GDP horror show

By Maarten Ackerman

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Unfortunately, it seems that in terms of economic data, South Africa's 2019 film has begun in much the same vein as 2018, and could easily be classified within the "horror" genre given heightened fears that South Africa could once again enter a technical recession in the first half of the year.

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According to latest figures from Statistics South Africa, the economy shrank by -3.2% quarter-on-quarter (seasonally adjusted and annualised) in the first quarter of 2019 – the biggest plunge since the 2008 global financial crisis, and the second highest drop seen in over two decades.

This decline was twice the number anticipated by general consensus, and almost immediately saw the rand shed another 20 cents against the dollar, touching R14.60/$, while bond yields rose by nearly 15bps.

Growth year-on-year also remained flat at 0% (unadjusted), and means that the South African Reserve Bank and National Treasury will likely need to revise their GDP growth expectations for 2019 downwards from around 1.3% to closer to 0.5%, placing government's fiscal targets under significant strain.

This is not a good start to the year for President Cyril Ramaphosa's administration, which continues to struggle with numerous legacy issues that have resulted from years of poor economic management and graft. As long as economic growth remains at these kinds of mediocre levels, government is not going to gain any real traction in resolving key challenges of inequality and unemployment, and specifically youth unemployment.

Government spending up, while key sectors down

Perhaps most notably, the biggest positive contributor to economic growth was government (1.2%), largely as a result of growth in civil service employment.

But while this spending made a positive contribution to GDP figures for the quarter, it's not helping government's goal of reducing its expenses given our deteriorating fiscal situation. There is evidently a great deal of work still ahead of Ramaphosa's administration in terms of reducing headcount and making progress on the bloated public sector wage bill.

South Africa simply can't rely on government to be one of the only three positive contributors to the GDP number if the country is to achieve inclusive and sustainable economic growth.

The only two remaining positive contributors for the quarter were finance and personal services, while all other sectors of the economy seemed to experience severe pain, negatively impacted by a weak local and global environment, and heightened load shedding. Construction (-2.2%), trade (-3.6%), transport (-4.4%), electricity (-6.9%), manufacturing (-8.8%) and mining (-10.8%) all exhibited weakness as expected, while agriculture saw a substantial drop.

The latter is a notably small and volatile sector in the economy, and the 13.2% decline largely reflects the consequences of the drought, especially in the Western Cape, but also signals a warning that many farmers are planting less as uncertainty around land weighs on the industry.

In terms of the expenditure side of the economy, government is the sole contributor with expenditure rising by 1.3%.

Meanwhile, the 0.8% decline in household expenditure seen over the quarter is a clear indication that South African consumers are under severe pressure resulting from a combination of extremely high unemployment, social grants which are not keeping up with inflation, the increase in VAT and higher fuel prices. Additionally, the high number of upper income South Africans emigrating would have represented a considerable drag on the spending ability of households in the country.

Another worrying figure to emerge from the statistics was the 4.5% decline in gross fixed capital formation, which implies that no new investments were made in the economy.

Export figures

Significantly, export figures declined 26.4% for the quarter, signalling the extent to which the soft patch in the global environment is weighing upon the South African economy. Most emerging markets, including South Africa, as well as to an extent developed markets such as the United States, Europe and Japan, have seen a decline in trade at the start of 2019 amidst slowing global growth.

This said, fiscal stimulation in China and the US Federal Reserve placing interest rates on hold should create a more positive external environment in the global economy in the second half of the year, which may help to support South Africa's rebound from the low base line that has now been set.

Ultimately, however, the global environment and external forces are slowly turning into headwinds rather than tailwinds, which will make it more difficult for the local economy to finally turn the corner and achieve growth above 2%.

ABOUT THE AUTHOR

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