

Quarterly Economic Brief

December 2015

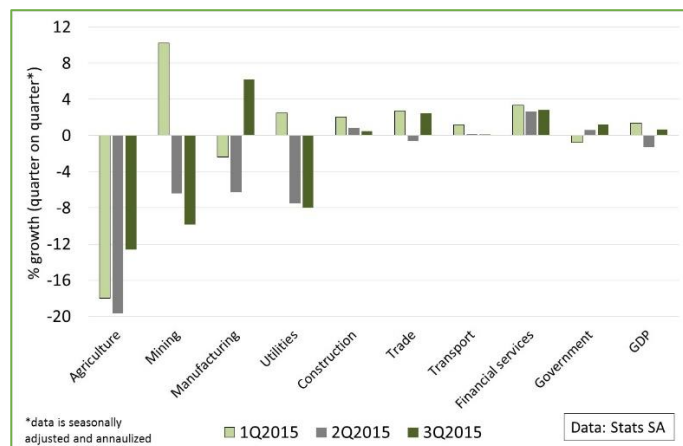
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Growth

The South African economy grew by a modest 0.7 per cent on a seasonally adjusted and annualised basis in the third quarter, compared to the previous quarter. This follows the 1.3 per cent contraction in the second quarter. When compared to the third quarter of 2014, the economy grew by 1 per cent, its slowest year-on-year growth rate since 2009. Over the first 9 months of the year the economy recorded growth of 1.5 per cent.

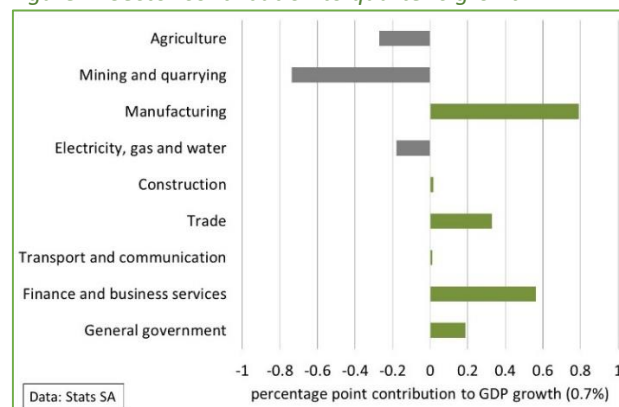
Figure 1: Economic performance by sector



The mining and agriculture sectors experienced significant contractions in the third quarter. Compared with the previous quarter, mining output contracted by 9.8 per cent. This was primarily due to a 6 per cent decline in iron ore production and a 7.5 per cent decline in Platinum Group Metals production. Average platinum prices also fell by 12.2 per cent compared with the previous quarter. Agricultural output contracted for the third successive quarter – by 12.6 per cent. Compared with the first nine months of 2014, the sector contracted by 7.3 per cent.

The manufacturing, financial services, and trade sectors added to the quarter's growth, while the agriculture, mining, and electricity sectors subtracted.

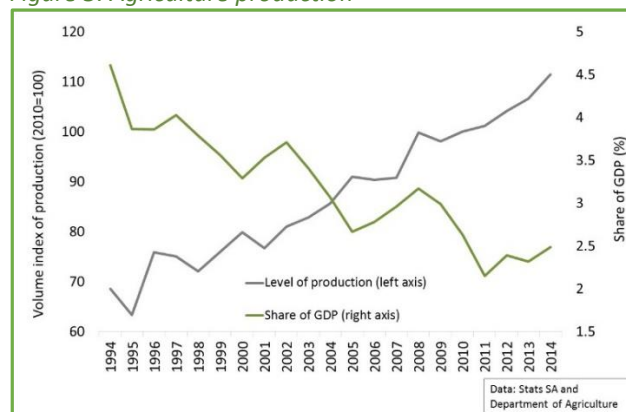
Figure 2: Sector contribution to quarter's growth



Agriculture

The 12.6 per cent contraction over the quarter marks the third successive contraction for the sector. The poor performance is, in part, due to dry weather conditions experienced during the planting and growth season. The continuing severe drought, experienced in many parts of the country is likely to adversely affect agricultural output in the coming quarter.

Figure 3: Agriculture production



While the sector has experienced a steady increase in output since 1994, its contribution to GDP has been in decline, falling from 4.6 per cent in 1994 to under 2.5 per cent today. Investment in the sector – despite only modest growth in output – has increased over the last few years.

Electricity

The electricity, gas and water sector shrunk by 8 per cent over the last quarter, following the previous quarter's 7.5 per cent contraction. As the electricity industry is considerably larger than the other utilities (gas and water), it has a disproportionate effect over the overall sector's performance. The poor performance of the sector can be attributed to both

declining demand and the volume of electricity produced over the period. Electricity produced over the first 9 months of 2015 was 1.2 per cent lower than the same period in 2014, and 4.5 per cent lower than 2007 – the year prior to the beginning of the electricity crisis.

Figure 4: Electricity available for distribution in South Africa



Employment

According to the Quarterly Labour Force Survey (QLFS) for the third quarter, the official unemployment rate remains close to 25 per cent. The broad – or expanded – unemployment rate, which includes discouraged job-seekers, is estimated at 34.4 per cent, 1.4 per cent lower than the same period last year.

The QLFS estimates the size of the labour force, as well as the number of people employed, has increased when compared with the previous quarter, as well as the same period last year.

Table 1: Key labour statistics

	3Q 2015	2Q 2015	3Q 2014
Labour force ('000s)	21 246	20 887	20 268
Employed	15 828	15 657	15 117
Unemployed - official	5 418	5 230	5 151
Unemployed - broad*	8 304	8 378	8 436
Not economically active ('000s)	14 867	15 068	15 221
Discouraged job-seekers	2 226	2 434	2 514
Other (not economically active)	12 641	12 634	12 707
Rates			
Official unemployment rate (narrow)	25.5%	25.0%	25.4%
Broad unemployment rate*	34.4%	34.9%	35.8%

**The broad unemployment rate includes discouraged job seekers

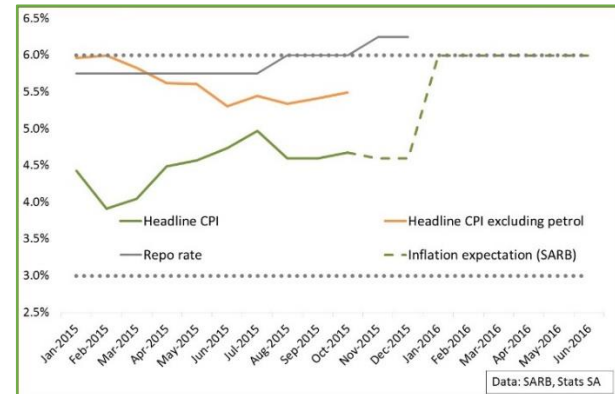
Data: Quarterly Labour Force Survey, Stats SA

While the formal sector accounts for the largest share of total employment (about 70%), the informal sector has added more jobs in recent years. The informal sector added 385 000 jobs over the past 24 months compared with the formal sector which added 150 000 jobs. This may indicate an informalisation of the labour market in the context of limited formal employment opportunities. The most recent Quarterly Employment Survey also indicates tepid growth in formal sector employment. While the results of the third quarter QLFS indicate an improvement in the labour market, like other survey statistics these estimates are subject to certain errors. Future estimates will reveal whether the estimated decline in unemployment accurately reflects labour market changes.

Inflation

Headline inflation – as measured by the consumer price index (CPI) for all urban areas – has averaged 4.5 per cent for the first ten months of the year (October: 4.7%), remaining beneath the 6 per cent upper band of the SARB's target range. This is mainly attributable to the significant decline in oil prices since mid-2014 – the SARB expects the oil price to remain around US\$55 a barrel over the next 14 months. It also expects inflation to average 4.6 per cent for the current year, and 6 per cent in 2016; breaching the upper bound of the target in the first quarter of 2016.

Figure 5: Inflation and monetary policy



At its November MPC meeting, the SARB increased interest rates by 25 basis points to 6.25 per cent (the prime lending rate is 9.75%). This follows the 25 basis points hike at the July meeting. The SARB noted that while the inflation forecast hasn't changed, the risks to inflation have increased, prompting it to increase the repo rate. These risks included the impact on food prices from the drought, a possible increase to electricity tariffs arising from Eskom's application to NERSA, as well as further rand weakness from policy normalisation in the US (see PBO June 2015 Quarterly Economic Brief). The Rand has depreciated 13 per cent against the US dollar over the third quarter, and over 35 per cent since the beginning of the year.

Outlook

In the 2015 MTBPS, National Treasury lowered its growth forecast for 2015 to 1.5 per cent, down from the 2 per cent forecast in the Budget Review in February. The revised forecast is broadly in line with that of other agencies. However, for 2016 National Treasury's appears to be more optimistic compared with other agencies (with the exception of the World Bank which is still to update its forecast).

Table 2: SA growth outlook

GDP Growth Outlook	2015	2016	2017	2018
National Treasury - MTBPS	1.5%	1.7%	2.6%	2.8%
South African Reserve Bank - November	1.4%	1.5%	2.1%	-
Bureau of Economic Research - October	1.4%	1.4%	2.2%	-
IMF World Economic Outlook - October	1.4%	1.3%	2.1%	2.5%
World Bank Global Economic Prospects - June	2.0%	2.1%	2.4%	-

The economy's performance for the remaining quarter will be affected by the agricultural sector's performance in the face of the drought, commodity prices and household consumption spending over the festive season. Ratings agencies Fitch and S&P are expected to release updates of the country's sovereign rating in December.