

South Africa: Ready, set... stall

Global headwinds and policy uncertainty take their toll

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PLEASE SEE ANALYST CERTIFICATIONS AND IMPORTANT DISCLOSURES BEGINNING ON PAGE 22.

Overview

Impact of Brexit and US outlook

The South African real economy

- Understanding the impact of the drought
- Risks from electricity
- The consumer as a driver of domestic demand
- The business environment as revealed by surveys
- The outlook for inflation and monetary policy
- Some improvement in the external accounts – help for the rand?

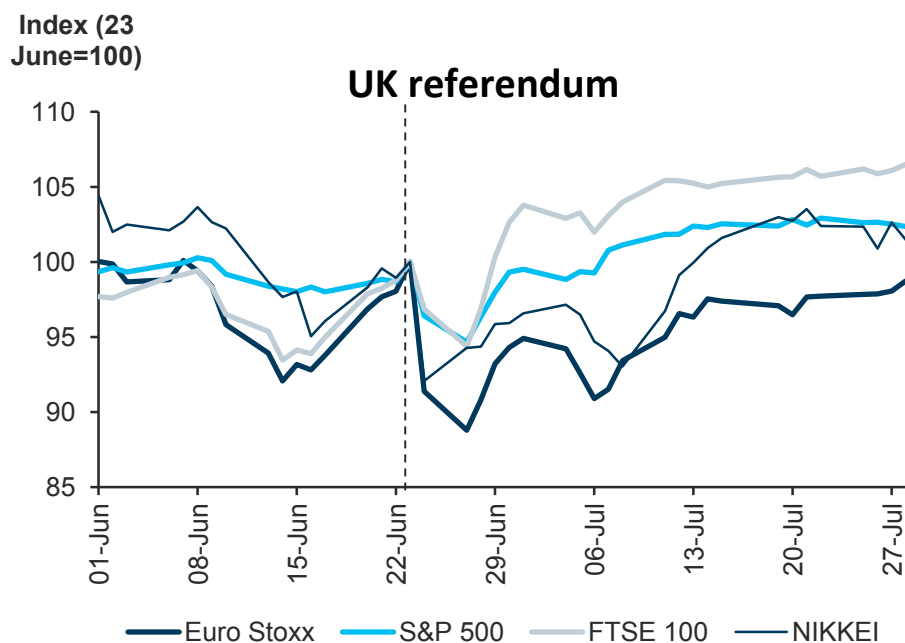
Politics and local government elections

The macro backdrop to savings in South Africa

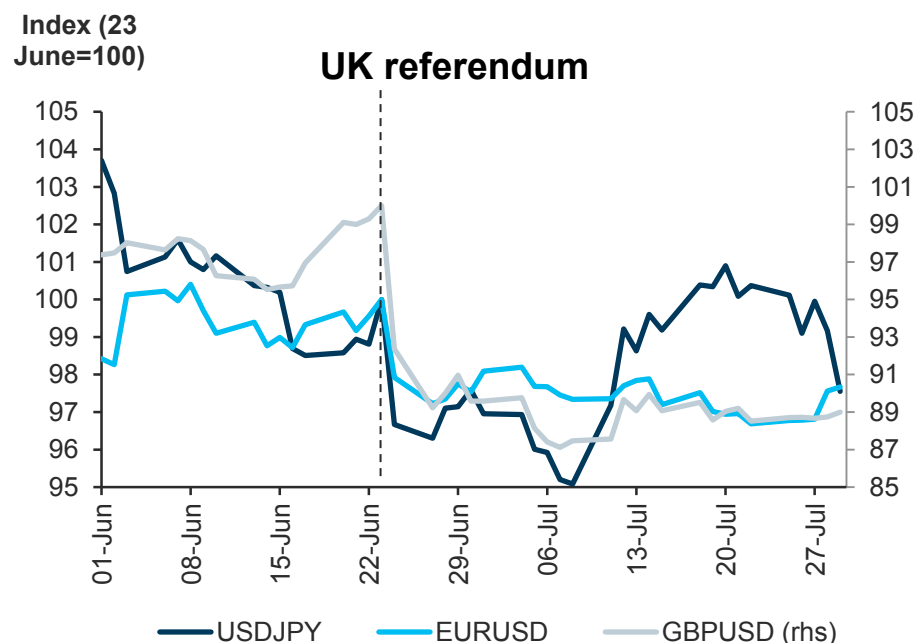
Brexit and the global economy

- Reaction to the UK referendum result has been less severe than expected, and markets have remained orderly.
- But the future is clouded with considerable uncertainty and downside risk.
- Multiple feedback loops between the real economy and financial markets with significant cross-border and time-lag components – it is complicated!

Equity markets have retraced post-referendum declines...



... with currency markets holding on to recent adjustments



Source: Bloomberg, Barclays Research

For details, see [Sub-Saharan Africa Analysis: Africa not immune to Brexit contagion](#), 25 July 2016

Brexit and the global economy

- Brexit a major global shock with reverberations still to come. Two big unknowns:
 - Will the UK actually exit?
 - If so, what will the terms of exit look like? Politics suggest the EU is likely to play hardball
- Although market reaction has been fairly benign so far, it is too early to declare victory, and the hard work to contain the fallout is just beginning
- A coordinated policy response to safeguard the EU and euro area does not yet appear to be forthcoming
- Post-Brexit downside risks to global growth will likely result in looser monetary policy in Europe and a somewhat more cautious Fed
- BoE likely to cut 50bp at August 4 MPC and expand asset purchases
- ECB likely to extend QE at September meeting
- For the US, our base case scenario remains a 25bp hike in September, with the current landscape skewing the risks for a later and more gradual resumption of Fed rate hikes: watch the July payrolls report in a few days

For details, see [Sub-Saharan Africa Analysis: Africa not immune to Brexit contagion](#), 25 July 2016

Potential risk events in the global economy: key dates

- **04-Aug: BoE MPC meeting**
- 04-Sep: G20 Leaders Summit (two days)
- **08-Sep: ECB monetary policy meeting**
- 15-Sep BoE MPC meeting
- 25 - 28 Sep: UK Labour Party Annual Conference (likely timing of an expected Labour Party leadership election)
- Early Oct: Italian constitutional referendum
- 15-Oct: 2017 fiscal budgets submission to the EC
- 8 Nov: US presidential elections; Trump is now polling evenly with Clinton
- **Mar 2017: General elections in the Netherlands**
- May 2017: Presidential election in France, followed in June by the general elections
- Sep 2017: General elections in Germany

Source: Bloomberg, Barclays Research

Global growth of less than 3% likely this year

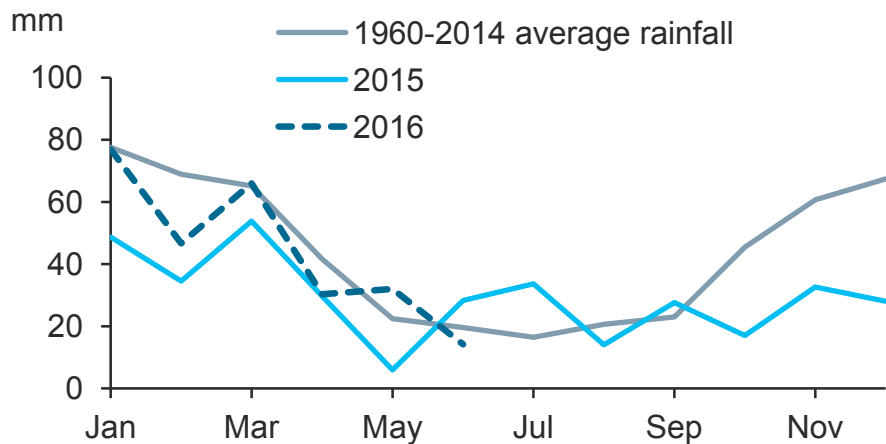
	Weight*	Real GDP					Real GDP			Consumer prices				Consumer prices		
		% over previous period, saar					% annual change			% over a year ago				% annual change		
		1Q16	2Q16	3Q16	4Q16	1Q17	2015	2016	2017	1Q16	2Q16	3Q16	4Q16	2015	2016	2017
Global	100.0	3.2	2.9	3.0	2.6	2.8	3.2	3.1	3.2	2.7	2.8	2.9	3.1	2.1	2.9	3.3
Advanced	43.3	1.7	1.5	1.3	1.1	1.3	1.9	1.5	1.4	0.6	0.5	0.9	1.3	0.2	0.8	1.9
Emerging	56.7	4.4	3.9	4.3	3.7	4.2	4.2	4.2	4.5	5.9	6.3	6.1	5.9	5.1	6.0	5.3
BRIC	37.4	5.8	5.2	5.2	4.2	5.2	4.8	5.1	5.2	4.0	3.8	3.6	3.5	4.1	3.7	3.1
Americas	28.2	0.5	0.7	1.5	1.8	2.2	1.5	0.9	2.1	4.7	5.4	5.5	5.7	2.9	5.3	5.6
United States	19.6	1.1	2.0	2.0	2.0	2.5	2.4	1.8	2.3	1.1	1.1	1.5	2.2	0.1	1.5	2.7
Latin America	8.7	-0.9	-2.3	0.3	1.3	1.7	-0.5	-1.1	1.8	20.4	24.4	23.4	21.9	14.3	22.5	19.6
Argentina	1.1	-2.8	-3.5	1.0	2.5	5.0	2.4	-1.1	3.2	33.9	42.6	45.3	43.2	26.5	41.5	24.0
Brazil	3.5	-1.1	-2.4	-2.0	0.8	1.0	-3.8	-3.3	0.5	10.1	9.1	8.5	7.6	9.0	8.8	6.1
Colombia	0.7	1.0	1.0	2.2	2.6	3.0	3.1	2.1	3.0	7.4	7.6	7.2	5.9	5.0	7.0	3.5
Mexico	2.4	3.3	-0.8	1.6	2.0	2.0	2.5	1.9	2.1	2.7	2.6	2.8	2.9	2.7	2.7	3.3
Peru	0.4	3.3	0.0	5.3	7.6	4.1	3.3	3.8	4.0	4.5	3.9	3.3	3.1	3.5	3.7	2.5
Venezuela	0.6	-21.2	-13.2	0.3	-8.4	-5.6	-5.7	-10.4	2.0	220.4	300.7	281.0	270.2	121.7	271.0	317.9
Asia/Pacific	46.5	5.7	5.2	5.3	4.4	5.0	5.4	5.3	5.1	1.9	1.8	1.8	2.0	1.7	1.9	2.1
Japan	5.3	1.9	0.6	1.3	1.3	1.3	0.5	0.6	1.2	-0.1	-0.4	-0.4	-0.3	0.5	-0.3	0.5
Australia	1.2	4.3	2.0	2.4	3.0	3.4	2.5	3.1	3.2	1.3	1.4	1.6	1.7	1.5	1.5	2.3
Emerging Asia	40.0	6.2	5.9	5.8	4.8	5.7	6.1	5.9	5.6	2.4	2.4	2.4	2.5	2.0	2.5	2.5
China	21.1	6.3	6.2	5.8	5.6	5.5	6.9	6.3	5.5	2.1	2.1	2.1	2.3	1.4	2.2	2.0
Hong Kong	0.5	-1.8	4.1	1.2	0.5	0.3	2.4	1.0	0.7	2.8	2.4	2.2	2.6	3.0	2.5	2.9
India	8.7	9.6	8.1	9.1	4.1	9.3	7.3	7.8	7.9	5.3	5.5	5.1	4.5	4.9	5.1	5.1
Indonesia	3.1	3.9	5.0	5.1	5.5	5.7	4.8	4.9	5.6	4.3	3.4	3.5	4.6	6.4	4.0	4.5
South Korea	2.0	2.1	2.6	1.4	2.0	2.0	2.6	2.5	2.2	1.0	1.0	1.3	1.5	0.7	1.2	1.6
Malaysia	0.9	4.2	4.7	4.5	4.0	4.0	5.0	4.4	4.2	3.4	2.1	1.6	2.1	2.1	2.3	2.0
Philippines	0.8	4.5	6.0	5.5	5.5	6.0	5.9	6.2	5.8	1.1	1.5	2.1	2.3	1.4	1.8	2.5
Singapore	0.5	0.2	-0.3	-1.8	7.9	0.1	2.0	1.6	1.8	-0.8	-0.9	-0.3	-0.1	-0.5	-0.5	0.7
Taiwan	1.2	3.1	-0.2	2.6	2.0	1.2	0.6	0.9	1.7	1.7	1.4	0.7	0.9	-0.3	1.2	1.2
Thailand	1.2	3.8	2.0	1.0	2.2	5.0	2.8	2.8	3.6	-0.5	0.2	0.8	1.3	-0.9	0.5	1.5
Europe and Africa	25.3	1.8	1.0	0.5	0.1	0.2	1.1	1.2	0.7	1.2	0.9	1.2	1.5	1.7	1.2	1.9
Euro area	14.3	2.2	1.5	0.7	-0.1	-0.1	1.6	1.5	0.6	0.0	-0.1	0.3	0.7	0.0	0.2	1.2
Belgium	0.5	0.9	1.3	0.2	-0.8	-0.5	1.4	1.1	0.4	1.5	1.6	2.2	2.7	0.6	2.0	2.9
France	2.9	2.6	0.7	0.9	0.0	0.2	1.2	1.3	0.7	0.0	0.1	0.5	1.1	0.1	0.4	1.1
Germany	4.2	2.7	2.0	0.9	0.5	0.5	1.4	1.6	1.0	0.1	0.0	0.5	1.0	0.1	0.4	1.4
Greece	0.3	-1.9	-1.3	-0.9	-1.3	-1.1	-0.3	-1.4	-0.7	-0.2	-0.3	-0.2	0.3	-1.1	-0.1	0.6
Ireland	0.3	7.4	3.6	-0.8	-2.0	-2.5	7.8	5.6	-1.0	-0.3	-0.2	0.4	1.3	0.0	0.3	1.8
Italy	2.4	1.0	1.1	0.2	-0.5	-1.0	0.6	0.8	-0.1	0.0	-0.3	0.0	0.3	0.1	0.0	0.7
Netherlands	0.9	1.9	1.5	0.3	-0.8	-0.6	2.0	1.1	0.1	0.4	-0.2	0.2	0.6	0.2	0.3	0.9
Portugal	0.3	0.7	1.0	-0.1	-0.2	0.0	1.5	0.7	0.3	0.4	0.4	0.8	1.4	0.5	0.8	1.5
Spain	1.8	3.1	2.6	1.5	1.0	1.1	3.2	2.8	1.3	-0.8	-1.1	-0.2	0.7	-0.6	-0.3	1.3
United Kingdom	2.9	1.4	-0.2	-0.2	-0.3	-0.4	2.3	1.1	-0.4	0.3	0.4	0.5	0.7	0.0	0.5	2.0
EM Europe & Africa	8.0	1.1	0.4	0.5	0.5	0.8	-0.3	0.8	1.4	6.0	5.0	4.9	4.9	9.1	5.3	4.7
Poland	1.1	-0.4	1.7	3.2	2.4	-1.6	3.6	2.3	1.3	-1.0	-1.9	-2.2	-2.3	-0.8	-0.6	0.4
Russia	4.1	1.1	-0.6	-0.5	-0.3	1.6	-3.7	-0.5	1.1	8.3	7.4	6.9	6.2	15.5	7.2	5.4
Turkey	1.7	3.1	1.6	1.1	0.7	0.3	4.0	3.1	2.5	8.6	6.8	7.0	7.4	7.7	7.5	7.5
Israel	0.3	1.3	2.7	2.4	2.4	2.4	2.5	2.2	2.5	-0.9	-0.6	-0.1	1.9	-0.4	-0.1	1.1
South Africa	0.8	-1.2	0.6	0.3	0.5	0.1	1.3	-0.2	0.8	6.5	6.2	6.7	7.4	4.6	6.7	5.9

Note: Arrows appear next to numbers if current forecasts differ from that of the previous week by 0.5pp or more for quarterly annualized GDP, by 0.2pp or more for annual GDP and by 0.2pp or more for Inflation. Weights used for real GDP are based on IMF PPP-based GDP (5yr centred moving averages). Weights used for consumer prices are based on IMF nominal GDP (5yr centred moving averages)". * IMF PPP-based GDP weights for 2015.

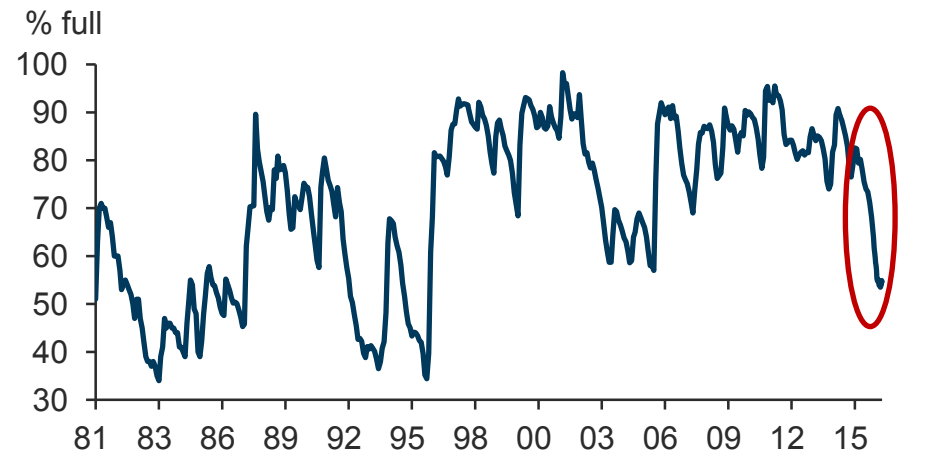
Source: Barclays Research

Drought is over, but effects will linger

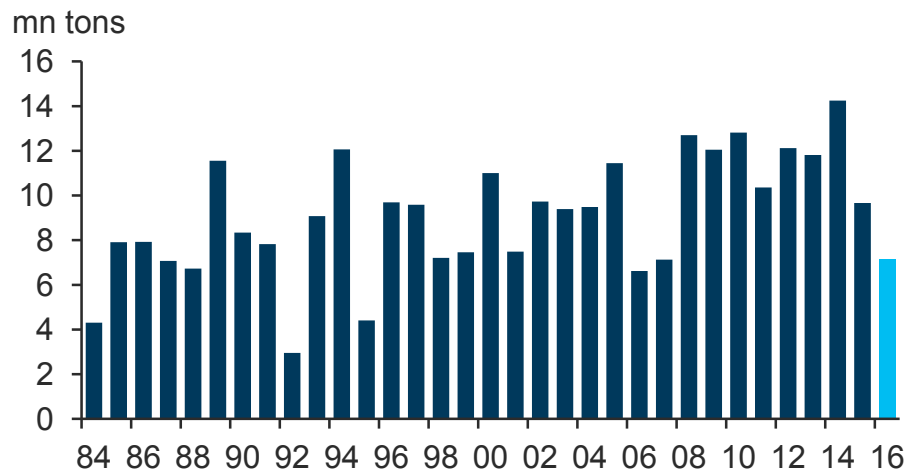
2015 rainfall was the least since 1904



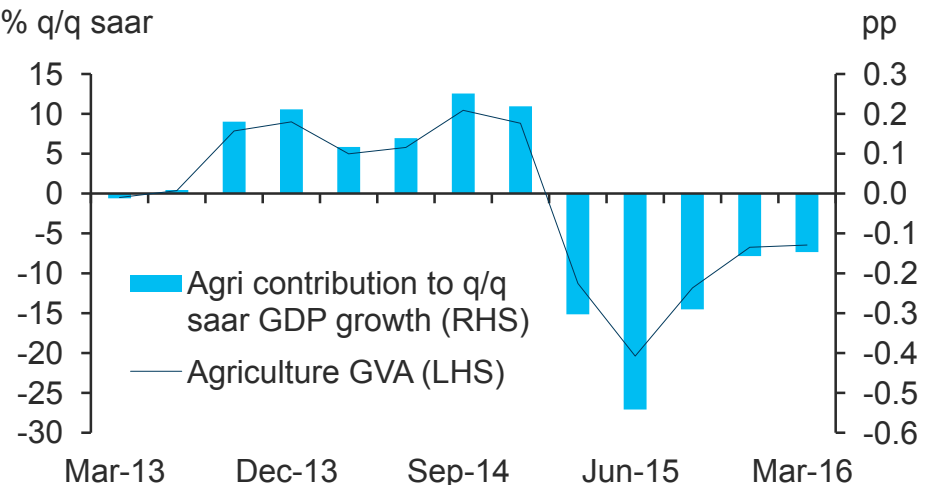
Dam levels have fallen, but they are not critical



Maize production to fall 25% in 2016



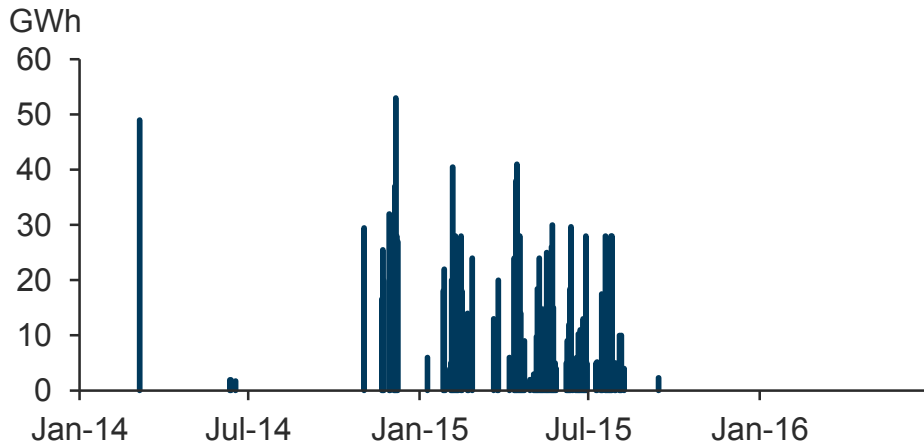
Agricultural output will remain under pressure



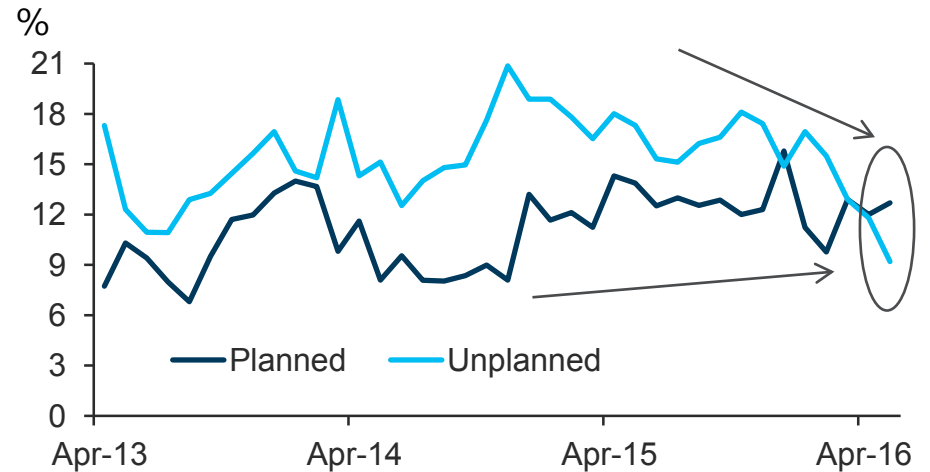
Source for all charts: SAWS, Bloomberg, Agricultural abstract, DWS, SARB, Barclays Research

Load shedding has eased, but electricity is still a risk

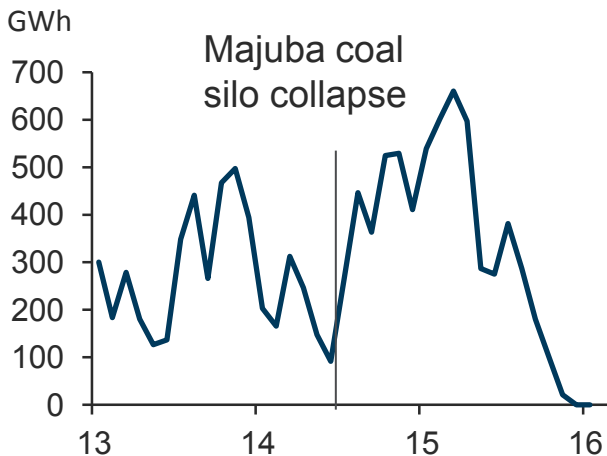
Electricity supply has recently been stable



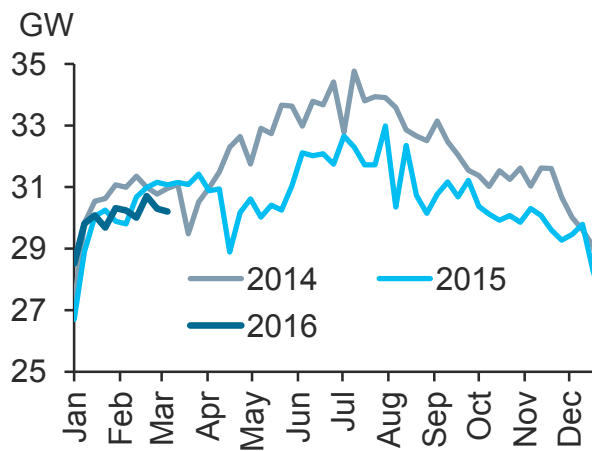
Maintenance program paying some dividends



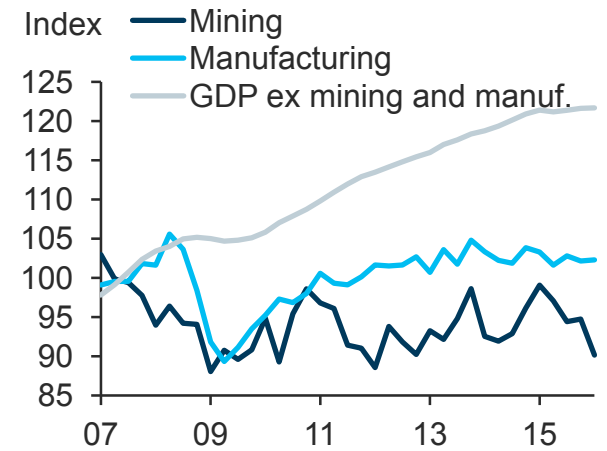
OCGT usage nearly zero



Industrial electricity use weaker



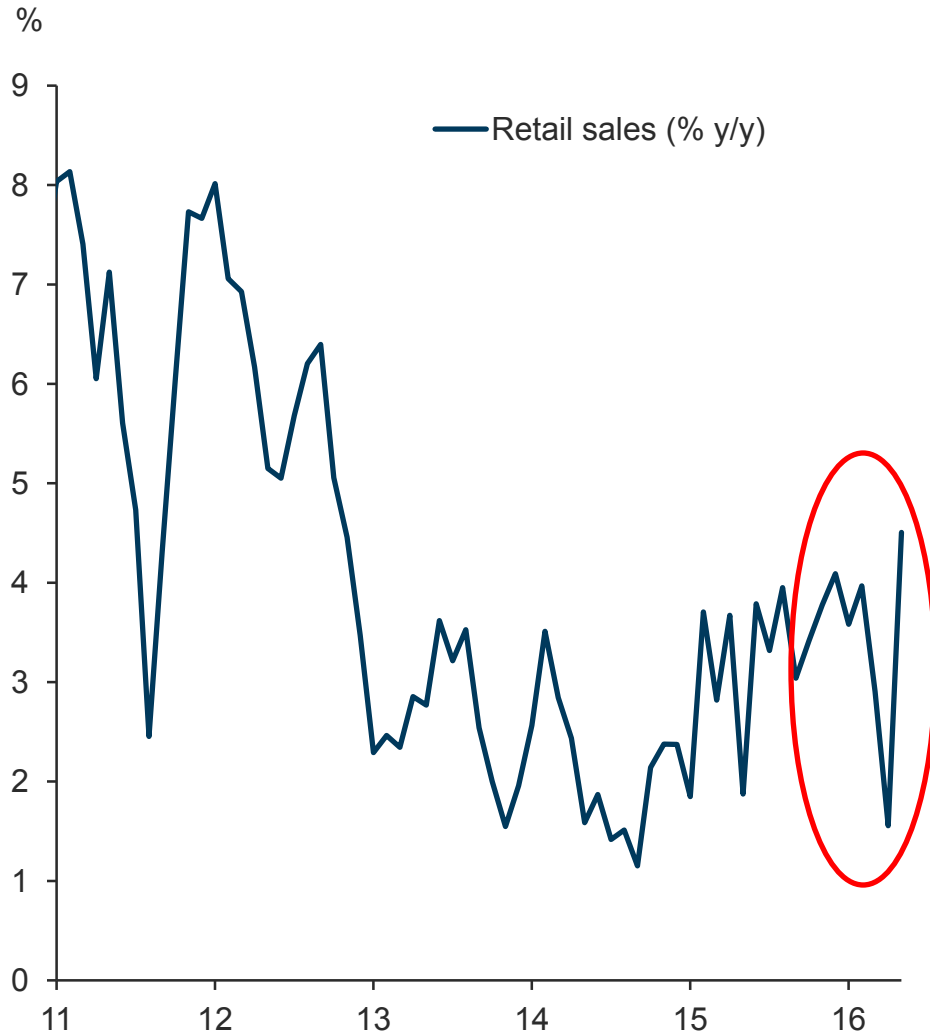
Mining and manuf. lag



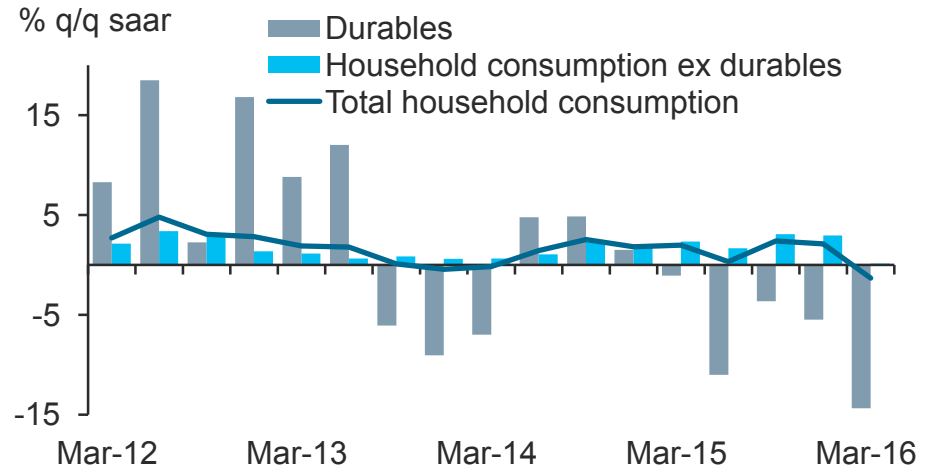
Source for all charts: Eskom, Stats SA, Barclays Research

Household consumption spending is under pressure

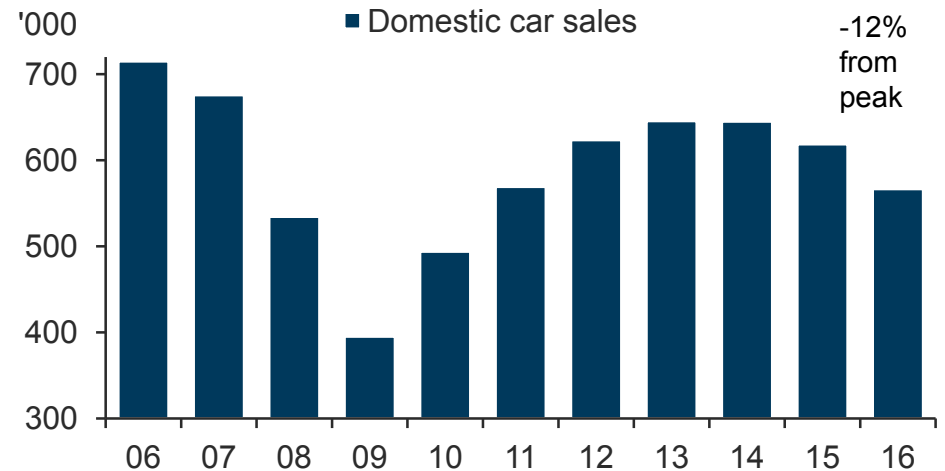
Retail sales growth tumbled in March and April, but rebounded strongly in May



Spending on durables has plunged



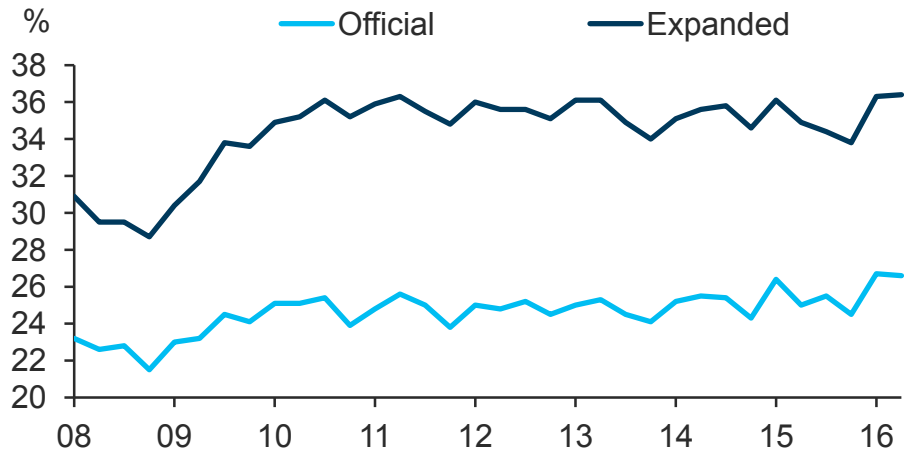
Especially evident slowdown in new car sales



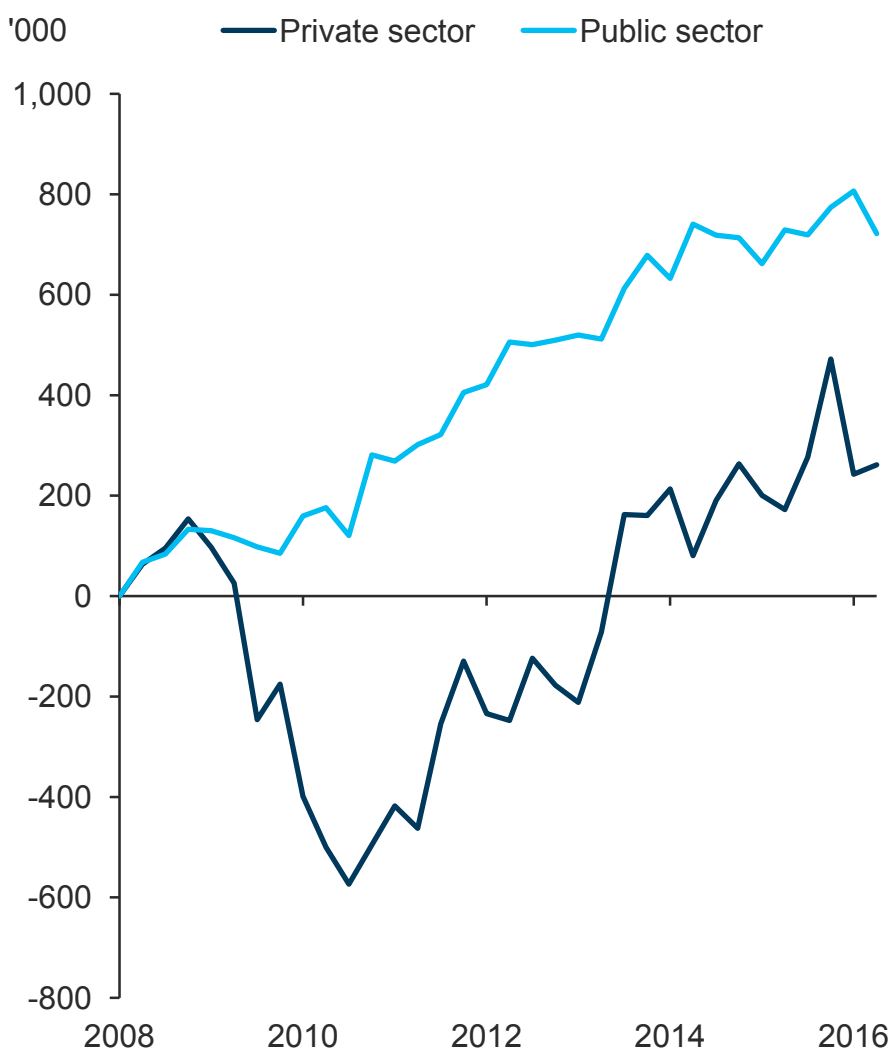
Source for all charts: SARB, StatsSA, NAAMSA, Barclays Research

Labour market weakness curbs household income

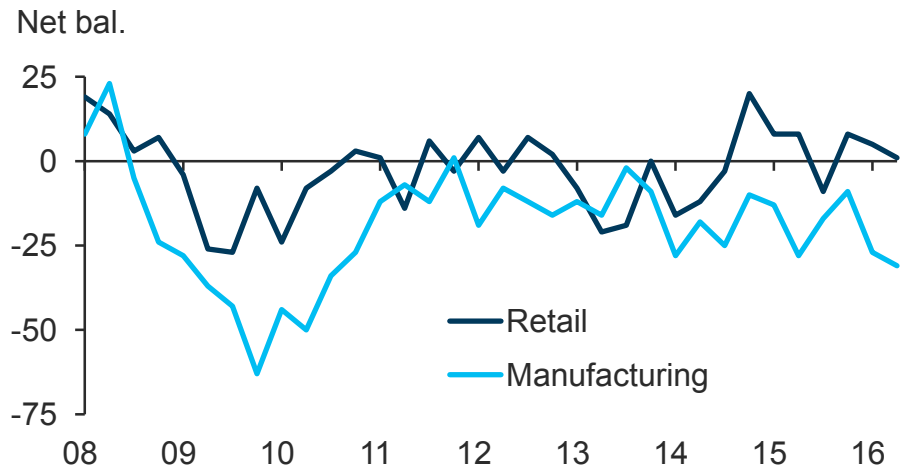
Unemployment elevated by H1 job losses



Private sector jobs are scarce



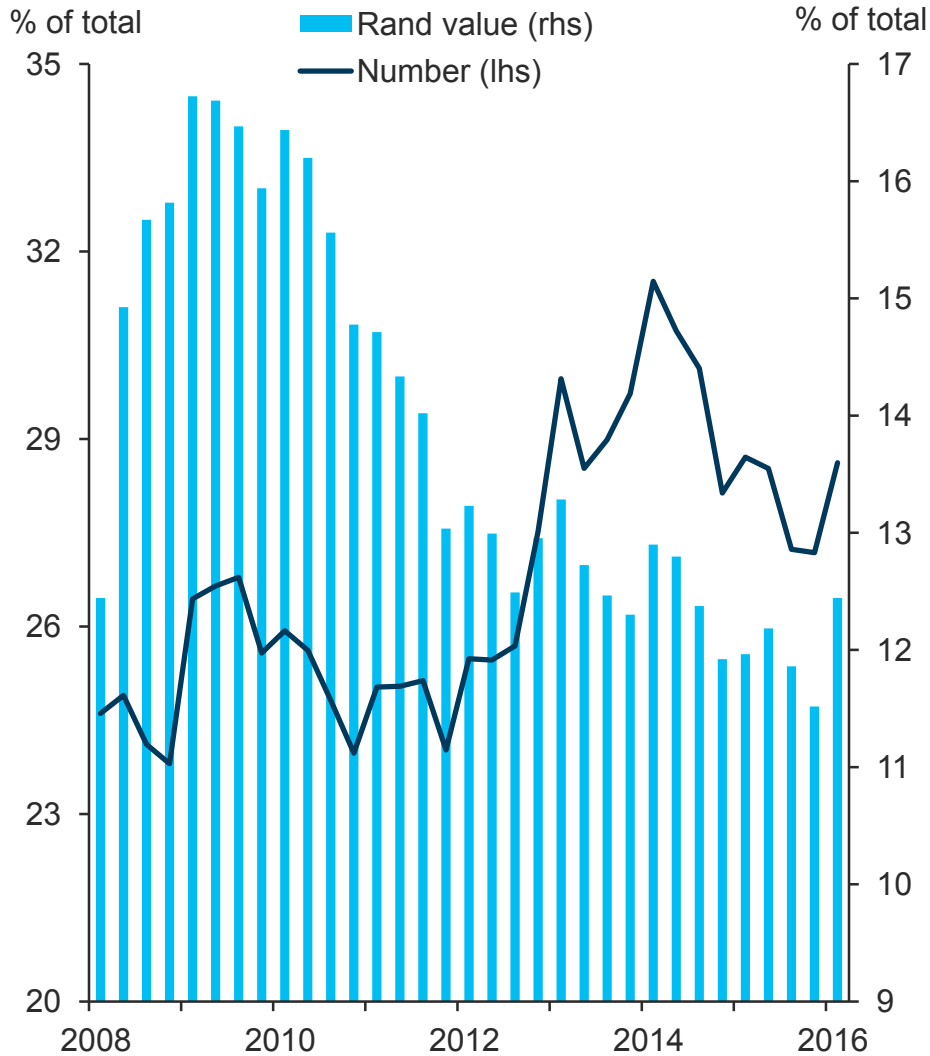
Hiring intentions are low



Source for all charts: Stats SA, BER, SARB, Department of Labour, Barclays Research

Credit conditions likely to remain tight for consumers

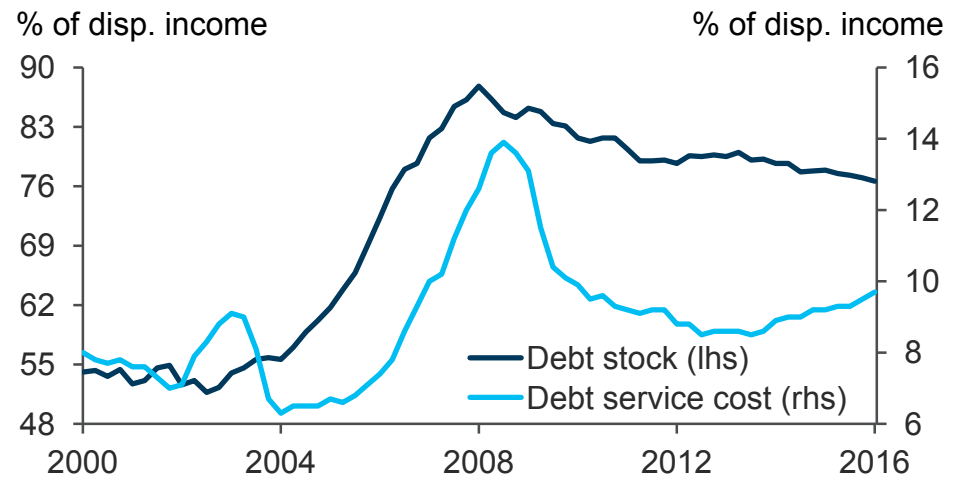
Arrears shot up during Q1 16



Banks have tightened credit lending standards



Debt levels falling, but debt service is rising



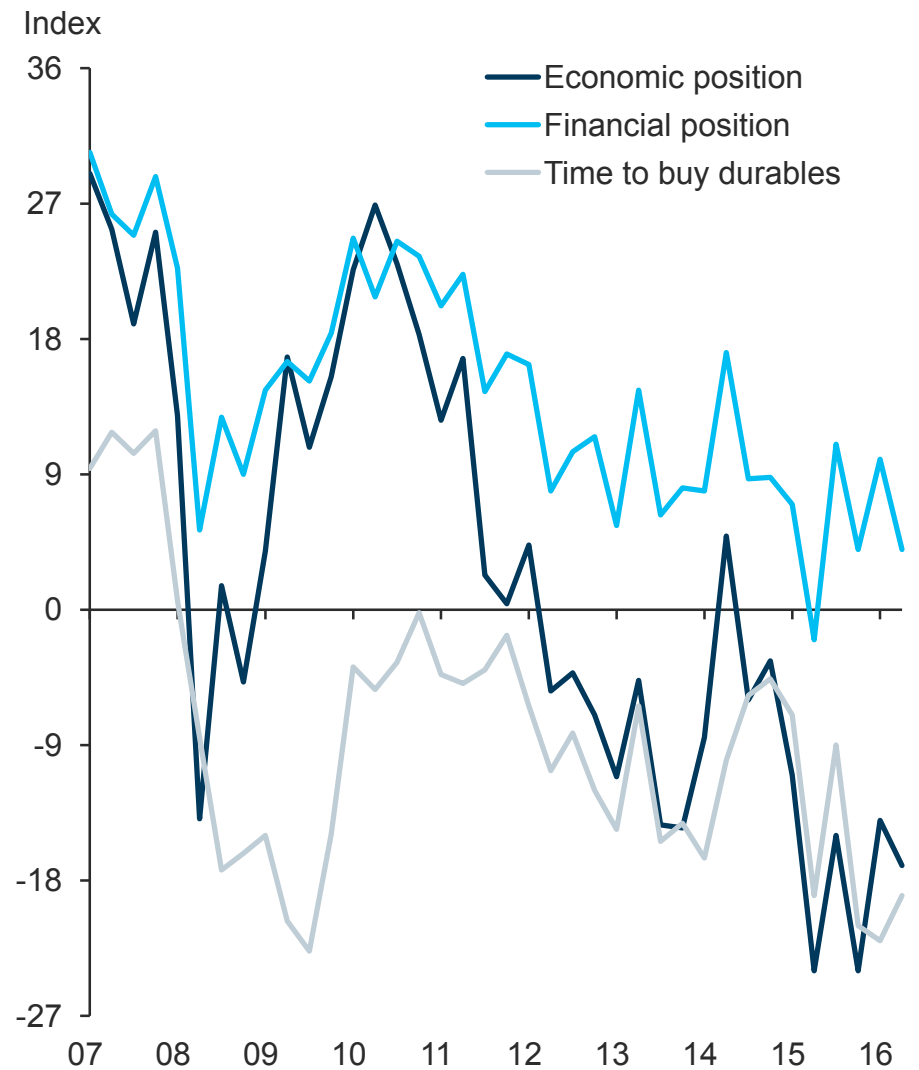
Source for all charts: SARB, BER, E&Y, NCR, Barclays Research

Consumer confidence at multi-year lows

Confidence weak across income groups...



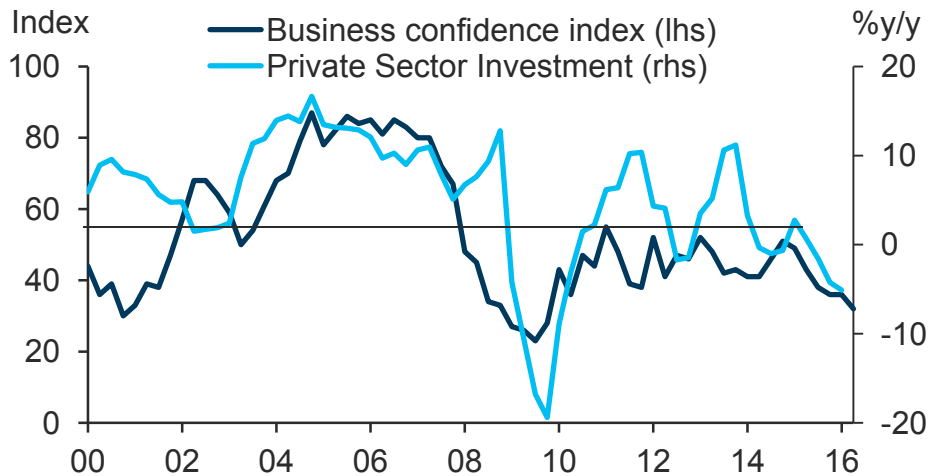
... but more confidence about own finances



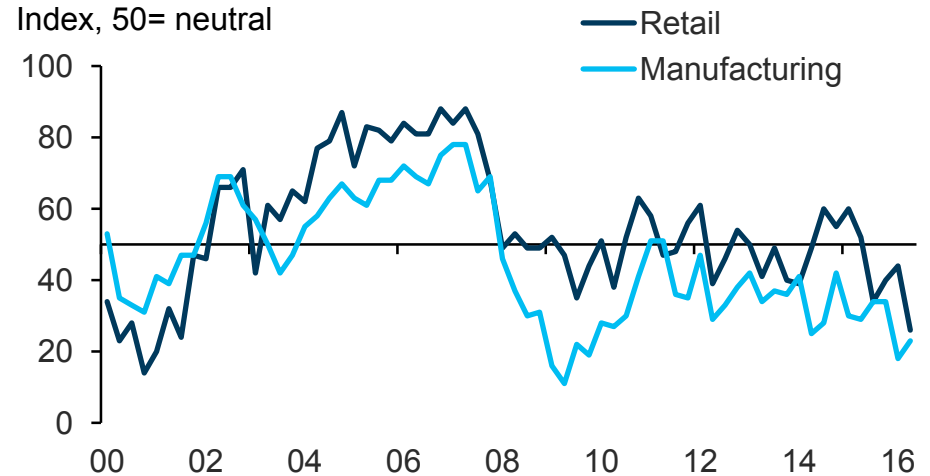
Source for all charts: BER, Barclays Research

Private sector business confidence is very weak

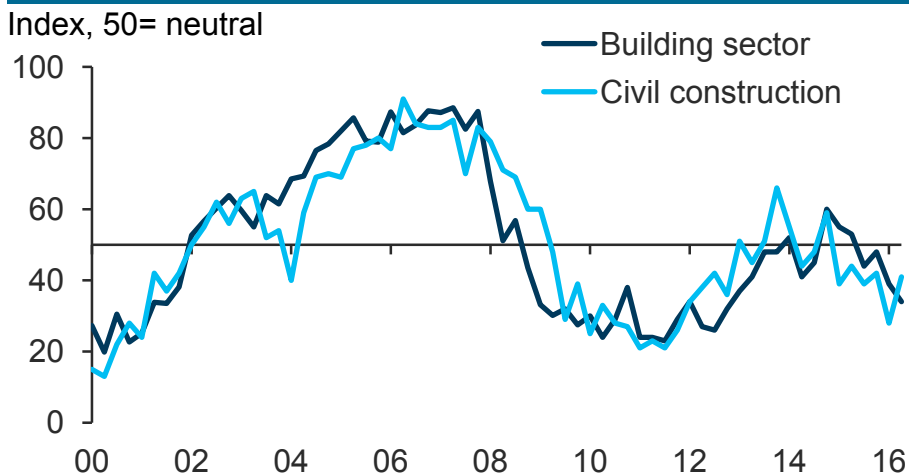
Weak confidence weighing on investment



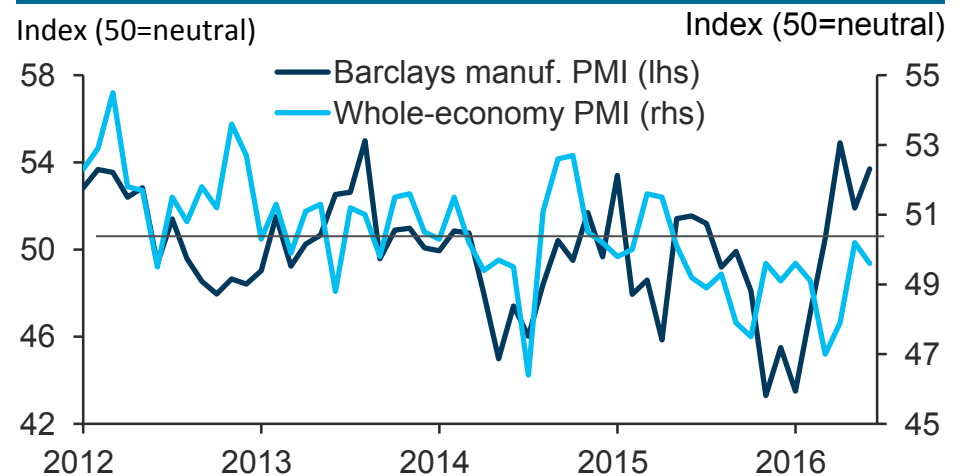
Very weak retailer and manufacturer business



Building sector confidence also subdued



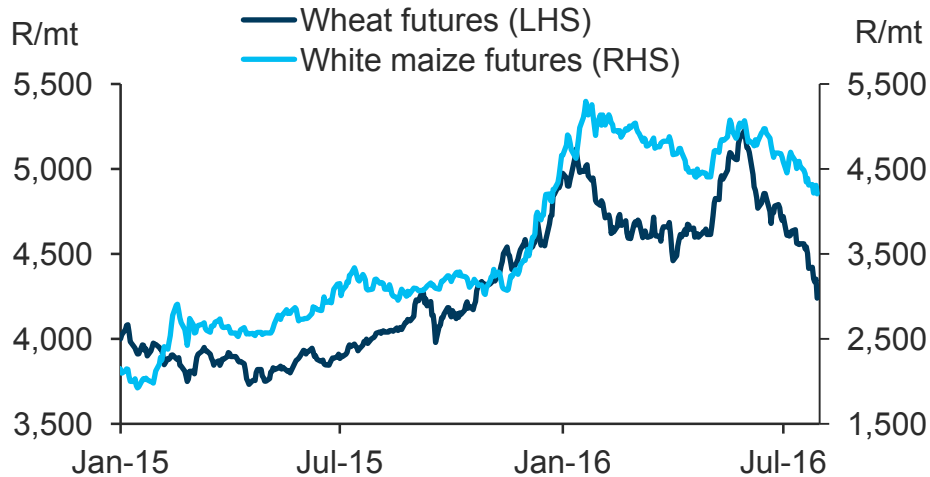
But PMIs suggest some improvement in Q2



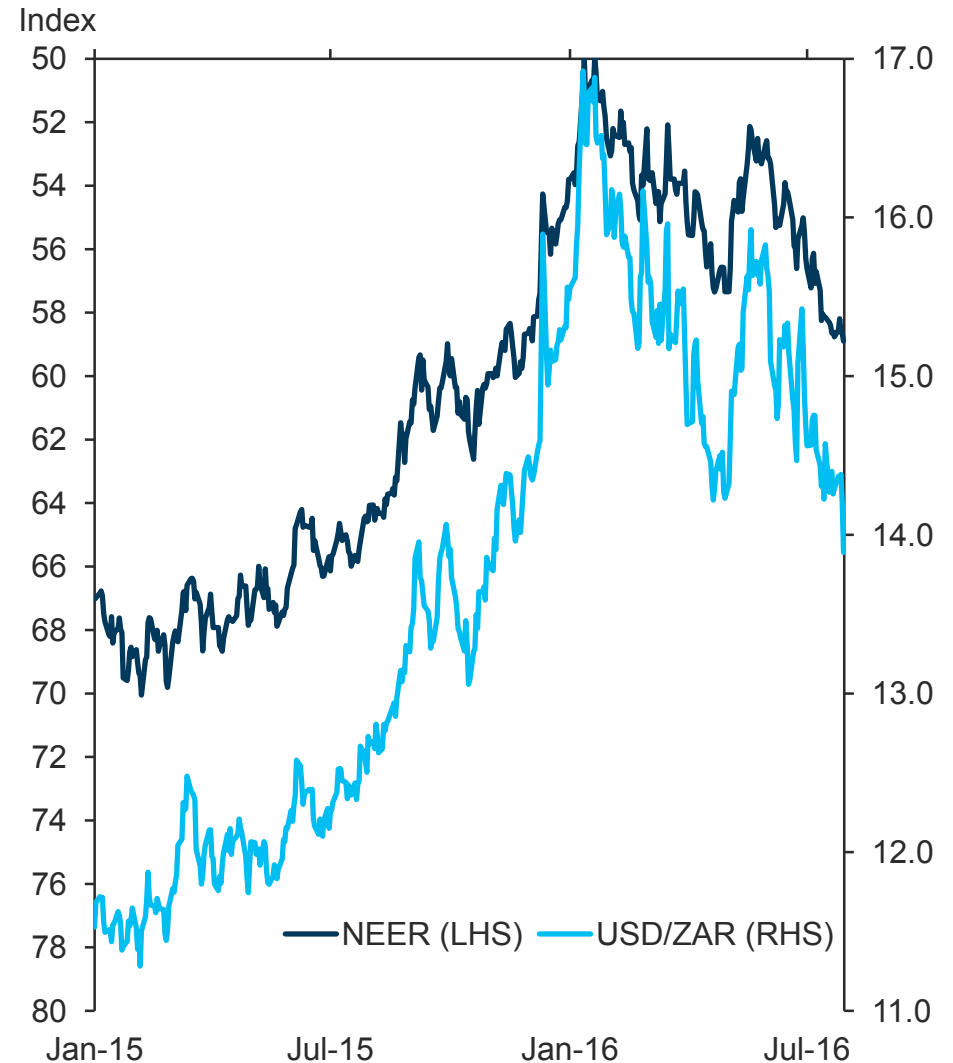
Source for all charts: SARB, BER, Markit, Barclays Research

Near-term CPI inflation outlook has improved...

Crop prices easing after drought-related surge



ZAR has strengthened in recent months



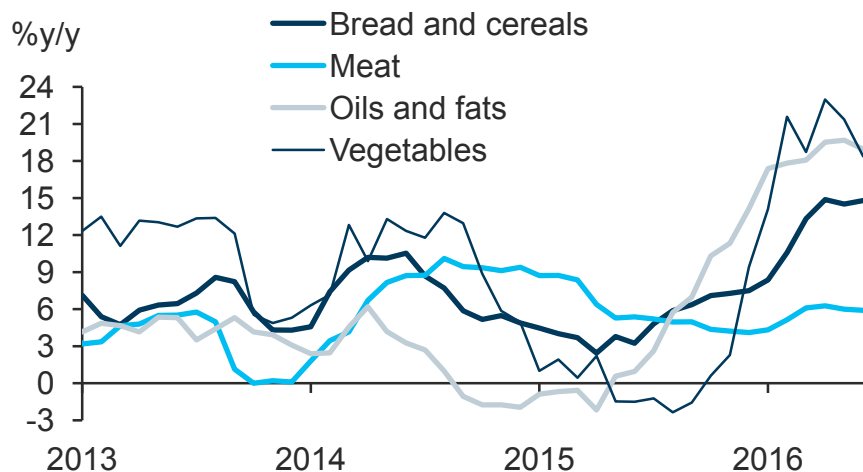
Rand oil prices have also eased since June



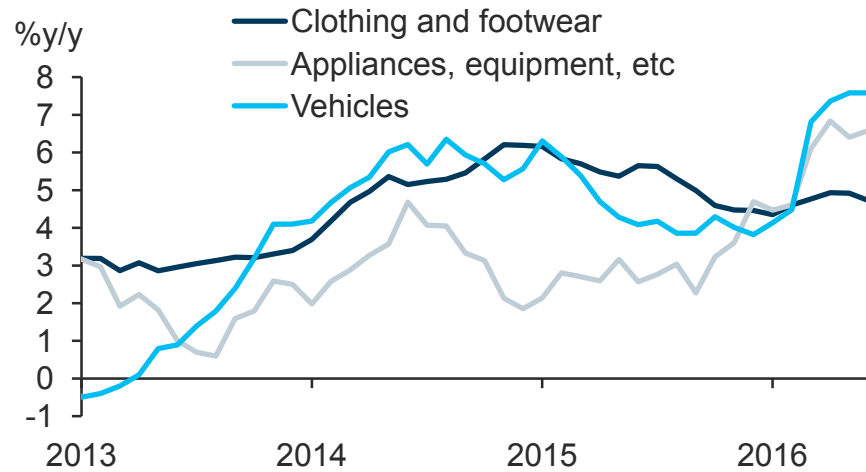
Source for all charts: Bloomberg, Barclays Research

... but a multi-quarter breach of target is still likely

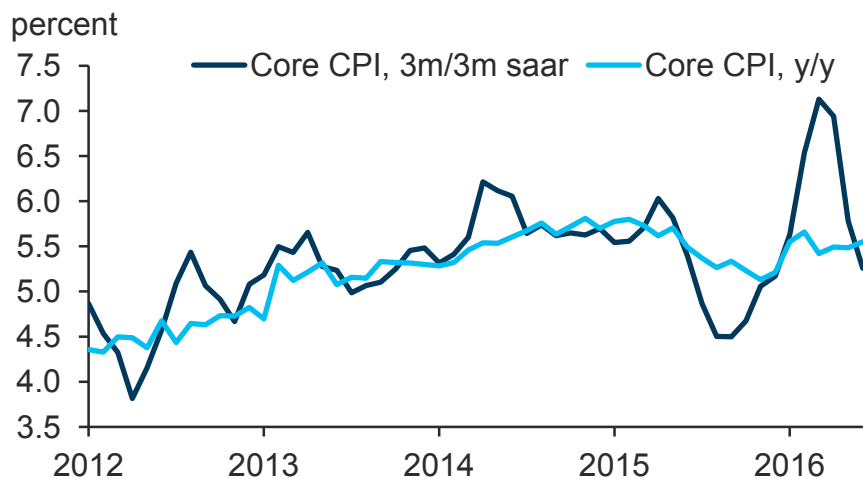
Food prices remain an upside inflation risk



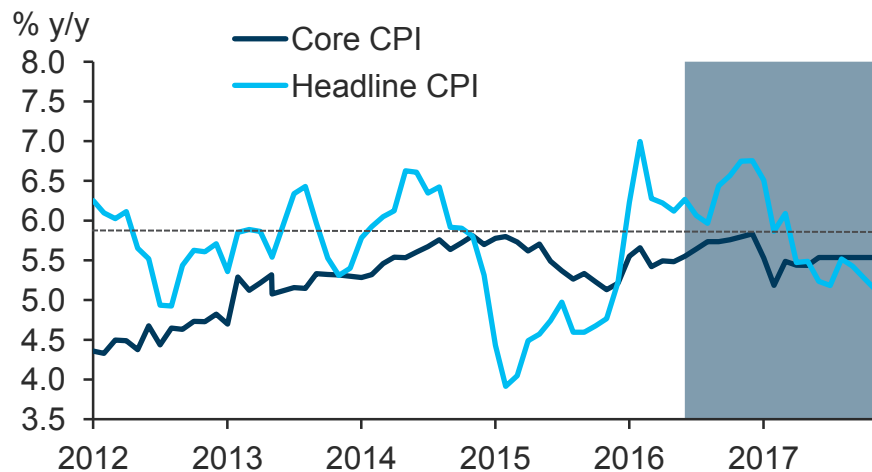
Still scant evidence of large FX pass-through



Momentum in core CPI has eased



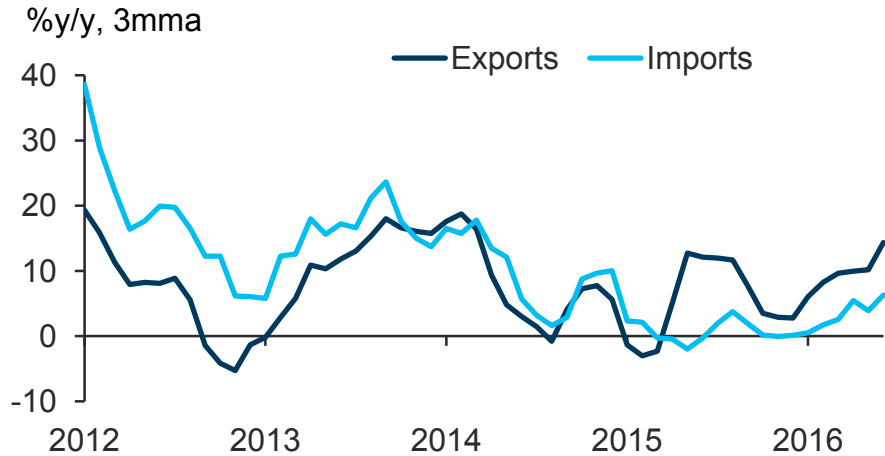
CPI not back within target until mid-2017



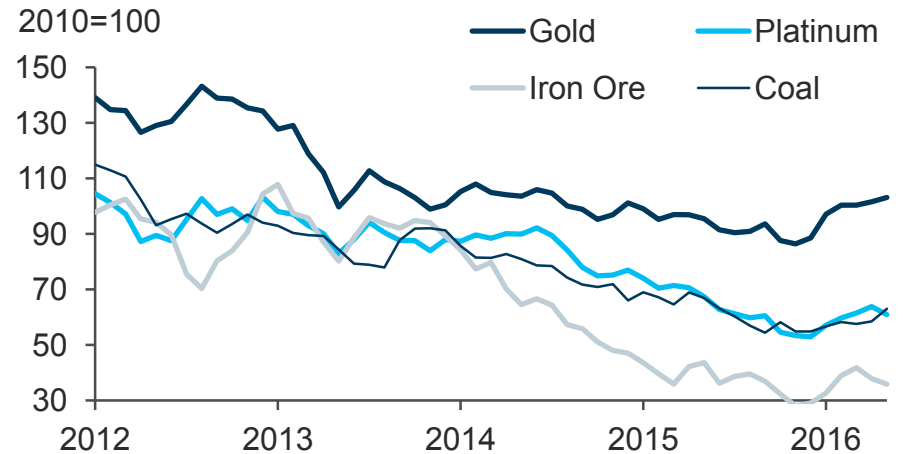
Source for all charts: Stats SA, Barclays Research

Signs of turnaround in external accounts

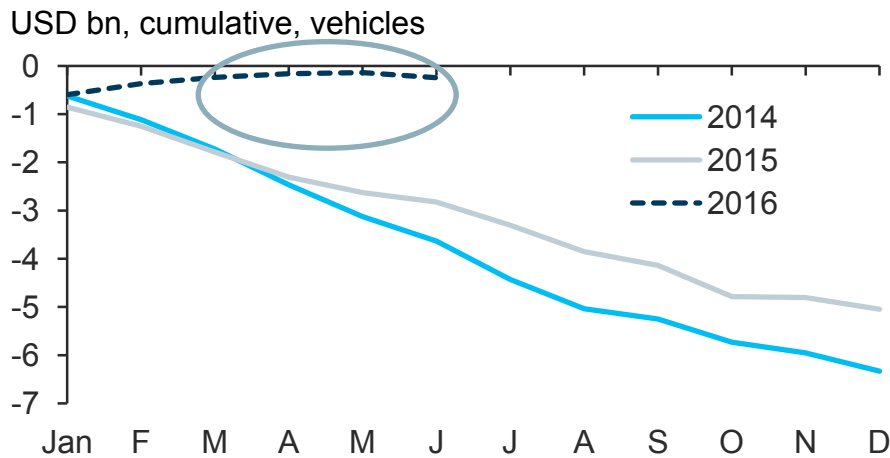
Export growth outpacing import growth...



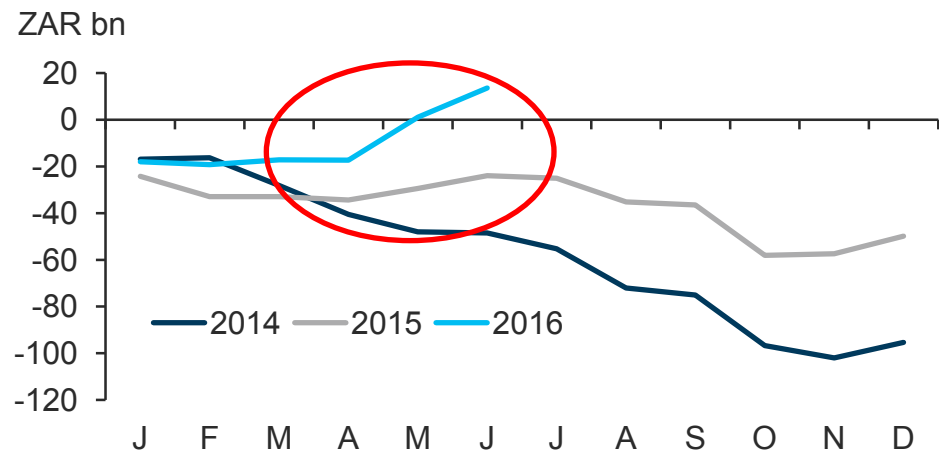
... despite falling commodity export prices



Some manufacturing trade is adjusting



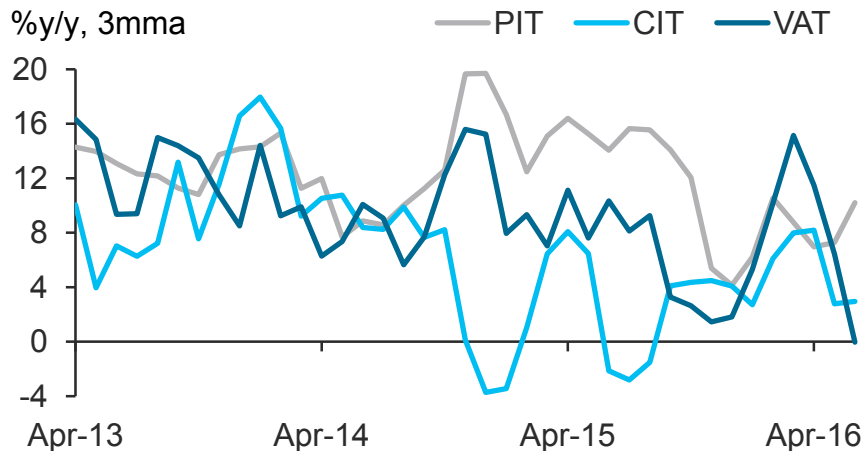
Trade balance looks stronger so far this year



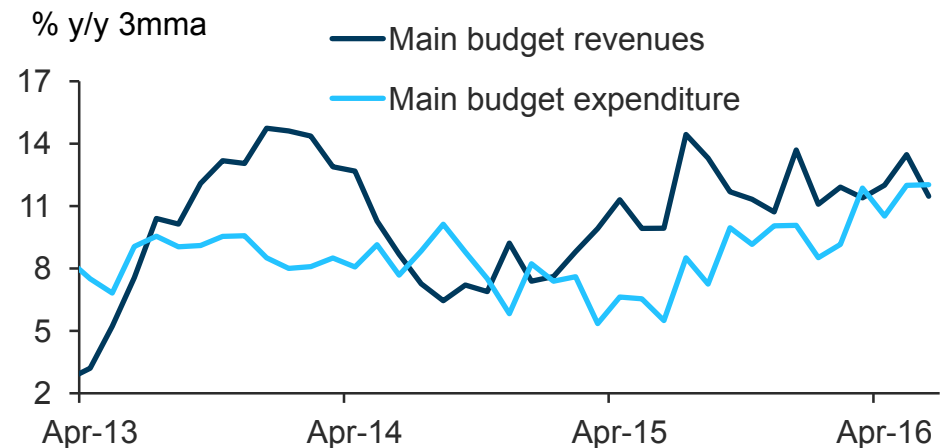
Source for all charts: Stats SA, SARS, Bloomberg, Barclays Research

But the fiscal challenge is growing

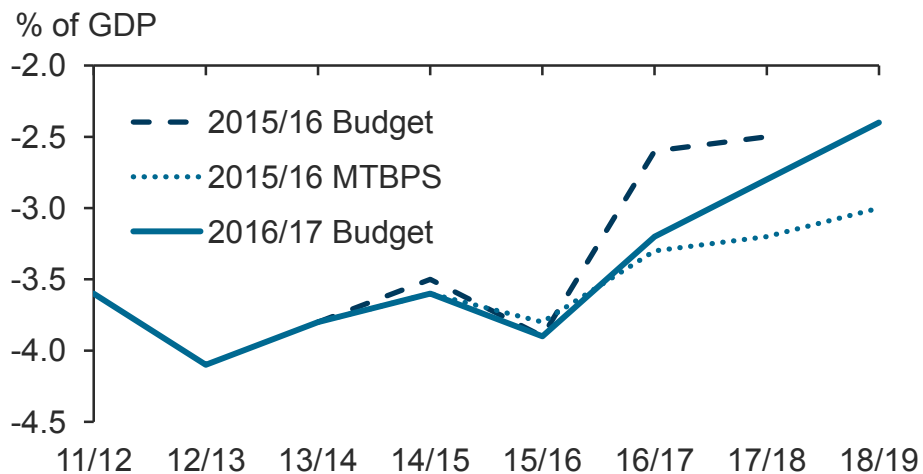
Revenues – especially VAT – are under pressure



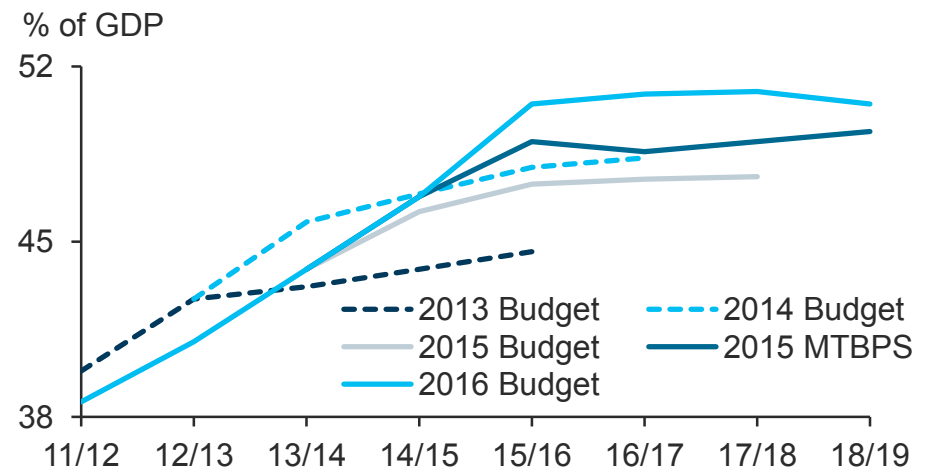
Expenditure growth now outpacing revenue growth



Fiscal deficit reduction likely to be delayed again



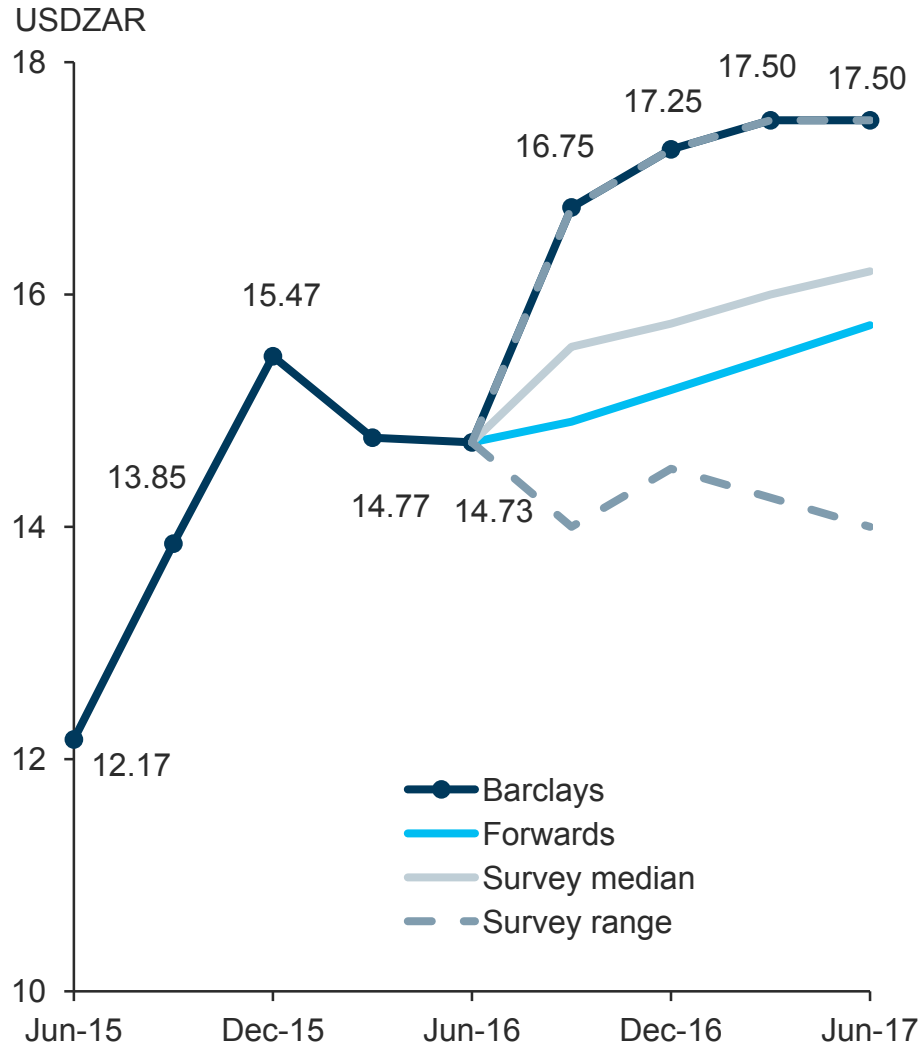
Debt trajectory unlikely to plateau



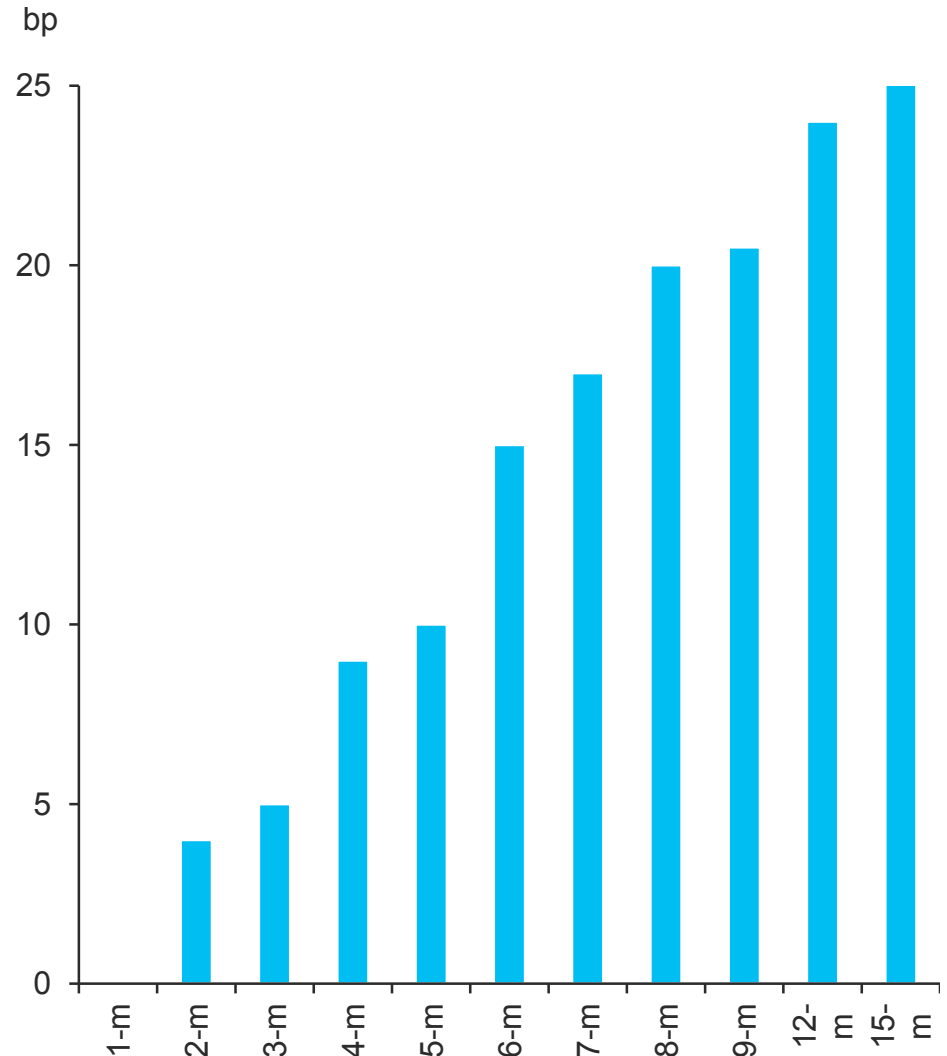
Source for all charts: National Treasury, Barclays Research

Market pricing since Brexit

We are relatively ZAR bearish, but latest available surveys are outdated



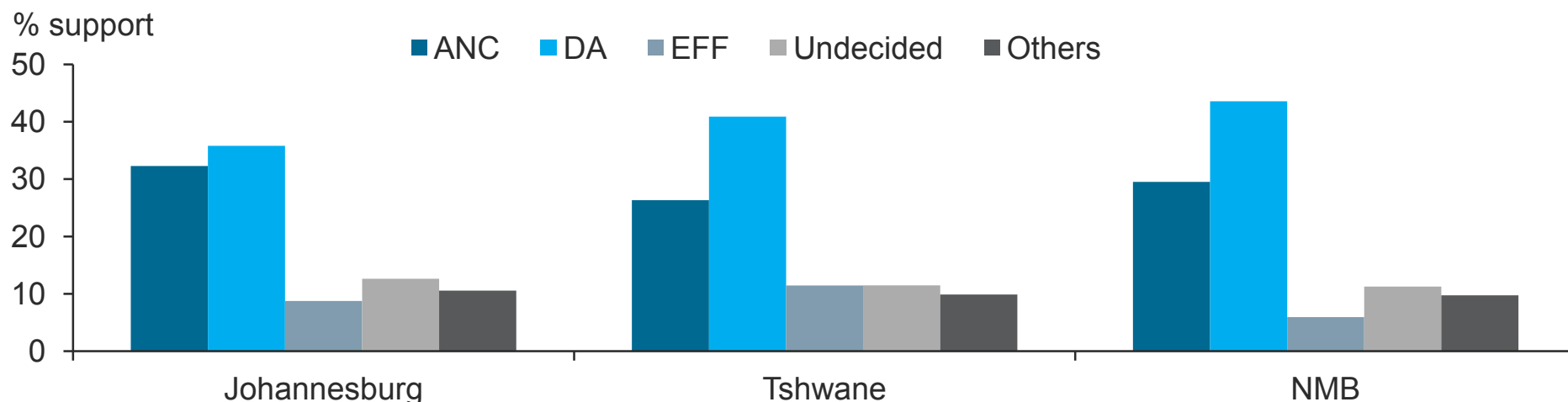
FRA market only fully discounting 25bp of rate hikes over the next 15 months



Source for all charts: Bloomberg, Reuters, Barclays Research

Politics set to get very interesting, with risks and opportunities

Recent polling shows Democratic Alliance (DA) ahead in Johannesburg, Tshwane and Nelson Mandela Bay



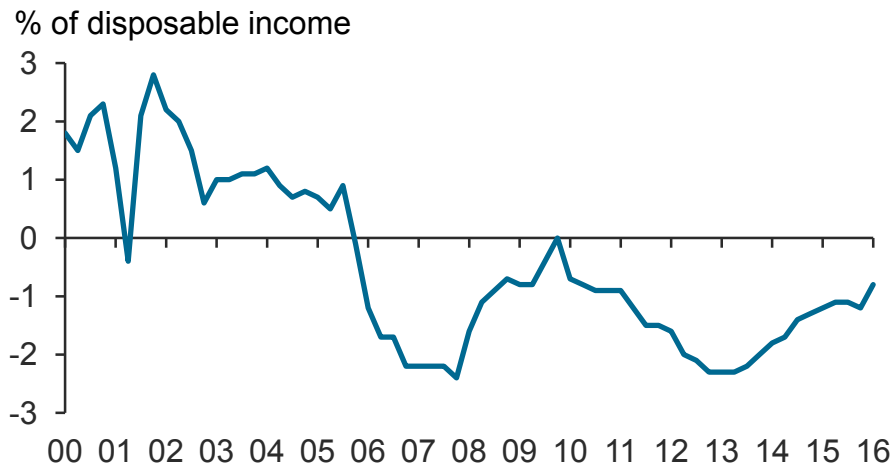
- Local government elections on 3 August are the most important since 1994
- Ipsos polls suggest ANC will lose its majority in Joburg, NMB and Tshwane
- EFF's polling levels are surprisingly low; awkward coalition discussions
- Elections taking place against an uncomfortable backdrop of faltering growth, rising food prices, service delivery protests and increasing resort to violence
- Prolonged existential battle for control of ANC; the forces of patronage are entrenched and fighting for survival, and seem to have the upper hand
- After the elections, Zuma succession manoeuvring likely to pick up again

Sources: eNCA, Ipsos, Barclays Research

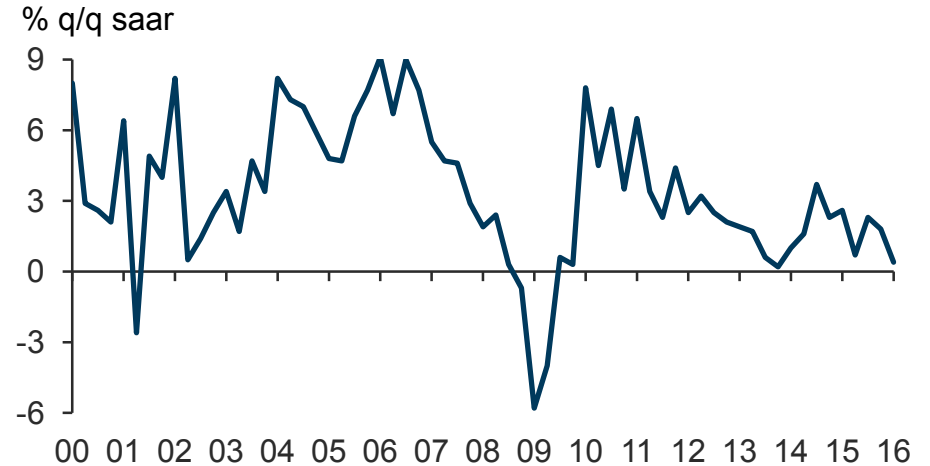
For details, see [South African local government elections: A new era of municipal coalitions](#), 28 July 2016

Macro context for household savings is not helpful

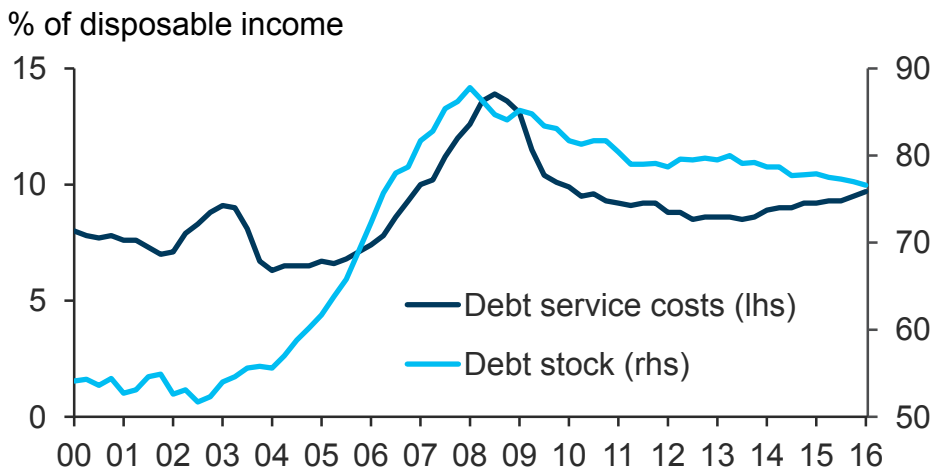
Household savings rate has been negative for a curiously long time



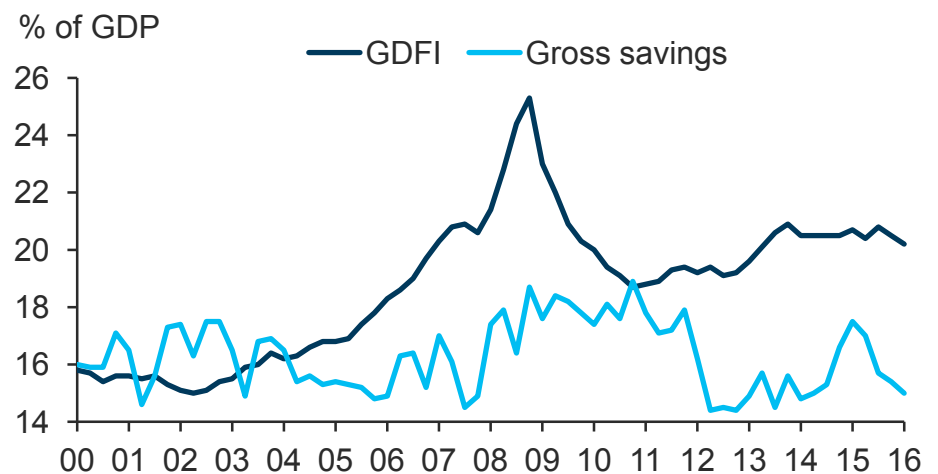
Household disposable income growth has been under pressure



Rising costs of servicing debt will add to woes



Investment curbed by low overall savings



Source for all charts: SARB, Barclays Research

The macro view in numbers

	2015		2016				2013	2014	2015	2016F	2017F
	Q3	Q4	Q1F	Q2F	Q3F	Q4F					
Output (% q/q saar)											
Real GDP	0.3	0.4	-1.2	0.7	0.2	0.3	2.3	1.6	1.3	-0.2	0.8
Real GDP (%y/y)	1.1	0.2	-0.6	0.0	0.0	0.0	2.3	1.6	1.3	-0.2	0.8
Private consumption	2.4	2.1	-1.3	-2.7	-2.0	-0.5	2.9	1.4	1.6	0.5	1.1
Public consumption	0.8	2.6	1.0	2.1	2.2	2.2	3.3	1.9	0.3	1.7	2.1
Investment	4.6	-2.8	-6.0	1.2	1.1	0.4	7.6	-0.4	1.4	1.1	1.6
Exports	-3.9	0.2	-7.1	0.8	3.0	3.4	4.6	2.6	9.0	3.1	4.8
Imports	1.0	5.0	-7.1	2.2	4.3	4.9	1.8	-0.5	5.7	4.8	5.7
Prices (% y/y)											
CPI inflation	4.7	4.9	6.5	6.2	6.2	6.7	5.8	6.1	4.6	6.4	5.5
Core CPI inflation	5.3	5.2	5.5	5.5	5.7	5.8	5.2	5.6	5.5	5.6	5.5
PPI inflation	3.4	4.5	7.6	6.8	7.6	7.7	6.0	7.5	3.6	7.4	6.0
External and government accounts (% of GDP)											
Current account	-4.5	-4.6	-5.0	-1.9	-4.3	-4.2	-5.8	-5.4	-4.4	-3.9	-4.3
Cons. fiscal balance*							-3.8	-3.6	-3.9	-3.5	-3.0
Cons. primary balance*							-0.7	-0.4	-0.6	0.1	0.5
Government debt*							43.9	46.8	50.5	51.1	51.5
Interest rates (% eop)											
Repurchase rate	6.00	6.25	7.00	7.00	7.00	7.25	5.00	5.75	6.25	7.25	7.25
Prime rate	9.50	9.75	10.50	10.50	10.50	10.75	8.50	9.25	9.75	10.75	10.75

Sources: South African Reserve Bank, National Treasury, Stats SA, Barclays Research, * For FY beginning April

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