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Business cycle: leading indicator lifts for two months, indicating that Q3.20 could see an improvement in economic activity over Q2.20

Tuesday 21 January 2020

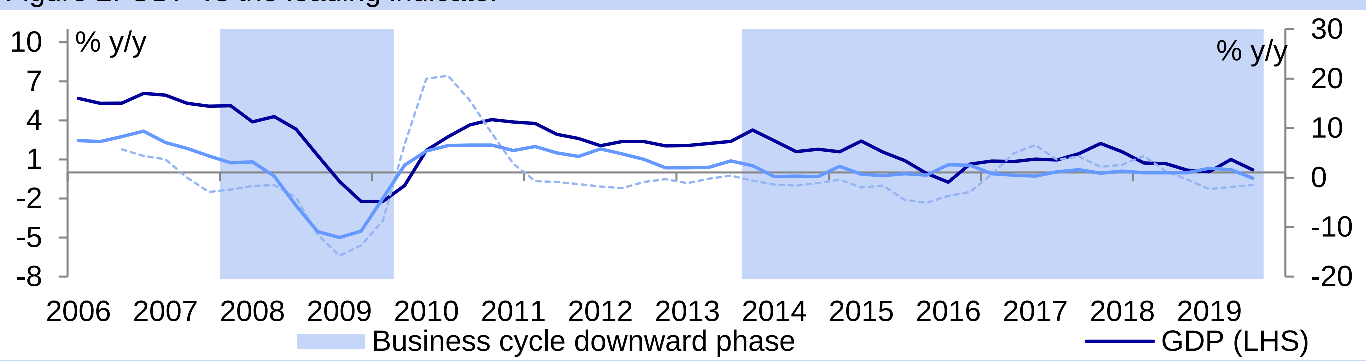
Figure 1: Summary of the composite business cycle indicators*

	2019								
Indices 2015 = 100	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov
Leading indicator	105.1	105.5	103.9	103.3	103.9	103.9	103.2	103.9	104.4
12-month % ch	-1.7	-0.8	-1.8	-3.0	-1.6	-1.2	-1.8	-1.7	-0.9
Coincident indicator	105.0	105.5	105.7	105.3	104.7	104.1	104.4	104.9	-
12-month % ch	1.9	2.9	2.3	1.6	0.9	0.1	-0.1	-0.3	-
Lagging indicator	94.2	94.9	96.0	95.6	95.4	96.3	95.3	96.2	-
12-month % ch	-0.4	0.4	1.8	1.2	1.0	2.2	1.1	2.8	-

Source: SARB. The historical data is subject to revision

- November 2019's leading business cycle indicator, released today by the South African Reserve Bank, lifted to 104.4 from 103.9 in October, and a reading of 103.2 in September 2019.
- The around six-month lead (between the leading indicator readings and GDP growth) indicates Q3.20 GDP is on track to see a more healthy performance than that of Q2.20. While there are only just two figures (months) in the Q4.19 reading so far, they nevertheless are cheering after the Q3.19's leading indicator indicated a slowdown in economic activity in Q2.20, worrying as Q1.20 GDP risks contraction.
- Improvements in Q2.20 GDP growth would dovetail with the lift in private sector fixed investment that occurred notably from Q2.19 as the lags before the additional productive capacity fully bears fruit for the economy can take over a year. Private business enterprises saw capital expenditure growth rates of 15.8% qqsaa in the second quarter of 2019, and 10.8% qqsaa in Q3.19 (see "Q1.20 Macro-economic outlook 2020–2025", 10th January 2020, see website address below).
- More good news has come through on a recent turn around in the leading party's stance to one supportive of both private sector energy producers and renewable energy feeding onto the grid, to improve the security of the supply of electricity in SA, and so allow faster GDP growth.
- Additionally, South Africa's President announced yesterday that State "(o)fficials and managers must possess the right financial and technical skills and other expertise. We are committed to end the practice of poorly qualified individuals being parachuted into positions of authority through political patronage".
- SA's business cycle leading indicator may prove patchy at times but an upwards trend is expected to become more sustainable, particularly as global economic activity could improve this year.

Figure 2: GDP vs the leading indicator



Sources: SARB, Stats SA

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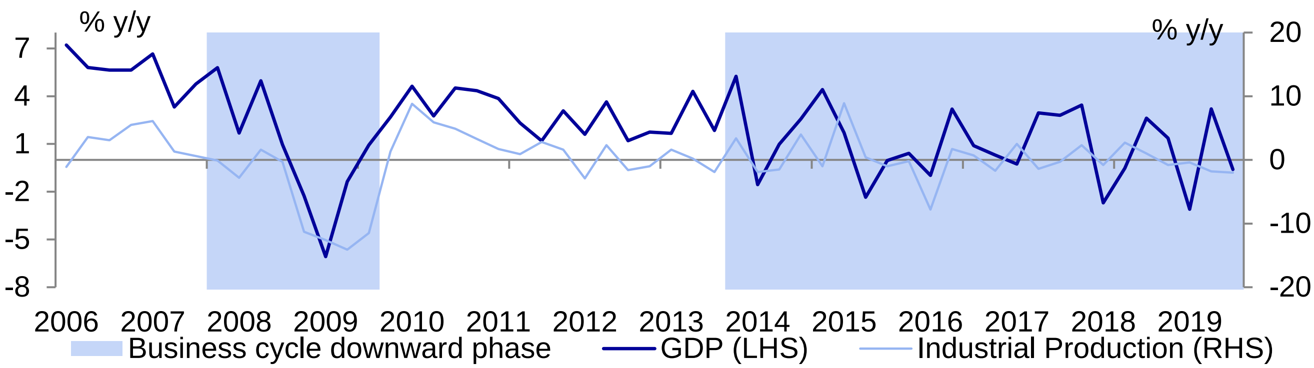
Figure 3: GDP vs Industrial Production



Sources: SARB, Stats SA

- President Ramaphosa added that "(a) capable state starts with the people who work in it. … There should be consequences for all those in the public service who do not do their work. … A capable state also means that state owned enterprises need to fulfil their mandates effectively and add value to the economy."
- Six of the available components of the leading indicator showed positive contributions in November, namely job advertisements, the BER Business Confidence Index, the composite leading business cycle indicator for SA's major trading partners, the BER's volume of orders in manufacturing (half weight), the BER's average hours worked per factory worker in manufacturing and the interest rate spread (ten year government bonds less 91-day treasury bills).
- Negative contributions came from the number of building plans approved (for flats, town houses, houses over 80 m2), the real M1, the number of new passenger vehicles sold and the commodity price index for SA's main export commodities.

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 1964	-	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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