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Completed: 11-Apr-19 15:20 GMT
Released: 11-Apr-19 15:20 GMT

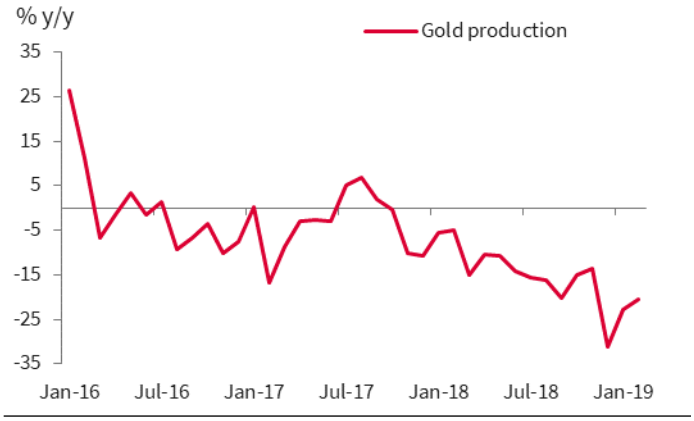
South Africa

February mining and manufacturing data point to weak Q1 19 growth

Seasonally adjusted output declined in mining and manufacturing in February on a month-on-month basis, which left average monthly output in the first two months of Q1 19 lower compared with Q4 18 in both sectors. A rebound in March seems unlikely given the intensity of power cuts during that month. Our first tracking estimate for Q1 19 GDP sits at -0.3% q/q saar on the back of these data, lower than our published forecast of 0.5% q/q saar, which is driven by our demand-side econometric model.

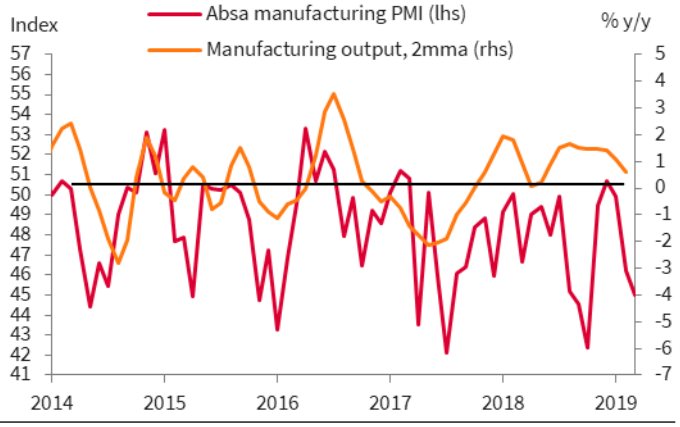
Mining output came in weaker-than-expected in February. Market expectations for February mining output data were quite downbeat, with Thomson Reuters median forecast of -3.2% y/y and our own forecast of -5.3% y/y. However, the actual data came in even lower, showing a contraction of 7.5% y/y in February following a drop of 3.3% y/y in January. This was because seasonally adjusted output shrank by 1.5% m/m in February after downwardly revised growth of zero (previously stated as +0.2% m/m) in January. Across the four main minerals, the decline in seasonally adjusted output was largely driven by a sharp drop in PGM output of 5.9% m/m (sa). Gold production, which has been more volatile than usual in recent months, perhaps in part due to the effects on the still ongoing strike at Sibanye's gold operations, fell by 1.9% m/m (sa) in February. The weaker gold and PGM output more than offset increases in iron ore and coal output of 3.1% and 2.7% m/m (sa), respectively. More importantly, average total monthly mineral output in the first two months of Q1 19 is 3.7% lower than in Q4 18, which means that mining output would need to rise by at least 12.5% m/m (sa) in March for Q1 q/q growth to be zero, by our calculations. This seems improbable to us.

Figure 1: Gold production is under pressure



Source: Stats SA, Absa Research

Figure 2: Absa PMI suggests further weakness in manufacturing output



Source: Stats SA, BER, Absa Research

Manufacturing output data also showed a broad-based decline in February. On a seasonally adjusted basis, production fell 1.8% m/m after another decline of 1.6% m/m in January. On a year-on-year basis, this equated to growth of 0.6% (consensus: +0.5%) in February, compared with 0.9% in January. The decline in seasonally adjusted output was fairly broad-based across the different sub-sectors of manufacturing, with seven reporting lower output volumes compared with January. Within the major sub-sectors, petrochemicals output was down 7.3% m/m (sa), while

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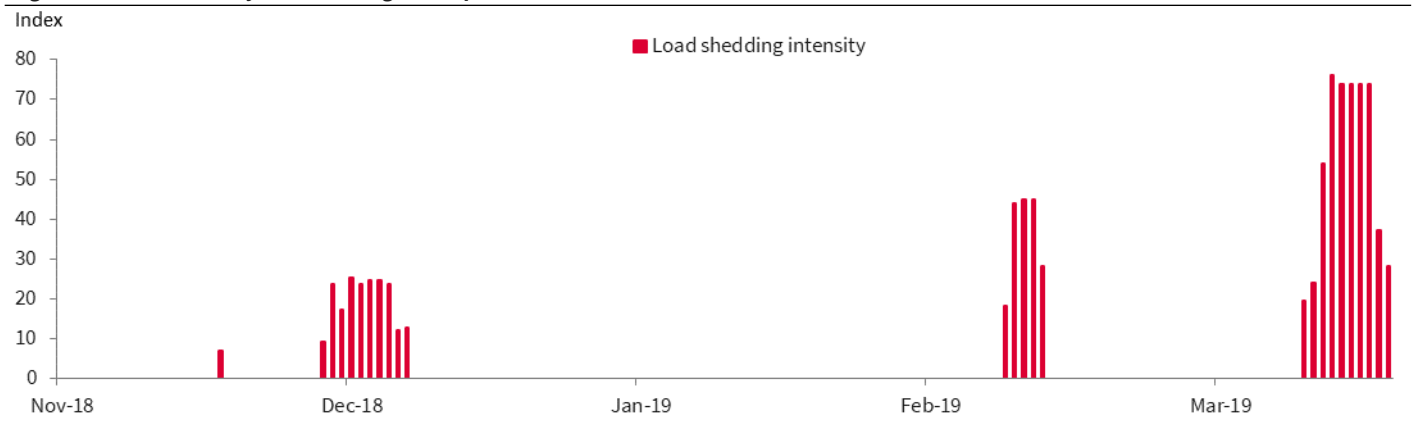
'food and beverages' and 'wood and paper' production fell by 1.6% and 4.1% m/m (sa), respectively. This and other declines in smaller sub-sectors more than countered some production increases in 'vehicles and parts' and 'basic iron ore and steel' of 6.1% and 1.6% m/m (sa), respectively. Overall, the output weakness of January and February means that manufacturing output needs to rise by 7.5% m/m (sa) in March for the sector to avoid a quarterly contraction in Q1 19. Similar to mining, a rebound of that magnitude seems unlikely to us given the likely damage of the March power cuts. The Absa manufacturing PMI, which fell to 45.0 in March from 46.2 in February, also suggests more weakness, although given the load shedding it is perhaps surprising that the PMI did not deteriorate even more.

Our first GDP tracking estimate points to a small contraction for Q1 19. Taking these data into account, our first Q1 19 GDP tracking estimate comes to -0.3% q/q saar. This is lower than our official forecast of 0.5% q/q saar published in the *South Africa Q2 19 Quarterly Perspectives* yesterday. There are some assumptions that go into our tracking estimate, particularly for sectors where there are no reliable high frequency indicators, including most parts of services and the highly volatile agricultural sector. With respect to the latter, the latest projections from the Crop Estimates Committee suggest the summer crop could be down by about 16% this year and recent years have shown that this can manifest in big negative quarterly growth rates for agricultural gross value added (which is essentially the GDP for the sector). Nonetheless, our tracking estimate sits with modest growth of 3.2% q/q saar for agriculture. We will update our GDP tracking estimate again with the release of the February retail sales data next Wednesday.

One of the key question for the Q1 19 GDP print, which will be released in early June, is the degree to which load shedding in March negatively impacted industrial production in that month. The six days of Stage 4 load shedding represented a particularly intense burst of power rationing. Although Stage 4 load shedding means power cuts for 25% of the time, the impact on businesses, particularly mining and industry can be proportionately greater if they do not have access to alternative sources of power like generators, since the lead time for stopping and restarting key machinery can be quite long.

Figure 3: March electricity load shedding was unprecedented



Source: Eskom, Absa Research

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