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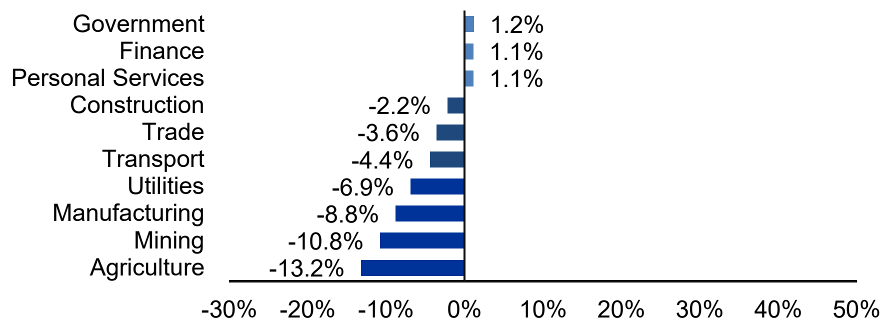
GDP Update: GDP contracted by 3.2% qqsaa in Q1.19, weighed down predominantly by the manufacturing and mining sectors

4th June 2019

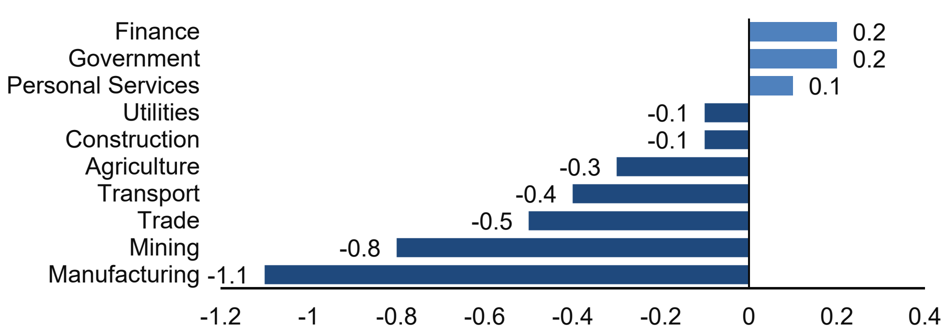
Figure 1: GDP sector performance in Q1.19 (production approach), qqsaa



Sources: Stats SA

- GDP growth contracted by a marked 3.2% on a quarter on quarter seasonally adjusted annualised (qqsaa) basis in Q1.19, compared to an increase of 1.4% qqsaa in Q4.18. This is the largest quarterly contraction since 2009 and was notably below market expectations of a 1.6% qqsaa dip. The decline was broad based with only three sectors of the economy, namely finance, general government and personal services exhibiting signs of growth. The disappointing performance was underpinned by a domestic environment plagued by weak business confidence and muted demand and was exacerbated by heightened rotational load shedding during the quarter.
- The primary sector of the economy plunged 11.4 % qqsaa, dragged down by large contractions in both mining and agricultural sector activity. That is, the mining and quarrying industry deteriorated, sliding by 10.8% qqsaa, this after falling by -3.8% qqsaa in Q4.18. Decreased production "(i)n 'other' mining and quarrying (including diamonds), iron ore and coal" was cited by Stats SA as the primary reason behind the prominent decline. Domestic mining activity continues to be hindered by operational inefficiencies and rising costs of fundamental inputs, including climbing electricity and water tariffs. Additionally, productivity concerns and declining ore grades continue to burden the sector.
- Agricultural (including forestry and fishing) activity dropped by 13.2% qqsaa, after two successive quarters of gains, underpinned by a "(d)rop in the production of field crops and horticultural products". According to agbiz "(t)he impact of a lower summer crop harvest will be more apparent in the upcoming quarters' data, and could, in the end, lead to a contraction in South Africa's agricultural economy this year".
- Combined the mining and agricultural sectors detracted -1.1% from the headline outcome.

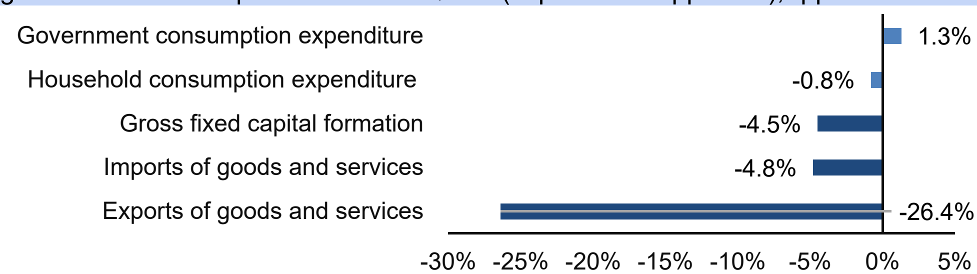
Figure 2: Contributions to Q1.19 GDP (production approach) - %



Sources: Stats SA

Lara Hodes • Investec Bank Limited • Tel (2711) 286 7257 • email: lara.hodes@investec.co.za •
http://www.investec.co.za/research-and-insights/economy/economic-research-v1.html •

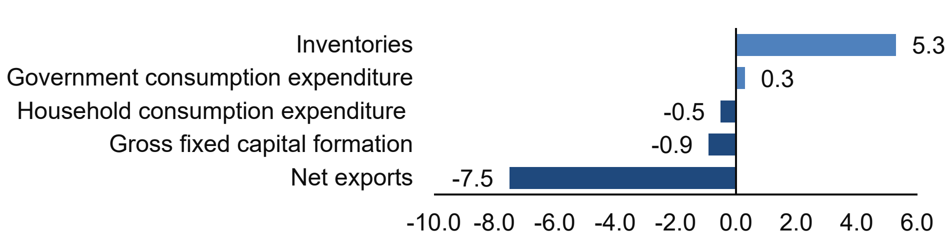
Figure 3: GDP sector performance in Q1.19 (expenditure approach), qqsaa



Sources: Stats SA

- Manufacturing sector activity contracted by 8.8% qqsaa in the first quarter, detracting 1.1% from the topline number, with "(s)even of the ten manufacturing divisions" recording negative growth. This following a 4.5% qqsaa lift in Q4.18. As such, the secondary sector of the economy fell by 7.2% qqsaa.
- The implementation of stage 4 load shedding would have adversely affected manufacturing activity in the first quarter of 2019. Additionally, softening external demand conditions, likely exacerbated by renewed trade tensions, coupled with weak domestic demand could impede manufacturing activity for the remainder of the year.
- Looking at a disaggregation of the tertiary sector of the economy, the transport sector slid by 4.4% qqsaa, this after climbing by 7.7% qqsaa in Q4.18, with declines in both the "(p)assenger and freight land transport" segments weighing on growth.
- Similarly, the trade sector fell by 3.6% qqsaa, reducing the headline GDP reading by 0.5% with diminished activity reported in wholesale trade, motor trade and retail.
- The expenditure approach to measuring GDP dropped by a significant 3.6% qqsaa in Q1.19, this following an increase of 1.6% qqsaa in Q4.18.
- Net exports had the largest negative impact on the headline outcome, detracting a marked 9.0%, followed by gross fixed capital formation and household consumption expenditure, which reduced the overall reading by a further 0.9% and 0.5% respectively. Household balance sheets have deteriorated owing to a decline in net wealth and a marked increase in household debt.
- Conversely, "(a)n R11,6 billion drawdown of inventories", occurred in Q1.19, according to Stats SA which was "(c)onsiderably smaller than the drawdown of R53,9 billion in the previous quarter". As a result, "(t)he change in inventories component made a positive contribution", adding 5.3% to the growth rate.
- The effects of perceived domestic political and policy uncertainty have weighed on sentiment and been a contributing factor to SA's lacklustre economic performance. However, the President, following a favourable election outcome, together with his newly elected cabinet are expected to move ahead ambitiously with reforms that drive growth, reduce unemployment and foster an environment conducive to fixed investment. Improving the ease of doing business remains key in this regard, together with the constant revision and successful, transparent implementation of key policies. This, in order to foster policy certainty amongst South Africans and propel a lift in business sentiment.

Figure 4: Contributions to Q1.19 GDP (Expenditure Approach) - %



Sources: Stats SA

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