



Economic Commentary: Issue No. 6

15 December 2016

Directorate: Statistics & Economic Analysis

Sub-directorate: Economic Analysis

Purpose of the Economic commentary

This publication is meant to inform internal stakeholders of the department about the impact of the macro economic indicators and related issues on the overall performance of the Agriculture, Forestry and Fisheries (AFF) sector. National announcements are frequently pronounced on macro economic issues; therefore the intension of the economic commentary is to digest the implication of the indicators and recommend actions that could be taken into account to cushion the performance and image of the AFF sector.

MACROECONOMIC INDICATORS : INFLATION

November was a critical month for South African economy which started with the announcement of the following; inflation, rating agencies review, petrol price, energy plan and interests rate decision by central bank.

Food prices and high transport costs continue to put pressure on inflation in South Africa. The consumer inflation figures are now at 6.4% in October from the 6.1% recorded the previous period. This is above what the market had anticipated. As prices of basic items continue to increase economists have warned that consumers will continue to dig deep into their pockets. Contributors to headline annual consumer price inflation is food and non-alcoholic beverages increased from 1,7 percentage points in September to 1,8 percentage points in October, the index increased by 11,7% year-on-year. Transport increased from 0,6 of a percentage point in September to 0,7 of a percentage point in October, the index increased by 4,3% year-on-year. Miscellaneous goods and services increased from 1,1 percentage points in September to 1,2 percentage points in October, the index increased by 7,5% year-on-year. Housing and utilities decreased from 1,4 percentage points in September to 1,3 percentage points in October, the index increased by 5,4% year-on-year. The figure above shows that inflation rise to 6.4% in October from 6.1% in September, this is above what the market had expected. The consumer price index increased by 0,5% month-on-month in October 2016. Transport contributed 0,2 of a percentage point in October, mainly due to a 44c/l increase in the price of petrol, the index increased by 1,1% month-on-month. Food and non-alcoholic beverages contributed 0,1 of a percentage point in October, the index increased by 0,9% month-on-month. Miscellaneous goods and services contributed 0,1 of a percentage point in October, the index increased by 0,4% month-on-month. However, food prices are going to be under pressure, that will continue to be a big pressure and of course the volatility of the rand is still a big threat especially with the uncertainty on oil prices. But if oil prices and the rand stay where they are the price will abate.

INTEREST RATE

The South African Reserve Bank left its benchmark repo rate on hold at 7% at its November of 2016 meeting, as widely expected. Policymakers said growth in the third quarter and it was expected to be positive, but below the level of the last quarter, while left the GDP forecasts unchanged from September. The inflation reached an 8-month high in October, after food prices picked up the most since 2009 due to severe drought, but it is expected to moderate in early 2017. The bank also noted the rand will be sensitive to changes in the stance of the US monetary policy.

The domestic economic growth outlook remains subdued, although the low point of the cycle appears to be behind. The Bank's forecast remains unchanged at 0.4% for 2016, 1.2% and 1.6% for the next two years. While the estimate for potential GDP growth was revised down marginally to 1.3% and rising to 1.5% by 2018, the output gap is expected to remain negative over the forecast period. The Bank's composite leading business cycle indicator improved in August and September, continuing a recent generally positive but gradual upward trend. Food price inflation remains a significant driver of inflation and is sensitive to the continuing drought. While food price inflation is still expected to moderate from early 2017, the pace of decline is expected to be slower than the previous forecast. The change is mainly due to the delayed impact of meat prices which are now expected to peak only in early 2018, as farmers rebuild their herds during 2017.

The MPC is of the view that a high degree of uncertainty surrounds the nature and timing of possible policy changes emanating from significant developments in the global economic environment. This elevated uncertainty creates a more challenging environment especially for emerging markets as evidenced in the recent changed pattern of capital flows. Financial markets are thus likely to remain volatile for some time. Since the previous meeting of the MPC the inflation forecast has remained largely unchanged.

RATING AGENCIES

Fitch Ratings has downgraded its outlook for South Africa's sovereign credit rating to negative from stable in November and affirmed the country's long-term foreign credit rating at 'BBB-', saying political risks have increased and will remain high at least until the electoral conference of the African National Congress (ANC) in December 2017, which negatively affecting macroeconomic performance. Standard & Poor's credit rating for South Africa stands at BBB- with negative outlook. Moody's credit rating for South Africa was last set at Baa2 with negative outlook. In general, a credit rating is used by sovereign wealth funds, pension funds and other investors to gauge the credit worthiness of South Africa thus having a big impact on the country's borrowing costs.

Moody's is the only one of the three main international rating agencies to rate SA two notches above junk and has historically remained optimistic about SA. Instead of delivering a sovereign credit rating decision, Moody's released research papers on SA, in which it highlighted the upsides and risks to the country's economy. Moody's has SA on Baa2 with a negative outlook. Moody's said in its note the South African political scene continued to be noisy as the country's democracy matures, but that key institutions remained resilient. For example, in late October, the National Prosecutor dropped its charges against the Finance Minister Pravin Gordhan. Days later, the Public Protector's office released an investigative report on state capture, pointing to the strength of the protector's office. The negative outlook on SA's Baa2 government bond rating reflects risks related to the implementation of structural reforms aimed at restoring confidence and encouraging investment, upon which Moody's bases its expectations for a gradual growth recovery and debt stabilisation in the coming years.

The negative outlook also recognises the downside risks associated with political uncertainty and low business confidence as well as the challenging external environment characterised by low growth, investment and trade. The rating agencies have cited instability and inflexibility in the labour market, policy uncertainty and a toxic political environment as among their concerns. Finance Minister has been instrumental in the efforts to convince the agencies that SA is doing what needs to be done to put it on a higher growth trajectory and to address concern about corruption at the highest levels of government. The fraud charges instituted against him, and then withdrawn, and the allegations contained in former Public Protector Thuli Madonsela's State of Capture report, have only added to the concern about the direction SA is headed.

PETROL PRICE & ENERGY PLAN

South Africans can look forward to lower fuel prices for December. This is the news from the Automobile Association (AA), which was commenting on unaudited month-end fuel price data released by the Central Energy Fund. The Rand slumped sharply against the US dollar in the wake of Donald Trump's election as the next US president, but has regained some of its losses since then. Over the same period, international petroleum prices enjoyed a brief rally before heading lower. As a result, the likely decline in the fuel price will be similar to what was indicated in mid-November. Petrol is set to drop by around 41 cents a litre, diesel by 38 cents and illuminating paraffin by 36 cents. The decrease is good news for consumers as they going for December holidays and farmers as planting season is already underway.

Future movements of the Rand and international petroleum prices have become very complex to anticipate, and since these factors are the chief drivers of the price paid at the pumps, South Africans should be cautious about hoping for further fuel price drops. A host of highly fluid factors are at play, including local political developments, ratings agencies' view of the economy, and the impact of possible changes in US policy after President -elect Donald Trump takes office. This volatility is expected to be reflected in fuel prices in the next few months.

Energy plan could punt more nuclear energy

The Department of Energy release a draft Integrated Resource Plan (IRP) and Integrated Energy Plan (IEP) for public consultation. The IRP is crucial for government as it moves to proceed with the nuclear procurement programme and will likely show the need for nuclear energy before 2030. Research by the CSIR Centre revealed that nuclear was not required and that renewable energy and gas could be used more effectively and at a cheaper price. The energy plan proposed by government could therefore see much debate among energy experts, environmentalists and energy lobbyists.

REFERENCES :

- Statistics South Africa (Stats SA), (2016): Consumer Price Index (CPI), November 2016: Available at <http://www.statssa.gov.za>
- Available online: <http://city-press.news24.com/News/drought-as-farmers-wait-for-gordhan-agri-sa-warns-of-job-losses-influx-of-migrants-20160223>.
- National department of Energy , 2016: Available at <http://www.energy.gov.za>

FREQUENCY

The publication will be released on the 1st and the 15th of every month covering events taking place on the period concerned. The dissemination will take place through emails to all SMS and professionals in the Department including provinces.

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