# South African Outlook

## *Clouded by politics*

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# Global: Strengthening economies and rising uncertainties

**Expect President Trump to try to implement Candidate Trump's promises** – quickly

**"America First"** and job creation themes likely to dominate initial moves, along with search for policies with immediate impact

**Expect less idealism, more pragmatism** – the Art of the Deal

***Feedback loop broken?***

## Key Trump policy proposals

| | |
|---|---|
| **Trade** | Increase import **tariffs** on countries with which US runs trade deficits, including China. Renegotiate major trade deals including **NAFTA**, potentially **WTO; scrap TPP;** penalise US companies for moving operations overseas. |
| **Immigration** | Build a wall on the Mexican border, halt Muslim immigration and deport 11mn unauthorised immigrants. |
| **Healthcare** | Repeal and replace **Obamacare.** |
| **Climate change** | Trump has suggested that global warming is a "hoax" invented by China to make US manufacturers uncompetitive, vowed to 'cancel' the Paris climate agreement and stop all US payments for UN global warming programmes. |
| **Foreign policy** | Open to both Japan and South Korea developing nuclear arsenals. Questioned the US's treaty commitments to **NATO allies** and seek closer relationship with **Russia.** Opposed to **Iran** deal. |
| **Financial regulation** | Weaken and reform Dodd-Frank Act. |

# Global: Strengthening economies and rising uncertainties

**Politics of Rage** as a global phenomenon.

**Economic growth revisions have generally been to the upside and the IMF expects world growth of 3.4%.**

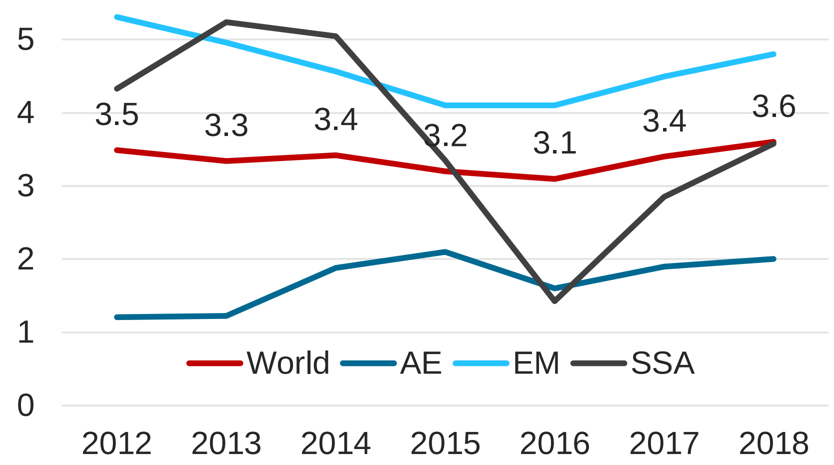
**Higher inflation,** but monetary policy only tightening in the US.

**Commodity prices generally firmer** on market tightening.

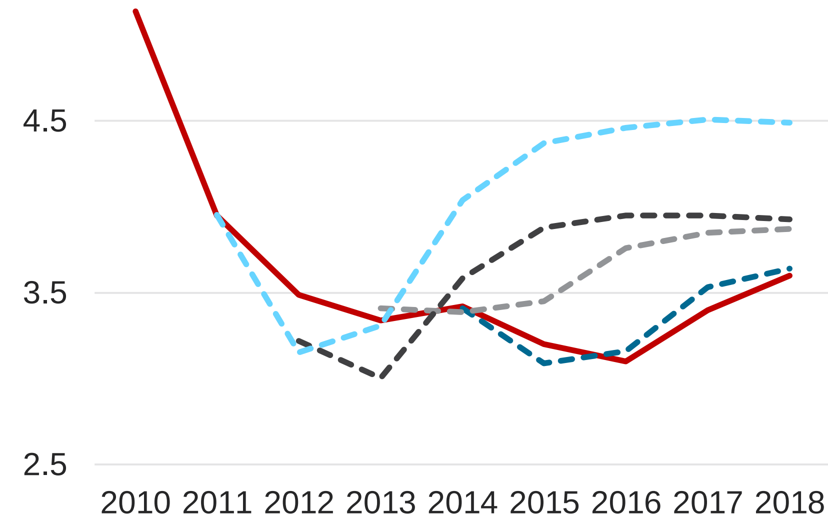
**US dollar expected to gain further.**

**EM economies and markets may face a volatile period.**

## Growth expected to accelerate




## Revisions to global baseline small




Source IMF, Barclays Research

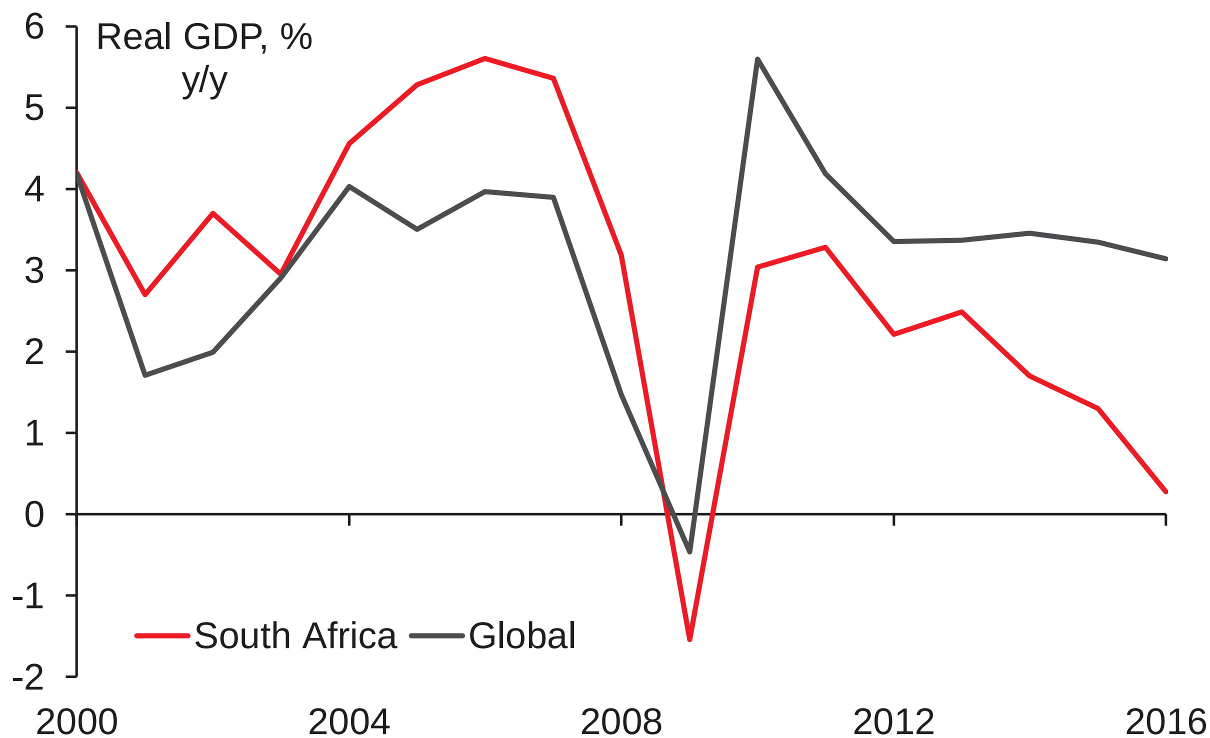
# What are the agencies concerned about?

## Economic growth is just too slow

## Public debt and a growing worry about the SOCs

## Policy predictability under question

**Economic growth has been slipping since 2011, even as the global economy has stabilised**




Source Statistics South Africa, IMF, Absa Research

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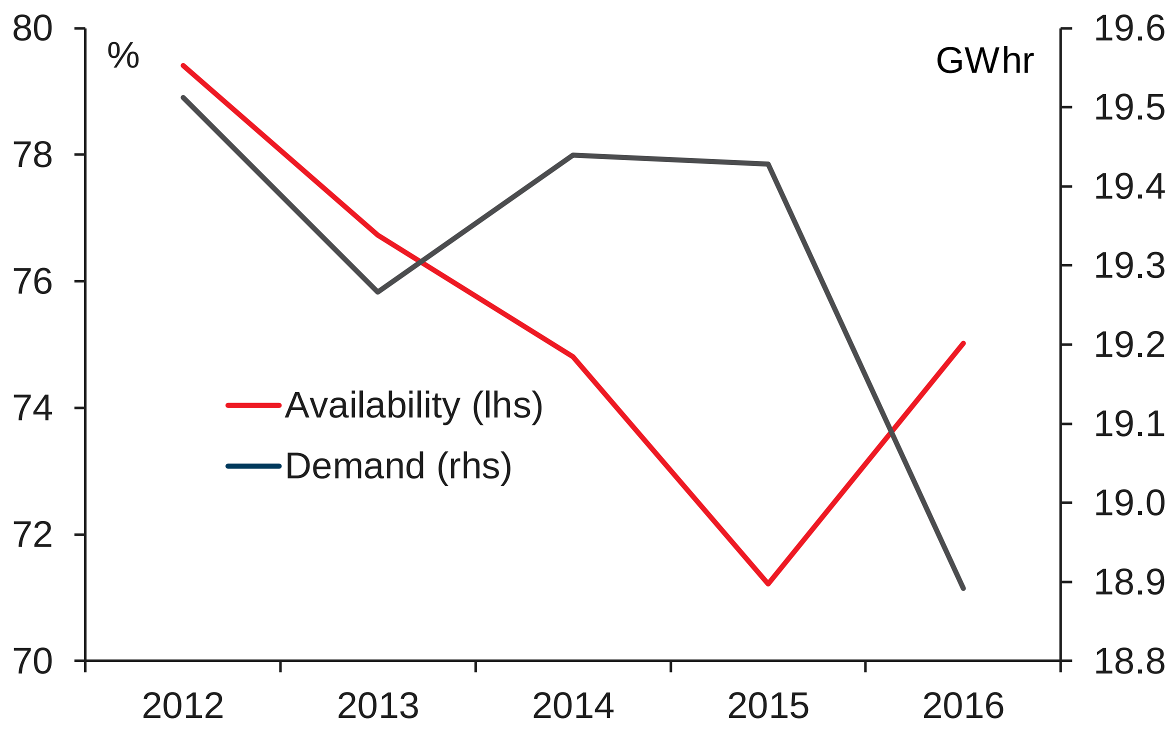
# Infrastructure is a challenge, but not the binding one currently

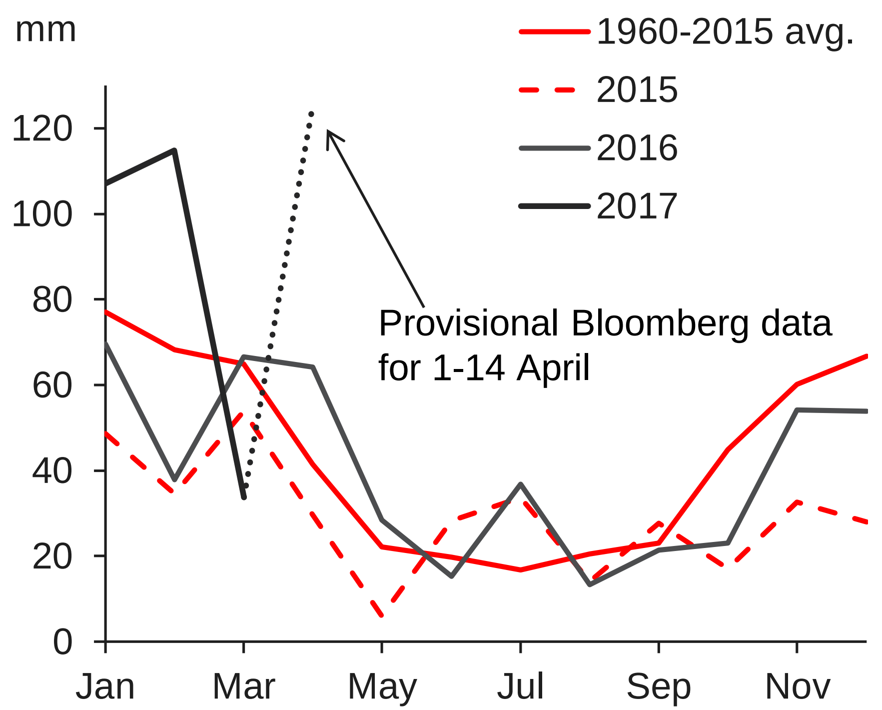
**Electricity supply had been a binding constraint for much of the post-2008 period, but not anymore**



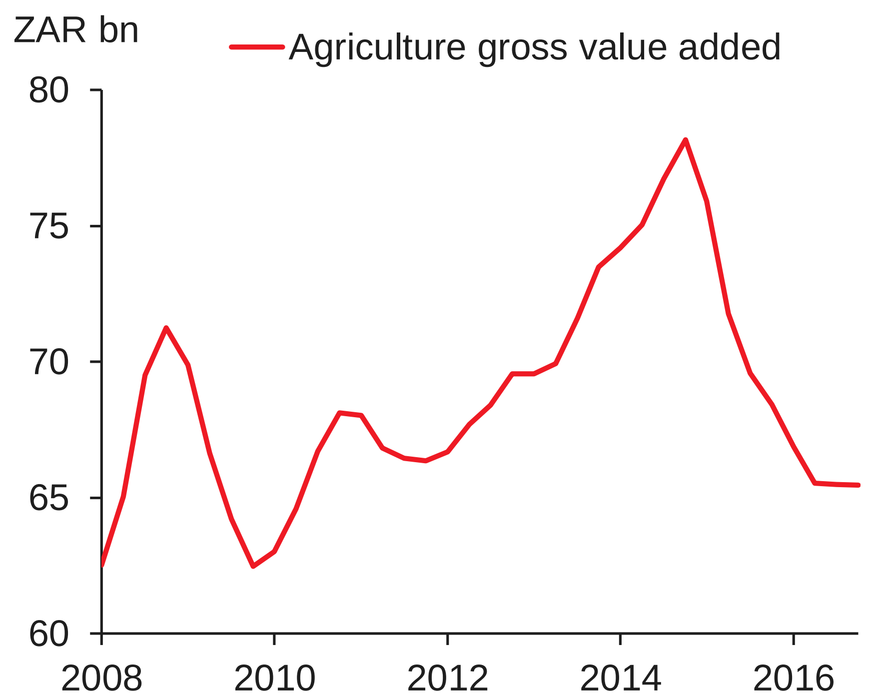

Sources: Eskom, Barclays Research

# South Africa: The drought has punished agriculture

**The 2015 rainfall season continues to impact the livelihoods of more than 1mn people**



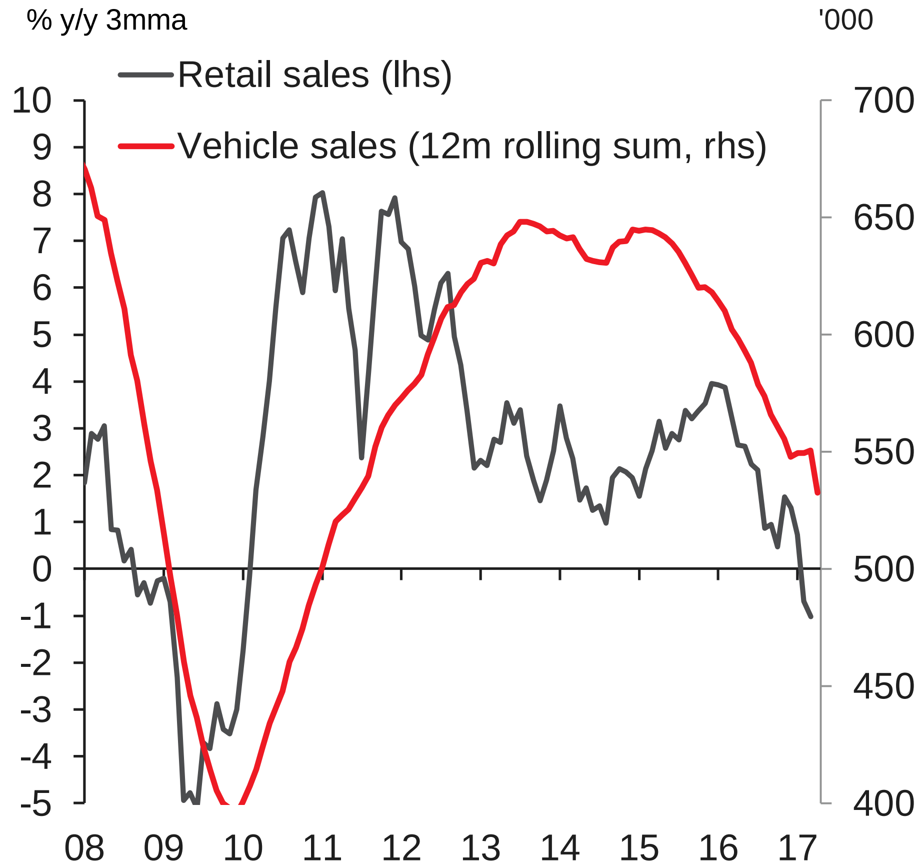

**Agriculture output is down about a sixth from the pre-drought peak**



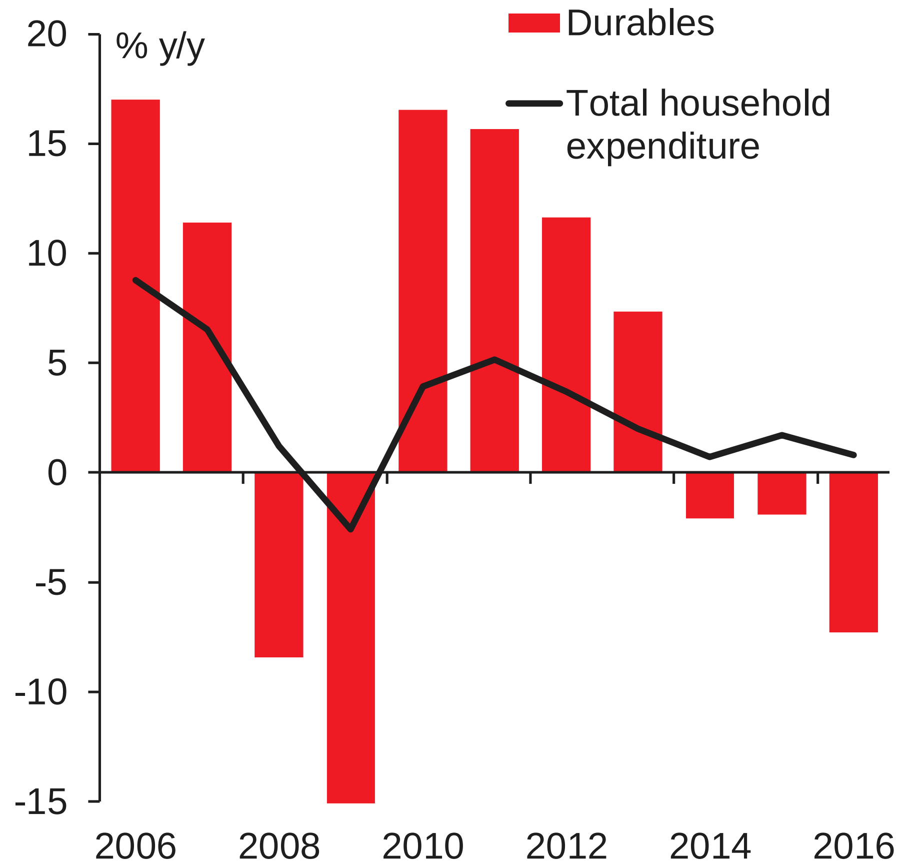

Sources: SAWS, Bloomberg, Stats SA, Barclays Research

# Household consumption spending is under pressure

**Sales growth has lost all momentum**



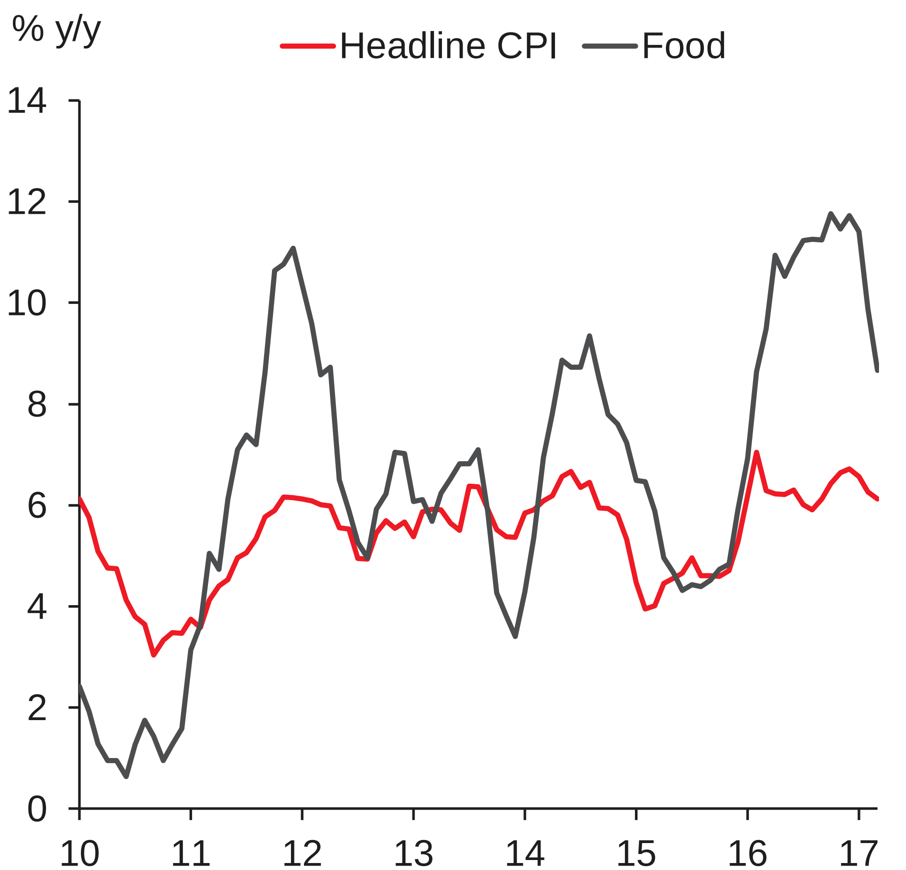

**Spending on durables has slumped**



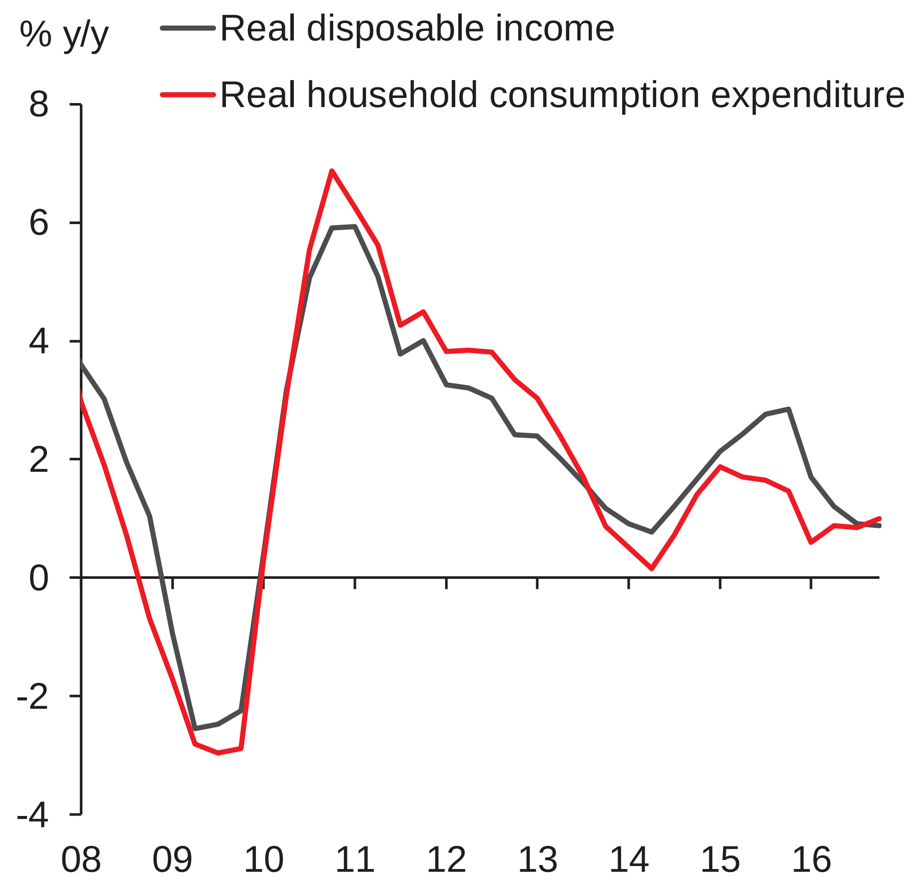

Source for all charts: SARB, StatsSA, Barclays Research

# Inflation has eroded spending power

## Inflation pushed higher, driven by food prices



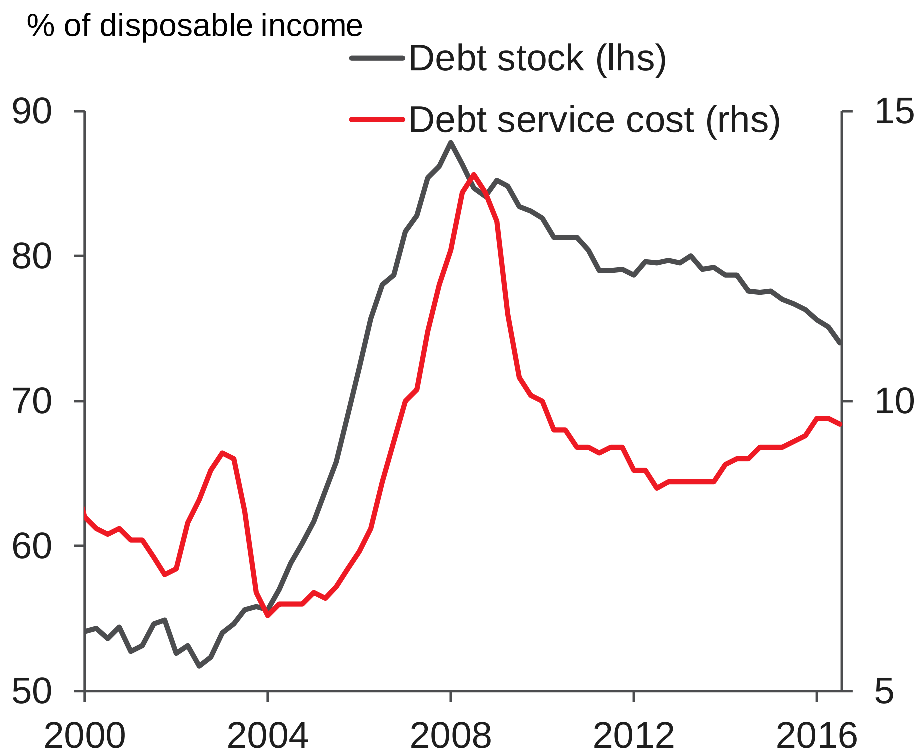

## Real wage growth has slipped, pulling spending down with it



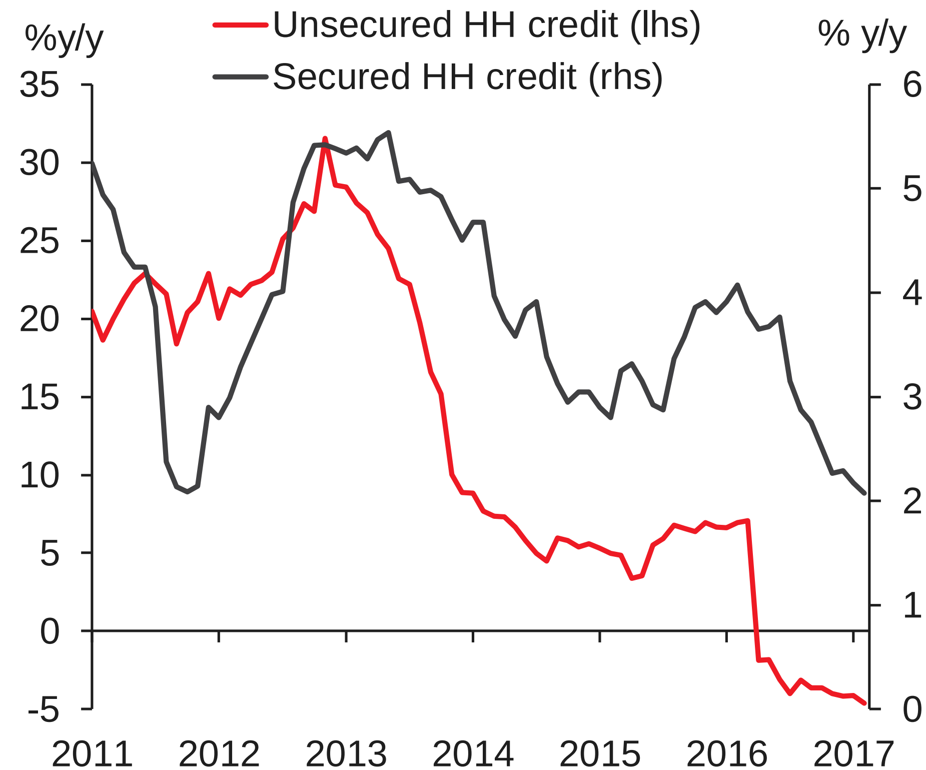

Source for all charts: SARB, StatsSA, Barclays Research

# Credit markets aren't helping consumers much

**200bp in rate hikes have gradually boosted debt service costs**



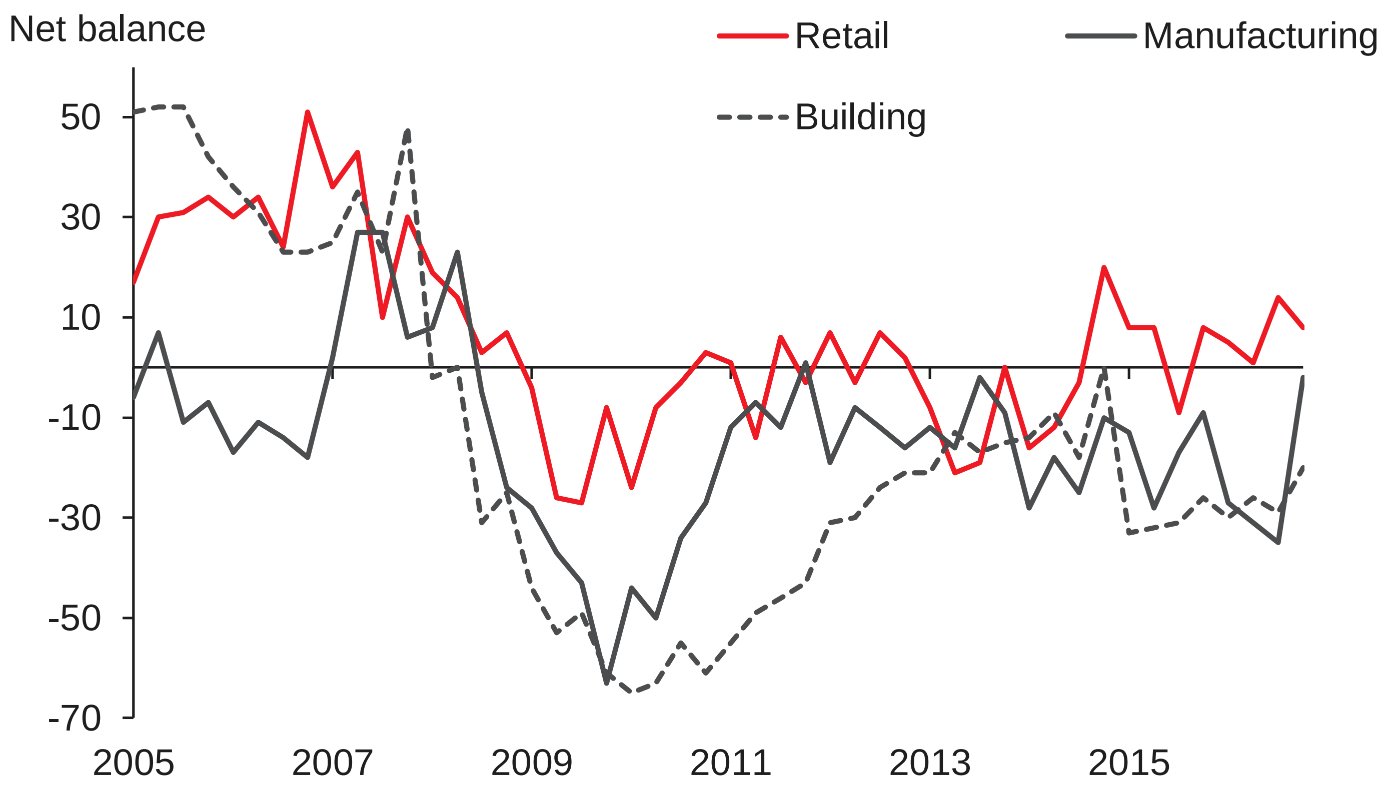

**Credit extension growth is slipping across all categories**




Source for all charts: SARB, StatsSA, Barclays Research

# Labour market is not supportive

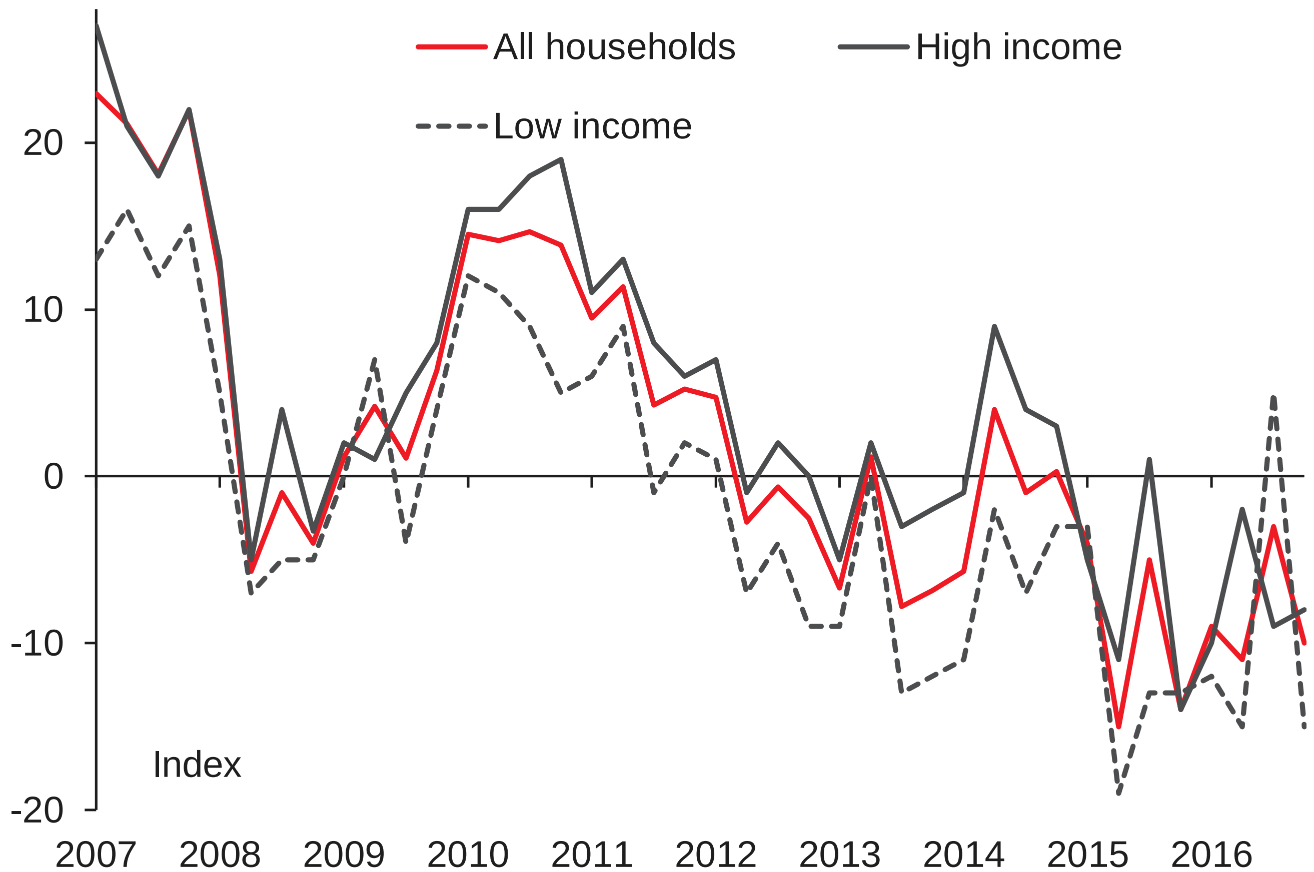
**Surveys of firms' hiring intentions show little willingness to grow headcount**




Source : Bureau of Economic Research, Absa Research

# Consumer confidence at multi-year lows

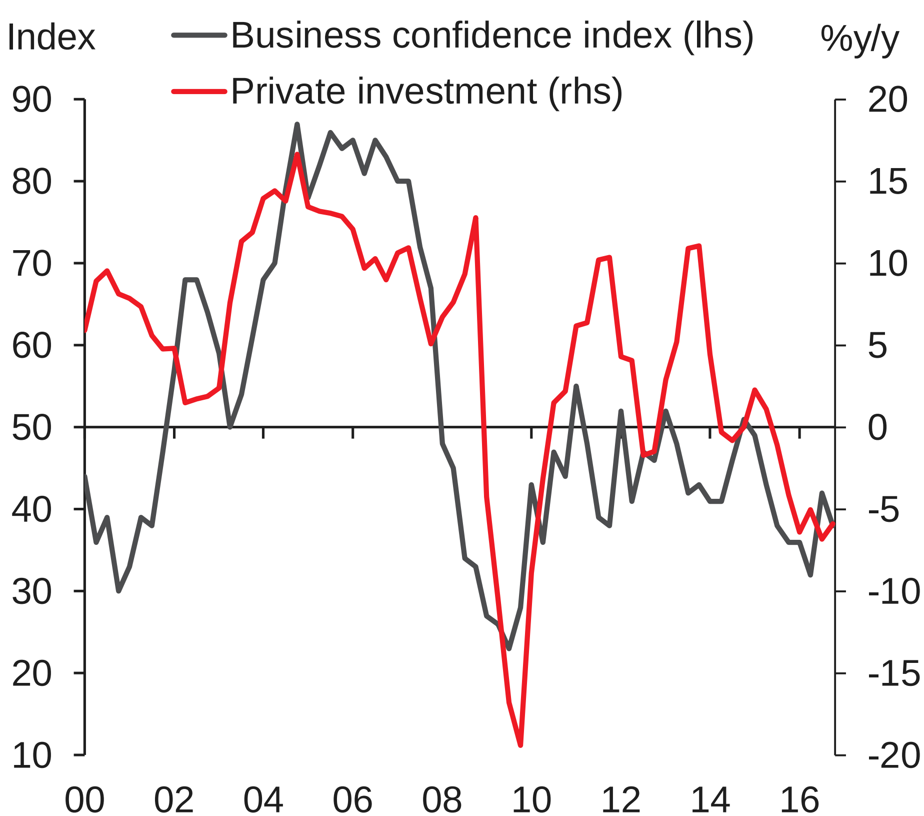
## A crisis of confidence across income groups, geographies and racial groups



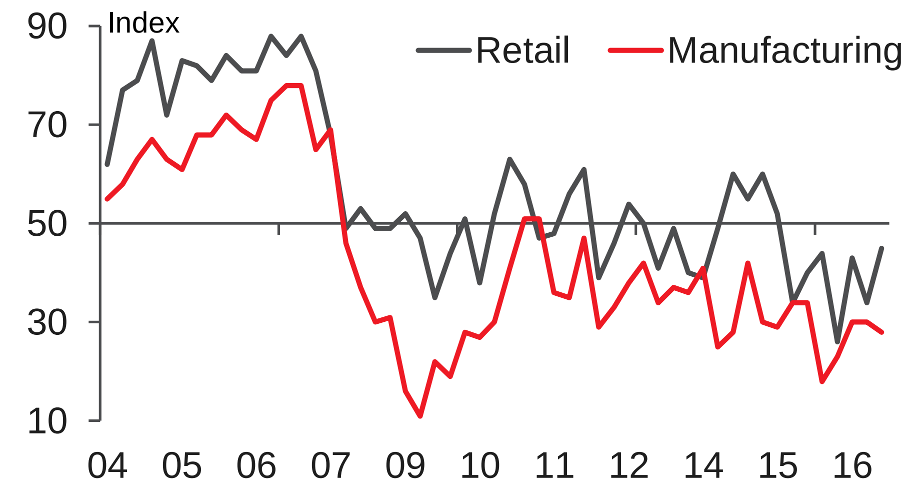

Source for all charts: BER Barclays Research

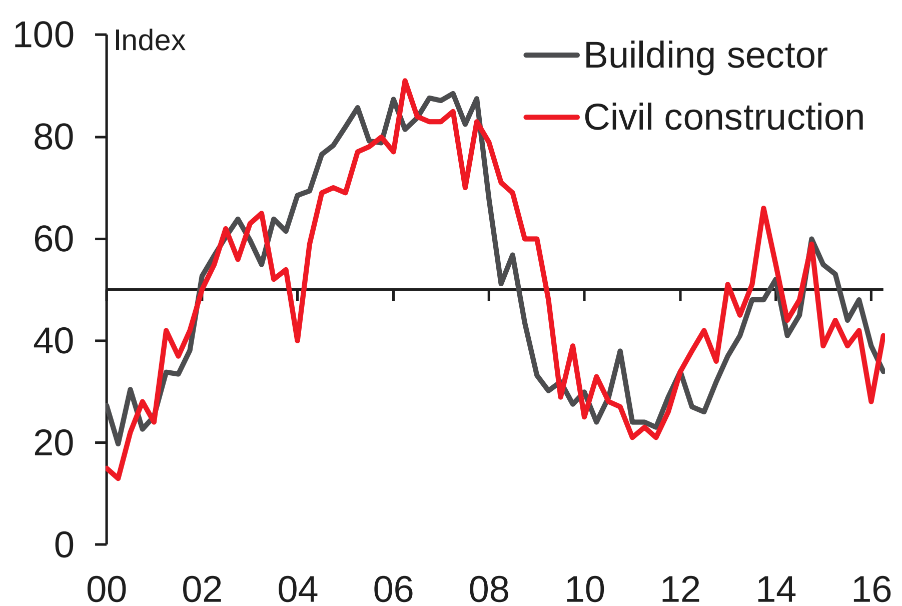
# Private sector business confidence is very weak

## Business is similarly worried, with a further impact onto investment spending




## Confidence hit across nearly all sectors

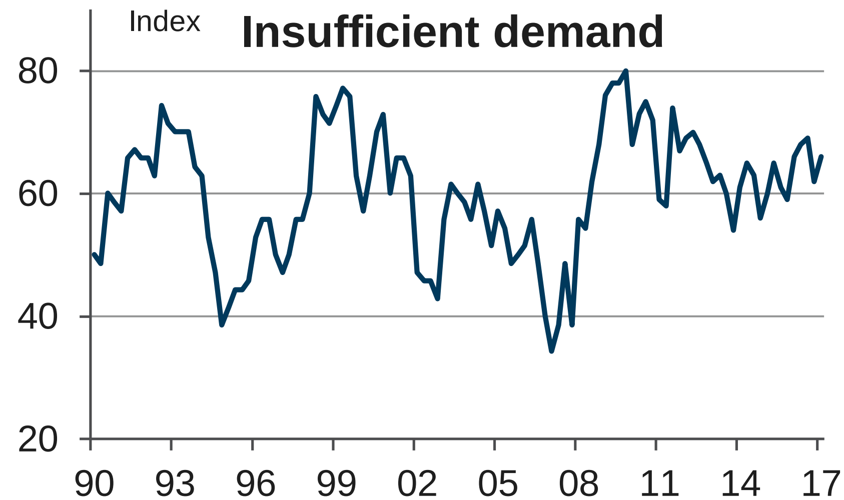


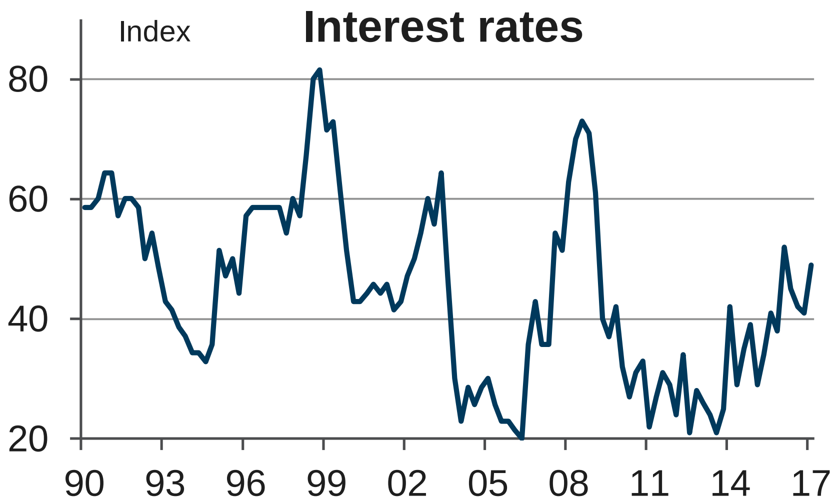



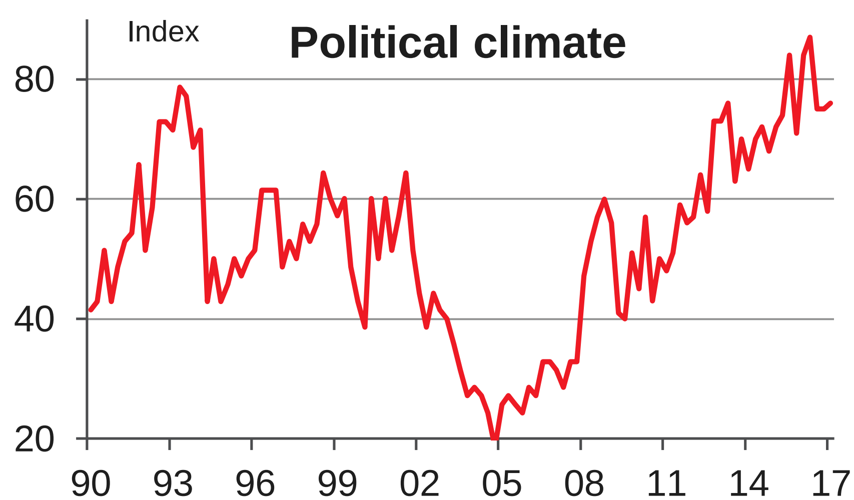

Source for all charts: SARB, BER, Markit, Barclays Research

# Interesting insight from the manufacturing sector

**For manufacturing, what are the most significant constraints to expansion?**


Source: BER, Barclays Research

# Where does this leave our South African forecasts?

| | 2016 | | | | 2017 | | | | Calendar-year average | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Q1 | Q2 | Q3 | Q4 | Q1F | Q2F | Q3F | Q4F | 2015 | 2016 | 2017F |
| **Output (q/q, saar)** | | | | | | | | | | | |
| Real GDP | -1.5 | 3.1 | 0.4 | -0.3 | 1.3 | 1.4 | 1.3 | 1.4 | 1.3 | 0.3 | 1.0 |
| Private consumption | -1.5 | 1.2 | 2.2 | 2.2 | -0.2 | 0.1 | 1.6 | 1.4 | 1.7 | 0.8 | 1.0 |
| Public consumption | 1.5 | 2.8 | 1.9 | 0.3 | -0.5 | 2.2 | 1.9 | 2.5 | 0.5 | 2.0 | 1.2 |
| Investment | -10.4 | -2.8 | -3.5 | 1.7 | -2.7 | -2.2 | -1.7 | 0.6 | 2.3 | -3.9 | -1.6 |
| Exports | -4.5 | 17.2 | -21.2 | 12.5 | 1.9 | 2.2 | 6.6 | 3.1 | 3.9 | -0.1 | 2.1 |
| Imports | -11.0 | -8.3 | -1.0 | 6.1 | -1.9 | 3.0 | 1.5 | 3.3 | 5.4 | -3.7 | 1.5 |
| **Prices** | | | | | | | | | | | |
| CPI inflation (y/y) | 6.5 | 6.2 | 6.0 | 6.6 | 6.3 | 5.4 | 5.2 | 4.9 | 4.6 | 6.3 | 5.4 |
| Core CPI ex food/energy (y/y) | 5.5 | 5.5 | 5.7 | 5.7 | 5.2 | 4.9 | 4.9 | 4.8 | 5.5 | 5.6 | 5.0 |
| **External and Fiscal (%GDP)** | | | | | | | | | | | |
| Current account (% GDP) | -5.3 | -2.9 | -3.8 | -1.7 | -1.5 | -3.7 | -4.0 | -3.6 | -4.4 | -3.3 | -3.2 |
| Government balance (% GDP)* | ... | ... | ... | ... | ... | ... | ... | ... | -3.7 | -3.4 | -3.4 |
| **Interest rate (% eop)** | | | | | | | | | | | |
| Repurchase rate (eop %) | 7.00 | 7.00 | 7.00 | 7.00 | 7.00 | 7.00 | 7.00 | 7.00 | 6.25 | 7.00 | 7.00 |
| **Exchange rates** | | | | | | | | | | | |
| USDZAR (eop) | 15.79 | 14.99 | 14.05 | 13.74 | 13.41 | 14.50 | 14.75 | 15.00 | 15.46 | 15.00 | 16.30 |

Source : South Africa Reserve Bank, Reuters, Statistics South Africa, National Treasury, Absa Research

ABSA

# Key issues for 2017

***Key issues to watch domestically:***

***Drought recovery***

***New taxes*** *and the impact on the consumer*

**The SARB's difficult balancing act**

**Labour relations** in a constrained environment

The pressing need for **SOE reform**

**Heightened political and policy uncertainty**

South Africa's **credit rating**

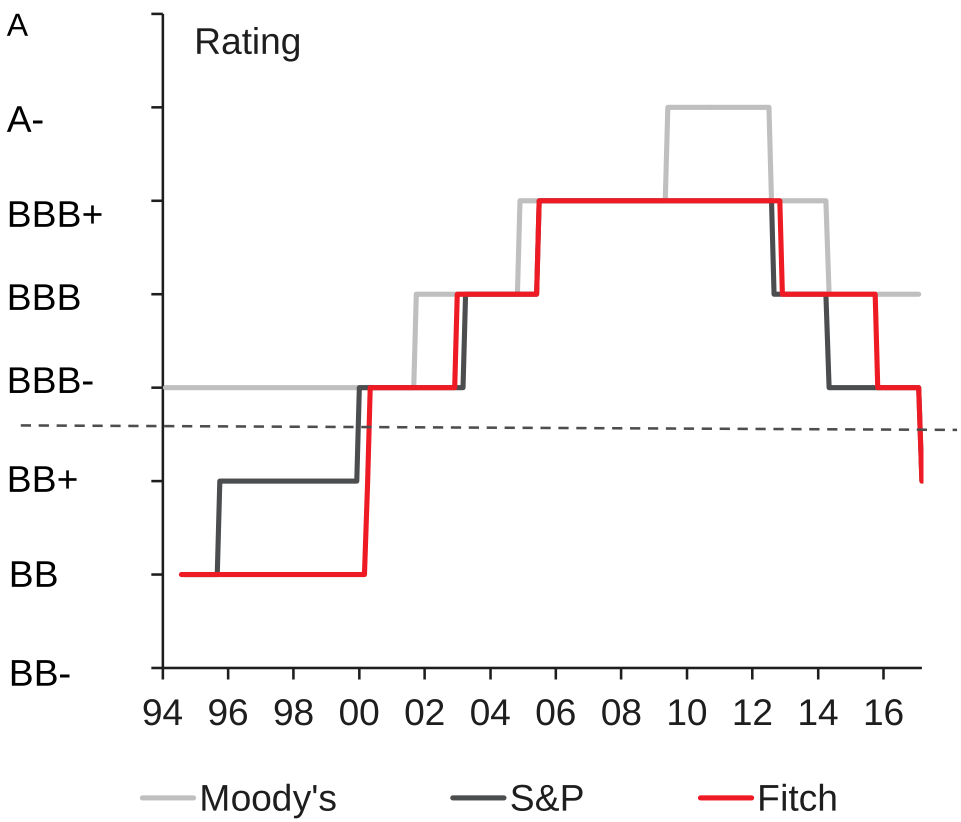
***Key issues to watch internationally:***

***The Politics of Rage*** *and its next manifestations*

*Global adjustment to a* ***higher US rate environment***

# What has SA's rating trajectory looked like?

| Ratings have been on a downward path for four years | South Africa's ratings peers |
|---|---|




| | |
|---|---|
| **A-** | **Botswana, Malaysia** |
| **BBB+** | **Thailand, Mexico, Spain** |
| **BBB** | **Philippines, Colombia** |
| **BBB-** | **India, Hungary** |
| **BB+** | **SA, Indonesia, Russia** |
| **BB** | **Brazil, Turkey** |
| **BB-** | **Vietnam** |
| **B+** | |
| **B** | **Nigeria, Zambia, Arg.** |
| **B-** | **Greece, Ghana, Egypt** |

Source: Rating agencies, Absa Research, Bloomberg

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