Economic Trends: Key trends in the South African economy

31 March 2017
Department of Research and Information
Gross domestic product

Conditions in the South African economy remain unsatisfactory.

The rate of decline in consumer spending deteriorated to 5.8% in Q2 of 2009, its worst performance in almost 25 years.

Factors contributing to poor consumer spending include:

- Increased job losses
- Falling real disposable incomes

Overview

Gross domestic product

GDP growth at sectoral level
Sectoral composition of the South African economy
Real GDP growth by economic sub-sector

Domestic expenditure

Gross domestic expenditure
Final consumption expenditure by households
Final consumption expenditure by government
Gross fixed capital formation
Fixed investment by type of organisation
Inventories

Employment

Formal and informal sector employment
Productivity and unit labour costs
Unemployment

Manufacturing sector

Manufacturing GDP and volume of production
Physical volume of production per sub-sector of manufacturing
Fixed investment and capacity utilisation
Utilisation of production capacity per sub-sector
Expectations regarding employment creation
Expectations regarding employment creation per sub-sector

Inflation and monetary aggregates

Consumer price inflation
Producer price inflation
Credit extension to the private sector

Interest rates and yields

Repo and prime overdraft rates
Inflation and interest rates
Long- and short-term yields

Capital markets

Johannesburg Securities Exchange performance
Shares traded on the JSE
Net portfolio purchases/sales by non-residents

Government finance

Budget balance
Government debt
Government savings

Exchange rates

The rand versus the US dollar and the euro
The rand versus other foreign currencies
Effective exchange rates of the rand

Balance of payments

Trade balance
Trade performance per sector
Current account of the balance of payments
Current account balance and financial flows
Total reserves and import cover
Composition of the export basket
Imports according to broad category
Key export destinations

Commodities

Commodity prices
Gold and platinum
Brent crude oil

Business cycle indicators

SARB business cycle indicators
BER business confidence indicators
BER/FNB confidence indicators

Miscellaneous indicators

Retail trade sales
New vehicles sales and exports
Building plans passed and buildings completed
Foreign direct investment
Liquidations of companies
Petrol price and crude oil prices

International indicators

World economic climate index
GDP growth in advanced economies
GDP growth in emerging economies
Equity market performance
Consumer price inflation
Interest rates

Glossary of terms

Note: An * in a specific graph indicates % change at constant prices, at a seasonally adjusted and annualised rate.
The world economy’s subdued rate of expansion in 2016, at 3.1%, was the lowest since 2009. Recent developments in the United States and the United Kingdom have added to the concerns over the sustainability of the global growth momentum and its future trajectory.

In the United States (US), GDP growth slowed to 1.6% (2.6% in 2015) as household consumption expenditure moderated and private sector fixed investment activity declined markedly. Exports remained under pressure largely due to a strong US dollar and weaker global demand.

In the United Kingdom (UK), the Brexit vote is taking a toll. Economic growth slowed in 2016 and may moderate further over the medium-term. A substantially weaker pound sterling should, however, bolster the country’s export performance. Growth in the eurozone is estimated at 1.7% for 2016. The UK’s decision to withdraw from the European Union is likely to affect the regional bloc’s growth momentum.

The Chinese economy expanded by 6.7% in 2016, the weakest performance since 1990, whereas Brazil and Russia again experienced recessionary conditions. India’s GDP continues to expand at a robust pace, with 6.6% growth recorded last year. Sub-Saharan Africa, in turn, has been facing serious headwinds, largely due to generally low commodity prices, weaker domestic demand and reduced fixed investment spending. The regional economy grew by an estimated 1.6% in 2016, the lowest performance in more than two decades.

Although commodity prices recovered to some extent during the year, this was not always supported by market fundamentals. Physical market imbalances prevail in several instances and future movements in US policy rates are expected to have a negative impact on commodity prices.

Globally, manufacturing activity is gaining momentum, including in the US, the eurozone and China. The global manufacturing PMI is at a multi-year high.

Business and consumer confidence are on the rise in the US, and its economy is operating at close to full capacity. More jobs are being created and the US economy is moving closer to full employment. Economic sentiment in the eurozone is currently at its best level in 6 years and economic growth is now more broad-based across its member states.

Stock-markets have been performing generally well, commodity prices have recovered some lost ground, the large emerging economies of Brazil and Russia are likely to emerge from recession, and fears of deflation in the eurozone and China have dissipated.

Growth prospects for the global economy are thus set to improve slightly, but are being clouded by additional layers of uncertainty, specifically the policy stances of the Trump administration in the US regarding issues such as trade, tax, investment and immigration, as well as the UK’s decision to leave the European Union (EU). An increasingly protectionist policy stance in the US would not augur well for the world economy.

Although the US economy is forecast to grow at a faster pace due to the fiscal stimulus planned by the new political administration, including tax cuts and spending on infrastructure development, a potential deterioration in trade relations with China and Mexico would have negative implications for global trade and eventually investment flows, affecting the world’s economic performance.

The South African economy expanded by only 0.3% in 2016, largely due to sharply lower output in the agriculture, mining and electricity sectors. Most other sectors recorded fairly modest rates of expansion. Other than the 2009 recession, when GDP contracted by 1.5%, this was the worst growth performance since 1994.

A difficult consumer environment resulted in household consumption expenditure moderating to 0.8% in 2016, from 1.7% in 2015, with a sharp 7.3% drop in spending on durable goods. Household balance sheets are quite stretched due to rising living costs; high levels of indebtedness, difficult access to new credit and higher interest rates; as well as high levels of unemployment and poor employment creation.

A challenging operating environment has not been conducive for fixed investment activity. Gross fixed capital formation fell by 3.9% in 2016, with private sector fixed investment being 6% lower in real terms. Manufacturers have cut back on capital spending in recent years and investment prospects remain largely unsatisfactory for this year.

Subdued demand in external markets and a relatively stronger rand saw exports declining marginally in 2016 after 3 years of expansion. Despite the stronger currency, import volumes dropped by 3.7% due to weak consumer and investment demand.

Consumer price inflation rose steadily in 2016 to an average of 6.4% for the year. Substantially higher food prices due to severe drought conditions largely underpinned this rising trend.

Although the Monetary Policy Committee (MPC) raised the repo rate by 75 basis points in the 1st quarter of 2016, rates remained unchanged for the remainder of the year despite a worsening inflation outlook, as the committee was mindful of the economy’s fragile state.

The labour absorption capacity of the economy worsened as growth slowed. Only 51 000 new employment opportunities were created in 2016 and the unemployment rate stood at 26.5% by year-end.

The current account deficit narrowed to 3.3% of GDP, its best level in 5 years. Weak domestic demand led to sharply lower import volumes, while higher commodity prices supported exports, resulting in a trade surplus of R14.5 billion.

South Africa’s economic prospects remain largely unfavourable in the shorter term. GDP growth is forecast at 1% for 2017, with the pace of expansion likely to gain some momentum in subsequent years.

Household spending should remain constrained in the short-term. Fixed investment activity, in turn, is unlikely to recover meaningfully not only due to the challenging business climate, but also due to the fact that many sectors of the economy have spare production capacity. Difficult trading conditions in global markets and reduced price competitiveness due to a relatively stronger rand may affect South Africa’s export performance in 2017.

The risk of downgrades of the country’s credit ratings still looms large. S&P Global, for example, has expressed concerns over South Africa’s poor economic growth, the performance of its fiscal metrics, including rising government guarantees to financially vulnerable state-owned enterprises, as well as political developments that could weaken government institutions.
South Africa’s economy expanded by a mere 0.3% in 2016, mainly due to sharply lower output in the agriculture, mining and electricity sectors.

The impact of the worst drought on record was reflected in the sharp 7.8% contraction in agricultural GDP compared to the previous year.

Weak global demand and operational challenges domestically resulted in a 4.7% drop in mining GDP in 2016, with lower output volumes recorded by all but one of its sub-sectors.

Softer domestic demand and difficult economic conditions in key external markets affected manufacturing activity adversely, as GDP growth of just 0.7% was recorded in 2016.

The generalised weakness of the economy has been broad-based, with subdued or negative rates of expansion having been recorded across most sectors.

Notes:
(i) Figures in brackets in the above graph refer to the sector’s percentage share of total GDP at basic prices (constant 2010 prices) in 2016.
Gross domestic product (cont.)

Gross Domestic Product

• Conditions in the South African economy remain unsatisfactory.

• The rate of decline in consumer spending deteriorated to 5.8% in Q2 of 2009, its worst performance in almost 25 years.

• Factors contributing to poor consumer spending include:
  - Increased job losses
  - Falling real disposable incomes

Source: IDC, compiled from Stats SA data

Sectoral composition of the South African economy in 2016

- Agriculture, forestry and fishing: 2.4%
- Mining and quarrying: 7.9%
- Manufacturing: 13.4%
- Electricity, gas and water: 3.7%
- Construction: 4.0%
- Trade, catering and accommodation: 15.2%
- Transport, storage and communication: 10.1%
- Finance, real estate and business services: 20.2%
- General government services: 17.3%

Note: Sector share according to GDP at basic prices (current prices)

Real GDP growth in service-related sectors

Services sectors include: Electricity, Construction, Trade, Transport, Finance, Government and Other services.

Source: IDC, compiled from Stats SA data

Real GDP growth in the manufacturing sector

Source: IDC, compiled from Stats SA data

Real GDP growth in the mining sector

Source: IDC, compiled from Stats SA data

Real GDP growth in the agricultural sector

Source: IDC, compiled from Stats SA data
- The worsening economic environment was reflected in the 0.8% drop in gross domestic expenditure in 2016 – the worst performance since the 2009 recession.
- Growth in household consumption expenditure slowed to 0.8%, from 1.7% in 2015. This is indicative of very difficult conditions in the household sector.
- Gross fixed capital formation, in turn, declined by 3.9%, with a steep drop in investment outlays by the private sector as business enterprises cut back on capital spending.
- Since investment activity in South Africa is highly import-intensive, the fall in fixed capital formation during 2016 resulted in substantially lower demand for imports.

### Final consumption expenditure by households

- Growth in household consumption expenditure slowed sharply in 2016 as consumers were affected by a challenging economic environment. Although the debt-to-GDP ratio declined throughout the year to the lowest level in 11 years, debt service costs have been on the rise.
- The higher cost of living, reduced demand for new credit, weak employment growth and low consumer confidence, all impacted on the ability and willingness of households to spend.
- Expenditure on durable goods (e.g. motor vehicles, furniture) fell sharply during the course of last year, as illustrated by the 12.4% drop in sales of new passenger cars.
- Some encouragement may be drawn from the fact that growth in consumer spending rebounded in the 2nd half of the year, with a slightly higher momentum expected for 2017.

### Final consumption expenditure by government

- Despite the on-going fiscal challenges, growth in consumption expenditure by general government expanded at a relatively robust pace of 2% in 2016, compared to 0.5% in 2015.
- However, the impact of the municipal elections should be taken into consideration, as reflected by the fairly strong 2.8% growth in Q2 of 2016 (on a quarter-on-quarter basis), followed by a decelerating trend in subsequent quarters.
- The state is playing an increasing role in the economy, as illustrated by the rising share of government spending in national GDP.
- Cognisant of the prevailing fiscal situation and challenges on the revenue raising front, government has reaffirmed its commitment to fiscal consolidation and debt sustainability. South Africa’s fiscal metrics and policy actions remain under very close scrutiny by the credit rating agencies.
Domestic expenditure (cont.)

Gross fixed capital formation

- A challenging economic and operating environment has not been conducive for fixed investment spending in recent years, particularly (but not exclusively) by the private sector.
- Subdued demand, both locally and abroad, have resulted in spare production capacity in many industries, thus not justifying investment in additional productive capacity.
- Supply-side constraints, especially cost pressures and infrastructure-related challenges, have also affected the investment decisions of private business enterprises.
- Manufacturers, in particular, have been scaling back on capital expenditure, with prospects remaining largely unsatisfactory in the short-term.
- The mining sector, in turn, has taken severe strain over the past few years, with the difficult business conditions translating into weak investment activity.

Fixed investment by type of organisation

- The public sector (i.e. government and public corporations) has been the driving force behind fixed investment activity in the South African economy in recent years.
- General government continued to invest in much needed economic infrastructure, whilst maintaining sizeable investments in social infrastructure, such as schools, hospitals and clinics. In 2016, however, growth in investment spending measured only 1.1%, compared to 13.4% in 2015.
- Capital expenditure by public corporations fell by 1.6% in 2016, with sluggish demand, among other factors, contributing to the postponement or cancellation of some of their investment plans.
- The 6% drop in private sector fixed investment reflects the low levels of business confidence, surplus production capacity, rising operational costs and subdued demand.

Inventories

- Business enterprises decreased their inventory levels by R11.2 billion (at constant 2010 prices) during 2016. This was the largest reduction since 2009, which was largely attributable to the worsening economic environment as well as the costs associated with keeping unnecessary stocks.
- As share of GDP, industrial and commercial inventories remained almost unchanged during the first 3 quarters of 2016, edging slightly higher in the final quarter.
- Many business enterprises have been clearly opting to keep as few stocks as possible, instead focusing on just-on-time delivery.
- The mining and manufacturing sectors reported substantially lower inventory levels in 2016 (in real terms), whereas all other main sectors recorded higher stock levels.
**Formal and informal sector employment**

- The economy is struggling to create new employment opportunities at a fast enough pace to make meaningful inroads in reducing unemployment and poverty. In total, only 51 000 new jobs were added in 2016.

- The following sectors recorded net gains in employment: Transport (+61 000 new jobs); agriculture (+59 000); finance and business services (+56 000); and construction (+44 000).

- However, substantial job losses were reported by the mining sector (-62 000 jobs); the trade sector (-58 000); community and social services (-53 000), as well as manufacturing (-10 000).

- For the economy at large, overall employment levels by the 4th quarter of 2016 were only 11.3% higher than 9 years ago. The manufacturing sector, however, is currently employing about 18% fewer people than in 2008.

---

**Productivity and unit labour costs**

- Labour productivity in the formal non-agricultural sectors of the economy declined marginally in the first three quarters of 2016, on a year-on-year basis.

- Although employment levels increased in 2016, albeit very modestly, this was not accompanied by sufficient production growth - hence the drop in output per worker.

- During the first three quarters of 2016, overall remuneration per worker increased by 5.9% (year-on-year), or slightly below the inflation rate. In the public sector, average remuneration per worker rose by 6.5% (i.e. above the prevailing inflation rate), while in the private sector the increase measured 5.5%.

- Nominal unit labour costs rose by 6% over the first 9 months of 2016, slightly lower than the 6.3% average inflation rate over the same period.

---

**Change in employment levels**

- South Africa’s unemployment rate has been on a rising trend and measured 26.5% in Q4 of 2016 – a slight improvement from the 13-year high of 27.1% in the preceding quarter.

- About 5.8 million people are currently unemployed according to the official definition, increasing to 8.9 million (or 35.6%) under the expanded definition.

- In 2016, 588 000 more people were added to the unemployed pool, being the highest such number since at least 2008.

- Of concern is the fact that almost 70% of the unemployed have been without a job for more than 1 year, whilst many of these people are also poorly qualified. Hence, the chance to be re-employed in the formal sector of the economy becomes increasingly difficult.
Employment according to main economic sector

Sectoral composition of employment in South Africa in 2016

- Agriculture, forestry & fishing: 5.5%
- Mining: 2.8%
- Manufacturing: 10.7%
- Electricity, gas & water: 0.7%
- Construction: 9.1%
- Trade, catering & accommodation: 20.1%
- Finance & business services: 14.4%
- Community, social & personal services: 22.6%
- Private households: 8.1%
- Other: 0.03%

Note: Data is for the formal and informal sector as per data from the Quarterly Labour Force Survey (QLFS).

Change in employment: Q4 2016 vs Q4 2015

Source: IDC, compiled from Stats SA data
Manufacturing sector

Manufacturing GDP and volume of production

- Manufacturing output expanded at a rather modest pace of 0.8% in 2016, a slight improvement from the 0.1% decline recorded in 2015. The sub-sectors that made positive contributions to this growth were mainly chemicals (growth of 3.9%), as well as wood and paper products (+3.3%), which represent 36.2% of overall manufacturing production.

- In general, operating conditions in the manufacturing sector remained unsatisfactory, with many players facing insufficient demand and rising costs of production.

- Subdued demand by households, as well as lower levels of activity in the agricultural and mining sectors contributed to weak demand for manufactured goods.

- Exports of manufactured goods (with the exception of motor vehicles) also remained under pressure due to difficult economic conditions in some of SA’s key external markets.

Physical volume of production per sub-sector of manufacturing

Note: Figures in brackets refer to the sub-sector’s percentage share of total manufacturing production.
Fixed investment and capacity utilisation

- Fixed investment spending in the manufacturing sector declined by 8.4% in 2016, taking the average rate of contraction over the past 5 years to 3.3% per year.
- This has been underscored by generally weak demand, which resulted in excess production capacity in many manufacturing sub-sectors.
- Looking ahead, manufacturers have indicated that fixed investment in machinery and equipment will remain largely unsatisfactory over the next 12 months, with the exceptions being the sub-sectors producing paper, printing & publishing; non-metallic mineral products; and electrical machinery.
- Many industries have been recording progressively lower rates of utilisation of production capacity. In Q4 2016, 72% of all manufacturing survey respondents (BER survey) indicated that output levels at the time were below capacity.

Utilisation of production capacity per sub-sector of manufacturing

<table>
<thead>
<tr>
<th>Sub-sector</th>
<th>Absolute change (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Manufacturing</td>
<td>82.8</td>
</tr>
<tr>
<td>Iron &amp; steel</td>
<td>80</td>
</tr>
<tr>
<td>Non-ferrous metals</td>
<td>78.9</td>
</tr>
<tr>
<td>Basic chemicals</td>
<td>88.3</td>
</tr>
<tr>
<td>Wood products</td>
<td>86.4</td>
</tr>
<tr>
<td>Radio, TV &amp; communication</td>
<td>83</td>
</tr>
<tr>
<td>Rubber products</td>
<td>85.1</td>
</tr>
<tr>
<td>Paper &amp; paper products</td>
<td>88.5</td>
</tr>
<tr>
<td>Other manufacturing</td>
<td>79.9</td>
</tr>
<tr>
<td>Fabricated metal products</td>
<td>75.8</td>
</tr>
<tr>
<td>Footwear</td>
<td>85.2</td>
</tr>
<tr>
<td>Other chemicals</td>
<td>85.1</td>
</tr>
<tr>
<td>Food</td>
<td>82.4</td>
</tr>
<tr>
<td>Leather</td>
<td>75</td>
</tr>
<tr>
<td>Petroleum products</td>
<td>82.3</td>
</tr>
<tr>
<td>Beverages</td>
<td>88.1</td>
</tr>
<tr>
<td>Plastic products</td>
<td>85.1</td>
</tr>
<tr>
<td>Furniture</td>
<td>88.6</td>
</tr>
<tr>
<td>Professional equipment</td>
<td>87.8</td>
</tr>
<tr>
<td>Motor vehicles, parts &amp; accessories</td>
<td>83.9</td>
</tr>
<tr>
<td>Glass products</td>
<td>84.6</td>
</tr>
<tr>
<td>Electrical machinery</td>
<td>80.3</td>
</tr>
<tr>
<td>Machinery &amp; equipment</td>
<td>80.2</td>
</tr>
<tr>
<td>Other transport equipment</td>
<td>86.1</td>
</tr>
<tr>
<td>Textiles</td>
<td>68.6</td>
</tr>
<tr>
<td>Non-metallic mineral products</td>
<td>83.4</td>
</tr>
<tr>
<td>Clothing</td>
<td>77.2</td>
</tr>
</tbody>
</table>

Note: Figures in brackets refer to the sub-sector’s percentage utilisation of production capacity in the fourth quarter of 2016.

Source: IDC, compiled from Stats SA and SARB data
Expectations regarding employment creation

- The manufacturing sector has been shedding jobs for the past 9 years, due to generally unfavourable business conditions.

- In 2016, a further 11 000 jobs (both formal and informal employment) were lost in the manufacturing sector. More job losses are expected in the first quarter of 2017, mainly in the sub-sectors producing machinery; furniture; and clothing (refer to the chart below).

- By the end of 2016, the overall manufacturing sector employed about 1.73 million people, or 10.7% of total employment in the country. Hence, the sector now employs some 384 000 fewer workers than at the beginning of 2008.

- Subdued rates of growth, rising wage costs, shortages of skills and industrial action have all contributed to the adoption of more capital-intensive or technologically advanced production processes in the manufacturing sector.

Expectations regarding employment creation per sub-sector of manufacturing

<table>
<thead>
<tr>
<th>Sub-sector</th>
<th>Q1 2016</th>
<th>Q1 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beverages</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Machinery</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Plastic</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Chemicals</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Printing &amp; publishing</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Wood</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Paper</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Basic metals</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Plastic</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fabricated metals</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Non-metallic minerals</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Food</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Transport equipment</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Clothing</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Furniture</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Machinery</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: IDC, compiled from BER data

Graph: Employment trend - number of factory workers

Manufacturing total

10 0 2 4 6 8 10

Net balance

Source: IDC, compiled from BER data

Expected

Pessimistic Optimistic Neutral
**Consumer price inflation**

- Consumer prices rose sharply during 2016, mainly on the back of steep increases in food prices as the severe drought resulted in supply shortages for many products. At an average of 6.4% in 2016 (4.6% in 2015), the rate of increase in CPI was the highest since 2009.

- Food prices increased, on average, by 10.7% in 2016, with a peak of 12% recorded in December 2016. Since food has a 14.2% share in the CPI basket, it accounted for 1.5 percentage points of headline inflation during 2016.

- Despite the sharp increase in crude oil prices, a stronger rand resulted in a moderate 2.1% rise in petrol inflation in 2016.

- Inflation is expected to decline modestly to an average of 5.9% for 2017, largely on the back of lower food prices. However, the upside risks remain high, particularly if the rand weakens significantly.

**Producer price inflation**

- A combination of factors resulted in a doubling of producer price inflation to an average of 7.1% in 2016, from 3.6% in 2015. Higher commodity prices (e.g. crude oil), as well as the steep rise in local maize prices contributed to a rising inflation trend at the factory gate.

- Substantial price increases were recorded in 2016 for products such as sugar (+22.3%); oils and fats (19.7%); grain mill products (19.1%) and household appliances (14.9%). Moreover, prices for final and intermediate manufactured goods increased sharply throughout the year, exerting upward pressure on consumer prices in the process.

- The steep upward trend in the prices of basic iron and steel, to a level of 18.1% in January 2017, is of concern, for it is likely to result in rising input costs for a number of downstream manufacturing industries, and eventually also into higher consumer prices.

**Credit extension to the private sector**

- A worsening consumer environment has impacted adversely on household demand for new credit in recent years, as reflected by the downward growth trend.

- Factors such as higher interest rates and a high debt burden, rising debt-servicing costs and tighter lending practices by the financial sector, all affected the ability and willingness of consumers to incur more debt.

- In real terms, the value of the assets of households has fallen over the past few years, in the process affecting negatively their financial position.

- As a result of adverse consumer trends, as indicated by low consumer confidence levels, growth in credit extension decelerated sharply to just 0.7% by December 2016 (on a year-on-year basis), being an all-time low.
In light of a worsening inflation outlook for 2016, the Monetary Policy Committee (MPC) of the South African Reserve Bank increased the repo rate by 75 basis points to 7.0% at the start of 2016.

Despite a rising inflation trend and upside risks to the inflation outlook, the MPC kept rates unchanged throughout the remainder of the year, chiefly due to concerns over the poor performance of the South African economy.

Since inflation is expected to have peaked and a moderate decline is forecast for 2017, no further hikes in the repo rate are currently anticipated.

Nonetheless, the MPC has cautioned that, should the inflation outlook deteriorate, it would reassess its monetary policy stance accordingly.

Despite a gradually rising interest rate trajectory over the past couple of years, the MPC’s monetary policy stance has remained fairly accommodative and growth-supportive. This is reflected by the negative or only marginally positive real repo rate since 2011.

Considering that the repo rate is anticipated to remain unchanged at 7.0% for the remainder of 2017, while consumer price inflation is projected to average 5.9% for the year, the real repo rate is set to rise to an average of about 1.1% for the year as a whole, compared to 0.6% in 2016.

In real terms, the repo rate should therefore remain at substantially lower levels than those recorded prior to the onset of the global financial crisis in 2007.

Having recorded a steep rise during 2015, yields on South Africa’s long-term government bonds trended downward during 2016.

The yield on the 10-year government bond declined from 9.6% in January 2016 to 8.7% by January 2017.

Factors in support of such a trend included the appreciation of the rand, better than expected inflation outcomes and a stable interest rate environment, whilst the risks of a potential sovereign credit ratings downgrade also faded as the year progressed.

A relatively favourable inflation outlook and an unchanged interest rate environment could result in bond yields trending broadly sideways during the course of 2017.
Johannesburg Securities Exchange (JSE) performance

Against the backdrop of a weaker economic performance, the FTSE/JSE All-Share Price Index (Alsi) recorded a very modest decline of about 0.1% during 2016, ending the year at a reading of 50 654 index points.

After having fallen sharply in 2015, the resources index recovered somewhat on the back of higher commodity prices, whilst industrial stocks lost some ground towards year-end. Financials also closed the year at a lower reading, having recorded a 1% decline over the course of 2016.

After a brief uptick in January 2017, the Alsi returned to a declining trend in February and at the beginning of March.

A very modest growth outlook for the SA economy, relatively low commodity prices and the likelihood of higher interest rates in the USA, are expected to weigh on the Alsi’s performance during 2017.

Shares traded on the JSE

Total turnover on the JSE amounted to almost R5.9 trillion in 2016, a 17.5% increase compared to 2015, with an average monthly turnover of R491 billion. Trading volumes rose by 6.9% to around 79.5 billion.

The value of share capital raised by private sector companies listed on the JSE declined by 54% in 2016, to R116.3 billion (R250.2 billion in 2015).

Overall market capitalisation on the JSE increased by 15.8% to R13 581 billion in 2016, equivalent to 313% of national GDP.

Despite a poorly performing economy and concerns over the country’s credit rating, the VIX, which is a gauge of market sentiment in South Africa’s equity markets, trended slightly lower in the second semester of 2016.

Net portfolio purchases/sales by non-residents

During 2016, non-residents became substantial net sellers of South African shares and, to a lesser degree, bonds. Net sales of local shares by foreigners amounted to R121.1 billion (an all-time record), whilst bond sales totalled R34.7 billion.

The economy’s weak growth prospects, concerns over domestic political developments, as well as fears of a potential downgrade of the sovereign credit ratings, among other factors, underpinned this massive sell-off during the course of last year.

The first few months of 2017 (up to 17 March) saw continued sales of local shares by non-residents to the value of R31.8 billion, as concerns about the state of the economy and fiscal challenges persist. However, foreigners were net buyers of local bonds, valued at about R4 billion over the same period.
Government finance

Budget balance

- Revenue collections for the 2016/17 fiscal year are estimated to have fallen short of the amount budgeted in February 2016 by some R30.4 billion.
- Tax collections are estimated to have been lower in most categories, particularly personal income tax (-R15.2 billion), VAT (-R11.3 billion), as well as customs duties (-R6.5 billion). Corporate tax collections, in turn, are likely to have been R6.8 billion higher than what was budgeted.
- Although the main budget expenditure by government is now estimated to be lower than what was forecast in February 2016, the larger than anticipated revenue shortfall is expected to result in the main budget deficit widening to an estimated 3.9% of GDP in the 2016/17 fiscal year, compared to the 3.6% initially budgeted.
- Sustained budget deficits result in higher costs of servicing government debt, crowding out spending on priority areas.

Government debt

- Government debt is a key fiscal metric that is closely monitored by credit rating agencies.
- Gross loan debt of government increased to 49% of GDP in the 2015/16 fiscal year and measured 51.7% by the 4th quarter of calendar year 2016, being at an all-time high.
- In value terms, the gross loan debt measured R2 243 billion by December 2016, representing a 94% increase over the past 5 years.
- Higher government debt is resulting in rising debt-servicing costs, which have been the fastest growing expenditure item in recent years. At an estimated R146.3 billion in the 2016/17 fiscal year, debt service costs will claim 11.2% of overall government expenditure, the highest in 11 years.
- Borrowing requirements are financed mainly through domestic loans, with limited exposure to foreign capital.

Government savings

- A worsening fiscal position in recent years has resulted in a deterioration in the savings ability of general government.
- In 2016, dissaving by government measured R52.6 billion, equivalent to -1.2% of GDP, compared to a dissaving of R64.3 billion in 2015.
- The situation is, however, likely to improve as government remains committed to fiscal consolidation by containing its expenditure while simultaneously introducing new tax measures to ensure higher revenue collections.
- Since both government and households have recorded ongoing dissaving in recent years, the reliance has remained on the private sector, as well as on foreign capital inflows, to finance the savings-investments gap.
The rand vs. the US dollar and the euro

- After depreciating sharply at the end of 2015 and start of 2016 in the aftermath of the so-called Nenegate, the rand strengthened during the course of last year. At its weakest level, the rand traded at R16.92 per USD on 11 January 2016, but appreciated quite strongly thereafter to end the year at R13.73 per USD (11% stronger than at the end of 2015).

- Factors in support of the rand's recovery have included higher commodity prices, an improvement in the country’s terms of trade, a smaller deficit on the current account of the balance of payments, the fact that rating agencies did not downgrade the country’s credit rating to sub-investment grade, as well as US dollar weakness.

- During the opening months of 2017 the rand appreciated further on the back of an improved economic outlook, higher commodity prices and some dollar weakness. However, political developments at the end of March led to a sharp reversal in the currency’s fortunes.

The rand versus other foreign currencies

- The following table illustrates the extent of appreciation (+) or depreciation (-) of the rand against select currencies over the period February 2016 to February 2017:
  - Australian dollar: +10.1%
  - Brazilian real: +6.8%
  - British pound: +27.0%
  - Chinese renminbi: +20.2%
  - Eurozone euro: +19.8%
  - Indian rupee: +14.8%
  - Japanese yen: +15.0%
  - US dollar: +16.4%

* The above % changes are all based on monthly average exchange rates.

Effective* exchange rates of the rand

- On a trade-weighted basis, the rand recovered significantly during 2016, with an 11.6% appreciation in the nominal effective exchange rate.

- In real terms (after inflation adjustments), the rand strengthened by 15.5% against a basket of currencies, resulting in a lower price competitiveness of local products in global markets.

- Interest rates at multi-year lows in many countries, or even negative in some developed economies have, among other factors, contributed to capital flows into South Africa in search of higher yields.

- Despite a relatively stronger rand, demand for imports declined in real terms, reflective of weak domestic demand conditions, as well as low business and investor confidence.

* Basket of currencies: euro (29.3% weight), US dollar (13.7%), Chinese renminbi (20.5%), British pound (5.8%) and Japanese yen (8.0%), among others.
• A substantially weaker rand exchange rate (relative to 2015) alongside a recovery in commodity prices contributed to South Africa’s trade balance recording a R15 billion surplus for 2016 as a whole, compared to a deficit of R38 billion in 2015.

• The substantially lower cost of oil-based imports, such as crude oil and refined petroleum products, contributed largely to such an improvement in the trade balance.

• The manufacturing sector reported an improved export performance, particularly motor vehicle exports. The ramp-up in production at BMW, after having shut-down for retooling purposes for part of 2015, supported this performance.

• Although the trade surplus is most welcome, the underlying reasons provide cause for concern, as weaker economic activity suppressed imports, rather than a much improved export performance.
Current account of the balance of payments

- The deficit on the current account of the balance of payments widened in the opening quarter of 2016 as the sharply weaker exchange rate took its toll. However, the remainder of 2016 witnessed progressively smaller deficits as the trade account moved to a near balanced position.
- Income payments (dividends and interest) to foreigners remain the largest contributor to the deficit on the current account, as foreign investors repatriate their earnings to their home countries.
- The deficit on the services account widened further in 2016, with the deficit increasing by R2.2 billion to R8.2 billion.
- Transfers to SACU countries declined to R110 billion in 2016, compared to the R134 billion transferred in 2015. The decline is possibly related to the weaker import demand resulting in lower customs duty receipts in 2016.

Current account balance and financial flows

- Following portfolio outflows in the final quarter of 2015, confidence in South African markets returned, with a total of R255 billion worth of portfolio investments having been made during the course of 2016.
- Foreign investors favoured South African equities, recording an inflow of R109 billion, mostly during the final quarter of 2016. Bonds recorded outflows totaling R8 billion, largely underscored by the threat of downgrades in the sovereign credit ratings.
- Foreign capital inflows fell short of the deficit on the current account for most of 2016, continuing the trend established in 2015. However, the increase in inflows during the final quarter, combined with the sharp narrowing of the deficit on the current account, supported the exchange rate in recent times.

Total reserves and import cover

- Despite the increase in the dollar price of gold, South Africa’s total gold and foreign currency reserves declined in rand terms during 2016. This was due to the recovery of the currency throughout 2016.
- Total reserves fell to R647.8 billion in the 4th quarter of 2016, from R713.9 billion a year earlier. In dollar terms, however, foreign reserves increased from USD45.8 billion to USD47.8 billion over this period.
- The import cover, which indicates the number of months’ worth of imports that a country’s reserves can cover, dropped from 5.7 months in the 1st quarter of 2016 to 5.2 months by the end of the year. Despite this decline, the import cover remained above the levels achieved prior to 2015.
Composition of the export basket

- South Africa’s export basket remains dominated by manufactured goods, with the relatively weaker rand having supported their price competitiveness in global markets.

- However, manufactured exports remain fairly concentrated both in terms of products and destination markets. Some 58% of all manufactured exports are from 10 manufacturing sub-sectors, while 38.2% of overall manufactured exports were destined to the rest of the African continent.

- Manufactured exports increased by 6.7% in 2016, with motor vehicles, parts and accessories making the largest contribution, having increased by 13.8% over the year.

- Global demand for commodities remained weak during 2016, resulting in lower mining export volumes. Despite the weaker exchange rate and a recovery in commodity prices, the mining sector thus saw its share of South Africa’s export basket decline marginally.

Imports according to broad category

- South Africa’s imports rose by only 1% in 2016, following a 0.5% increase in 2015. This reflected the generalised weakness of the economy, with import demand from consumers, the business sector and state-owned enterprises either falling or being quite subdued.

- Imports of consumption goods fell by 6.1% in 2016 as consumer demand came under pressure, especially with regard to durable goods.

- Oil prices recovered somewhat in 2016, supporting the 6.9% and 5.7% rise in imports of raw materials and intermediate goods, respectively. Intermediate goods imports were also supported by components required for the production of motor vehicles, as well as by rail stock for Transnet’s fleet renewal. Imports of capital goods fell by 2.9% in 2016 as some of the large infrastructure projects are nearing completion and overall fixed investment activity contracted.

Key export destinations

- China remains South Africa’s largest export market, accounting for 9% of all exports. Although exports to China increased by 5.7% in 2016, this fell short of the 8.7% rise in overall exports.

- Germany surpassed the United States as the second largest export destination, with vehicle exports underscoring the 22.8% increase in total exports to Germany last year.

- Other significant export destinations which recorded double-digit growth in 2016 were India, the United Kingdom, Belgium, Mozambique, the Netherlands, Zimbabwe, and Hong Kong. However, it should be noted that countries such as Belgium and the Netherlands might not be the ultimate destination but rather entry points into the European Union.

- The United States remains a key market for South African exports, especially manufactured goods. Hence, the marginal increase in exports to the US in 2016, despite this country’s economic growth momentum, is of particular concern.
Commodity prices

- Commodity prices recovered some ground in 2016, ending the downward trend which started in 2011.
- The price recovery has been evident across the agricultural, food and industrial commodities spectrum. In certain instances, however, it has been limited by persistent excess supply in the respective markets, with iron ore being a prime example.
- Fears of a substantial decline in China’s demand for commodities have been allayed to some extent, supporting prices across a wide range of commodities.
- Rising commodity prices are expected to create some inflationary pressures worldwide, but have been welcome news in countries that were particularly concerned with the threat of deflation.

Gold and platinum

- Gold and platinum prices have recently softened in dollar terms, as inflationary pressures resurfaced in advanced economies, prompting expectations of interest rate increases, especially in the United States.
- The recovery of precious metal prices during the opening half of 2016 had not been supported by overall market fundamentals, especially in the case of platinum. Large above-ground stockpiles, combined with a only slight deficit between mine supply and demand, could limit upward price movements.
- Exchange rate trends amplified the movements in gold and platinum prices in rand terms. Atypically from an historical perspective, the exchange rate strengthened in conjunction with lower commodity prices.

Brent crude oil

- Crude oil prices recovered throughout 2016 and into 2017 as stronger economic activity in the United States and a less negative outlook for China supported expectations of demand growth.
- The latter part of 2016 also witnessed some of the largest oil producers, as members of OPEC, agreeing to limit supply in order to support prices.
- The gains in the oil price have been limited by the increase in shale gas production in the United States as oil prices recovered, pointing to limited upside potential over the short- to medium-term.
**SARB business cycle indicators**

- The 34-month long downward trend in the South African Reserve Bank’s leading business cycle indicator came to an end in April 2016, when it reached its lowest turning point (91.9 points) since November 2009.

- The subsequent recovery was fairly swift, with the reading of 97.1 in January 2017 being the best in more than two 2 years.

- Positive contributors to the improvement in the leading indicator have included: commodity prices; building plans passed; volume of orders in manufacturing; money supply; the number of new vehicles sold; and the leading indicators of major trading partners.

- The renewed upward trend in the leading indicator points to an expected improvement in economic activity during 2017, although recent developments on the political front have raised the risk of a weaker than anticipated growth performance.

---

**BER business confidence indicators**

- Although the outlook for the economy has improved to some extent, the current business environment remains unsatisfactory. This is reflected by the Business Confidence Index, which remain below the 50-point mark.

- Confidence levels in manufacturing remain below the average for the overall economy, confirming the difficult trading conditions facing the sector.

- Weak consumer spending is being reflected by the low confidence levels in the retail sector, which are the worst since 2001. These are even lower than the levels recorded during the global financial crisis and economic recession of 2008/09.

- Weak confidence levels support the view that economic growth, although gradually recovering, will remain limited in 2017, for domestic drivers such as consumer spending and business activity remain under pressure.

---

**BER/FNB confidence indicators**

- Weak business confidence has resulted in the private sector limiting its investment spending, leading to a substantial deterioration in the operating climate facing the building and civil engineering industries.

- The difficult economic conditions have affected non-residential building activity, which contracted towards the end of 2016. Growth in the value of residential buildings completed, in turn, has been modest.

- Lower investment spending and building activity have resulted in rising competition in the construction industry, impacting on company profitability.
Retail trade sales

- The retail sector experienced a very challenging environment during 2016, with total retail sales increasing by 1.9% in real terms.
- Retailers of furniture and appliances reported a 2% decline in sales at constant prices, with households tending to postpone purchases of durable goods.
- The retail segments that recorded the largest increases in sales were those selling pharmaceuticals, medical goods, as well as cosmetics.
- General retailers saw their sales rise by only 1.1% in real terms during 2016, indicative of the limited spending power of households. This increase masks the shift from premium retailers to lower cost retailers, highlighting the different fortunes that companies in this segment are experiencing.

New vehicles sales and exports

- Sales of new vehicles in the domestic market fell by 11.4% in 2016 and recovered only marginally in the opening two months of 2017.
- Passenger vehicle sales were the most affected, having declined by 12.4% last year.
- In contrast, vehicle exports increased by 3.3% in 2016, supported by higher sales of passenger vehicles as well as light commercial vehicles in global markets.
- However, exports declined marginally at the start of 2017 as fewer passenger vehicles were exported, whereas exports of light commercial vehicles continued rising.

Building plans passed and buildings completed

- The value of building plans passed during 2016 declined by 0.4% in real terms compared to 2015, with the planning of additions and alterations contracting by 3%. New residential and non-residential building plans recorded marginal increases of 0.5% and 0.4%, respectively.
- The value of buildings completed increased by 1.8% in 2016 in real terms, with new residential and non-residential buildings expanding by 2% and 2.2%, respectively. Additions and alterations rose by only 0.4%
- The physical size of non-residential building additions and alterations declined by 15.4% to 776 000 square metres, the lowest since 1993, when the data started being collected.
Foreign direct investment

- South Africa continued to attract foreign direct investment inflows during 2016, totaling R33.4 billion for the year as a whole.
- However, the momentum has been slowing since the 3rd quarter of 2015. This is in line with global FDI trends, which declined by 13% in 2016 compared to 2015.
- Developed as well as developing economies recorded lower FDI inflows according to UNCTAD, dropping by 29% in the case of Europe. North America managed to record a 6% increase in FDI, attracted by improving economic conditions.
- FDI into emerging economies declined by 20% as lower commodity prices and slowing growth reduced their attractiveness.

Liquidations of companies

- The number of company liquidations increased from 969 in 2015 to 1,012 in 2016, with the largest portion being voluntary liquidations.
- The 7.2% decline in the number of liquidations of close corporations is not surprising, as no new registrations could be effected.
- The largest number of liquidations were concentrated in finance and business services, as well as the wholesale and retail trade sector.

Petrol price and crude oil prices

- The petrol price trended higher in 2016, a combination of initially a weaker exchange rate, as well as a recovery in the oil price internationally.
- The strengthening of the exchange rate in 2016 cushioned the country against the rise in the oil price, which increased by 45.6%. In contrast, the petrol price increased by 4.1% during 2016.
- The oil price has seemingly stabilised around the USD 55 per barrel level since December 2016 and the 1st quarter of 2017.
- The price of petrol has a significant weight of 4.58% in the CPI basket, thus being an important driver, both direct and indirect through transport costs, of overall inflation in South Africa. Expectations of limited upside scope for oil prices and a slight weakening of the exchange rate indicates this CPI basket item will maintain upward pressure.
World economic climate index

- Global economic conditions remain sub-optimal at the present time, but there are signs of recovery.
- The world economic climate indicator, which had stayed in negative territory throughout 2016, improved in the 1st quarter of 2017 to a positive reading of 2.6.
- The recent improvement in the indicator is due to positive expectations of conditions going forward, although current conditions are still rated by survey respondents as being unfavourable.
- Prospects for Sub-Saharan Africa are expected to improve, largely on the back of gradually recovering commodity markets, although fundamentals remain weak in certain cases.

GDP growth in advanced economies

- Economic growth in the advanced economies as a group slowed in 2016.
- The rate of expansion in the United States dropped to 1.6%, from 2.6% in 2015, as inventory levels and non-residential fixed investment activity declined. Private consumption expenditure moderated in conjunction with fixed investment in the residential sector.
- Economic growth in the Eurozone remains low, with the largest member states still experiencing subdued growth. However, most member states managed to record positive growth in 2016, with only Greece’s economy continuing to contract. The uncertainty brought about by the United Kingdom’s decision to withdraw from the European Union affected business confidence levels throughout the region.
- Japan’s economy expanded by 0.9% largely due to increased government spending and higher exports, although domestic demand remained weak.

GDP growth in emerging economies

- The rate of economic growth for emerging markets and developing economies as a group was sustained at 4.1% in 2016, halting the downward trend that had been in place for the previous five years.
- China’s rate of expansion moderated to 6.7%, benefitting from governmental support. Despite expectations of slower growth in future, the Chinese economy is allegedly on a sounder footing.
- The Indian economy continued to grow at a robust pace, but Brazil’s GDP contracted further in 2016 as the political fallout took its toll. Improvements in the oil price supported the Russian economy, although it still recorded a contraction in 2016.
Equity market performance

- Global equity markets edged higher in 2016 despite the generally difficult global economic environment and high levels of uncertainty.
- The Dow Jones Industrial index increased by 12.4% over the course of the year, gaining a further 3.6% in the first two months of 2017 to break through the 20 000 point level for the first time.
- Despite the difficulties experienced by the Brazilian economy, the Bovespa posted a 32.3% recovery in 2016, followed by a further 12.4% gain in the opening two months of 2017. The increase has reflected positive sentiment regarding the policies of President Temer.
- The Shanghai Composite index fell by 11% in 2016, affected by continued concerns over the performance of the Chinese economy. Confidence in the market improved in the first couple of months of 2017, resulting in a 1.6% gain.

Consumer price inflation

- Rising commodity prices exerted some pressure on global inflation towards the end of 2016 and allayed fears of deflation in a number of advanced economies.
- Increasing inflation alongside a higher economic growth momentum in the United States prompted the Federal Reserve to resume the normalisation of monetary policy.
- Inflation in the United Kingdom as well as in the eurozone is approaching the target level of around 2%. Although this could prompt the Bank of England to start raising policy rates, the eurozone’s economic fragility is likely to justify the European Central Bank holding off on rate hikes, while rising inflation could support some consumer spending.
- Efforts to raise inflationary pressures in Japan have not yet had the desired effects, as inflation remains marginally above 0%.

Interest rates

- At the start of 2017, the Bank of Japan reduced the overnight call rate to below zero in order to stimulate consumer and business spending. Such a move complemented the monetary stimulus that has been in place over the past couple of years.
- In the United States, the Federal Reserve was in a position to resume the rate tightening cycle due to visible improvements in the economy over the course of 2016. As such, it raised the policy rate in December 2016 as well as in March 2017.
- Although the European Central Bank did not adjust interest rates in 2016, it continued its quantitative easing programme. The latter was extended in December, but the quantum was reduced from €80 billion to €60 billion per month.
**Balance of payments**: Consists of three main accounts: (1) the **current account**, which is made up of visible trade (i.e. merchandise exports and imports) and invisible trade (i.e. payments and receipts for services such as transportation, travel, etc; income, including compensation of employees, investment income and current transfers); (2) the **transfer account**, which reflects net capital transfer receipts; and (3) the **financial account**, which consists of direct investment, portfolio investment (i.e. the selling and purchasing of assets such as shares and stocks) and other investment flows.

**Bond**: A fixed interest-bearing security issued by the central government. Its **yield** to redemption is an arbitrary rate which reflects market conditions, including participants’ expectations.

**BER**: Bureau for Economic Research at the University of Stellenbosch

**Effective exchange rate**: Obtained by weighting the exchange rate between the rand and the currencies of major trading partners. The weights of the five major currencies are the following: Euro (29.26%), US dollar (13.72%), Chinese renminbi (20.54%), British pound (5.82%) and the Japanese yen (6.03%).

**FCEG**: Final consumption expenditure by general government includes spending on individual goods and services (e.g. education, health and social services), as well as expenditure on collective goods and services to the benefit of the community as a whole (e.g. maintenance of law and order, public administration and defence).

**FCEH**: Final consumption expenditure by households measures the sum of outlays on new goods and services by resident households, including private non-profit organisations.

**FDI**: Foreign direct investment.

**GDE**: Gross domestic expenditure is the total value of the expenditure by households, the corporate sector and general government on final goods and services. It differs from expenditure on GDP in that it includes imports but excludes exports.

**GDP**: Gross domestic product is the total value of all final goods and services produced within the economy.

**GFCF**: Gross fixed capital formation represents total spending by both the private and public sectors on tangible and intangible assets which have been produced and are themselves used continuously in product processes for more than a year (i.e. investment goods or articles which yield future benefits).

**General government**: Central, regional and local authorities and extra-budgetary funds.

**Growth rates**: Unless otherwise specified, these are obtained by calculating the percentage change between the figure for the current period and that of the corresponding period in the previous year.

**IFS**: International Financial Statistics

**IMF**: International Monetary Fund

**Import cover**: Refers to the number of months’ worth of imports which current reserves can cover.

**Interest rates**: The **prime rate** is the lowest rate at which a clearing bank will lend money on an overdraft facility; the **repo rate** replaced the Bank rate as the benchmark interest rate in the economy on 9 March 1998 – this is the rate at which the central bank makes cash available to banks on a tender basis through repurchase agreements; banks that experience difficulties in obtaining cash can borrow from the central bank at the penalty rate, which is known as the **marginal lending facility rate**.

**JSE**: Johannesburg Securities Exchange

**LHS**: Left hand scale

**Money supply**: M1 = the sum of coins and banknotes in circulation, cheque and transmission deposits plus other demand deposits; M2 = M1 plus other short-term deposits and medium-term deposits held by the domestic private sector; and M3 = M2 plus long-term deposits held by the domestic private sector.

**MPC**: Monetary Policy Committee of the South African Reserve Bank

**Price indices**: The consumer price index (CPI) represents the prices of a basket of consumer goods and services, whereas the production price index (PPI) represents the prices of a basket of producer goods, including capital and intermediate goods.

**Public corporations**: Government-owned businesses which are formally established and regulated by an enabling Act of Parliament, or companies wholly or mainly owned by public authorities.

**QE**: Quantitative Easing, is a programme by central banks in which they purchase debt instruments, mainly government debt, to increase liquidity in the economy and thereby stimulate economic activity and support inflation.

**Real terms**: A variable is “in real terms” when its value has been adjusted for changes in the purchasing power of money. This is carried out by deflating by an appropriate price index, with the resulting value being in “constant prices”.

**RHS**: Right hand scale

**SARB**: South African Reserve Bank

**Seasonal adjustment**: Refers to the elimination of the seasonal variation in a time series.

**Stats SA**: Statistics South Africa

**Trade balance**: The difference between the exports and the imports of goods (excluding services).

**ULP**: Unleaded petrol

**UNCTAD**: United Nations Conference on Trade and Development.

**Note**: An * in a specific graph indicates % change at constant prices, at a seasonally adjusted and annualised rate.