



Figure 1: SARB Leading Indicator vs Business Cycle

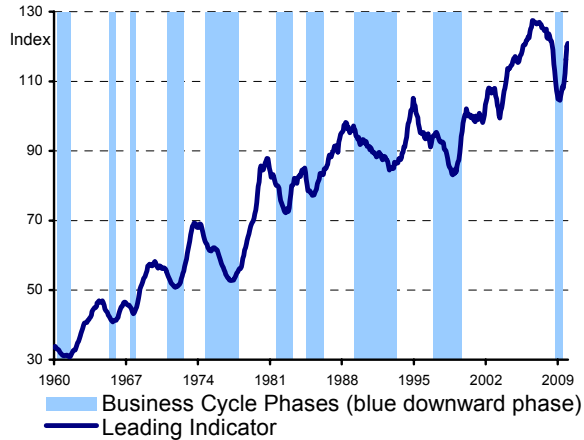


Figure 2: SARB Leading Indicator vs GDP

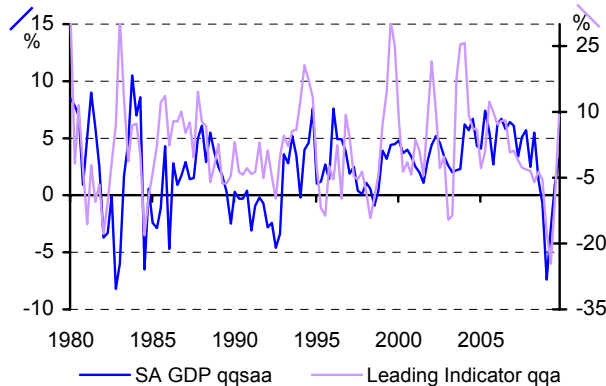


Figure 3: Seasonally adjusted, annualised and annual real growth rates (%) respectively

	Q4.09 qqsa	Q3.09 qqsa	Q2.09 qqsa	2009 y/y
Primary Sector	0.9	-7.6	5.1	-6.0
Agriculture	-7.6	-11.8	-15.8	-3.2
Mining	4.6	-5.8	15.8	-7.2
Secondary Sector	8.1	7.0	-6.9	-7.2
Manufacturing	10.1	7.6	-11.1	-10.7
Electricity/Water	0.9	4.2	1.9	-0.5
Construction	3.6	6.1	8.7	7.8
Services Sector	2.3	0.8	-1.7	1.1
Wholesale/Retail Trade	-0.7	-1.1	-5.9	-2.9
Transport & Communication	1.9	1.2	-1.0	0.5
Finance/Real Estate	1.1	-1.5	-3.8	1.3
Personal Services	3.1	3.5	3.3	2.7
General Government	7.0	4.9	3.1	4.2
Taxes less subsidies	0.7	-3.4	-6.9	-4.1
GDP @ Market Prices	3.2	0.9	-2.8	-1.8
- Excluding Agriculture	3.8	1.8	-2.0	-1.5

qqsa: Quarter/quarter, seasonally adjusted, annualised
GDP: Gross domestic product.

Executive Summary

- The SA economy saw growth strengthen in Q4.09 to 3.2% qqsa after Q3.09's weak 0.9% qqsa. Despite the pick-up in domestic growth, a sharp, V shaped recovery remains unlikely in SA (we do not expect a further tripling in the economic growth rate in Q1.10) due to its heavy dependence on global demand and the high degree of job losses and company failures last year;
- Removing the annualisation component, the GDP growth outcome for Q4.09 would have been 0.8% quarter-on-quarter, seasonally adjusted. The numbers are annualised to indicate what the outcome would have been for the year should each quarter have recorded exactly the same degree of growth compared to the previous one;
- The manufacturing sector made the largest contribution, accounting for close to half of the 3.2% qqsa outcome, while the government sector made up most of the remainder. Further sharp inventory build-up likely occurred, but this cannot be sustained if global demand does not strengthen on a continual basis;
- On a year-on-year basis, the fourth quarter of 2009 saw GDP fall by 1.4%, due to marked contractions in activity from the manufacturing, mining and construction sectors. The outcome for 2009 as a whole was -1.8% y/y, versus our expectation of -1.9% y/y;
- SA's better than expected GDP quarterly outcome (of 3.2% qqsa) likely closes the door on any further interest rate cuts, and potentially strengthens the chance of the first rate hike (we expect a 50bp hike in October).

Analysis

Primary Sector: Growth in mining and quarrying production was mainly due to the increase in the mining of other metal ores (including platinum). Rising commodity prices and recovery in global demand bode well for the sector. The agricultural sector recorded its fourth consecutive quarterly production decline, reflective of weak domestic demand and price deflation at the producer level.

Secondary Sector: Manufacturing growth was led by strong growth in the motor vehicles, parts and accessories and transport equipment division, the basic iron and steel, non-ferrous metal products, metal products and machinery division and the petroleum, chemical products, rubber and plastic products division. The strong growth in construction continued, driven by government and parastatal capital investment.

Tertiary Sector: The finance, real estate and business services sector was the largest industry in the fourth quarter, accounting for 21.1% of the total. Government's countercyclical fiscal policy through increased spending on infrastructure, wages and social grants contributed to the improvement in economic activity.

Outlook

We expect to see that the demand side lagged the supply side of the economy when the Q4.09 Reserve Bank Quarterly Bulletin data is released. In particular, inventory rebuilding (supply side of the economy) is fuelling strong economic growth, 10.1% qqsa, in the manufacturing sector. However, rand strength, particularly likely against the Euro this year due to the fiscal problems of its PIGS (Portugal, Ireland, Greece, Spain) members could curb demand for SA exports. Today's GDP data will be important in boosting business and consumer confidence, which are in turn important for underpinning the recovery, and the retail sector is likely to see positive growth resume in Q1.10. We expect Q1.10 to record a similar growth rate to Q4.09, at 3.3% qqsa and Q2.10 3.9% qqsa, with 4.6% qqsa in Q3.10.



SA Economic Research GDP Update

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