momentum investments

The Macro Research Desk


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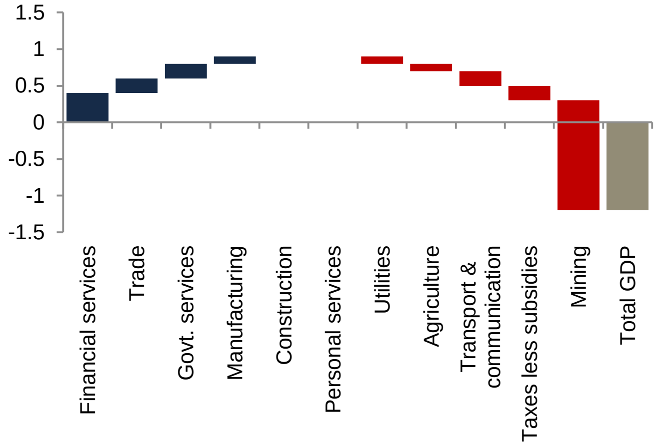
Material slowdown in real GDP growth in 1Q16

Production-side real GDP

Mining acted as the main growth detractor in 1Q16

Stats SA reported a material slowdown in real GDP growth from 0.4% q/q saar (seasonally adjusted annualised rate) in the final quarter of 2015 to -1.2% in 1Q16, significantly undershooting the consensus expectation for a 0.1% contraction. The mining sector (-18% q/q saar in 1Q16) was the main culprit behind the weak GDP print (see chart 1), while financial services (+1.9% q/q saar) and the trade (+1.3% q/q saar) sector were amongst the largest positive growth contributors in the first quarter of the year.

Chart 1: 1Q16 GDP growth contribution (% q/q saar) - production-side GDP

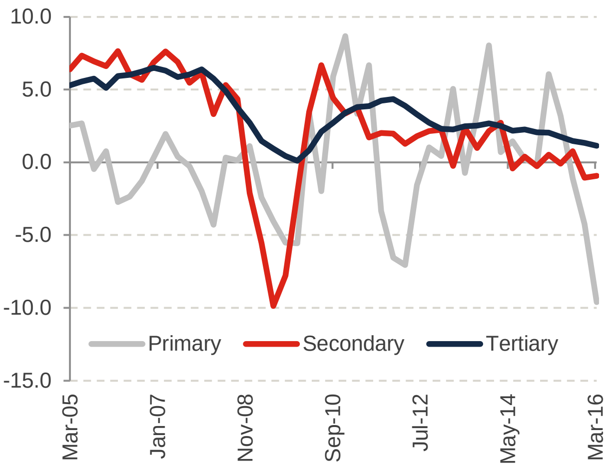


Source: Global Insight, Momentum Investments

Broad-based slowdown

Growth slowed across all three major industries (see chart 2). Severe drought conditions and weak commodity prices contributed to the slowdown in the primary sector (agriculture and mining). Growth in the primary sector contracted by 9.6% in year-on-year terms following two consecutive quarters of negative growth, while the secondary sector (construction, utilities and manufacturing) experienced its second negative growth quarter (in year-on-year terms) in 1Q16, signalling the spread of a technical recession from the primary into the secondary sector of the economy as sectors such as utilities and manufacturing came under increased pressure. Although growth in the tertiary sector remains in positive territory, growth has been slowing consistently since a recent peak in 4Q11.

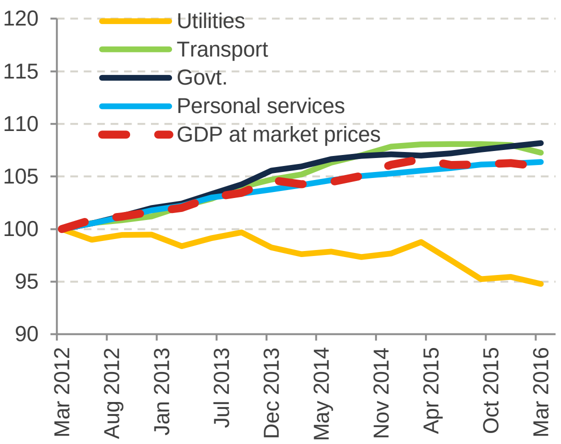
Chart 2: Broad-based GDP slowdown (% y/y)



Source: Global Insight, Momentum Investments

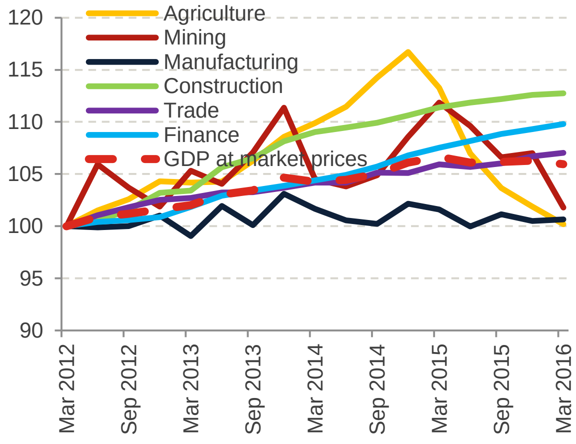
Although the public sector made a significant contribution to overall growth in the immediate years following the global financial crisis, mounting fiscal pressure has led to a loss in momentum in public sector GDP components (see chart 3). From the private-related GDP sectors, growth has been the strongest in the construction, financial services and trade sectors since 2012, while agriculture, mining and manufacturing have made few gains since then (see chart 4).

Chart 3: GDP-public industries (indexed to 1Q12)



Source: Global Insight, Momentum Investments

Chart 4: GDP-private industries (indexed to 1Q12)



Source: Global Insight, Momentum Investments

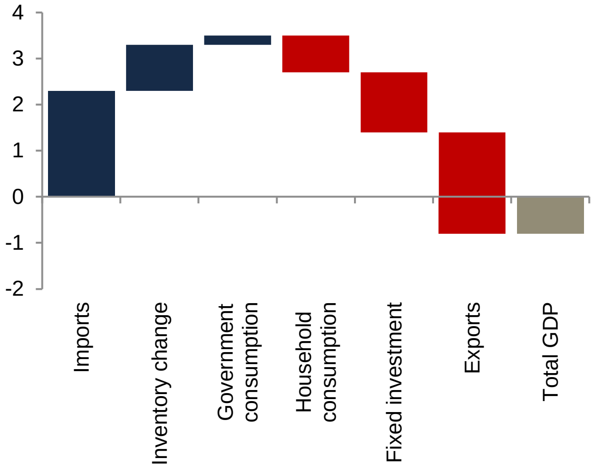
Expenditure-side real GDP

Domestic demand taking strain

Household consumption detracted 0.8% from overall GDP growth in 1Q16 (see chart 5), growing at a mere 0.9% in year-on-year terms (-1.3% q/q saar), largely as a result of a decline in car purchases. According to Stats SA, higher tourism spend (which is detracted from SA household consumption services spend) and lower services spend by SA residents further contributed to the slowdown in household consumption expenditure in the first quarter of the year. Meanwhile, higher spend on furniture and household maintenance was noted.

Stats SA reported a marginal increase in government consumption (+1.5% y/y, +1% q/q saar) on the back of a slight increase in employment growth. Given government's commitment to the expenditure ceiling, continued hiring in the public sector remains a risk to fiscal consolidation.

Chart 5: 1Q16 GDP growth contribution (% q/q saar) – expenditure-side GDP



Source: Global Insight, Momentum Investments

The 1.3% y/y (-6.0% q/q saar) contraction in fixed investment spend in 1Q16 was driven by a deceleration in spend on electrical machinery and transport equipment, while growth in residential and non-residential fixed investment remained in negative territory, reaffirming the weak building contractors' confidence levels released by the Bureau of Economic Research (BER) earlier this week.

The BER surveys suggest that the R3.4 billion build-up in inventories in the first quarter of 2016 is likely to increase further over 2Q16. Although manufacturers ran down inventory levels in 1Q16, the BER Business Confidence survey highlighted an increase in inventory levels suppressing growth in industrial production volumes.

Export growth remained muted, inching higher by 0.1% y/y (-7.1% q/q saar) in 1Q16. A weak global backdrop and soft commodity prices led to a decrease in exports of mineral products and precious metals, while the export of services recorded a positive contribution over the quarter. Meanwhile, the sizeable 3.1% y/y (-7.1% q/q saar) contraction in imports boosted overall real GDP growth and reflects the slowdown in domestic demand (+0.5% y/y).

Weak GDP view unchanged

Mounting consumer headwinds, including lower growth in real disposable income, tepid growth in employment and the potential for further interest rate increases, are likely to keep a lid on consumer spending in the near term while faltering growth in corporate profitability, depressed sentiment and elevated policy uncertainty are likely to prevent a faster acceleration in private fixed investment spend. Meanwhile, export growth continues to disappoint as weak global trade activity, soft commodity prices and infrastructure bottlenecks detract from the benefits of a weaker exchange rate.

In its latest World Economic Prospects document, the World Bank downgraded their estimate of global GDP growth from 2.9% to 2.5%. It attributed the negative revision to sluggish growth in advanced economies and the inability of commodity-exporting countries to adapt to lower commodity prices. Real SA GDP growth was revised lower to 0.6% in 2016, in line with our own internal forecast, from 0.8% in January.

We expect an improvement in energy supply and a correction in the demand-supply imbalance in global commodities to support business and investor sentiment in late 2017 and 2018 allowing for a marginal growth recovery to above 1% in 2017 and to around 2% in 2018.

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