

GDP Data comment

SA escapes technical recession as Q3 posts marginal GDP growth

Real GDP recovered in line with expectations during 2015Q3, posting growth of 0.7% q-o-q (saar¹). The modest growth follows the sharp 1.3% GDP decline in the second quarter. The implication is that SA avoided slipping into a technical recession, defined as two consecutive quarters of GDP decline. The Q3 figure was somewhat weaker than the market consensus of 1%, but in line with our view. Unlike preceding years, when the Q3 GDP data was accompanied by annual revisions to the previous figures, this has been postponed to March 2016 when the 2015Q4 data is set to be released. Stats SA also confirmed that, starting with the 2016Q1 GDP release (scheduled for early June 2016), they will present data on GDP from both the expenditure and production side in a single publication. The SA Reserve Bank will no longer be tasked with compiling the GDP expenditure figures.

Table 1: Secondary and tertiary sector recovery helps Q3 GDP

Seasonally adjusted	q-o-q % (annualised)		y-o-y %	
	2015Q2	2015Q3	2015Q2	2015Q3
Agriculture	-19.7	-12.6	-6.2	-11.3
Mining	-6.4	-9.8	5.4	1.7
Manufacturing	-6.3	6.2	-0.2	1.6
Electricity	-7.5	-8.0	-0.4	-2.6
Construction	0.8	0.5	2.2	1.7
Trade	-0.6	2.5	1.3	1.0
Transport	0.2	0.1	1.6	1.1
Financial	2.6	2.8	3.0	3.1
Government	0.6	1.2	0.8	0.5
Personal services	1.3	1.7	1.1	1.2
GDP (total)	-1.3	0.7	1.6	1.2

Source: Stats SA

Table 1 provides a breakdown of the performance of the major sectors in 2015Q3. The **primary sector** remained under immense pressure, plunging by 10.4% q-o-q. This was an even worse performance than the 9.5% decline in Q2. **Agriculture** suffered a third consecutive steep fall as drought conditions continue to spread through the economy. The sector is expected to remain a drag on overall GDP for at least the next six months as harvests are hit by the lack of rain. The **mining sector** woes deepened as the sector

¹ Seasonally adjusted and annualised. Unless stated otherwise, all numbers quoted are in saar terms.

grapples with softer Chinese demand and subsequent lower commodity prices. As with agriculture, we do not expect a quick turnaround in the sector's fortunes.

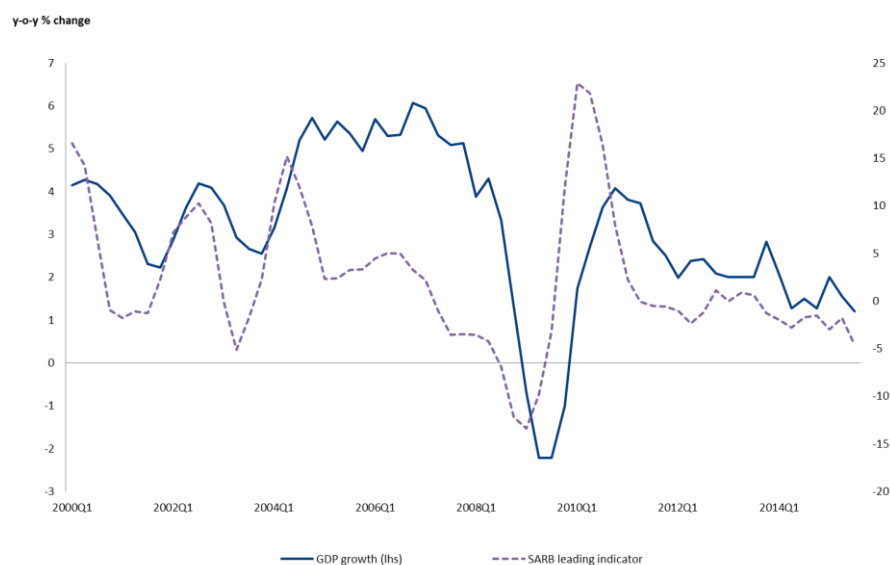
The bright spot in Q3 was the **secondary sector**, where growth rebounded to 3.3% q-o-q. This follows a steep 5.1% decline during 2015Q2. The recovery was exclusively driven by **manufacturing**, with **electricity** value added and **construction** posting an even weaker performance than was the case in Q2. It is unclear whether the factory sector can sustain the rebound in Q4. The Barclays Purchasing Managers' Index (PMI) declined to 48.1 index points in October, down from an average of 50.1 in 2015Q3. The one important positive for manufacturing – and the rest of industry – is the lack of load-shedding so far in the fourth quarter. However, broad-based demand weakness in key sectors (agriculture, mining and retail) that use manufactured goods as inputs suggest that production is likely to end the year on a subdued note.

Value added in the **tertiary sector** accelerated to 1.9% q-o-q, up from the 1% recorded in 2015Q2. While growth in the **transport** sector remained absent, all the other tertiary sub-sectors performed better. Most notably, the trade sector (retail, wholesale and motor trade, catering and accommodation) put in a much improved performance. With disposable income set to come under increased pressure as inflation ticks up and job growth remains anaemic, it is unclear whether this will be sustained.

GDP growth outlook

Assuming that the economy grows in the region of 1% q-o-q (risks on the downside) in 2015Q4, full-year 2015 growth will be at 1.3%. This is in line with our October forecast of 1.4%. The concern is that 2015 growth is likely to be even weaker than the 1.5% recorded in 2014. Given a number of headwinds facing the economy, we see very little scope for a GDP recovery in 2016. At this stage, 2016 growth is also pencilled in at 1.4%.

Figure 1: SARB leading indicator declined further in September, which does not bode well for GDP



Source: SA Reserve Bank

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