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*

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

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.
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.
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