EFFICIENT GROUP

Economics

Let's hope the worst is over!

Last week's economic growth (GDP) data for the third quarter was indicative of the damaging effects of the annual industrial action in the productive economy. Economic growth (GDP) for the third quarter came in at 1.2% q/q, below consensus forecast of 1.5% q/q. The mining sector contracted by 12.7% q/q (after growing by 30.3% q/q in the second quarter) while the manufacturing sector grew by only 1.2% q/q (after contracting at 0.8% q/q previously).

Producer inflation increased to 5.2% y/y in October (4.2% in September). Prices increased mainly in the indices for mining and quarrying, agriculture, products of petroleum and coal, and food at manufacturing. The increases in food prices at manufacturing level will likely result in higher food prices at the consumer level, and, together with the weaker rand, will add to CPI pressure in 2013.

Credit extended to the private sector (PSCE) slowed to 8.35% y/y in October, following a 9.07% level in August. An analysis of the components of PSCE indicate that growth in mortgage advances remains lacklustre, growing on average at only 2.2% y/y since the beginning of the year, compared to the growth of 30.0% in 2006. Economists expected credit growth to be closer to the 9.3% level. Interest rates have been at very inviting levels and with prime at 9.0%, and expected to stay at this level for some time, this data is certainly disappointing. The rate of growth in SA's broad M3 money supply expanded at 5.69% y/y in October (7.54% y/y in September).

South Africa's trade deficit reached a record level of R21.2bn in October (-R13.8bn in September). While exports expanded moderately at 7.8% on a m/m basis, imports grew twice as fast (16.7% m/m), signalling robust local demand for internationally produced goods, which, most likely also include an inventory build-up ahead of the festive retail season. The sluggish nature of the world economy suggests that South Africa will struggle to maintain export performance, adding to the pressure on the current deficit.

Keep a look out for the release of the Reserve Bank's quarterly bulletin this week, in particular the current account deficit to GDP. We expect it to be between -6.3% and -6.9% (previously at -6.4%). At such a wide level, the current account deficit could lead to further weakening of the rand, higher inflation and consequently higher petrol prices.

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