



Business cycle: economic growth outlook weakens for 2019, but leading indicator shows some improvement could be on horizon for 2020

25th June 2019

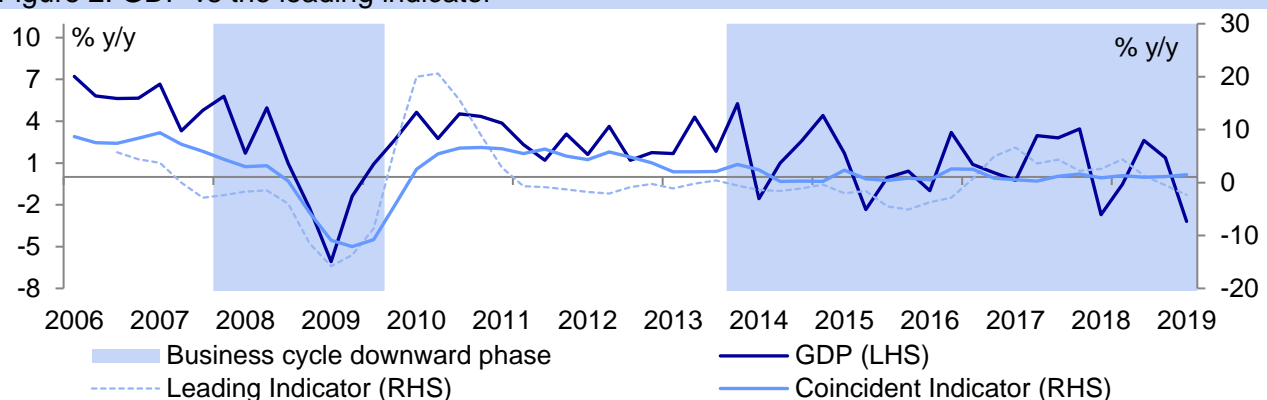
Figure 1: Summary of the composite business cycle indicators*

	2018					2019				
Indices 2015 = 100	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	
Leading indicator	105.1	104.8	105.3	105.3	104.7	103.1	105.5	104.8	105.5	
12-month % ch	1.8	0.1	-0.2	-0.3	-1.1	-3.2	-2.2	-1.6	-0.3	
Coincident indicator	104.19	104.33	104.8	105.1	104.47	104.23	104	104.36	-	
12-month % ch	0.7	1.0	1.2	0.8	1.1	1.4	1.4	1.5	-	
Lagging indicator	94.2	94.4	93.4	92.4	95.0	93.8	95.2	94.1	-	
12-month % ch	-2.0	-2.5	-2.5	-3.1	0.4	-0.8	-0.1	-0.6	-	

Source: SARB. The historical data is subject to revision

- April 2019's leading business cycle indicator, released today from the South African Reserve Bank, rose to 105.5, versus 104.8 in March, with the indicator around 105 for the three months of February to April this year, up from 104.5 in Q1.19.
- Given the six month lead (between leading indicator readings and GDP growth), this provides the first reading for Q1.20, pointing to potentially improved economic performance in that quarter, although it is just one month's reading and another two data points are required before the quarter can be fully assessed.
- This year, we now expect GDP growth to come out nearer 0.7-0.9% y/y, versus the 1.3% y/y we forecast at the start of Q2.19, with Q1.19 seeing a much larger than expected contraction (-3.2% qqsaa).
- Q2.19 will likely see a strong seasonal rebound from the first quarter's contraction, with a contraction (in seasonally adjusted real GDP) in the first quarter of the year proving to be a statistical feature since 2016 that needs investigation from Statistics SA, possibly on deseasonalisation effects. Indeed it has been a developing trend since 2014, as economic growth has weakened from 2.5% y/y in 2013.
- The MPC is expected to cut the repo rate in July, having already extensively prepared markets at its last meeting, with money markets currently only factoring this cut in for later in the year.
- Globally, monetary policy is generally dovish, with the FOMC also preparing markets for lower US interest rates this year, of potentially two 25bp cuts. SA may follow its July easing with a further 25bp drop.

Figure 2: GDP vs the leading indicator



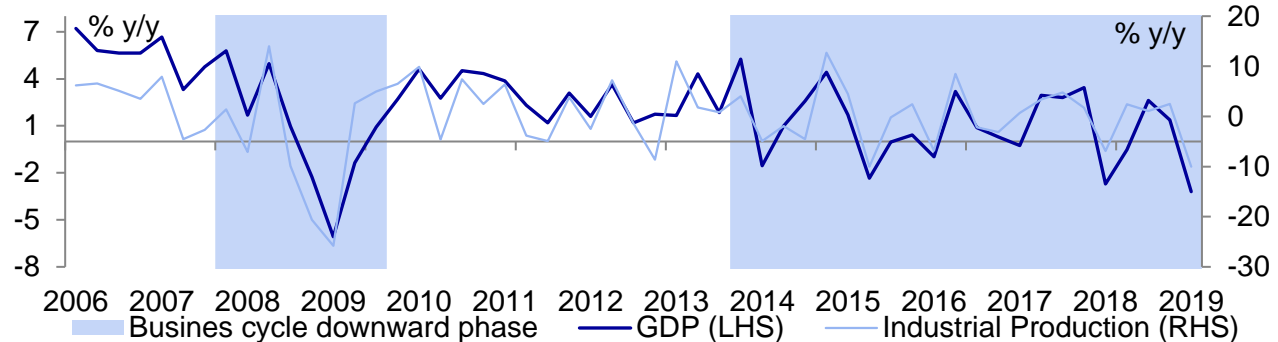
Sources: SARB, Stats SA



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Figure 3: GDP vs Industrial Production



Sources: SARB, Stats SA

- Five of the leading indicator’s ten available sub-components made positive contributions: number of building plans approved (for flats, town houses, houses over 80 m²), job advertisements, number of new passenger vehicles sold, real M1 and the BER’s average hours worked per factory worker in manufacturing. Negative contributions came from the commodity price index for SA’s main export commodities, the composite leading business cycle indicator for SA’s major trading partners, the interest rate spread (ten year government bonds less 91-day treasury bills) and BER’s volume of orders in manufacturing (half weight). The BER business confidence index made a neutral contribution.
- The SARB’s business cycle remains in a downward phase on lagged effects of the deteriorating economic growth environment and weakening demand of the past several years.
- Substantially higher economic growth rates (than around 1%) are limited by weak electricity production, regulatory blockages, excessive red tape and other regulatory burdens (see “Industrial production note: GDP is likely to contract in the first quarter of this year with industrial production already falling by -10% qoq in Q1.19, while longer term, regulatory blockages can contribute to deindustrialisation in SA”, 28th May 2019, website address below).

Figure 4: Business cycle phases of South Africa since 1945

Upward phase		Months	Downward phase		Months
Post war	- July 1946	7	August 1946	- April 1947	9
May 1947	- November 1948	19	December 1948	- February 1950	15
March 1950	- December 1951	22	January 1952	- March 1953	15
April 1953	- April 1955	25	May 1955	- September 1956	17
October 1956	- January 1958	16	February 1958	- March 1959	14
April 1959	- April 1960	13	May 1960	- August 1961	16
September 1961	- April 1965	44	May 1965	- December 1965	8
January 1966	- May 1967	17	June 1967	- December 1967	7
January 1968	- December 1970	36	January 1971	- August 1972	20
September 1972	- August 1974	24	September 1974	- December 1977	40
January 1978	- August 1981	44	September 1981	- March 1983	19
April 1983	- June 1984	15	July 1984	- March 1986	21
April 1986	- February 1989	35	March 1989	- May 1993	51
June 1993	- November 1996	42	December 1996	- August 1999	33
September 1999	- November 2007	99	December 2007	- August 2009	21
September 2009	- November 2013	51	December 2013	-	

Source: SARB

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