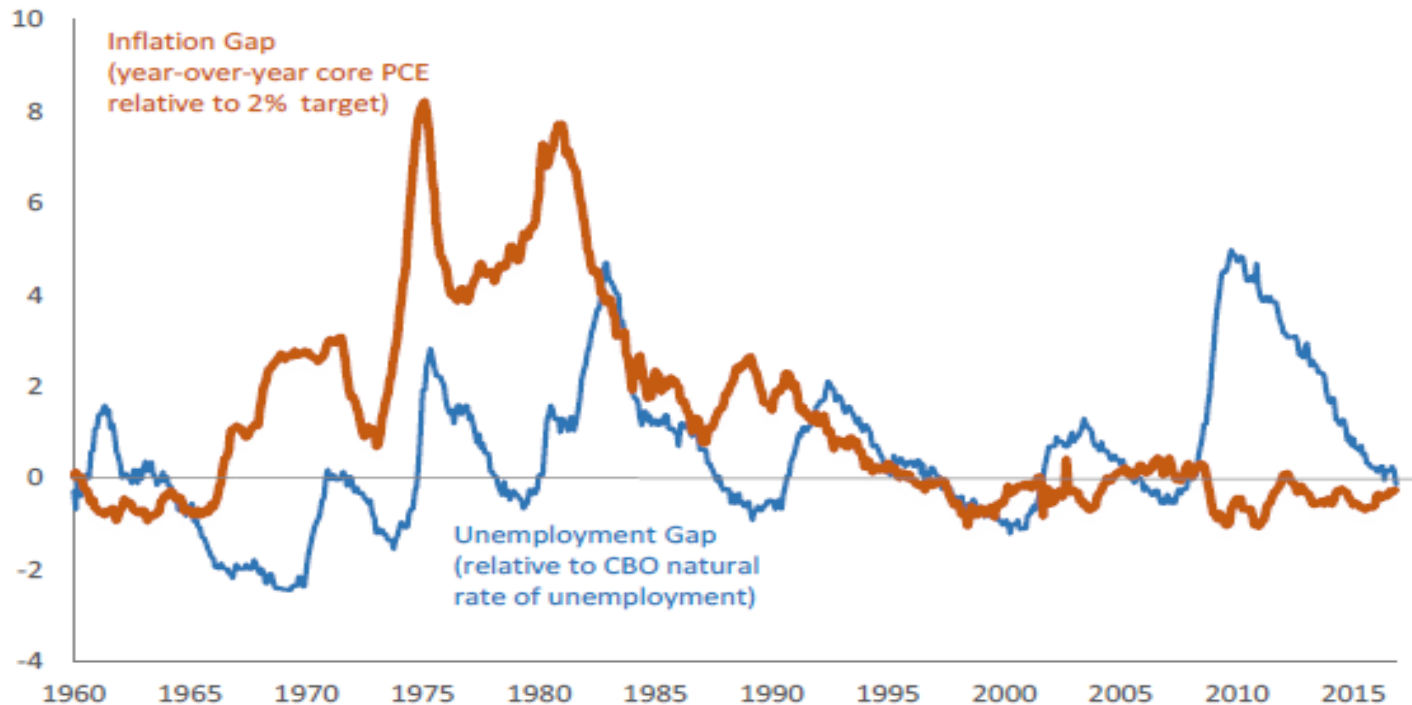


2017/18 Budget implications

- Impact not much changed from 2016/17 budget
- Increased tax burden (and reduced government employment) to weigh on consumer spending
- More spending on infrastructure than in 2016/17. However, unlikely to be as positive for growth given historical underspend
- Overall, positive for fiscal sustainability (and ratings outlook)

R billion	2016/17		Medium-term estimates			Ave: 2017/18 to 2019/20	
	MTBPS '16	Budget '17	2017/18	2018/19	2019/20	MTBPS '16	Budget '17
Revenue	1301.0	1297.3	1414.1	1535.2	1668.5	1541.7	1539.3
% of GDP	29.7	29.4	29.8	29.9	30.1	30.3	29.9
Expenditure	1451.5	1445.2	1563.1	1677.1	1814.3	1683.1	1684.8
% of GDP	33.1	32.8	33.0	32.7	32.7	33.1	32.8
Interest payments	154.5	153.4	169.3	187.6	206.3	188.3	187.7
% of expenditure	10.6	10.6	10.8	11.2	11.4	11.2	11.1
Non-interest expenditure	1297.0	1291.8	1393.8	1489.5	1608.0	1494.9	1497.1
% of GDP	30.2	29.3	29.4	29.0	29.0	30.0	29.1
Budget balance	-150.5	-147.9	-149.0	-141.9	-145.8	-141.4	-145.6
% of GDP	-3.4	-3.4	-3.1	-2.8	-2.6	-2.8	-2.8

Fed close to meeting dual mandate of full employment and 2% inflation, implying further policy tightening



"We are closing in on full employment, inflation is moving gradually toward our target, foreign growth is on more solid footing and risks to the outlook are as close to balanced as they have been in some time" and that "Assuming continued progress, it will likely be appropriate soon to remove additional accommodation, continuing on a gradual path..."

Fed Gov. Lael Brainard, 1 March

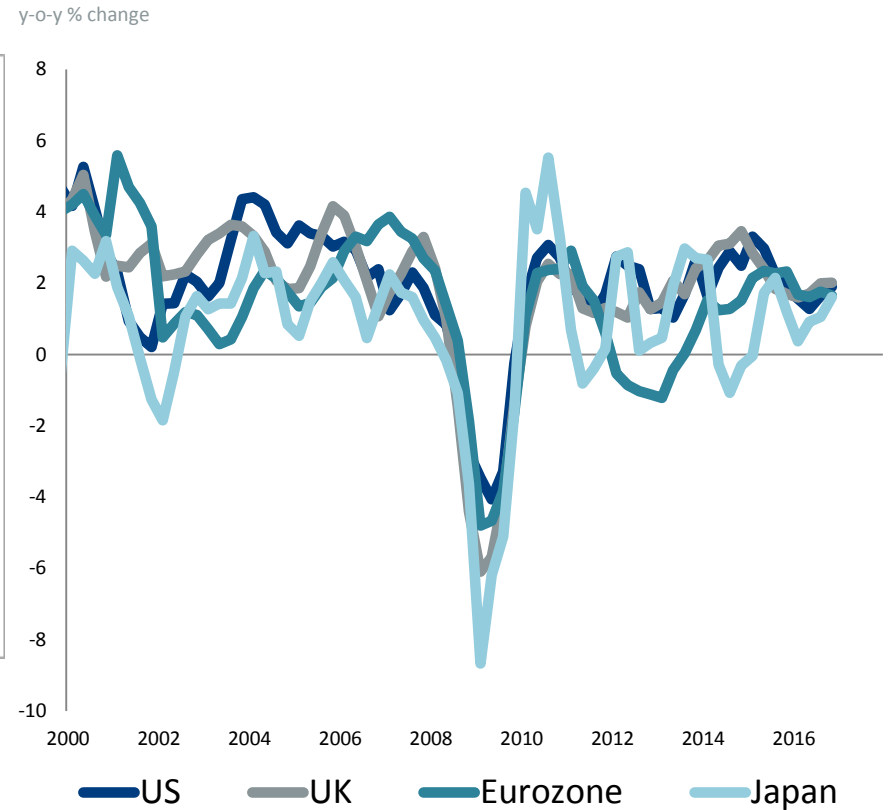
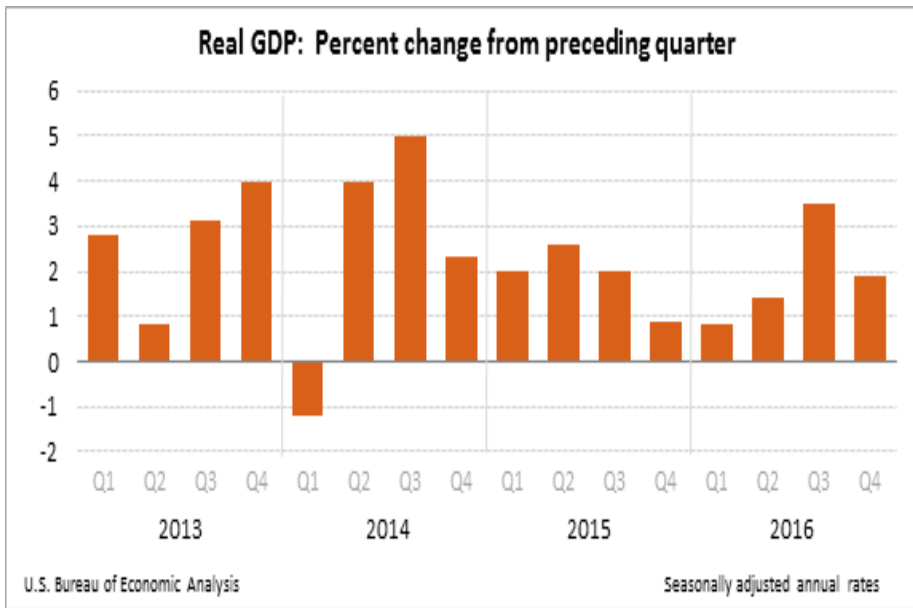
"We're as close to our mandates as we've been in a very long time,... The case for a rate increase in March has come together..."

Fed Gov. Jerome Powell, 1 March

"We currently judge that it will be appropriate to gradually increase the federal funds rate if the economic data continue to come in about as we expect"

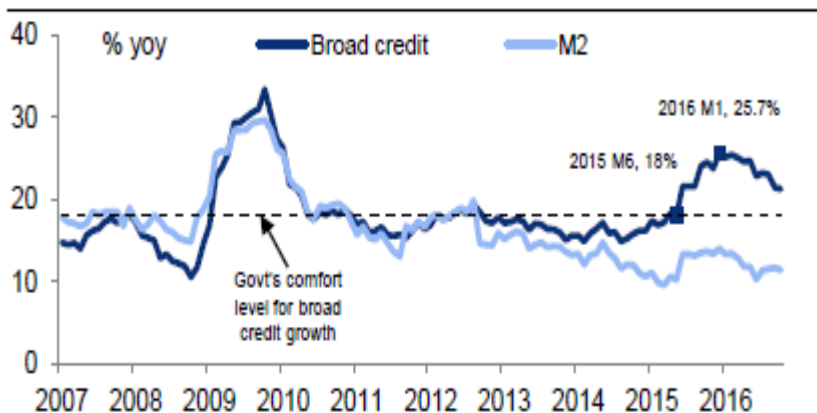
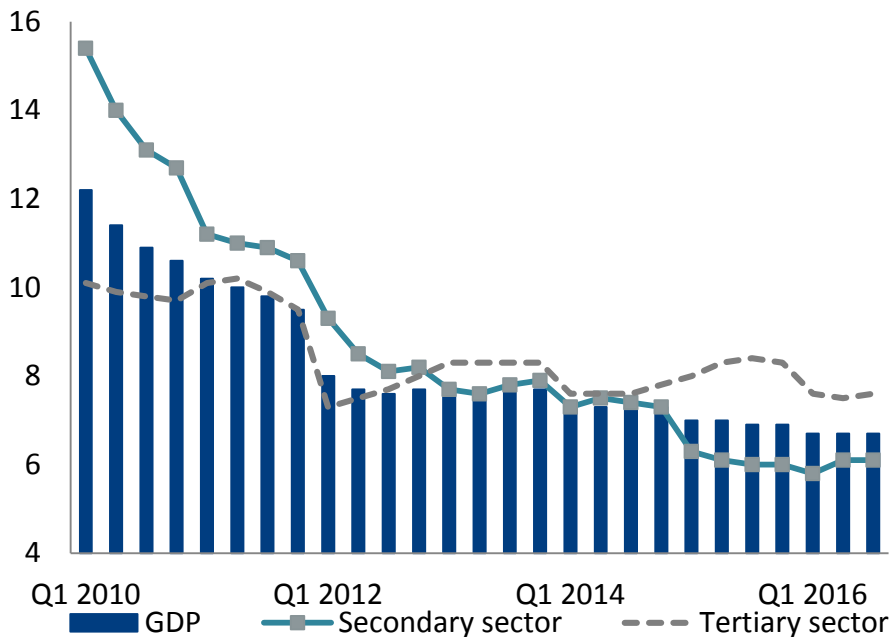
Fed Chair Janet Yellen, 3 March

US GDP gaining some momentum...



Chinese GDP growth at 6.7% y-o-y in 2016 (target for 2017 reduced to 6.5%)...

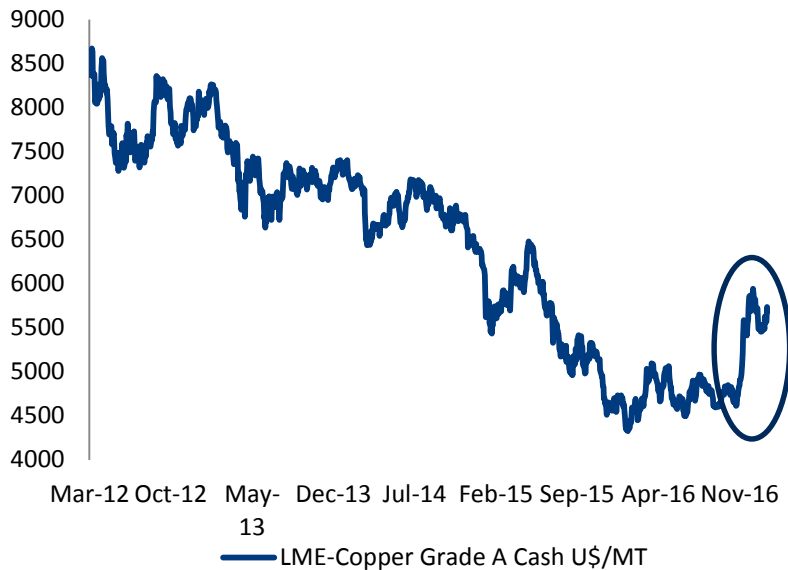
y-o-y % change



- Gov. focus on deleveraging credit-fuelled property bubble continues
- Credit growth remains above preferred levels
- Focus on deleveraging should result in softer growth in H12017
- Depending on extent of growth easing, stimulus may again be on cards later in year
- **US election impact:** concern about possible tariff increase on Chinese exports
- Higher US interest rates & stronger US dollar fuel capital outflows
- Pressure on RMB

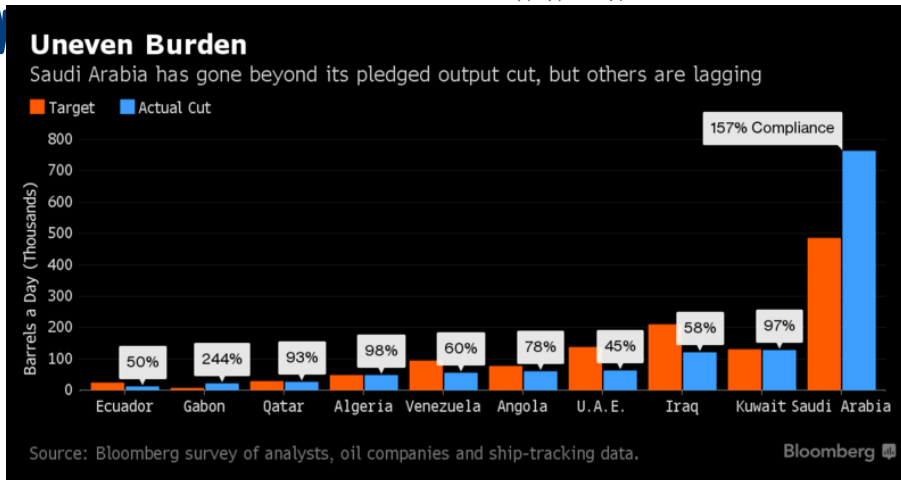
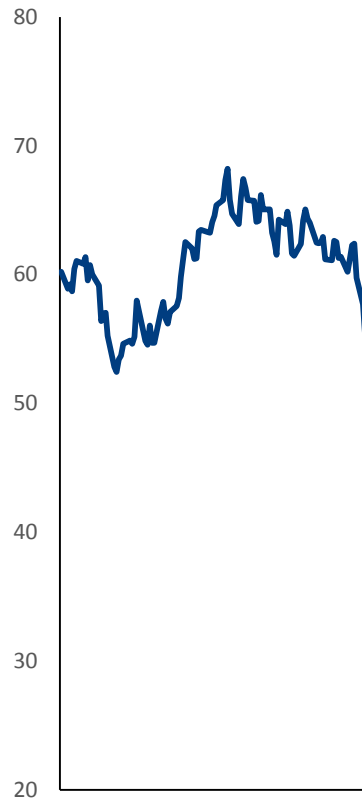
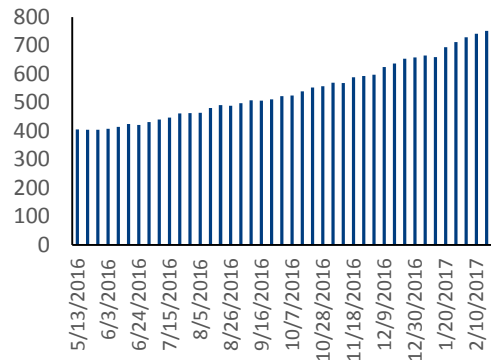
Commodity index (Economist all industrials) again handsomely exceeded expectations in Q4

- Averaged 125 in Q4 vs. 113 expected
- Latest value (last week) at 128.5



Oil price recovers as OPEC production cuts kick in...

US oil rig count (#)



↑ 28%
since mid-Nov '16

2015/02/20 2015/03/20 2015/04/20 2015/05/20 2015/06/20 2015/07/20 2015/08/20 2015/09/20 2015/10/20 2015/11/20 2015/12/20 2016/01/20 2016/02/20 2016/03/20 2016/04/20 2016/05/20 2016/06/20 2016/07/20 2016/08/20 2016/09/20 2016/10/20 2016/11/20 2016/12/20 2017/01/20 2017/02/20

Impact of global trends on EMs more generally

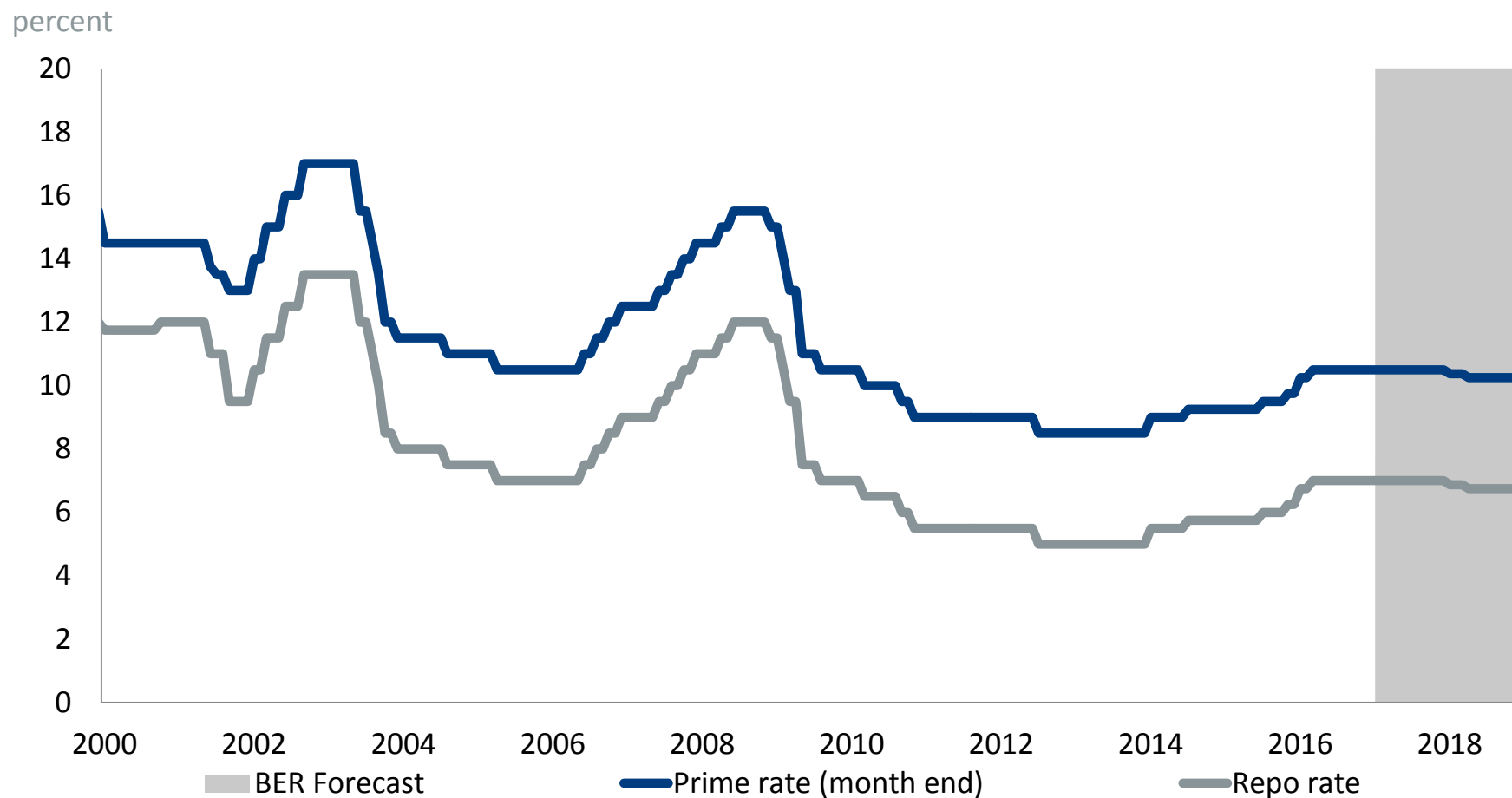
Impact of key external and idiosyncratic factors

									
		China	India	Poland	Turkey	Russia	S.Africa	Brazil	Mexico
US	Stronger US growth	+	+			+	+	+	+
	Stronger dollar	-		+	-		-	-	-
	Rising US rates	-	-		-	-	-	-	-
	Geopolitical risk	-			-	+			-
	Higher commodities	-	-	-	-	+	+	+	?
	Domestic policy/ idiosyncratic risk		-	-	-		-	-	-

Forecast summary

	2016e	2017f	2018f
Final household consumption expenditure	0.9	1.4	2.1
Government consumption expenditure	1.5	0.1	0.0
Gross fixed capital formation	-4.0	0.3	1.7
Real GDE	-0.4	1.1	1.7
Total exports	-1.3	1.8	3.3
Total imports	-3.8	2.1	2.9
Real GDP	0.4	1.0	1.8
Employment	-0.2	0.7	1.0
CA (% GDP)	-3.9	-4.6	-4.9
CPI (Headline)	6.3	5.8	5.4
PPI (All items)	7.1	5.0	4.8
R/US\$	14.71	13.74	14.14
R/Euro	16.25	14.46	15.9

Monetary policy likely to be more accommodative towards end of forecast period...





“The deeply unpopular President Jacob Zuma, beset by corruption allegations, is afraid to pass power to someone he doesn’t trust”

“The resulting infighting over succession stalls any momentum toward crucial economic reform in the country...”

- Ian Bremmer, Times Magazine

Risks/Concerns for 2017

- **Uncertainty**, mainly political but with obvious implications for markets / economy, set to dominate
- Need to distinguish between what is being said (the noise, including ANC succession / Trump) and what is likely to / actually happens

Key 2017 events

- June / December **credit rating decisions** – will know more after Feb budget (Wednesday, 22 Feb).
- **ANC elective conference**, 16-20 December
- European elections / Brexit negotiations
- **Trump** presidency
- **NMW?**
- **Cabinet reshuffling**
- **SASSA?**

Important (but hugely uncertain) assumptions

- Will SA remain investment grade?
- Will SA inflation ease on the back of alleviation in food price pressure?
- Can the US dollar continue to strengthen?
- **How aggressive will the Fed be?**
- **Is China heading for a financial crisis?**
- Brexit impacts and broader European politics

Thank you

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