SA likely to exit technical recession in 3rd quarter

South Africa is likely to exit its technical recession in the third quarter, the Bureau of Economic Research (BER) saiid.

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“In terms of our forecast, I think that we will exit the recession in the third quarter,“ said senior economist at the BER, Hugo Pienaar.

Gross domestic product (GDP) figures for the second quarter of 2018 showed that the economy slipped into recession. According to data released by Statistics South Africa (Stats SA), the economy shrunk by 0.7% quarter-on-quarter following a revised 2.6% contraction in the first quarter of 2018.

The widely recognised indicator of recession is two (or more) consecutive quarters of negative growth.

Stats SA said the 0.7% downturn in the second quarter of 2018 was a result of a fall-off in activity in the agriculture, transport, trade, government and manufacturing industries.

Agriculture production fell by 29.2% in the second quarter of 2018, following a 33.6% slump in the first quarter. This was largely driven by a decline in the production of field crops and horticultural products.

At the release of the data at a media briefing in Pretoria, Stats SA noted that the continued drought conditions in the

Western Cape and a severe hailstorm in Mpumalanga resulted in extensive crop damage, which also placed additional pressure on production in the second quarter.

Pienaar said agriculture, which had poor numbers for two consecutive quarters, might recover in the third quarter.

“There was a decline in inventories. I would expect that we get a positive print in the third quarter. While it may not be a great print, I think we will exit the recession the third quarter,” he said.

Commenting on the data, Pienaar said while the BER expected poor data results, it had not expected it to result in a technical recession.

The transport industry contracted by 4.9%, largely due to decreased activity in both land and air transport. Industrial action within the industry, combined with a decline in freight transport, contributed to the slowdown.

The trade industry experienced its second consecutive quarter of negative growth, falling by 1.9%, while government activity decreased by 0.5%, largely as a result of falling employment numbers in the civil service.

Pienaar said for the first half of this year, the South African economy only grew by 0.9% year-on-year when looking at the seasonally adjusted figures.

The national budget tabled in February forecasted growth to come in at 1.5% for 2018.

“At that stage it was a fairly conservative forecast. I’m not saying that National Treasury was overly optimistic at that stage, it sounded like a realistic number.

“But now with 0.9% for the first half of the year, it’s going to be extremely difficult. I can’t see that [we’ll] get to 1.5%,” said Pienaar.

Weaker growth

Finance Minister Nhlanhla Nene is expected to table the Medium Term Budget Policy Statement (MTBPS), which is also known as the mini-budget, in Parliament in October.

Pienaar said government, the private sector as well as economists may have over-estimated growth after the economy grew by 1.3% in real terms in 2017.

“Now it’s very likely that growth will be weaker this year than last year,” he said.

The data has implication for fiscal policy, meaning that revenue will likely be less than what was forecasted in the February budget.

“I think our budget deficit and our fiscal ratios, come October with the MTBPS, are going to look worse than what we thought in February.”

At the tabling of the budget, government expected the deficit to narrow to 3.5% over the next three years. The budget also expected a revenue shortfall of R48.2 billion in 2017/18.

Ramaphoria

In terms of what has widely become known as Ramaphoria following the change of guard in February, Pienaar said this had faded in the last couple of months.

“It’s been clear for quite some time that Ramaphoria was temporary in the first quarter of this year and of course, the global economy has also moved against us. We’ve had the emerging markets crises like in Argentina,” he said. The Argentinean peso collapsed and has announced austerity measures.

The crises in emerging economies like Argentina are also having an effect on the rand.

“These GDP numbers confirm that Ramaphoria period was pretty temporary. One also needs to be realistic that even in the first quarter when we had that bounce in confidence, it was not based on fundamental underlying improvements in the economy. It was solely based on expectation that the political changes would down the line result in better outcomes,” said Pienaar.

President Cyril Ramaphosa took over the reins in February following former president Jacob Zuma’s resignation.

“It probably means that President Ramaphosa’s task of turning this ship around is even harder than it was in the beginning of the year,” said Pienaar.

Effect on interest rates

Pienaar advised consumers to be prudent with their hard earned money in the coming months.

“Although the economy is weak, if the rand continues to weaken at the current rate, I think the Reserve Bank will have very little option but to increase the repo rate. I don’t think it will be a dramatic increase but the point is, the next move in interest rates are likely to be higher. The cost of credit will go up a little bit. I advise that consumers be prudent.”

The central bank’s Monetary Policy Committee (MPC) is expected to hold its second last meeting of the year from 18-20 September.

At its last meeting in July, the MPC kept the repo rate unchanged at 6.5% per annum.