26 February 2013 | 7 pages

CEEMEA

South Africa Macro View

Q4 GDP on the 'up' but don't expect much improvement in 2013

Gina Schoeman
+44-20-7986-5129
gina.schoeman@citi.com

** All growth rates are % QoQ SAAR unless otherwise stated*

- **Q4 12 GDP rises 2.1%** — Q4 12 GDP rose 2.1% from 1.2% in Q3. This was above the consensus of 1.7% and higher than our forecast of 1.1%. On a year-on-year basis this put Q4 GDP at 2.5% YoY (from 2.3% YoY in Q3) and the year as a whole averaging 2.5% – a notch higher than our forecast of 2.4%. Still, this is a full percentage point lower than the 3.5% in 2011. *See Figure 1 on page 2.*

- **Mining proves a drag again** — Mining dragged growth lower in Q4 (again); it is also true that for 2012 overall mining was a significant disappointment. Labour unrest and operational closures left mining production contracting by 22.5% in Q4, which translated into a decline of 9.3% QoQ SAAR for the sector as a whole. Our calculations show that, excluding this sector, Q4 GDP would have measured a higher 2.8%, while 2012 GDP would have grown at a higher 2.9%. This illustrates the negative impact of strike action and production closure and also highlights the downside risk we attach to 2013 GDP growth.

- **Slowdown in retail bodes ill for Q4 consumption** — The 0.8% QoQ SAAR contraction in Q4 12 retail sales pulled the wholesale and retail trade sector lower, to 1.5% from 1.7% in Q3. There has been a consistent loss of momentum in the wholesale and retail trade sector since Q3 11, which echoes the recent slowdown measured in household consumption expenditure, and we expect the SARB's Q4 12 Quarterly Bulletin (released on 12 March 2013) to reflect this, given that higher inflation would have eaten away at nominal incomes over the period.

- **Some positive offsets** — Improved manufacturing production helped the sector rebound to 5.0%, which boosted overall GDP given its weight of 15%. In addition, growth in the transport sector lifted (if only due to base effects) as strikes did not impact this time around. Finally, financial services measured a welcomed 2.9% in Q4, which is important as this is the largest sector in South Africa, weighing in at 21%.

- **2013 still expected to rise slightly to 2.8%** — Though 2012 GDP growth averaged slightly higher than we expected (2.5% vs. our forecast of 2.4%), this does not change our 2013 view significantly. We still believe that a slight rise to 2.8% is on the cards. Still, a GDP growth rate below 3% is hardly ideal for the economy and for this reason, we continue to believe that the SARB will identify more downside than upside risks to the growth outlook, which, together with clear upside risks to the inflation trajectory, means we maintain our view that the repo rate will remain unchanged at 5.0% through 2013 (until at least Q4 14).

Q4 GDP ends the year at 2.1%*

*** All % QoQ growth rates are of a seasonally-adjusted annualised basis unless otherwise stated.**

Q4 GDP rises to 2.1% QoQ SAAR

Q4 12 GDP rose 2.1% from 1.2% in Q3. This was above the consensus of 1.7% and higher than our forecast of 1.1%. On a year-on-year basis this put Q4 GDP at 2.5% YoY (from 2.3% YoY in Q3) and the year as a whole averaging 2.5% – a notch higher than our forecast of 2.4%. Still, this is a full percentage point lower than the 3.5% in 2011.

2012 GDP averages 2.5% from 3.5% in 2011

Figure 1. GDP: Q3 12 versus Q4 12

Sector	Weight	Q3 12		Q4 12	
		% QoQ	ppt contribution	% QoQ	ppt contribution
Agriculture	2%	7.4%	0.2%	10.0%	0.2%
Mining	5%	-12.7%	-0.6%	-9.3%	-0.4%
Manufacturing	15%	1.2%	0.2%	5.0%	0.8%
Electricity, gas & water	2%	1.6%	0.0%	-2.2%	0.0%
Construction	3%	3.3%	0.1%	0.2%	0.0%
Retail, catering & accommodation	12%	1.7%	0.2%	1.5%	0.2%
Transport & communication	9%	1.1%	0.1%	1.9%	0.2%
Financial services	21%	1.8%	0.4%	2.9%	0.6%
Government services	14%	2.7%	0.4%	2.6%	0.4%
Personal services	5%	2.1%	0.1%	2.5%	0.1%
taxes less subsidies	11%	2.5%	0.2%	1.9%	0.2%
GDP at market prices	**100%**	**1.2%**	**1.2%**	**2.1%**	**2.1%**
GDP ex-mining		2.0%		2.8%	

Source: StatsSA, Citi Research

Mining proves a drag on growth again

Labour unrest and operational closure proves a drag on overall 2012 GDP – particularly in mining

Much of the disappointment in 2012 GDP stemmed from the mining sector, given intense strike action and/or operational closure in Q1, Q3 and Q4 of last year.

Q4 12 mining production had already been seen to contract at a 22.5% QoQ SAAR, which translated to a decline of 9.3% QoQ SAAR for the sector as a whole. It is interesting to note that, despite a greater contraction in Q4 mining production than that in Q3 (-22.5% versus 11.6%), the sector did not contract as much in Q4 as it did in Q3 (-9.3% versus -12.7%). Nevertheless, the drag on the economy is evident as always. Our calculations show that, excluding the mining sector, Q4 GDP would have measured a higher 2.8% QoQ SAAR (from a recalculated 2.0% QoQ SAAR in Q3). For the year as a whole, if mining were excluded as a sector, the economy would have measured a higher 2.9% growth rate (versus an actual 2.5%). The value in these calculations is to illustrate the negative economic impact of strike action and production closure, which remains a downside risk to 2013 GDP growth forecasts, in our view.

A bright spot to look forward to – even if only artificial, given base effects – is that Q1 13 should at least register a meaningful rebound in the mining sector, which will provide some upward momentum to overall GDP growth.

Retail loses momentum – bodes ill for Q4 consumption growth

Loss of retail sales momentum should echo in Q4 household consumption

Also as expected, the 0.8% QoQ SAAR contraction in Q4 12 retail sales pulled overall growth in the wholesale and retail trade sector lower. Though a 15.2% rise in wholesale trade certainly helped offset some of the downfall in retail sales, this sector is now only growing at 1.5% from 1.7% in Q3. What's more, there has been a consistent loss of momentum in the wholesale and retail trade sector since Q3 11,

which echoes the recent slowdown measured in household consumption expenditure. The SARB's Q4 12 Quarterly Bulletin (to be released on 12 March 2013) is expected to reflect this, given that higher inflation would have eaten away at nominal incomes over the period.

Some positive offsets

Some positives measures in manufacturing, transport and financial services but this is not enough

A 6.6% QoQ SAAR rise in manufacturing production in Q4 helped the sector rebound to 5.0% (from 1.2% in Q3). This is certainly a boost to GDP, given its weight of 15% in the economy. Though the beneficiation link between it and the mining sector may prove a drag, a pick-up in global growth should help lift demand for manufactured exports in 2013. Though bland, this will still push growth in this sector higher rather than lower.

Also helping to offset the negative impact of mining strikes was the transport sector which, owing to base effects mostly, rose to 1.9% QoQ SAAR in Q4. Remember that transport strikes in Q3 left this sector growing at a lower 1.1% QoQ SAAR in Q3.

Finally, financial services measured a welcomed 2.9% QoQ SAAR in Q4 (1.8% in Q3), adding 0.6ppt to GDP in Q4. As the largest sector in the economy (weighing 21%), this is critical to South Africa's economic growth performance.

2013 GDP to lift, but only slightly

We expect 2.8% GDP growth in 2013 and rates unchanged

Though 2012 GDP averaged slightly higher than our original forecast, this does not change our 2013 view significantly (due largely to rounding errors). We still believe that the economy will grow somewhat quicker at 2.8% this year (from 2.5% in 2012). Most of this increase is expected to come from a 'normalisation' in exports and public sector fixed investment spending. We caution, however, that pinpointing strike action and operational closure is virtually impossible in a forecast model and, as such, our view that labour unrest is likely to flare up at odd times during the year means we attach downside risk to overall GDP in 2013.

For rates, it is true that, even though some upward momentum is expected for GDP, this is hardly ideal for an economy that desperately needs quicker growth and, a composition of growth directed more to investment over consumption. For this reason, we continue to believe that the SARB will identify more downside than upside risks to the growth outlook, which, together with clear upside risks to the inflation trajectory, means we maintain our view that the repo rate will remain unchanged at 5.0% through 2013 (until at least Q4 14).

Appendix A-1

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