

The SA economic outlook in unusually uncertain times

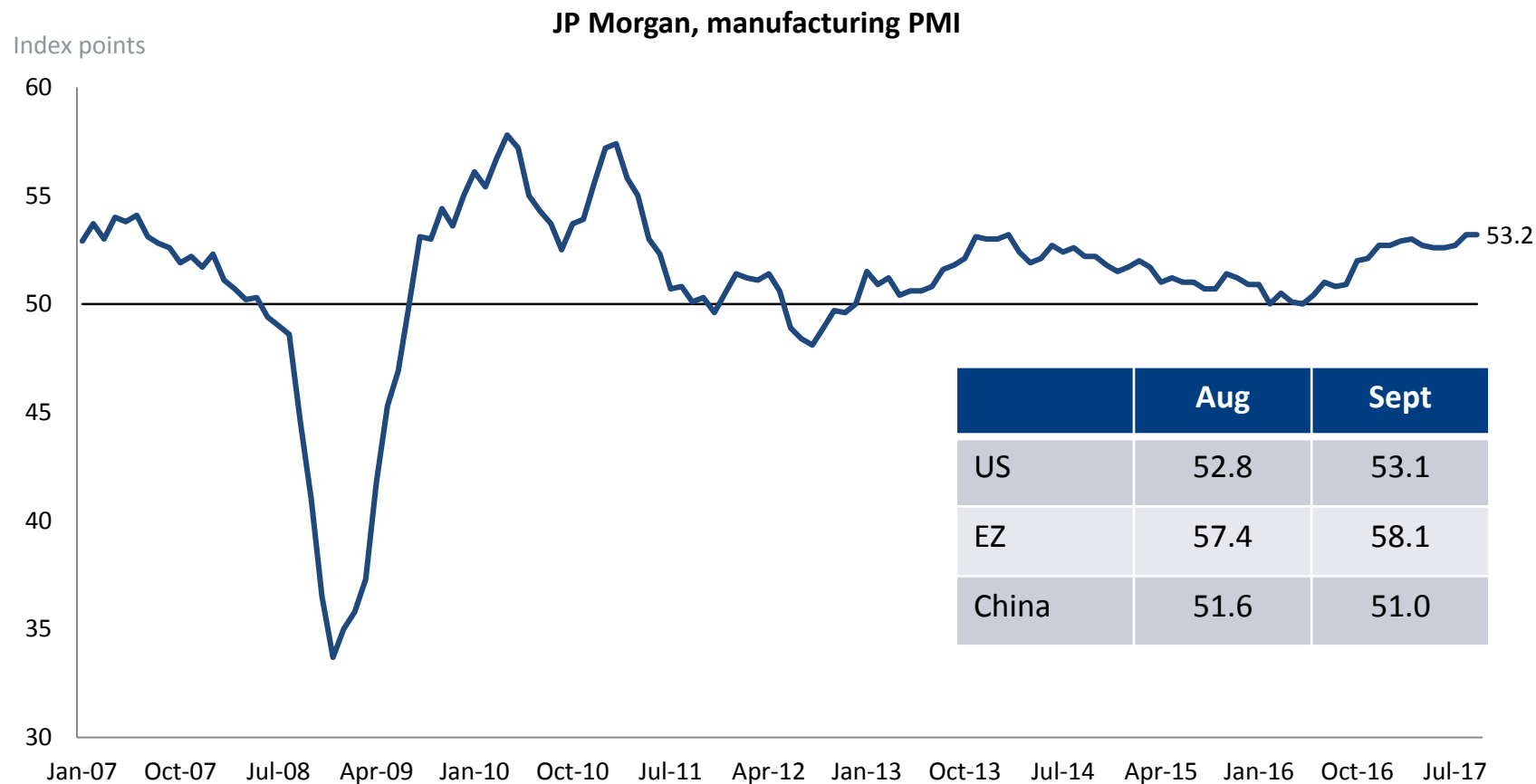
Economics department seminar series

16 October 2017

Craig Lemboe

Global economic trends and prospects

Global economic growth maintains momentum in Q3...



Source: Markit

Global
economy

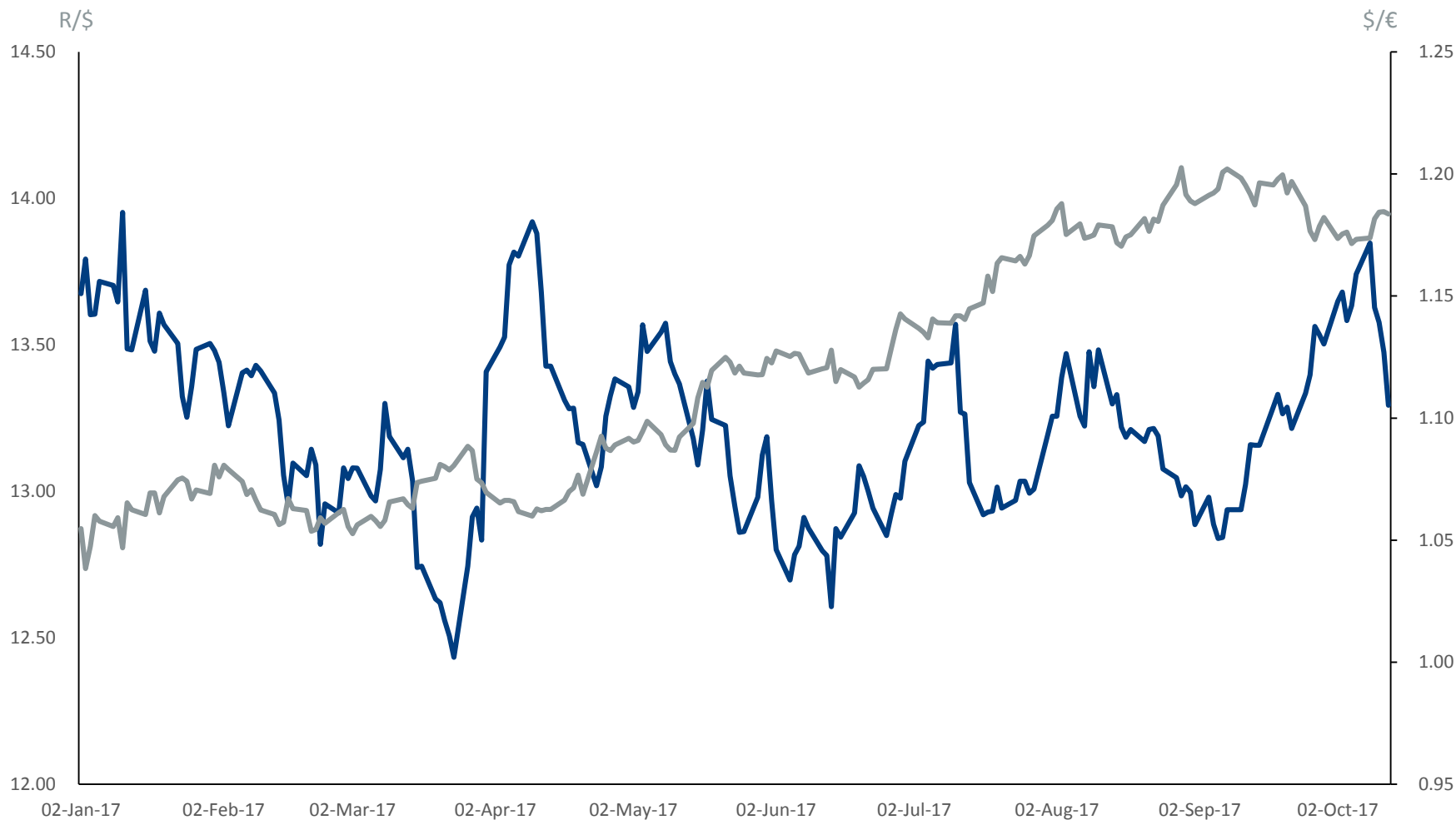
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IMF October global growth outlook – mild upward revisions

	2014	2015	2016	2017	2018
World output	3.4	3.4	3.2	3.6	3.7
Adv economies	1.9	2.2	1.7	2.2	2.0
US	2.4	2.9	1.5	2.2	2.3
Euro Area	0.9	2.0	1.8	2.1	1.9
Japan	0.0	1.1	1.0	1.5	0.7
United Kingdom	3.1	2.2	1.8	1.7	1.5
EM/Dev economies	4.6	4.3	4.3	4.6	4.9
China	7.3	6.9	6.7	6.8	6.5
India	7.2	8.0	7.1	6.7	7.4
Russia	0.7	-2.8	-0.2	1.8	1.6
Sub-Saharan Africa	5.1	3.4	1.4	2.6	3.4
Nigeria	6.3	2.7	-1.6	0.8	1.9
SA (IMF view)	1.6	1.3	0.3	0.7	1.1

- IMF has cautioned against “complacency”
- Better growth outlook lifts risk of MP tightening in advanced economies (US and Euro Zone) – although IMF cautions against being too aggressive given lower-than-expected inflation
- SSA underperforming (Weak growth prospects in Nigeria and SA largely to blame)

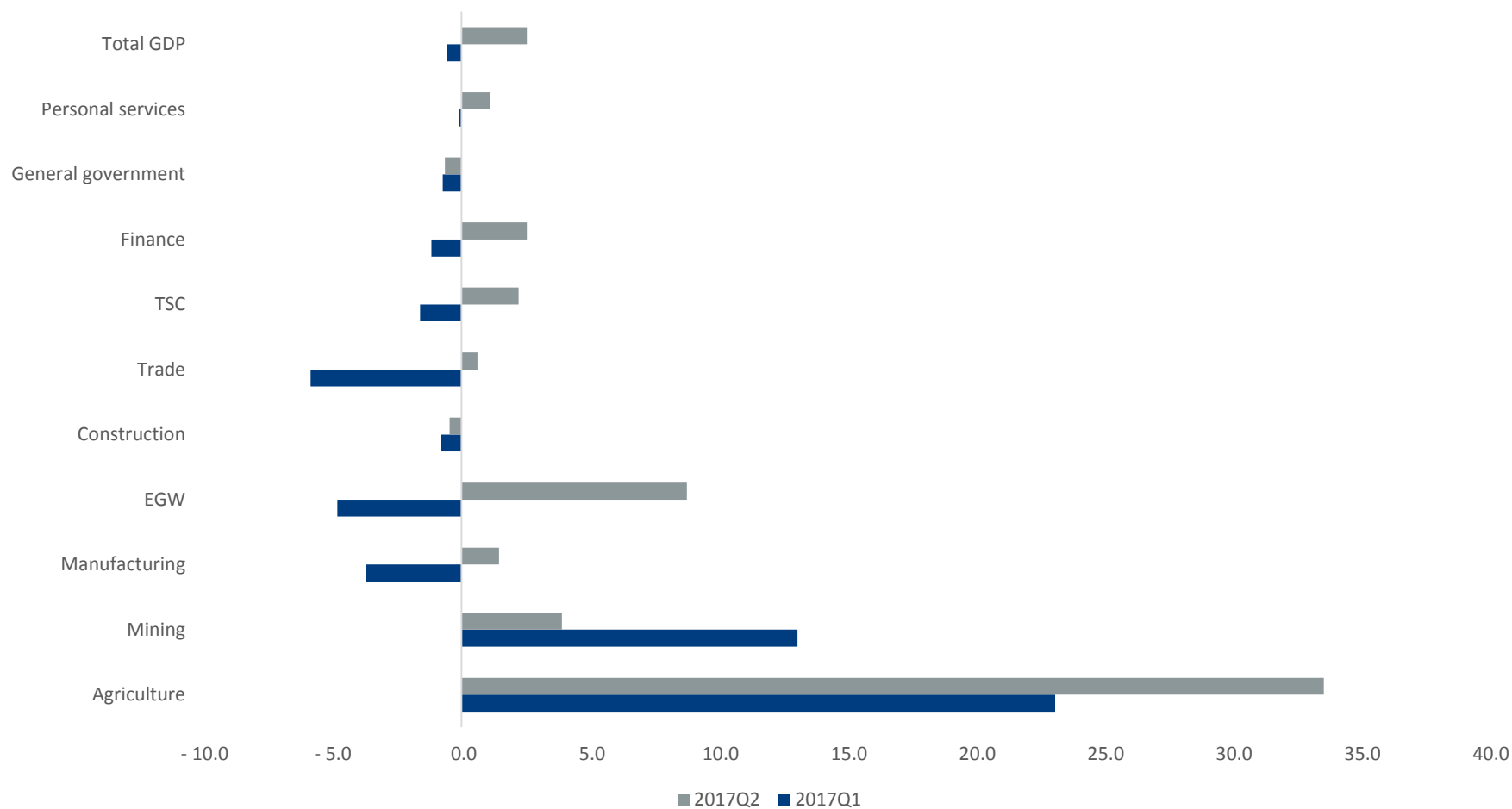
ZAR sensitive to USD movements (but, domestic idiosyncrasies also matter)...



Source: Reuters

SA economic trends and prospects

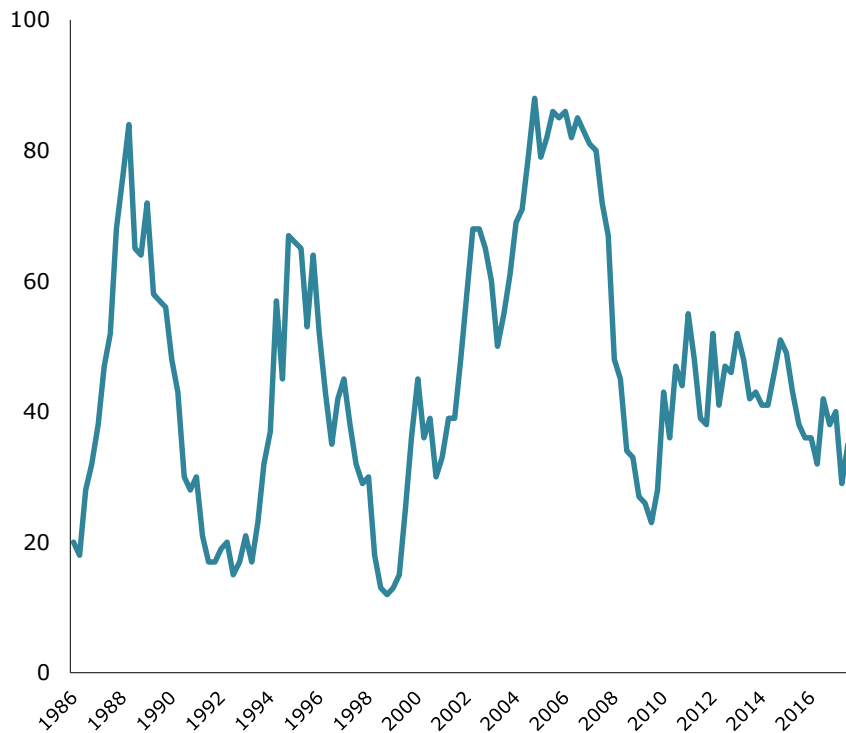
SA exits technical recession in Q2 (q-o-q saar)...



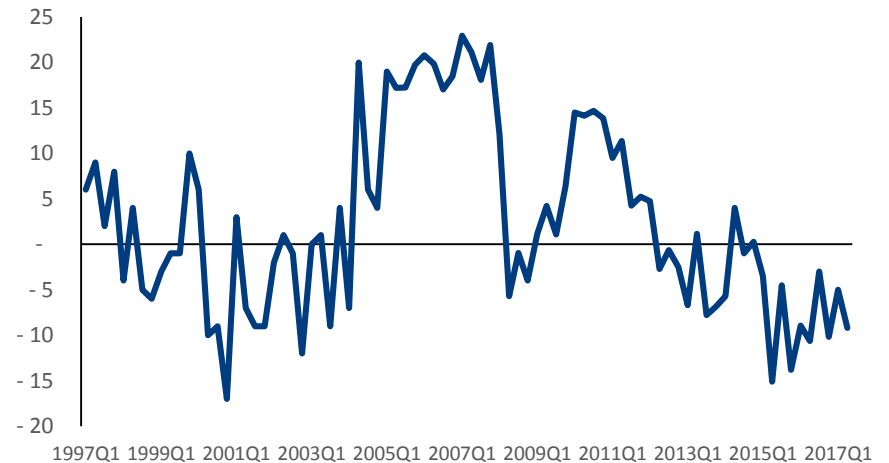
Source: Stats SA

A crisis of confidence...

RMB/BER Business Confidence index



FNB/BER Consumer Confidence Index



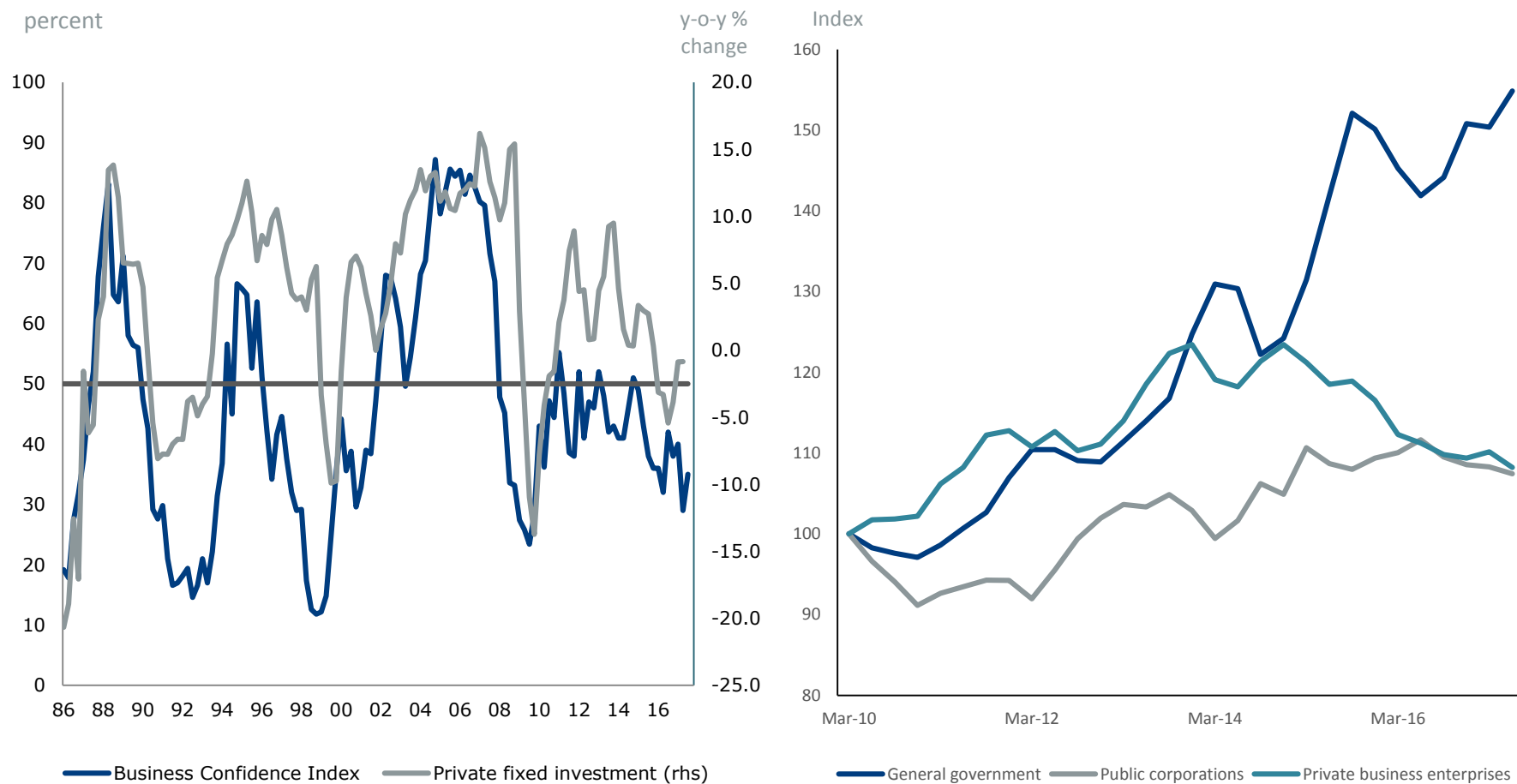
	15Q2	15Q3	15Q4	16Q1	16Q2	16Q3	16Q4	17Q1	17Q2
Total	-15	-5	-14	-9	-11	-3	-10	-5	-9
Economic position	-24	-15	-24	-14	-17	-4	-23	-1	-22
Financial position	-2	11	4	10	4	16	6	3	6
Time to buy durables	-19	-9	-21	-22	-19	-21	-13	-17	-12

"At the present juncture, our fundamental problem is confidence."

Lesetja Kganyago, June 2017

Source: BER

Low business confidence has had pronounced effect on investment spending...



Source: BER/Stats SA

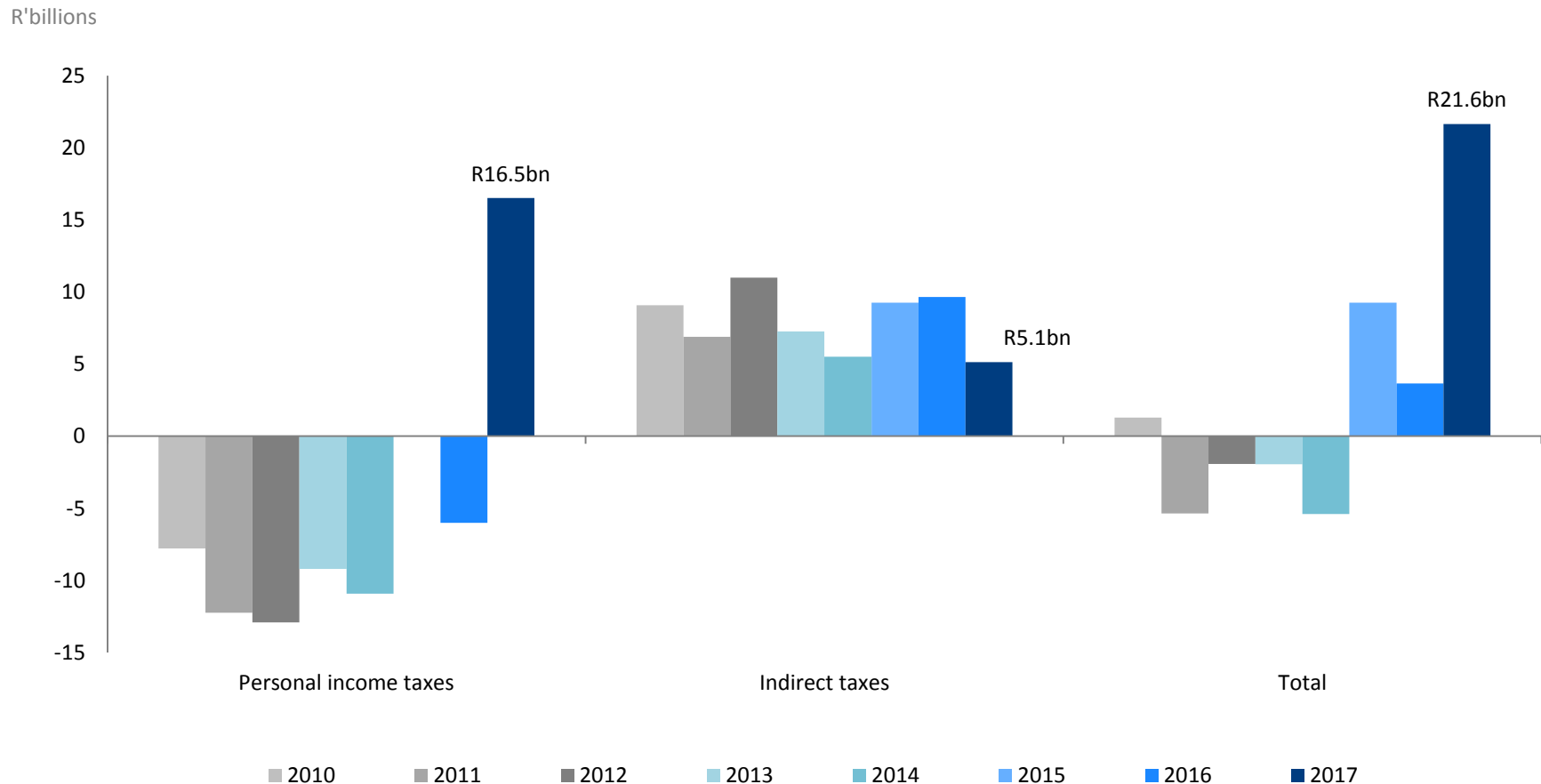
Uncertainty regarding key upcoming events adding to lower confidence...

– MTBPS (25 October)

- First by Fin. Min.
- Used to gauge his stance re: fiscal consolidation
- YTD figures point to high likelihood of higher fiscal deficit (s) with rising concern about **contingent liabilities**
- End result: Postponement of fiscal consolidation, higher budget deficits & overall gov. debt
- **Consumer impact**: Further tax hikes (no relief for fiscal drag, VAT on fuel?) & potential further credit rating downgrade(s) will weigh on consumer income and confidence

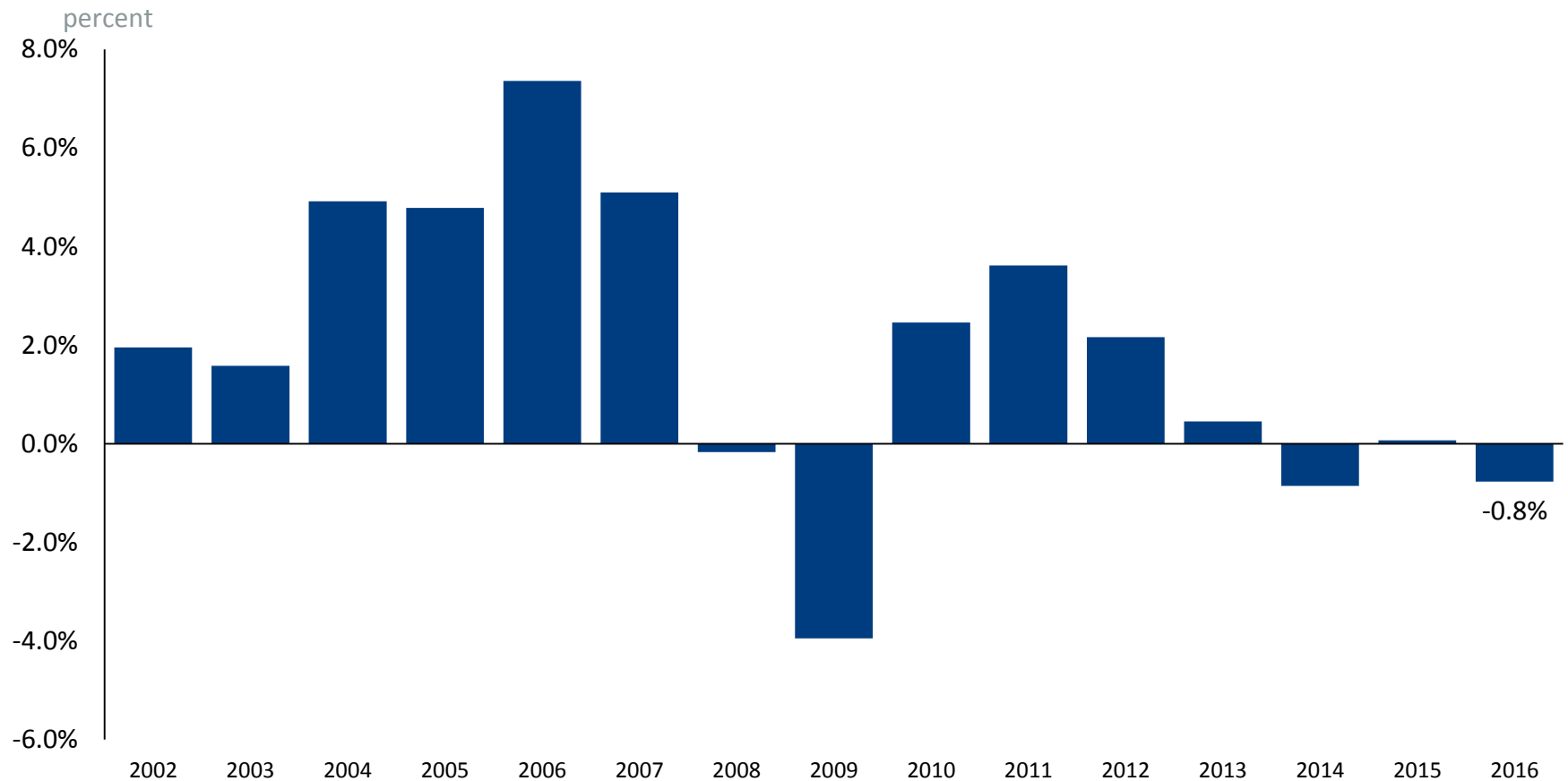
Revenue R bn	April to Aug 2016/17	April to Aug 2017/18	y-o-y %	Feb '17 Budget fcst for 2017/18 fiscal year (y-o-y %)
PIT	164	177	7.9	13.2
Companies	71.8	74.9	4.3	6.6
VAT	104.8	110.7	5.6	7.8
<i>Total tax (gross)</i>	<i>426.4</i>	<i>452.6</i>	<i>6.1</i>	<i>10.6</i>
Expenditure R bn	April to Aug 2016/17	April to Aug 2017/18	y-o-y %	Feb '17 Budget fcst for 2017/18 fiscal year (y-o-y %)
Current payments	140.4	150.9	7.5	
Transfers & subsidies	393.4	423	7.5	
Capital assets	4.7	4.6	-2.1	
<i>Total</i>	<i>543.4</i>	<i>581.1</i>	<i>6.9</i>	<i>7.8</i>

...and consumer's tax burden already noticeably higher in 2017...

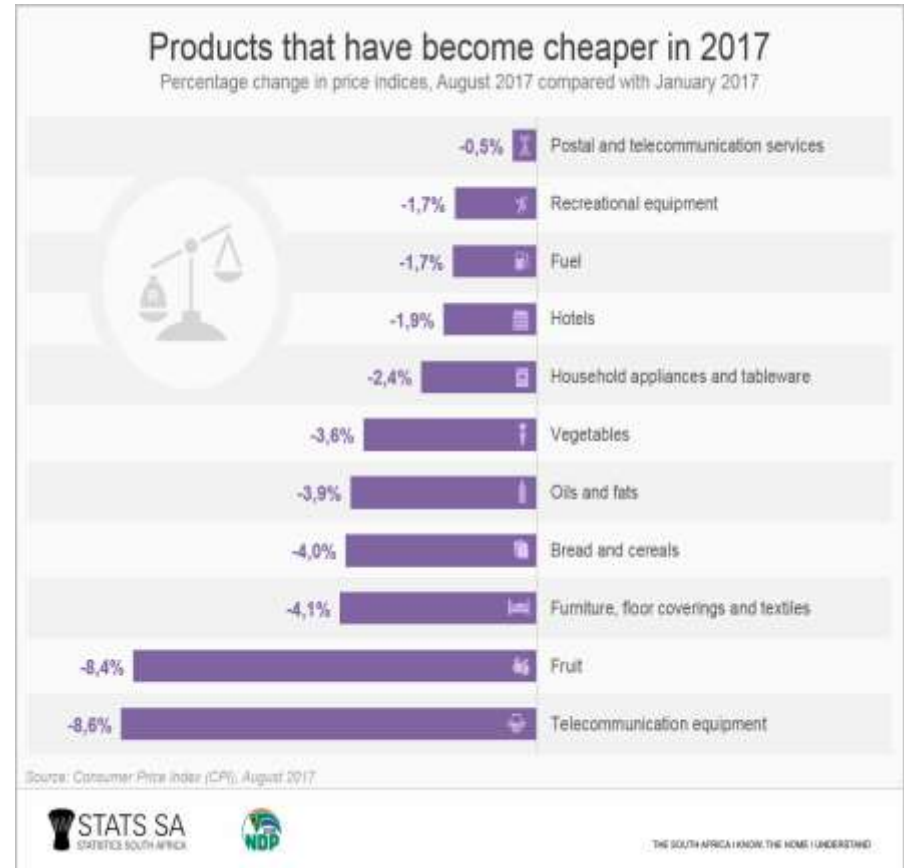
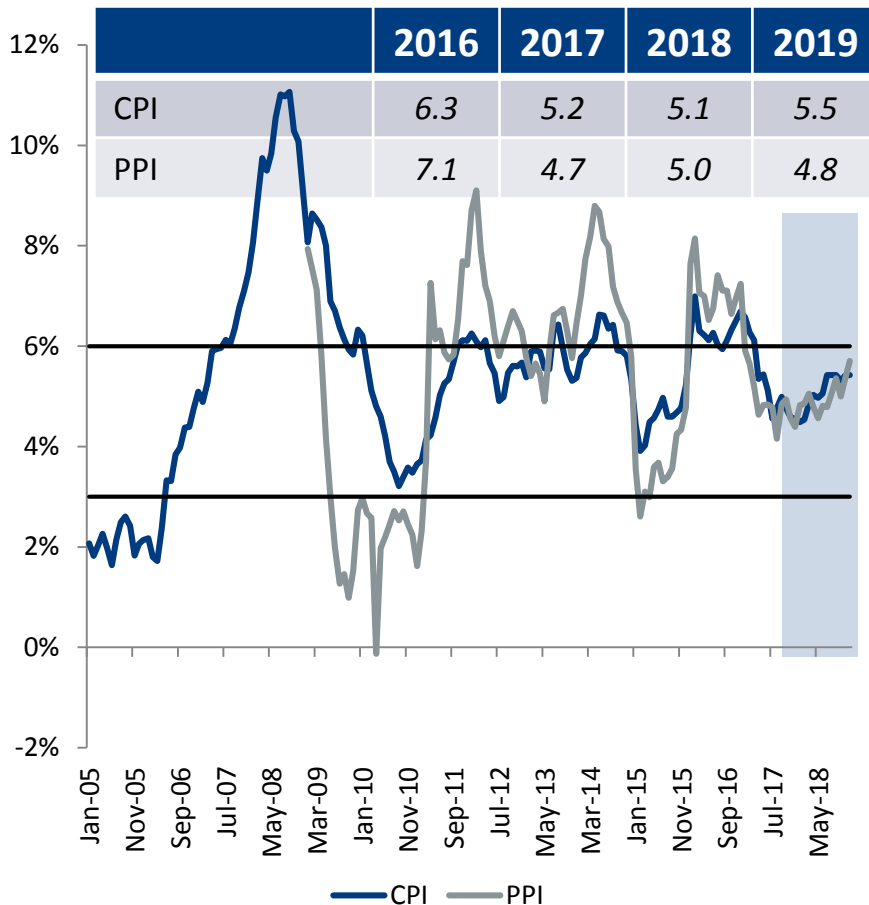


Source: National treasury

Per capita consumer spending largely flat since 2012...



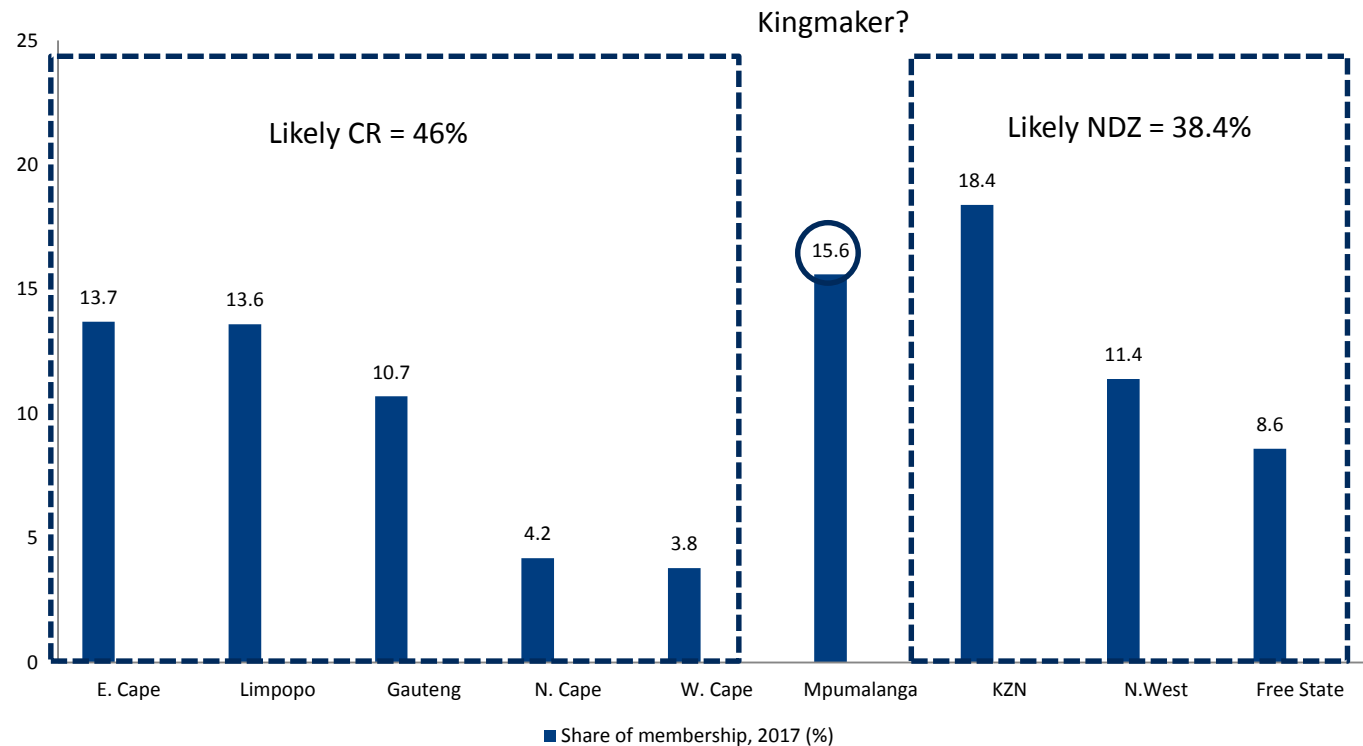
However, outlook for inflation should provide support to spending...



Source: BER/Stats SA

Significant uncertainty about the political outlook

- Provincial membership figures confirm close ANC leadership race



- Number of unknowns: Will conference take place, compromise candidate, etc
- However, branches could vote differently

...and changes often...

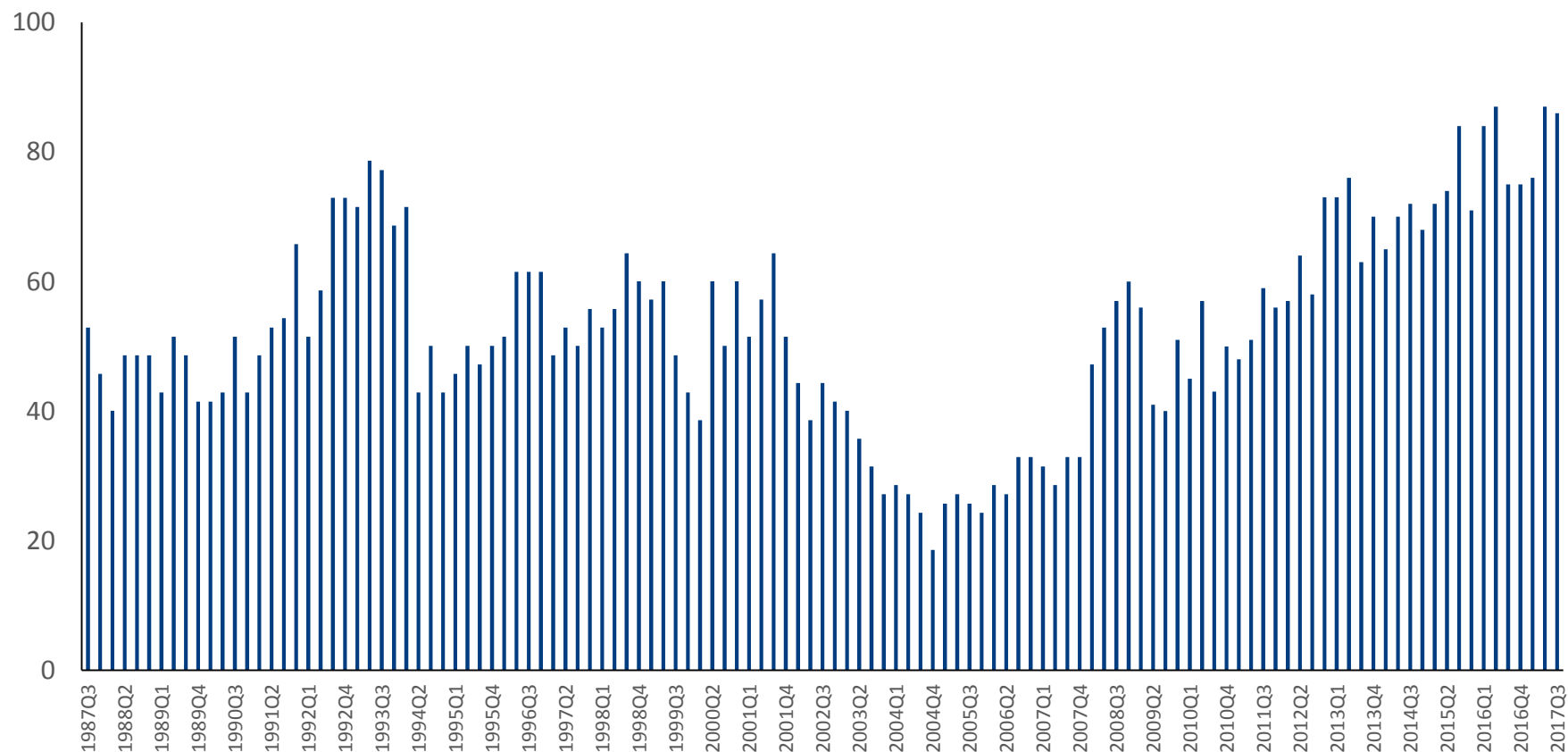
"It is a blow for Zuma politically. You will remember that the ANC recalled Thabo Mbeki based on a High Court ruling that didn't directly implicate him in criminality but found that Mbeki had interfered in Zuma's prosecution. This ruling was later overturned by the SCA (Supreme Court of Appeals), but the ANC still dismissed Mbeki based on the strength of the High Court ruling. This judgement is much stronger – this is a SCA ruling that technically reinstates corruption, fraud and racketeering charges against a sitting president.

It should weaken him and provides enough grounds to recall him. Will the ANC NEC do it? Probably not, Zuma is politically stronger than Mbeki was but it does weaken his camp and his case for his successor to win at the end of the year at the ANC conference. It definitely gives impetus for his opponents, or the opponents of Nkosazana Dlamini-Zuma, to get rid of the president."

Adriaan Basson, editor of News24

On the political environment...

Manufacturers: General political climate a business constraint (percent)



Source: BER/Stats SA

SA macro outlook in a nutshell

	2016	2017	2018
		BER	
GDP	0.3	0.6	0.9
Consumer spending	0.8	0.9	1.3
Fixed investment	-3.9	-1.3	-0.8
Private sector	-6.8	-2.2	-0.4
Inflation	6.3	5.2	5.1
R/USD (end 4 th qrt)	13.9	13.8	14.2
Current account balance (% of GDP)	-3.3	-2.3	-2.3
Fiscal deficit (% of GDP)	-3.3	-3.9	-3.7

Risks tilted to the downside...

Positive

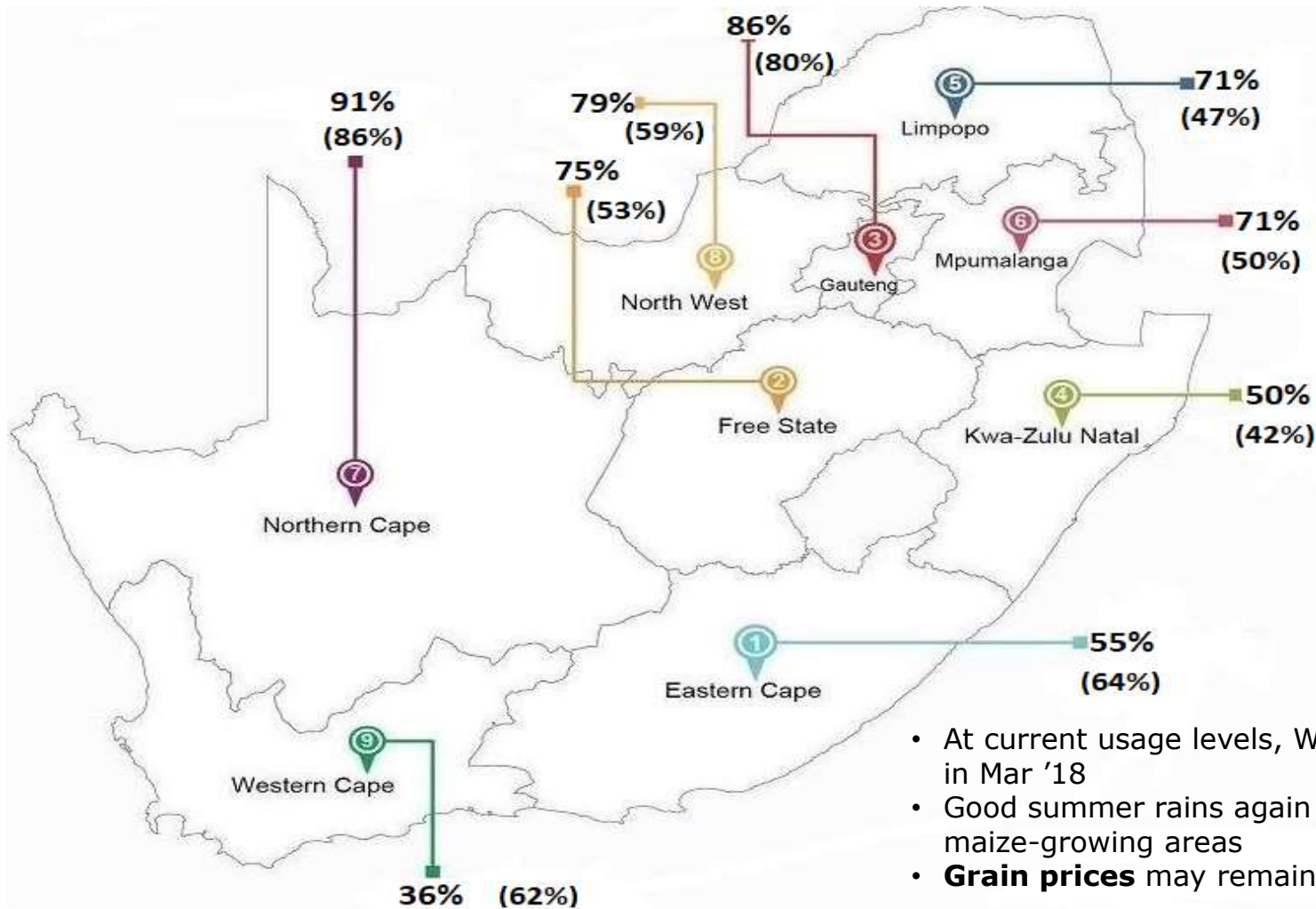
World Economic Growth
SA inflation
RSA exits technical recession
SA interest rates?
Agriculture?

Negative

Fiscal dilemma
Financial position of SOE's
Political circumstances
Business confidence
Consumer confidence
Possibility of further downgrades
Global interest rates?
Drought in W&E Cape

Outcome of key events could either lift or dramatically lower growth outlook for 2018 and beyond.

Other notable risk: Western Cape drought (Average dam levels, week ending 2 Oct (2016 in brackets))



- At current usage levels, WC could run dry in Mar '18
- Good summer rains again expected in maize-growing areas
- **Grain prices** may remain subdued in '18

Economic information that works for you

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