



Not enough motivation to change interest rates yet

Manufacturing and mining production data for May was released by StatsSA last week. While mining production continued to lose momentum, contracting 0.7% y/y, manufacturing performed in line with market expectations, expanding at 2.2% y/y during the month.

The largest contractions in the mining index were recorded for other metallic minerals (-32.3%), diamonds (-19.7%) and gold (-14.6%). The manufacturing production growth was mainly due to growth in the basic iron steel, metals and machinery category (11.0%), motor vehicles, parts, accessories and transport equipment category (6.7%), and the glass, non-metallic mineral products category (3.8%).

Despite the negative outlook on the South African economy since the release of the first quarter's economic growth number, the sectors mentioned above are expected to make positive contributions to economic growth in the second quarter (we expect economic growth of 3.5%, from 0.9% in the previous quarter).

As far as this week's rate decision is concerned, we do not expect the tone to differ much from the previous Reserve Bank monetary policy committee (MPC) meeting and we expect interest rates to be kept on hold. Bank governor Gill Marcus will likely mention the latest Fed statement regarding continued quantitative easing in the US and its effect on international markets, as well as the rand weakness and the pressure it adds to inflation, limiting the SARB's ability to stimulate the economy.

Inflation for the month of June will be released after the rate decision, but we expect it to remain below the 6% limit of the SARB's target band for now, despite the significant increase in the price of petrol during the month. The weak exchange rate environment of late might only start to influence substantially higher inflation during 2014 due to the lagging effect on markets.

We therefore see stable rates in the South African economy well into 2015, where after rates are likely to increase once inflation becomes a matter of real concern for the MPC.

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