Economic overview:
Recent developments in the global and South African economies

November 2019
Department of Research and Information
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Highlights

- The global economy is in a synchronized slowdown, with advanced, emerging and developing economies generally experiencing a moderation in their growth performances. The International Monetary Fund (IMF) has again revised its forecast for world growth down to 3% for 2019, from 3.2% previously. This will be the worst performance since 2009. Several key economic variables are reflecting the deteriorating economic, trading, investment and risk environments.

- Relatively subdued inflationary pressures and moderating growth are underscoring the accommodative monetary policy stances being maintained by central banks around the globe. The US Federal Reserve lowered its policy rate by 25 basis points each at its August, September and October meetings. The European Central Bank, in turn, has limited room to utilise interest rates in support of growth and, therefore, announced the resumption of its quantitative easing programme for an indefinite period.

- Facing stronger external headwinds, the Sub-Saharan Africa region is also facing a slight moderation of its growth prospects. Robust performances from several of its non-resource intensive economies should counterbalance the subdued growth outcomes of the larger economies, specifically South Africa, Nigeria and Angola. The pace of economic expansion in the region is expected to gather momentum from 2020 onwards, but the downside risks are high due to an uncertain external backdrop that is impacting on commodity markets.

- The South African economy finds itself under renewed pressure. Growth is estimated to have moderated in Q3 2019, based on preliminary data for several key economic variables. The output of the manufacturing and mining sectors has fallen, while retail trade sales are exhibiting modest growth.

- The outlook for the manufacturing sector has deteriorated, with business confidence having plunged to a reading of just 16 points in Q3 2019, a 20-year low. Manufacturers remain pessimistic about investment activity in about 12 months’ time, and worsening global conditions underpin negative expectations regarding their export performance.

- Despite an up-tick in nominal merchandise exports in Q3 2019, the global slowdown is anticipated to weigh on South Africa’s export performance. However, should a partial resolution of the US-China trade war materialise, the associated positive spin-offs for global trade flows would be beneficial for the domestic export sector.

- South African households remain under considerable strain, affected by high levels of indebtedness, an uncertain economic environment and poor employment prospects. Consumer confidence fell sharply to a reading of -7 points in Q3 2019, the lowest in about two years. The drop in consumer sentiment was mirrored by a steep fall in confidence among retailers, to the weakest level in 20 years.

- South Africa’s fiscal metrics have worsened substantially, with the budget deficit now projected to average 6.2% of GDP over the next three years, according to the Medium Term Budget Policy Statement. Gross loan debt of government, in turn, is expected to reach 71.3% of GDP by 2022/23.

- Ratings agencies have become increasingly concerned with South Africa’s worsening fiscal metrics and poor growth performance, as well as with enormous risks posed by Eskom. Although Moody’s kept the sovereign rating unchanged at Baa3 on 1 November 2019, as anticipated, it altered the outlook from “stable” to “negative”. The agency has indicated that it requires more clarity on how government plans to
address the widening budget deficit and the steep rise in debt. S&P Global, which had already placed the sovereign rating two notches into sub-investment territory in November 2017, has issued a stark warning of a possible further downgrade at its ratings review meeting on 22 November 2019.

- Structural challenges and subdued demand conditions domestically, along with a slowing global economy, are expected to weigh on South Africa’s economic performance in the short- to medium-term. Real GDP is expected to increase by only 0.6% in 2019, with the pace of growth likely to remain modest over the next three years.

- However, signs of improving business and investor confidence are emerging as evidenced by the commitments made by both local and foreign entities at the second South Africa Investment Conference hosted by President Cyril Ramaphosa on 6 November 2019. Investment pledges totalling R371 billion were made, potentially creating around 412 000 direct employment opportunities over the next five years in various sectors of the economy.

- President Ramaphosa has also reiterated government’s commitment to address key structural impediments to growth, and to create a more investor- and business-friendly economic environment.

Implications for South African businesses

Potential implications of global economic developments

- The deteriorating growth prospects for a number of the world’s larger economies, both advanced and emerging, are of concern. Among these are key trading partners for South Africa, including the United States, China, Eurozone and the United Kingdom.

- As growth moderates, this will most likely also affect import demand, hence having implications for South African exporters across a whole range of sectors, from agriculture to mining (commodities) and manufacturing.

- Tensions between the US and China in the trading and investment arenas will continue to affect trade flows and investor sentiment around the globe, in the process impacting negatively on production and investment activity and, consequently, on import demand and foreign direct investment (FDI) flows.

- South African exporters may face an increasingly challenging global trading environment due to increased competition from American and Chinese producers in global markets, while local business enterprises could also face increased competition from imports.

- Heightened risk-aversion towards global equities, particularly emerging stocks, may persist for some time, with the stop-go approach to the US-China trade talks not helping in this regard. Sell-offs may occur from time to time in equity markets around the globe, including the Johannesburg Stock Exchange (JSE).

- Weaker fixed investment activity in China may exert downward pressure on volume demand and prices in certain industrial commodity markets. This may have adverse implications for South Africa’s mining and minerals producing enterprises.
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Potential implications of domestic economic developments

- The relatively weak outlook for South Africa’s economic performance, especially over the short-term, is of concern. The economic downturn has been very prolonged and the signs of recovery in domestic demand (which affects investment decisions, production activity and job creation) are still quite weak.

- Over the short-term, companies that rely on the investment cycle for product off-take may find it challenging to sustain sales to public sector entities in light of capex cut-backs. The private sector is facing its own challenges due to weak demand, spare production capacity and low confidence. Thus, companies in the construction sector and key supplier industries such as fabricated metal products, cement, concrete and bricks, machinery & equipment, as well as a whole range of services sectors (e.g. engineering services) may be adversely affected.

- However, growth prospects should improve gradually on the back of structural reforms/initiatives led by government, including major reforms at key state-owned enterprises (SOEs). Business confidence should improve in the process, eventually translating into increased fixed investment spending. This should result in increased business opportunities over time. These include opportunities associated with:
  - The recently released master plans for the automotive sector, the poultry industry and the clothing, textiles, leather and footwear industries, while others are forthcoming;
  - The recently gazetted Integrated Resource Plan 2019, which will open the way for considerable investments in renewable energy generation (particularly wind power) and related components manufacturing;
  - The pipeline of fixed investment projects announced at the South Africa Investment Conference hosted by President Ramaphosa in November 2019;
  - The imminent release of high-demand broadband spectrum, which will lower data costs and attract investment activity; and, among others,
  - The public sector’s localisation drive, including improved enforcement of product designations.
Global economic conditions remain challenging

The global economy is in a synchronised slowdown and growth expectations continued being adjusted downwards. Underpinning this slowing momentum are the ongoing trade disputes and rising barriers to trade, increased geopolitical risks and tension in parts of the world, weakening domestic demand in many individual economies and, among other factors, structural constraints.

For the world at large, trade volumes are contracting and the rate of growth in industrial production declined significantly. Deteriorating sentiment amongst global manufacturers is being reflected by negative purchasing managers indices (PMIs).

**Figure 1: Economic activity and business sentiment weakening in the face of uncertainty**

International trade volumes contracted on a year-on-year basis for the third consecutive month in August, placing significant pressure on exporting countries and their industrial bases. Global industrial production increased by a mere 0.4% in August (year-on-year), with the advanced economies collectively recording a 0.7% drop. The manufacturing PMIs for the Eurozone and the United Kingdom (UK) have been in negative territory for some time.

**Figure 2: Sentiment levels among manufacturers in advanced economies have declined sharply**

Growth in global industrial production is stagnating, with contractions recorded in Europe.
Manufacturing production in the Eurozone has been contracting since the last quarter of 2018. German manufacturers, the main driving force of industrial production in this regional bloc, are being confronted by rising barriers to their export trade, new emissions regulations in the automotive industry, and, among other factors, continued uncertainty over Brexit. The imposition of tariffs by the US on European automotive imports appears to have been put on hold on account of intense lobbying and plans by original equipment manufacturers to switch some of their production to US suppliers.

In the US, the manufacturing PMI remains in marginally expansionary territory, but growth in the sector’s output has slowed significantly since the start of 2019 and contracted in the third quarter on a year-on-year basis. The US manufacturing sector is not only being affected by Chinese tariffs but also by a weaker overall export performance.

Figure 3: Global export growth has been in negative territory, with emerging Asia (excl. China) and the Eurozone among the hardest hit exporting regions

World merchandise import volumes fell by 0.4% over the first 8 months of 2019 (year-on-year). The flat growth (i.e. 0% increase) in world imports in the first half of 2019 was in fact the weakest 6-month performance since the 2008/09 global financial crisis.

Figure 4: Import demand contracting globally, especially in emerging economies
The slowdown in fixed investment outlays in China (the country with the highest investment spending in the world) contributed to this outcome. Since investment activity is highly reliant on commodity inputs, the reduced capital spending is also changing the composition of China’s import basket.

In addition, Chinese manufacturing activity is under significant pressure due to the import tariffs imposed by the Trump administration in the US. Consequently, efforts by Chinese manufacturers to relocate production facilities to other jurisdictions, particularly neighbouring countries, in order to access the US market, are gaining momentum. This shift in production locations will have a lasting impact on the Chinese manufacturing sector.

Adverse developments in the global trading and investment arenas have been impacting significantly on commodity markets. Precious metals have been benefitting from increased investor interest as uncertainty levels rise, with the gold price recently reaching historical highs. Platinum has also attracted renewed investor interest. On the other hand, the prevailing global macroeconomic environment has been weighing negatively on base metals and bulk commodity prices, albeit not uniformly due to varying balances between supply and demand across the individual commodity markets.

**Figure 5: Precious metals benefitting from heightened uncertainty, while industrial commodities are under pressure due to weaker demand prospects**

A de-escalation of the US-China trade war would have a material positive impact on industrial commodity prices as risk sentiment recovers globally. The normalisation of the US yield curve, after having been inverted for an extended period earlier in the year, possibly provides a tentative sign of a potential recovery in appetite for riskier assets going forward.

A weaker and increasingly constrained world trading environment has resulted in excess production capacity and fierce competition as producers seek to sustain market share and/or penetrate alternative markets. This, in turn, has reduced inflationary pressures around the globe.

Central banks are using this opportunity to adopt or maintain growth-supportive monetary policy stances. In the US, the Federal Reserve cut the policy rate by 25 bps at each of its meetings in August, September and October 2019, with interest rates currently in the range of 150 to 175 bps. In contrast, the European Central Bank (ECB) and the Bank of Japan (BOJ) find themselves in a difficult situation, for interest rates are already at record lows and below
the 0%-mark. As such, the ECB is restarting its asset purchase program as from November, with monthly purchases of €20 billion planned for an indefinite period.

**Figure 6: Weakening demand and increased competition suppressing global inflation**

The International Monetary Fund (IMF) has again lowered its growth projections for the world economy, now estimating 3% for 2019, down from the 3.2% forecast in July 2019 and well below the 3.6% recorded in 2018. This is the global economy’s worst performance since 2009. The pace of expansion in advanced economies is expected to moderate further over the outlook period, while the emerging markets and developing economies as a group are anticipated to record a gradually higher growth momentum, with India among the world’s fastest growing economies.

**Figure 7: Emerging markets remain the engine of global growth, with economic conditions in SSA set to improve over the outlook period**

Recent indications are that the US and China are close to reaching a “Phase 1” trade agreement. Should the two countries eventually agree on rolling back some of the tariffs imposed over the past 20 months, the downside risks to world growth would be significantly reduced. A wider agreement, which could include aspects such as protection of intellectual property rights, and the opening of the Chinese market to US companies, among others,
could in turn provide substantial stimulus to global growth, above the rates of expansion currently projected by the IMF.

Sub-Saharan Africa facing strong external headwinds

The much-anticipated strengthening of Sub-Saharan Africa’s (SSA) economic growth momentum is becoming somewhat elusive, as evidenced by the consecutive downward revisions to regional forecasts. Headwinds on the external front, alongside the slow pace of reforms, severe weather-related shocks, Ebola epidemics, as well as rising security and political tensions in parts of the region are weighing down on economic activity.

The IMF has lowered its growth estimates for SSA to 3.2% in 2019, from 3.4% previously. A moderate pick-up to 3.6% is projected for 2020 on the back of some improvement in the performance of the region’s largest economies - namely Nigeria, South Africa and Angola - as well as a general strengthening in domestic demand. Investment activity is expected to gradually recover in various countries.

However, the external environment is becoming less supportive of industrial commodity markets, both in price and volume terms. As such, it poses significant downside risks to the export performance of resource-intensive economies as well as future investment activity.

Figure 8: Modest growth prospects for Sub-Saharan Africa over the medium-term

Growth prospects vary significantly across the region’s economies, with most non-resource intensive countries such as Rwanda, Ethiopia, Côte d’Ivoire, Senegal, Uganda, Tanzania and Kenya projected to post strong growth rates of 6% and above over the next few years. However, oil-exporting countries such as Angola, Nigeria, the Republic of the Congo and others are forecast to grow on average by about 2.3% per year over the period 2019 to 2020.

Amid rising fiscal constraints, debt vulnerabilities remain high in several SSA economies. The number of countries already in debt distress (such as Mozambique, Sudan, Zimbabwe) or at high risk of getting into such a position (such as Zambia, Ethiopia, Ghana) continues to expand, according to the latest World Bank estimates.
South Africa is struggling to improve its growth performance

**Economy facing renewed challenges**

The South African economy is struggling to raise growth towards reasonably levels. Preliminary data for key economic indicators in the third quarter of 2019, as illustrated in Figure 9, attests to this challenge. Considering the substantial shares claimed by the respective sectors in the national GDP, in light of their recent performances it is estimated that economic growth could moderate to around 1% in Q3 2019 (quarter-on-quarter, seasonally adjusted and annualised rate (saar)).

**Figure 9: Domestic economic activity is under renewed pressure**

On the production front, lower output from mining and manufacturing bears testimony to difficult operating and trading conditions facing these two important sectors of the economy. Weak demand conditions domestically and increasingly challenging global markets, accompanied by higher costs of doing business (particularly due to electricity tariffs, among others) and, among other factors, policy-related concerns, have been affecting their production activity.

Manufacturing output dropped by 3.8% in Q3 2019 (saar), implying a contraction of 0.2% (year-on-year) for the period January to September 2019, as shown in Figure 10.

**Figure 10: Lower output recorded by most manufacturing sub-sectors**
The outlook for the manufacturing sector has also worsened, as evidenced by the decline in business confidence to a reading of 16 points in Q3 – the lowest in 20 years. Manufacturers anticipate to invest less in machinery and equipment over the next 12 months, while worsening conditions globally underpin lower expectations regarding export sales.

Mining production fell by 1.7% (year-on-year) over the period January to September 2019, mainly due to sharply lower output in sub-sectors such as gold and iron ore mining. Excluding gold, the mining sector’s performance was slightly better at +0.5%. The poor performance of the mining sector has considerable implications for many supplying and supporting industries across the South African economy.

Figure 11: Lower mining output recorded in the first 9 months of the year

Operational challenges and financial constraints at Eskom, higher electricity tariffs and declining demand in a low-growth environment have been affecting the performance of the electricity sector. The recently gazetted Integrated Resource Plan (IRP) 2019 provides clarity on South Africa’s electricity requirements and how it will be supplied over the period up to 2030, indicating a more diversified energy mix with increasing contributions from renewable energy sources. Sustained, reliable and cost-effective energy supply is crucial for business planning, fixed investment decisions and overall economic growth.

On the expenditure side, subdued growth in retail trade sales and the steep drop in new passenger vehicles sales reflect the difficult consumer environment. After having held fairly steady over the 12 months to Q2 2019, consumer confidence fell to a reading of -7 in Q3, the lowest in almost two years. Low sentiment and limited appetite for additional debt are constraining the ability and willingness of households to raise consumption expenditure.

**Insufficient employment creation**

The economy’s labour-absorption capacity has declined over time. Contributing factors have included competitiveness pressures; skills shortages; technological change and other factors leading to increased mechanisation; and, among others, labour market related matters.

New entrants into the labour market increased, on average, by 570 000 people p.a. over the past five years, while the economy only managed to create about 250 000 new jobs annually. With 519 000 people entering the labour market in the 12 months to Q3 2019, and 5 000
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jobs having been lost on a year-on-year basis, the unemployment rate rose to a new record high of 29.1%, with 6.7 million people unable to find work.

**Figure 12: Economy struggling to create sufficient employment**

![Change in employment numbers by sub-sector: Q3 2019 vs Q3 2018](image)

Source: IDC, compiled using Stats SA data

**Fiscal metrics worsened substantially**

Government finances have deteriorated substantially in recent years. Despite hikes in major tax categories, such as VAT and personal income tax, revenue collection has been adversely affected by subdued economic growth. Government expenditure, in turn, has been rising rapidly. Over the first six months of the 2019/20 fiscal year, growth in revenue measured only 4.6% (year-on-year), while expenditure increased by 12.2%. The October 2019 Medium Term Budget Policy Statement (MTBPS) estimates the budget deficit for the current fiscal year at R306.2 billion, or 5.9% of GDP, compared to the 4.5% deficit projected in the National Budget 2019 released in February.

Government debt is spiralling out of control, having totalled R2.9 trillion (or 58.3% of GDP) in June 2019 – the highest on record. The MTBPS is projecting the gross loan debt of government to rise to R4.5 trillion, equivalent to 71.3% of GDP, by 2022/23.

**Figure 13: A massive increase in government debt ratios, with no sign of stabilisation**

![Gross loan debt of government](image)

Source: IDC, compiled from 2019 MTBPS data
Debt servicing costs are projected to rise at an average annual rate of 13.7% p.a. over the next three years – the fastest of all expenditure items and a major contributor to the widening fiscal deficit. Although foreign currency denominated debt represents only 10% of the total gross loan debt of government, non-residents hold approximately 35% of the rand-denominated debt.

The budget deficit is anticipated to rise sharply to 6.5% in 2020/21, declining to 5.9% by 2022/23. Financial support to Eskom is a major contributor to the substantial worsening of the fiscal position.

Table 1: Key fiscal indicators

<table>
<thead>
<tr>
<th></th>
<th>2019/20</th>
<th>2020/21</th>
<th>2021/22</th>
<th>2022/23</th>
</tr>
</thead>
<tbody>
<tr>
<td>R billion / % of GDP</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Revenue shortfall relative to 2019 Budget (R bn)</td>
<td>-52.5</td>
<td>-84.0</td>
<td>-114.7</td>
<td>-</td>
</tr>
<tr>
<td>Budget balance (Consolidated budget)</td>
<td>-5.9%</td>
<td>-6.5%</td>
<td>-6.2%</td>
<td>-5.9%</td>
</tr>
<tr>
<td>Primary balance (i.e. excluding debt-service costs)</td>
<td>-2.3%</td>
<td>-2.6%</td>
<td>-2.0%</td>
<td>-1.4%</td>
</tr>
<tr>
<td>Debt-service costs</td>
<td>3.9%</td>
<td>4.2%</td>
<td>4.5%</td>
<td>4.8%</td>
</tr>
<tr>
<td>Gross loan debt</td>
<td>60.8%</td>
<td>64.9%</td>
<td>68.5%</td>
<td>71.3%</td>
</tr>
</tbody>
</table>

Source: IDC, compiled using MTBPS data

Government will work towards achieving a primary balance in the main budget – that is, total revenue should equal non-interest expenditure. In doing so, downward adjustments will be made to expenditure and higher taxes may be required, so as to reduce the deficit by a total of about R150 billion over the next three financial years. It should be noted, however, that this calculation excludes the projected financial support to Eskom.

Expenditure reduction plans include reducing the massive public sector wage bill, which consumes about 46% of all tax revenues in 2019/20, or 35% of the consolidated budget expenditure. Nonetheless, the MTBPS is still projecting a 6.3% rise in overall public sector compensation, on average per year, over the next three fiscal years. This is well above the National Treasury’s own inflation forecasts (4.8% per calendar year, on average) over the period 2020 to 2022.

Containing expenditure on goods and services, as well as reducing current and capital transfers, will also form part of the fiscal adjustment process to improve the fiscal situation over the outlook period.

**Eskom remains the single-largest risk factor**

Buckling under a massive and unsustainable R450 billion debt burden, Eskom poses a major risk to the fiscus and to the economy at large. By August 2019, this SOE had already used R289 billion of its R350 billion government guarantee facility, leaving the utility vulnerable and raising doubts over its ability to continue operating as a going concern.

This is prompting a need for decisive actions by government and Eskom itself on how to address the latter’s dire financial situation. In addition to the R230 billion financial support over the next ten years, as announced in the February 2019 Budget, Eskom will be receiving an additional R59 billion as per the 23 July 2019 Special Appropriation Bill.

Although the immediate priority is to stabilise the financial situation at Eskom, government has also been focusing on the structural reforms needed to ensure the long-term sustainability of this critical SOE. Key amongst these is the segmentation of Eskom into three
different entities, namely power generation, transmission and distribution. With limited progress to date, the urgency of such reforms where spelled out in the MTBPS.

A two-phased timetable for Eskom’s restructuring has been put forward, with the first phase comprising the functional separation of the entity into the three separate units by 31 March 2020; and the second phase involving the legal separation of the distribution and generation functions to be completed by 31 December 2021.

Additional interventions include the assessment of daily cash flow management, the extent to which operational efficiencies are introduced, and constant monitoring of the turnaround plan, with a specific focus on power generation. Furthermore, specific debt relief measures will be introduced to ensure the integrity of the budgetary process; that any default on total Eskom debt is contained; that all creditors are treated fairly; and to ensure that confidence returns to the capital market and bilateral funders regarding Eskom’s borrowing capacity.

**Sovereign ratings under considerable threat**

The principal credit rating agencies have expressed serious concerns with South Africa’s problematic fiscal trajectory in a weak growth environment, as well as with Eskom’s deteriorating performance and the slow pace of its reform process.

Moody’s lowered its outlook for the sovereign from “stable” to “negative” on 1 November 2019, providing a clear cautionary statement to government that swift and decisive action is needed to improve the fiscal position, and to ensure debt containment and stabilisation. Should the National Budget 2020 not provide the necessary comfort, a downgrade of the sovereign to sub-investment or “junk” status will most likely follow.

**Figure 14:**

![South Africa’s sovereign credit ratings](chart)

Ratings agency S&P Global, which has placed the sovereign two notches into sub-investment territory since November 2017, will be making its next announcement on 22 November 2019. S&P has issued a stark warning of a possible further downgrade at its ratings review meeting in light of the worsening fiscal situation and the poor economic growth trajectory as outlined in the MTBPS.

In the event of Moody’s downgrading South Africa’s foreign currency denominated debt to “junk”, this could have major consequences for the economy. Substantial capital outflows...
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would ensue, affecting currency, equity and bond markets in the process, with negative consequences for the real economy through various transmission mechanisms. Among the repercussions would be higher costs of capital for the private sector, state-owned companies and general government, with detrimental effects on financial performance, future investment spending, as well as on production activity.

Growth prospects for the South African economy

Structural challenges and subdued demand conditions domestically, along with a slowing global economy, are expected to weigh on South Africa’s economic performance. Real GDP is expected to increase by only 0.6% in 2019, with the pace of growth likely to remain modest over the next three years.

Table 2: Outlook for the South African economy set to improve gradually

<table>
<thead>
<tr>
<th>Variable (% change or % of GDP)</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>2019f</th>
<th>2020f</th>
<th>2021f</th>
<th>2022f</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Real GDP growth and its components:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Household consumption expenditure</td>
<td>1.9</td>
<td>0.6</td>
<td>2.1</td>
<td>1.8</td>
<td>1.2</td>
<td>1.4</td>
<td>1.6</td>
<td>2.2</td>
</tr>
<tr>
<td>Government consumption expenditure</td>
<td>-0.8</td>
<td>2.2</td>
<td>0.2</td>
<td>1.9</td>
<td>1.5</td>
<td>0.9</td>
<td>1.1</td>
<td>1.0</td>
</tr>
<tr>
<td>Gross fixed capital formation (GFCF)</td>
<td>2.5</td>
<td>-3.5</td>
<td>1.0</td>
<td>-1.4</td>
<td>-0.7</td>
<td>1.0</td>
<td>2.0</td>
<td>3.4</td>
</tr>
<tr>
<td>Exports</td>
<td>2.9</td>
<td>0.4</td>
<td>-0.7</td>
<td>2.6</td>
<td>-1.3</td>
<td>1.9</td>
<td>2.6</td>
<td>2.9</td>
</tr>
<tr>
<td>Imports</td>
<td>5.4</td>
<td>-3.9</td>
<td>1.0</td>
<td>3.3</td>
<td>0.8</td>
<td>1.5</td>
<td>2.7</td>
<td>3.3</td>
</tr>
<tr>
<td><strong>GDP</strong></td>
<td>1.2</td>
<td>0.4</td>
<td>1.4</td>
<td>0.8</td>
<td>0.6</td>
<td>1.3</td>
<td>1.5</td>
<td>2.1</td>
</tr>
<tr>
<td>Consumer price inflation</td>
<td>4.6</td>
<td>6.3</td>
<td>5.3</td>
<td>4.6</td>
<td>4.4</td>
<td>5.1</td>
<td>4.9</td>
<td>4.7</td>
</tr>
<tr>
<td>Current account balance (% of GDP)</td>
<td>-4.6</td>
<td>-2.9</td>
<td>-2.5</td>
<td>-3.5</td>
<td>-3.4</td>
<td>-3.4</td>
<td>-3.6</td>
<td>-3.1</td>
</tr>
<tr>
<td>GFCF as % of GDP</td>
<td>20.3</td>
<td>19.4</td>
<td>18.8</td>
<td>18.2</td>
<td>17.7</td>
<td>17.2</td>
<td>17.3</td>
<td>17.4</td>
</tr>
</tbody>
</table>

Source: Historical data – SA Reserve Bank; IDC forecasts

The consumer environment will remain challenging in the short-term. However, as economic conditions gradually improve and confidence levels recover, household spending should pick up some momentum, particularly towards the latter part of the outlook period.

Facing a highly constrained fiscal space and remaining committed to fiscal consolidation and debt stabilisation, government is expected to contain its consumption as well as capital expenditure.

Weak demand conditions and spare production capacity in many sectors of the economy will continue to affect investment decisions by private business enterprises for some time. A financially stressed public sector, in turn, will face limitations in its infrastructure spending plans.

Nevertheless, signs of improving business and investor confidence are emerging as evidenced by the commitments made by both local and foreign entities at the second South Africa Investment Conference hosted by President Cyril Ramaphosa on 6 November 2019. Investment pledges totalling R371 billion were made, potentially creating around 412 000 direct employment opportunities over the next five years in various sectors of the economy. At the conference, President Ramaphosa also reiterated government’s commitment to address key structural impediments to growth, and to creating a more investor- and business-friendly economic environment.

Exports are anticipated to be under pressure as economic growth is projected to moderate in key markets for South African products, including the Eurozone, US, UK and China.
Combined, these economies accounted for approximately 47% of South Africa’s total merchandise exports over the nine months to September 2019.

Despite relatively weak economic conditions domestically, imports are projected to grow at a progressively faster pace over the outlook period, for South Africa is heavily reliant on imported items such as crude oil, machinery and equipment, as well as parts and accessories for motor vehicles.

Better than expected inflation outcomes in recent months (core inflation fell to 4% in September 2019, an 8-year low), along with fairly balanced risks to the inflation outlook, should provide room for a further 25 bps reduction in the repurchase (repo) rate by the Monetary Policy Committee, possibly early in 2020.

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