RECESSION IS LIKELY OVER, **BUT NO REVIVAL IN SIGHT**

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ABOUT **THE AUTHOR**

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KEY TAKEOUTS:

- GOVERNMENT RELEASES GROWTH RESCUE PLAN
- SARB CUTS RATES AND LOWERS FORECASTS
- WE EXPECT SECOND QUARTER GDP GROWTH TO REBOUND

The widely anticipated ANC National Policy Conference took place in early July. Even though the National Development Plan (NDP) was affirmed as the governing party's growth policy guide, very little was actually decided at the conference. However, it is probably positive that relatively moderate views prevailed and that there did not seem to be a lot of appetite for radical policy changes.

ALL THE NEW ACTION PLAN NEEDS IS ACTION

Mid-July saw Finance Minister Malusi Gigaba release Government's Inclusive Growth Action Plan, with the key focus areas addressing:

1. Weak growth and the impact on the fiscal framework;
2. Rising government debt;
3. The state of the state-owned companies and risks to contingent liabilities; and
4. Policy uncertainty and low confidence levels.

While the plan's focus areas are on target, it is difficult to be overly optimistic on implementation – as this is where previous plans also fell short. Nevertheless, it seems that Minister Gigaba and his Treasury colleagues are agreeing on the big issues and risks for the SA economy – and have convinced the ANC to support this plan.

In a further positive development, the Minister of Mineral Resources had to suspend the implementation of the new Mining Charter after severe criticism from the Chamber of Mines, the ANC and the National Union of Mineworkers, among others.

SURPRISE AS SARB SPRINGS INTO ACTION

Moving on to an area we have highlighted a few times over the past several months: the need for lower interest rates. Ever since May 2016, we have warned that inflation will fall sharply during the course of 2017. We said that this trend, combined with a weak economy and a more stable currency, as well as a lower current account deficit (thanks to a much more supportive global economy), should provide the South African Reserve Bank (SARB) with the opportunity to cut interest rates during the second half of 2017. The need for lower rates became ever more pronounced when the economy dipped into recession during the first quarter of this year, inflation slowed more rapidly than even we expected (we now expect a rate of around 4.6% for July) and even the current account deficit surprised on the positive side. As the Reserve Bank governor continued with very hawkish comments in the lead-up to the July policy meeting, we noted that the SARB was running the risk of making a policy error.

However, they then surprised the market with a rate cut after markedly lowering their inflation and growth forecasts. Even though the usual political, policy and credit ratings risks remain, we expect another three 25 basis point rate cuts in this cycle – another one later this year, with a further two cuts forecast for the first half of 2018.

RECESSION IS OVER

I probably don't need to remind you that the economy was in a recession during the last quarter of 2016 and the first quarter of this year. At the time of the release of the first quarter GDP data, we noted that the widespread nature of the weakness (with only the mining and agricultural sectors recording positive growth) was totally unexpected and that perhaps the economy would rebound after likely seasonal distortions. The high frequency data that is available for the second quarter allows us to start building a forecast of better, and quite likely, positive GDP growth. Examples of some of the available data from StatsSA are mining production at +2.6%, manufacturing production +6.2%, electricity production +12.1%, retail sales +7.7% and freight transport +8.4% (all numbers quoted are quarter-on-quarter annualised growth rates). Of these sectors, retail sales, manufacturing production and electricity production all recorded negative growth during the first quarter. With some June data still outstanding, we expect total second quarter GDP growth to come in around +2.4% annualised, up from the -0.3% recorded in the first quarter.

Although this means an end to the recession, growth is clearly still weak and a mild interest rate cycle will, at best, help lift confidence a bit. Political and policy reform remains key to lift confidence and growth.