



Peter Worthington	+27 21 927 6525	peter.worthington@absacapital.com	Absa, South Africa	Completed: 08-Nov-18 16:13 GMT
Miyelani Maluleke	+27 11 895 5655	miyelani.maluleke@absacapital.com	Absa, South Africa	Released: 08-Nov-18 16:12 GMT

South Africa

Recession could be revised away

South Africa’s mining and manufacturing production numbers came out pretty close to our expectations, with a small monthly decline in manufacturing output after two strong months, and a small monthly rise in mining output. The data point to a Q3 18 GDP growth print of about 1.5% q/q saar when the national accounts data are published on 4 December. We see a distinct possibility that the recent recession might be revised away, since revisions to the mining and manufacturing historical data now suggest a stronger Q2 GDP than the -0.7% q/q saar print recorded in the last set of national accounts.

Mining and manufacturing output in September came out pretty much as we expected. We had argued that after two successive strong months for the manufacturing sector, there would be some marginal softening in September, especially given the weak Absa manufacturing sector PMI. In the end, manufacturing output fell 1.0% m/m sa, exactly as we had forecast. Revisions to historical data mean that the y/y growth rate was lower than forecast; however, at 0.1% y/y, compared with a consensus expectation of 1.9% y/y and our forecast of 1.4% y/y. Conversely, we had argued that after two successive weak prints, mining output would rebound somewhat in September, which it did, by 1.2% m/m sa, compared with our forecast of 1.5% m/m sa. Again, however, there were substantial revisions to historical data, such that the y/y comparisons embedded into the forecast are not strictly comparable with the outcomes. In the end, mining output rose 0.2% y/y, compared with our forecast of -1.7% y/y and the consensus expectation of -3.4% y/y.

Figure 1: Mining output has fallen in Q3 18



Source: StatsSA, Absa Research

Figure 2: Manufacturing output has risen sharply in Q3 18



Source: StatsSA, Absa Research

The September output data and historical revisions support our view that real GDP will expand by 1.5% q/q saar in Q3 18. Full national accounts data are due to be published on 4 December. For the third quarter as a whole, mining output fell by 8.6% q/q saar, but manufacturing output rose by 7.1% q/q saar. Because manufacturing has a bigger share of GDP (11.9% in 2017) than mining (7.2%), the rise in manufacturing

Absa Research is produced by Absa Bank Limited acting through its Corporate and Investment Bank divisions, which is a part of Absa Group Limited (referred to as “Absa”). Absa and/or one of its affiliates does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision. This research report has been prepared in whole or in part by FICC research analysts based outside the US who are not registered/qualified as research analysts with FINRA.

PLEASE SEE ANALYST CERTIFICATION(S) AND IMPORTANT DISCLOSURES BEGINNING ON PAGE 3

production will outweigh the fall in mining output in the Q3 18 GDP data. Assuming that agricultural gross value added contracts gain in Q3 18 by 8.0% q/q saar, as farming continues to normalise after last year's bumper maize harvest, then our supply-side tracking estimate for real GDP growth in Q3 18 is left at 1.7% q/q saar, very close to the forecast of 1.5% q/q saar from our demand-side econometric model.

Big revisions to the historical data for both mining and manufacturing production suggest that perhaps there was never a recession. When Q2 18 national accounts data were released in early September, South Africa was shocked to find that it was in a technical recession, defined as two successive quarters of negative GDP growth, with a -2.6% q/q saar contraction in Q1 18 and a -0.7% q/q saar contraction in Q2 18. However, similar to the situation in 2016, the Q2 negative growth print might now be revised away. The monthly series shows manufacturing output rising 0.7% q/q saar in Q2 18, compared with the 0.3% q/q saar contraction recorded in the last national accounts data set, while mining output rose 8.4% q/q saar, compared with the 4.9% q/q saar growth rate shown in the Q2 18 national accounts data. Overwriting the extant national account data set with the updated growth figures for mining and manufacturing output suggests that the Q2 18 GDP contraction was only -0.3% q/q saar. And of course, the Q3 18 national accounts release in December could revise other important components of GDP, for which there are no high frequency indicators, such as agriculture or financial services, in either an upward or downward direction. If the balance of these other revisions prove to be in the upward direction, South Africa might have recorded a tiny positive growth rate in Q2. Investors will have to wait until the data are released on 4 December to find out for sure.

ANALYST (S) CERTIFICATIONS (S):

I / We, Miyelani Maluleke, Peter Worthington hereby certify (1) that the views expressed in this research report accurately reflect my personal views about any or all of the subject securities or issuers referred to in this research report and (2) no part of my compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this research report.

IMPORTANT DISCLOSURES

Absa Research is produced by Absa Bank Limited acting through its Corporate and Investment Bank division, which is a part of Absa Group Limited and (referred to as “Absa”).

All authors contributing to this research report are Research Analysts unless otherwise indicated. The publication date at the top of the report reflects GMT time and may differ from local time where the report was produced.

Availability of Disclosures:

For current important disclosures regarding any issuers which are the subject of this research report or for enquiries regarding Research Dissemination Policies and Procedures and Absa’s Conflict Management Policy, or to view previous investment recommendations published by Absa FICC Research in the preceding 12 months please send a written request to Absa Research Compliance 15 Alice Lane, Sandton, 2196.

Absa does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that Absa may have a conflict of interest that could affect the objectivity of this report. Absa regularly trades, generally deals as principal and generally provides liquidity (as market maker or otherwise) in the debt securities that are the subject of this research report (and related derivatives thereof). Absa trading desks may have either a long and / or short position in such securities, other financial instruments and / or derivatives, which may pose a conflict with the interests of investing customers. Where permitted and subject to appropriate information barrier restrictions, Absa fixed income research analysts regularly interact with its trading desk personnel regarding current market conditions and prices. Absa fixed income research analysts receive compensation based on various factors including, but not limited to, the quality of their work, the overall performance of the firm (including the profitability of the Corporate and Investment Banking division), the profitability and revenues of the Markets business and the potential interest of the firm's investing clients in research with respect to the asset class covered by the analyst. To the extent that any historical pricing information was obtained from Absa trading desks, the firm makes no representation that it is accurate or complete. All levels, prices and spreads are historical and do not represent current market levels, prices or spreads, some or all of which may have changed since the publication of this document. The Absa Research Department within Absa Bank Limited operates independently Eligible clients may receive research reports from Absa, its affiliates or third party service providers approved by Absa.

Explanation of other types of investment recommendations produced by Absa FICC Research:

Trade ideas contained herein that have been produced by the Credit analyst within Absa FICC Research are valid at current market conditions and may not be otherwise relied upon.

Disclosure of previous investment recommendations produced by Absa FICC Research:

Absa FICC Research may have published other investment recommendations in respect of the same securities/instruments recommended in this research report during the preceding 12 months.

Legal entities involved in producing Absa Research:

Absa Bank Limited (Absa, South Africa)

Barclays Bank of Kenya Limited, a registered bank in the Republic of Kenya, a subsidiary of Absa Group Limited with company registration number C.18208 and with its registered office at The West End Building, Waiyaki Way, Nairobi, Kenya.

Disclaimer:

This publication has been produced and distributed by Absa Bank Limited (Registration No.: 1986/004794/06.) acting through its Corporate and Investment Bank division, a member of Absa Group Limited (“Absa”). Absa is an authorised financial services provider, a registered credit provider Reg No NCRCP7. Absa is regulated by the South African Reserve Bank. Absa distributes this material in South Africa. This publication is not, nor is it intended to be, advice as defined and/or contemplated in the (South African) Financial Advisory and Intermediary Services Act, 37 of 2002, or any other financial, investment, trading, tax, legal, accounting, retirement, actuarial or other professional advice or service whatsoever.

Where this publication states on the front page that it is intended for institutional investors, distribution to retail investors is strictly prohibited. Any other persons who receive this communication should not rely on or act upon it. Absa accepts no liability for use of the contents of this report by unauthorized recipients.

The information contained in this publication has been obtained from sources that Absa believes to be reliable, however, Absa does not represent or warrant that it is accurate or complete. Prices shown are indicative and Absa is not offering to buy or sell or soliciting offers to buy or sell any financial instrument. Absa is not responsible for, and makes no warranties as to the information or opinions contained in any written, electronic, audio or video presentations of third parties that are accessible via a direct hyperlink in this publication or via a hyperlink to a third-party web site (‘Third-Party Content’). Any such Third-Party Content has not been adopted or endorsed by Absa, does not represent the views or opinions of Absa, and is not incorporated by reference into this publication. Third-Party Content is provided for information purposes only and Absa has not independently verified its accuracy or completeness.

The views in this publication are those of the author(s) and are subject to change, and Absa has no obligation to update its opinions or the information in this publication. If this publication contains recommendations, those recommendations reflect solely and exclusively those of the authoring analyst(s), and such opinions were prepared independently of any other interests, including those of Absa and/or its affiliates. This publication does not constitute personal investment advice nor does take into account the individual financial circumstances or objectives of the clients who receive it. The securities discussed herein may not be suitable for all investors. Investors must independently evaluate each issuer, security or instrument discussed herein and consult any independent advisors they deem necessary. Any South African person or entity wishing to effect a transaction in any security discussed herein should do so only by contacting a representative of Absa Bank Limited acting through its Corporate and Investment Bank division in South Africa, 15 Alice Lane, Sandton, 2196. Person or entities which are domiciled outside of South Africa wishing to effect a transaction in any security discussed herein must ensure that such transaction complies with the local regulations of its home jurisdiction. The value of and income from any investment may fluctuate from day to day as a result of changes in relevant economic markets (including changes in market liquidity). The information herein is not intended to predict actual results, which may differ substantially from those reflected. Past performance is not necessarily indicative of future results.

Absa or its employees may, from time to time, maintain a long or short position in securities referred to in this publication or in related futures or options; purchase or sell, make a market in, or engage in any other transactions involving such securities or issuers, earn brokerage or other compensation in respect of the foregoing; and provide investment banking, credit or other services to any party referred to in this publication. Absa may have acted as manager or co-manager of a public offering of securities discussed in this publication in the past three years.

We disclaim any liability for any direct, indirect or consequential damage or losses that you may suffer from using or relying on the information on contained in this publication even if notified of the possibility of such damage or loss and irrespective of whether or not you have obtained independent advice.

Absa Research reports are distributed in the U.S. by Enclave Capital LLC, a U.S. registered broker dealer, on behalf of Absa, only to major U.S. institutional investors (as defined in Rule 15a-6 under the U.S. Securities Exchange Act of 1934 (the “Exchange Act”)) pursuant to the exemption in Rule 15a-6 and any transaction effected by a U.S. customer in the securities described in this report must be effected through Enclave Capital LLC (19 West 44th Street, suite 1700, New York, NY 10036, 646-454-8600). All orders emanating from persons in the U.S should be effected through, Enclave, Absa’s U.S. registered broker-dealer.

© Copyright Absa Bank Limited (2017). All rights reserved. No part of this publication may be reproduced or redistributed in any manner without the prior written permission of Absa. Additional information regarding this publication will be furnished upon request.