SA Economic Research
GDP Update

24th November 2009

Figure 1: SARB Leading Indicator vs Business Cycle

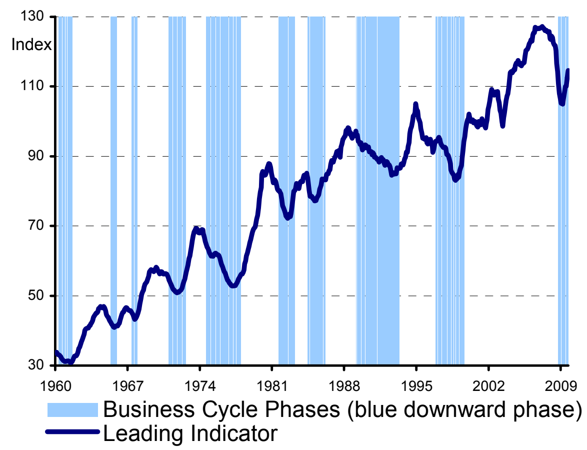

Figure 2: SARB Leading Indicator vs GDP

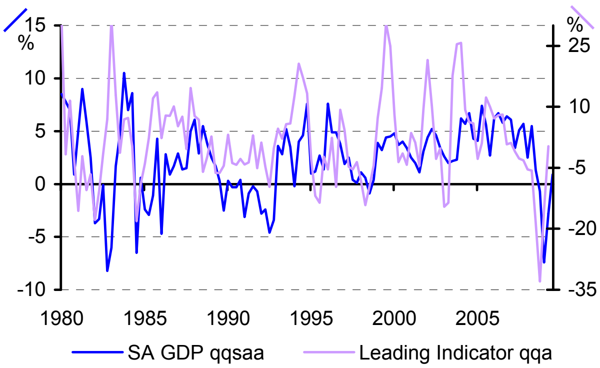

Figure 3: Seasonally adjusted, annualised and annual real growth rates (%) respectively

	Q3.09 qqsaa	Q2.09 qqsaa	Q1.09 qqsaa	2008 y/y
Primary Sector	-7.0	6.0	-23.4	**-1.2**
Agriculture	-9.8	-13.1	-3.7	10.9
Mining	-5.8	15.8	-30.7	-5.4
Secondary Sector	7.0	-6.9	-19.4	**3.4**
Manufacturing	7.6	-11.1	-25.5	2.7
Electricity/Water	4.2	1.9	-8.1	1.0
Construction	6.1	8.7	10.7	9.3
Services Sector	0.8	-1.7	-0.9	**4.7**
Wholesale/Retail Trade	-1.1	-5.9	-2.4	1.1
Transport & Communication	1.2	-1.0	-2.1	3.9
Finance/Real Estate	-1.5	-3.8	-2.3	7.9
Personal Services	3.5	3.3	2.7	3.6
General Government	4.9	3.1	2.1	4.2
Taxes less subsidies	-3.4	-6.9	-6.4	2.3
GDP @ Market Prices	**0.9**	**-2.8**	**-7.4**	**3.7**
- Excluding Agriculture	**1.8**	**-2.0**	**-7.6**	**3.7**

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

Executive Summary

- The SA economy emerged from recession in Q3.09 after three successive quarters of contraction, which marked the first recession since 1992. The economy grew by 0.9% qqsaa (-2.8% qqsaa previously), higher than consensus estimates of 0.5% qqsaa;
- There was a marked improvement in manufacturing production, we believe due to inventory accumulation, and government services. Negative contributions came from the finance, real estate and business services, and the mining sectors. Domestic demand driven sectors (wholesale and retail) were still in recession, indicative of the fragility of the demand side of the economy;
- The latest GDP data is ahead of indications from the SARB's composite leading indicator, which has been on an upward trajectory since April. In September, the leading indicator recorded 114.6, from a low of 104.9 in March, indicating that economic activity should gain traction in early 2010, although still below recent historical averages;
- SA's better than expected GDP outcome closes the door on any further interest rate cuts, and potentially brings the timing of the first rate hike closer (we expected a 50bp hike in October 2010). While the economy technically left recession in Q3.09 on the basis of the data published by Statistics SA today, a sharp, V shaped recovery is unlikely in SA due to its heavy dependence on global demand; and the degree of job losses and company failures to date.

Analysis

Primary Sector: Mining and quarrying production contracted by 5.8% qqsaa (+15.8% qqsaa previously) due to production stoppages resulting from industrial action, routine maintenance and mine accidents. Rising commodity prices and nascent signs of recovery in global demand bode well for the sector. The agricultural sector recorded its third consecutive quarterly production decline reflective of slowing domestic demand due to the recession and price deflation at the producer level.

Secondary Sector: Manufacturing production grew for the first time since Q2.08, driven by strong growth in petroleum, basic metal and steel industries. Most of this growth is likely to be inventory build up, as indicated by the PMI data. Growth prospects for the sector will largely depend on the global recovery and the rand exchange rate will also be key. Growth in the construction sector continues to remain relatively strong supported mainly by government's infrastructure investment projects.

Tertiary Sector: The tertiary sector grew somewhat due to growth in general government services and personal services. Government's countercyclical fiscal policy through increased spending on infrastructure, wages and social grants contributed to the improvement in economic activity.

Benchmarking and Rebasing: The base year has changed from 2000 to 2005. This process has resulted in a revision of the growth rates between 2002 and 2008.

Outlook

Today's GDP data will be important in boosting business and consumer confidence, which are important for the recovery. While the recession is technically over, we remain cautious about the pace of the recovery as key production sectors are still weak. The economy may slip back into a recession on a technical basis for one quarter. Domestic demand is still fragile and a recovery on that front will be impeded by rising job losses.

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