Motor industry strike blamed for dragging down growth

A deluge of disappointing economic data means that SA's gross domestic product (GDP) growth will now almost certainly come in below the psychological benchmark of 2% for the year.

Economists predict GDP will fall below 2% for the year. Image: Fotolia

This could further harm sentiment and add to offshore investors' nervousness about the economy. With a week to go before the official third-quarter GDP number is released, economists have marked down their estimates significantly.

The Bureau for Economic Research (BER) was expecting 2%; now it is hoping for 0,9%. Citibank was also hoping for 2% but is now severely bearish with a forecast of just 0,4%. These are steep mark-downs from the 3% real annualised quarter-on-quarter GDP growth SA achieved in the second quarter.

The expected drop largely reflects the collapse in manufacturing output (an 8,1% decline during the third quarter) owing mostly to the seven-week motor industry-related strike. This alone is set to shave 1,3 percentage points off third-quarter GDP, according to Citibank.

Retail sales growth also disappointing

The slide in retail sales growth to a disappointing 1,7% seasonally adjusted and annualised during the third quarter (from 3,5% in the second quarter) adds to the bleak picture.

If the third-quarter GDP outcome is as weak as expected, it is highly unlikely that SA will be able to achieve the consensus forecast of 2% growth for the whole year.

BER senior economist Hugo Pienaar estimates that even if there were a bounce back in manufacturing activity, no more strikes and the retail sector performed well, allowing final-quarter growth to accelerate to between 3% and 3,5%, GDP growth for the year would still come in below 2%.

Both Pienaar and Citibank economist Gina Schoeman expect growth of 1,9% for the year as a whole. But it will almost certainly not come in any lower than that. For whole-year growth to fall as low as 1,5% would require growth to collapse to zero in the final quarter - and nobody expects that.

The difference between GDP growth of 2% and 1,9% may seem inconsequential, but dropping beneath the psychological barrier of 2% could be significant at a time when confidence in SA is already so weak.

Picture of SA as a laggard

It reinforces the picture of SA as the laggard on a continent growing at 5%, and could well have a dampening impact on sentiment and investment, says SA Chamber of Commerce and Industry's chief executive Neren Rau "It's not what we need right now with business confidence in such a fragile place," he says.

But though a sub-2% growth may be psychologically damaging, it isn't likely to result in any material changes to fiscal or monetary policy as long as the final GDP result for the year doesn't fall much lower than 1,9%.

"With treasury aiming for a 2013/14 budget deficit of 4,2% off a 2,1% GDP growth forecast, an actual GDP result of 1,9% for the year shouldn't have such big implications for government revenue that it threatens the budget deficit forecast," says Pienaar.

Likewise, he believes the Reserve Bank, which has forecast 2% GDP growth for the year, would view 1,9% as the result of the specific and hopefully temporary issue of strikes in the third quarter.

"The Bank isn't going to change its policy based on that. At most it could adopt a slightly more dovish tone on interest rates, if the 1,9% is accompanied by an improvement in the inflation outlook, but I'd be surprised if it cut rates," Pienaar says.

Lower GDP will have marginal effects

Schoeman agrees: "GDP isn't low enough to offset the risk from Fed tapering, SA's large current account deficit, the weak rand and still-high CPI," she says. "Fed tapering is really the number one determinant of monetary policy at the moment," she adds.

The other risk is that SA's sub-par growth performance could invite further action from the three main credit rating agencies, two of which have SA on a negative outlook.

A team from Standard & Poor's (S&P) is in SA carrying out extensive interviews. S&P sub-Saharan Africa's managing director Konrad Reuss says he would view an actual GDP result for the year of 1,9% as "a marginal change", noting that "weak growth is already factored into the rating".

In any event, ratings agencies appear less concerned about marginal moves in SA's macro indicators than about government's ability to respond positively to the pressure on the economy. "The key question," says Reuss, "[is]: if weak growth were to persist, which is somewhat unlikely, what would the policy response be?"

Source: Financial Mail via I-Net Bridge