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Trends in and outlook for the global and South African economies

Jorge Maia
Head: Research and Information

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for industrial development**

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Presentation layout

- Global economy: Developments and outlook
- South African economy:
 - Recent developments
 - Outlook



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A light gray world map with white outlines of countries, serving as a background for the title text.

Global economy: Developments and outlook

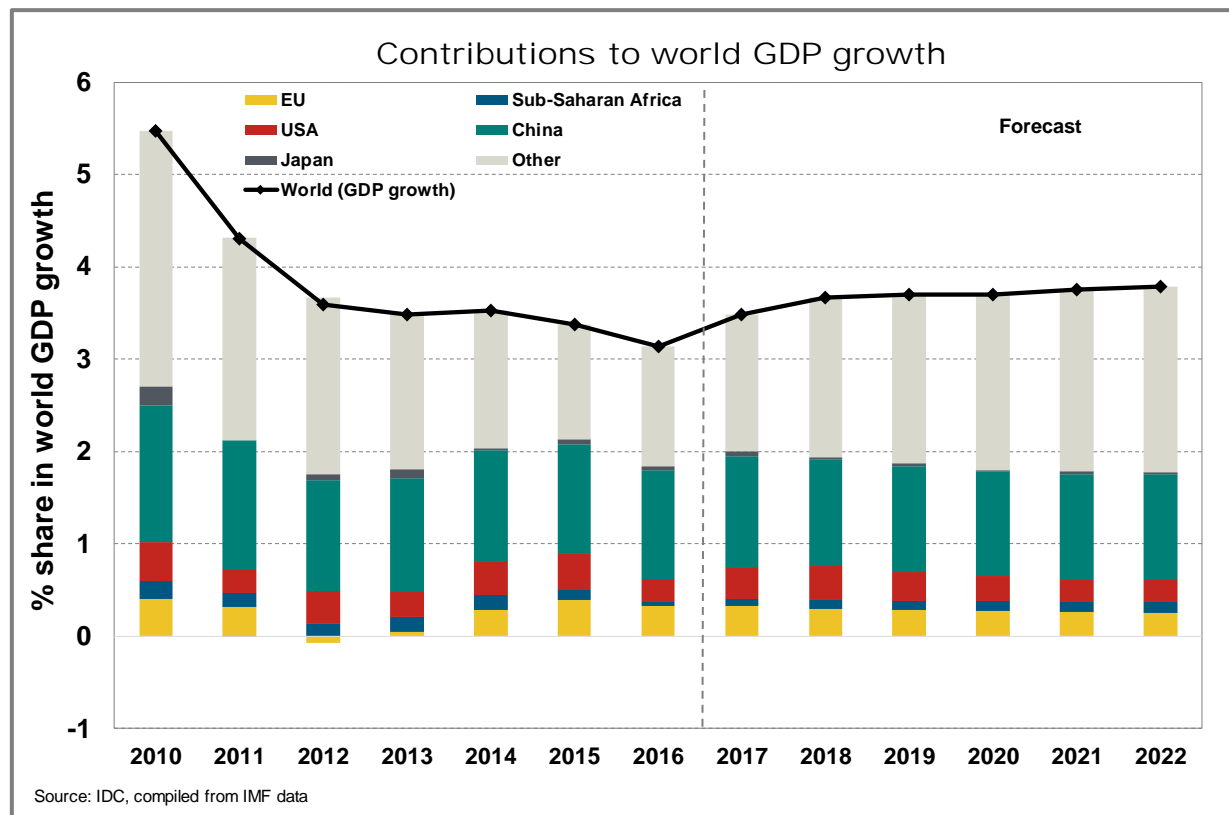
Global economy: Expected developments



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- World economy's pace of expansion is expected to increase and become more broad-based in MT, but still below pre-GFC average. Global growth to be sustained at a relatively higher level over MT.
- Higher fixed investment activity globally to address back-logs. Global FDI flows rise, benefitting both advanced economies and emerging markets.
- Moderate inflationary pressures, gradual normalization of monetary policies.
- Trading relationships between major economic powers likely to be altered to some extent.



Global economy: Outlook for key economies from an SA perspective



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United States

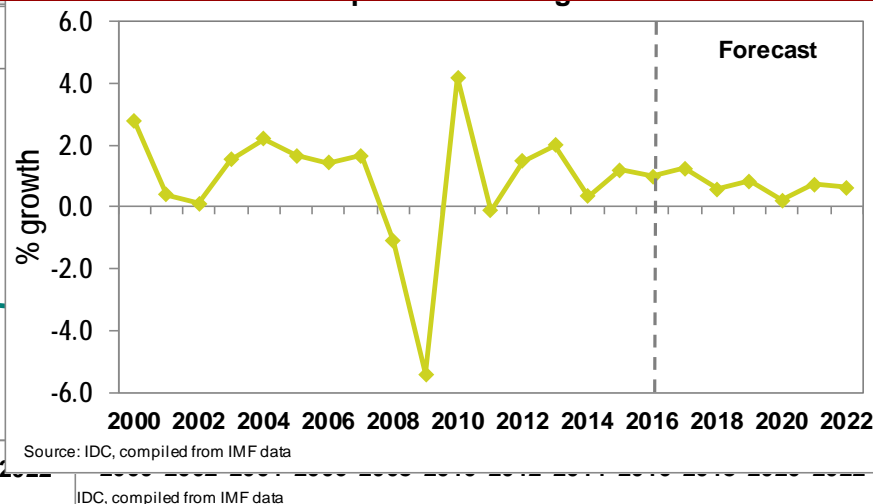
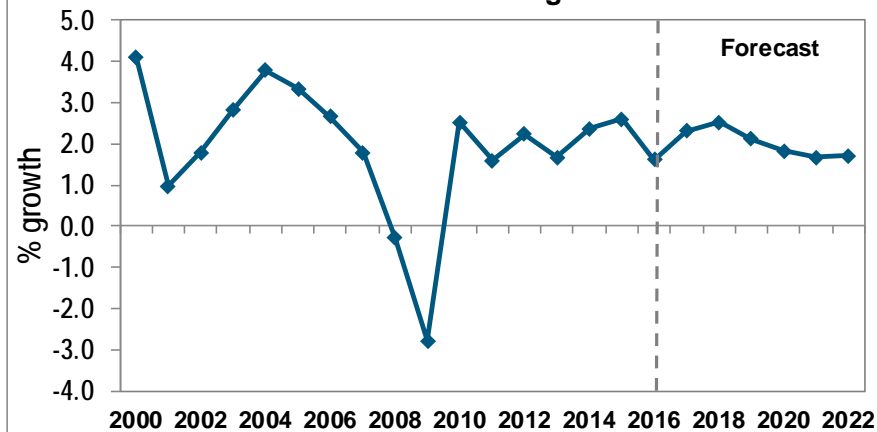
- Growth sustained at modest pace (around 2% p.a.), with consumer & investment spending as key drivers.
- Low inflationary pressures, gradual policy rate hikes.
- Increased spending on infrastructure and high levels of employment will support economic expansion.
- *US contributes 24.7% of global GDP.*
- *US accounts for 9.1% of world trade.*
- *US is the source of almost 21% of global FDI outflows.*
- *Destination for 7.3% of SA exports.*
- *Source of 6% of FDI stock in SA.*



Africa (excluding SA):

- Moderate economic recovery over ST on the back of improving global demand.
- Progressively higher export performance, supported by improving conditions in commodity markets.
- Increased investment activity, including inward FDI.
- Improving growth performance and macroeconomic balances (fiscal & trade balances) over MT to LT
- Reduced liquidity constraints in several economies over MT to LT
- *Africa (excl. SA) contributes 2.5% of global GDP*
- *Africa (excl. SA) accounts for 1.7% of world trade*
- *Africa (excl. SA) is the source of only 1.0% of global FDI outflows*
- *Destination for 27.8% of SA total exports, 39% of SA manufactured exports.*
- *Source of 3.2% of FDI stock in SA*

USA: real GDP growth



Global economy: Risks associated with socio-political order



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Global political order being challenged

- Major shifts occurring in the global political landscape:
 - Strong tendency towards a **multi-polar world**
 - **Inward-orientation** and often confrontational stance of the Trump administration are fast eroding the traditionally dominant position of the United States
 - Increasing **contestation for primary global power** positioning and influence by countries/regions such as China, EU and Russia
- Strong **nationalist tendencies** gaining strength in parts of the world (US, Russia, China, UK, Turkey etc.), generally characterized by unusually inciting and confrontational rhetoric at leadership level
- **Regionalism under increased scrutiny**, specifically the distribution of benefits within regional blocs and, in the case of the EU, the increased concentration of regulatory and economic power at the centre (Brussels)
- **Globalisation being widely challenged** around the globe, leading to calls for limiting its reach / pulling back / reforming global frameworks for a fairer distribution of benefits and to address negative repercussions
- Worrying signs of **deteriorating commitments to global cooperation**
- **Divides** between North-and-South, as well as between East-and-West are becoming more pronounced

Geopolitical tensions escalating

in traditional trouble-spots (Middle East, Korean peninsula, Ukraine etc.), threatening world peace, leading to mass migrations

Terrorism on the rise

taking unprecedented forms, becoming more regionally widespread and indiscriminate, resulting in numerous casualties

Religious conflict intensifying

leading to intra- as well as inter-regional tensions, reduced cooperation and security threats

Social unrest proliferating

due to rising inequality, youth populations increasingly dissatisfied with politico-economic order (esp. lack of job opportunities, corruption), with communication facilitated by social media

Cyber attacks increasing

targeting governments, corporates and individuals, becoming more damaging, as well as harder to detect and prevent



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South African economy: Recent developments

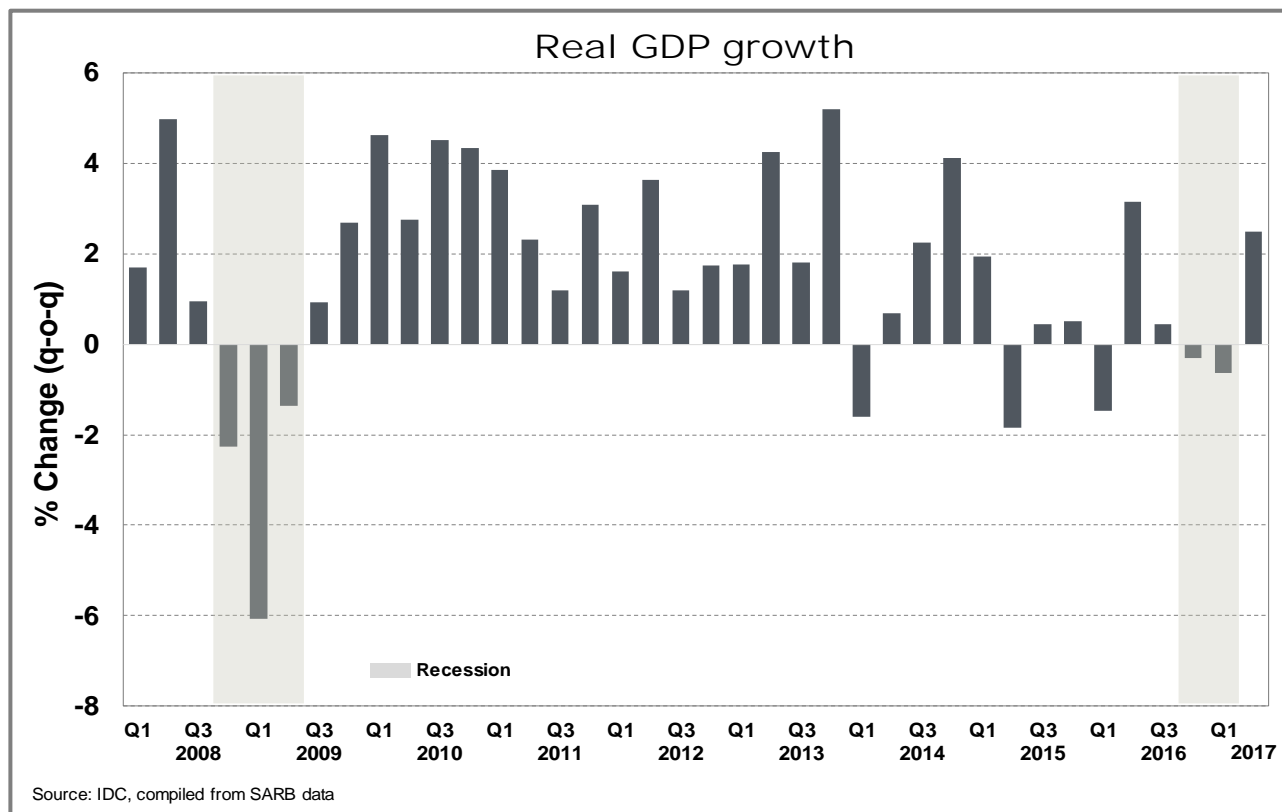


South African economy: Out of technical recession, but ST prospects remain weak



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- SA's economic performance rebounded in Q2 2017, with GDP growth of 2.5% on a quarterly basis. Although the economy is out of a technical recession, the recovery comes off a very low base.
- Agriculture was the main contributor (+0.7 of a %-point) due to the largest maize crop on record. Excluding agriculture, real GDP would have risen by 1.6% in Q2 2017.



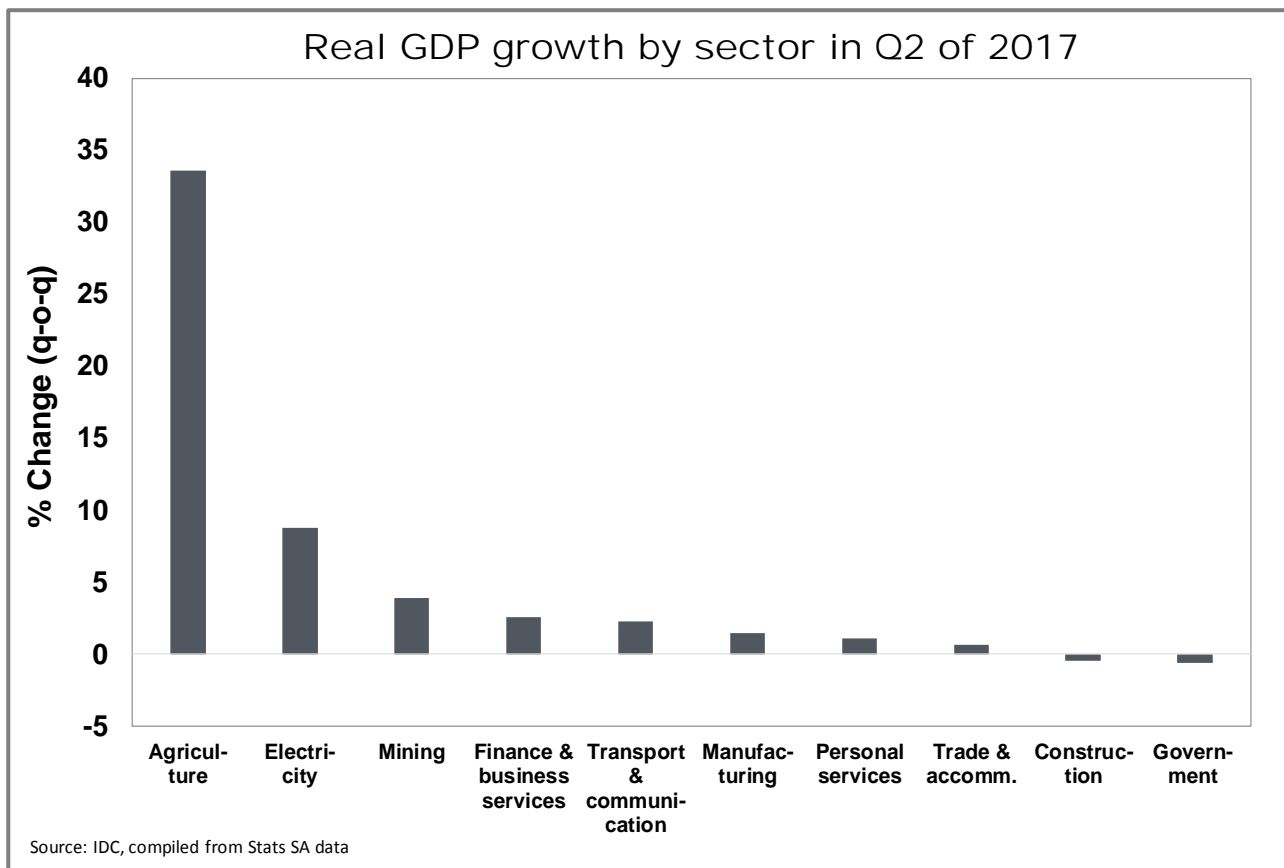
South Africa economy: Higher output recorded across most broad sectors



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- Agriculture output supported by best maize crop on record, estimated at 16 million tons.
- Manufacturing output growth rebounded to 1.5% (q/q), following 3 consecutive quarterly contractions. However, manufacturing output growth was still negative y-o-y in H1 2017.
- The tertiary sectors in general recorded higher growth, albeit from a very low base.



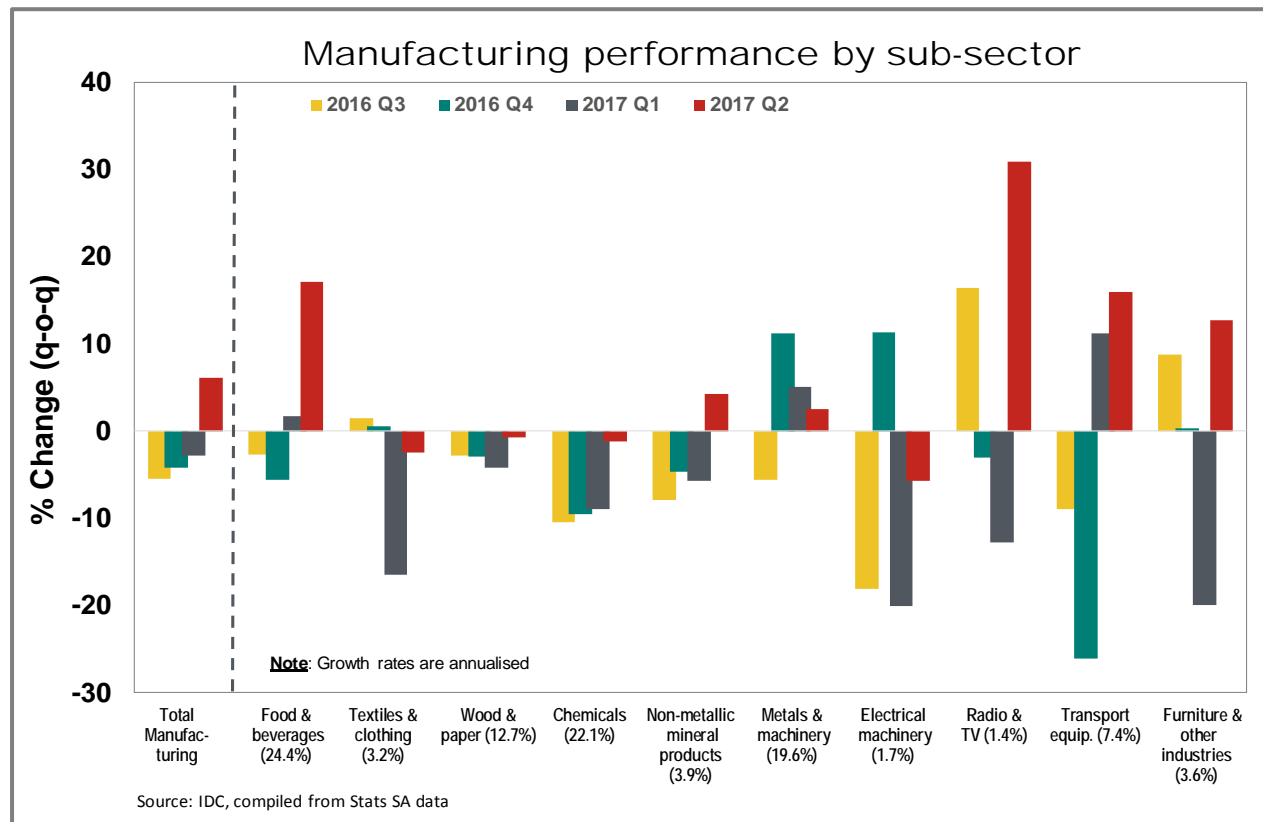
South Africa economy: Manufacturing sector still under strain



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- Rebound in manufacturing output in Q2 2017 mainly due to strong rise in the production of food & beverages, transport equipment, and TV, radio and communication equipment.
- Although output recovered quite strongly, the sector is still facing serious challenges.
- After falling to its worst level since 2009 in July, the manufacturing PMI recovered slightly in August 2017, to a reading of 44 points.



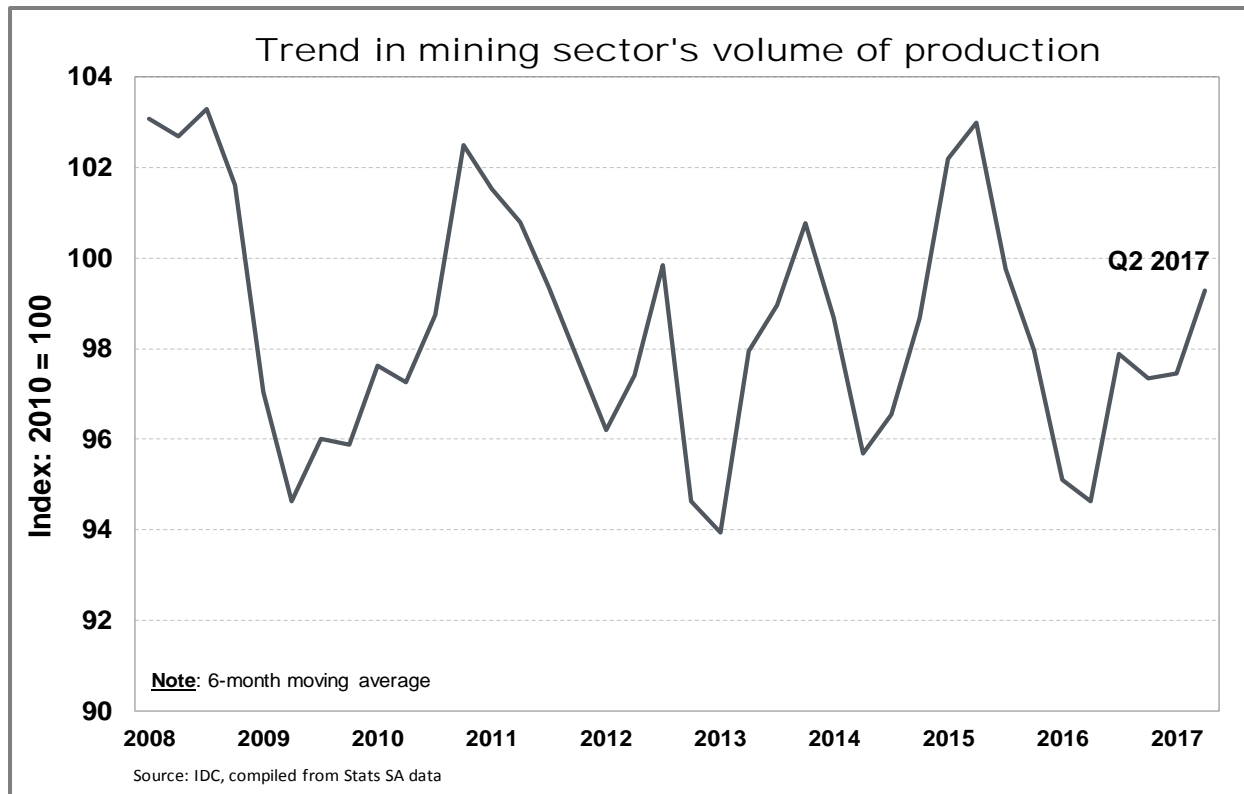
South African economy: Mining showing some recovery, but challenges remain



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- Mining sector showed some resilience in H1 2017, posting 5.1% growth y-o-y (this followed a 4.3% contraction in output in 2016).
- Gold production continues on a long-term declining trend, while coal and PGMs output dropped slightly in H1 2017 (y-o-y).
- Iron ore, chrome, copper and manganese production rebounded, albeit from very low bases, but demand conditions remain largely unfavourable.

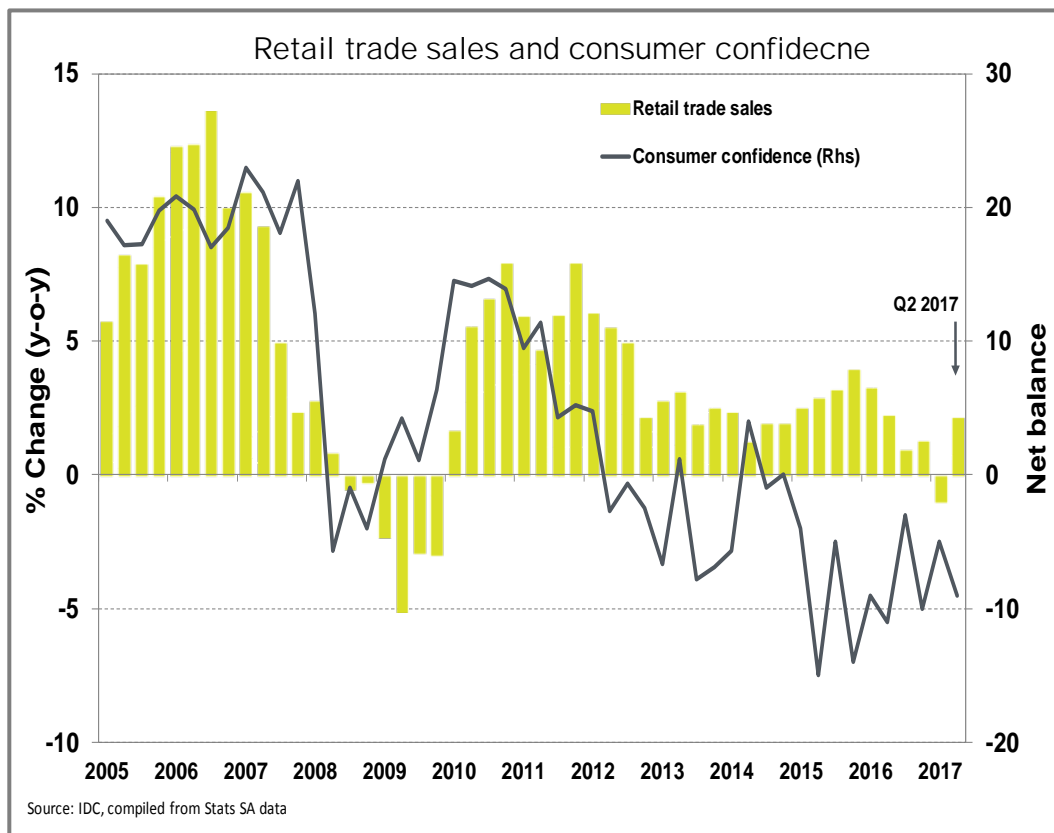


South African economy: Consumer spending showing some resilience, but challenges remain



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- Although retail sales recovered in Q2 2017, growth in H1 2017 stood at only 0.6% (y-o-y).
- Consumer confidence remains low, disposable incomes are growing at a subdued pace, debt levels are still high, and employment prospects are unsatisfactory. Weak economic climate will continue to affect ability and willingness of consumers to spend.
- Recent downtrend in inflation and lowering of repo rate (25 bps at the MPC meeting of 20 July 2017) should, however, provide some relief to consumers.

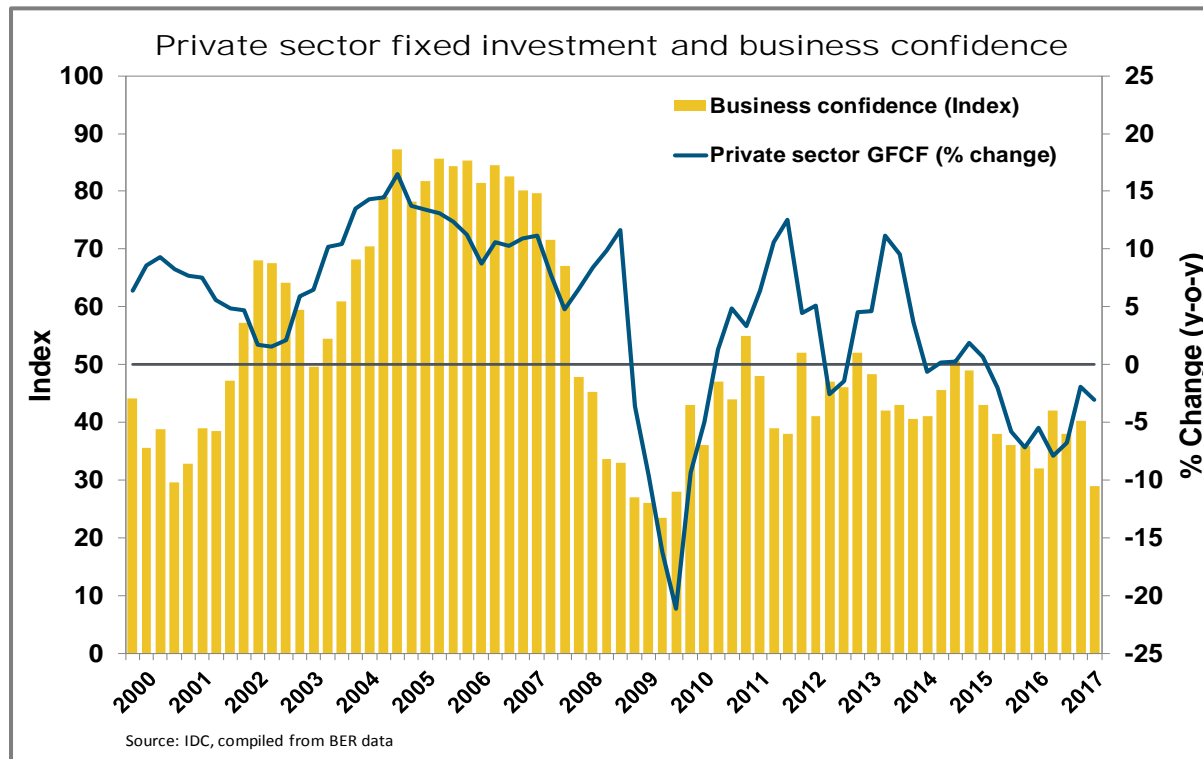
South African economy: Fixed investment activity still declining



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- Fixed investment spending by the private sector has been declining in real terms since 2015, contracting by 1.4% in 2015, by 6.8% in 2016, and declining further in H1 2017.
- This has been in line with falling business confidence over an extended period to very low levels at present.
- Weak investment activity not only affecting current economic growth, but also the productive capacity of the economy, in the process limiting its future growth potential.



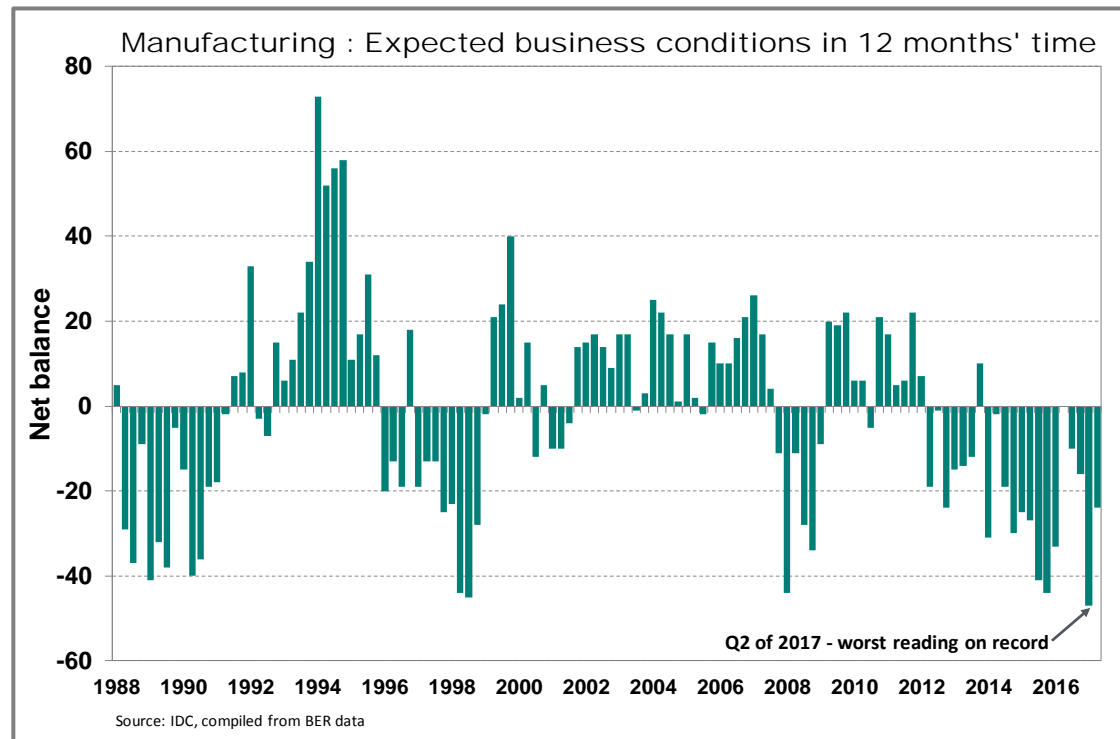
South African economy: Poor prospects for investment in manufacturing



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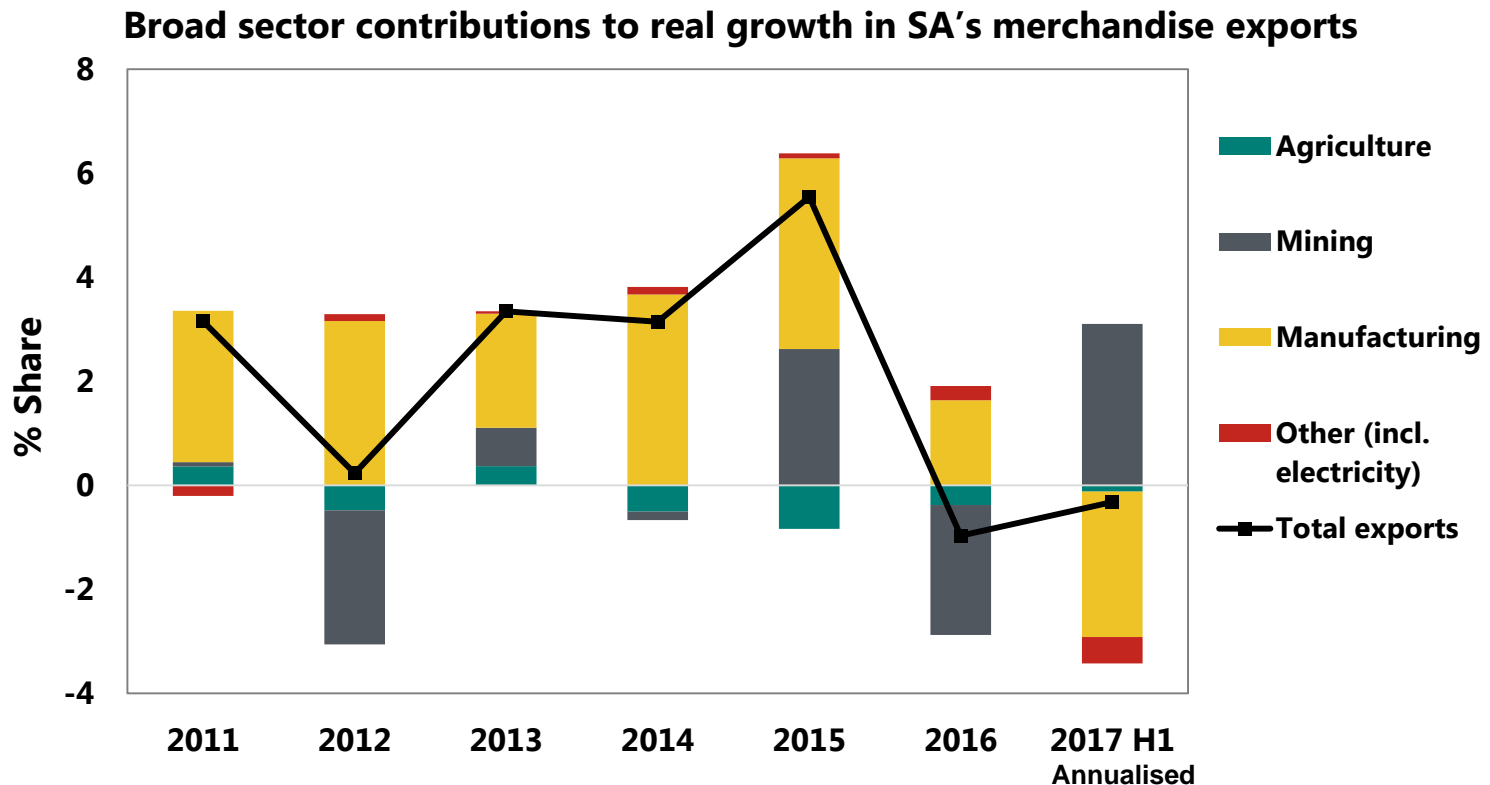
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- In real terms, fixed investment in manufacturing in 2016 was at a 7-year low.
- Subdued demand, locally and in global markets, has resulted in excess production capacity in many industries, thus not justifying any additional fixed investment for expansion of productive capacity. Supply-side constraints, especially cost pressures and infrastructure-related challenges also impacted on private sector investment decisions.
- Manufacturers' expectations of their investment spending in machinery and equipment in 12-months' time has deteriorated.



South African economy: Export sector performance

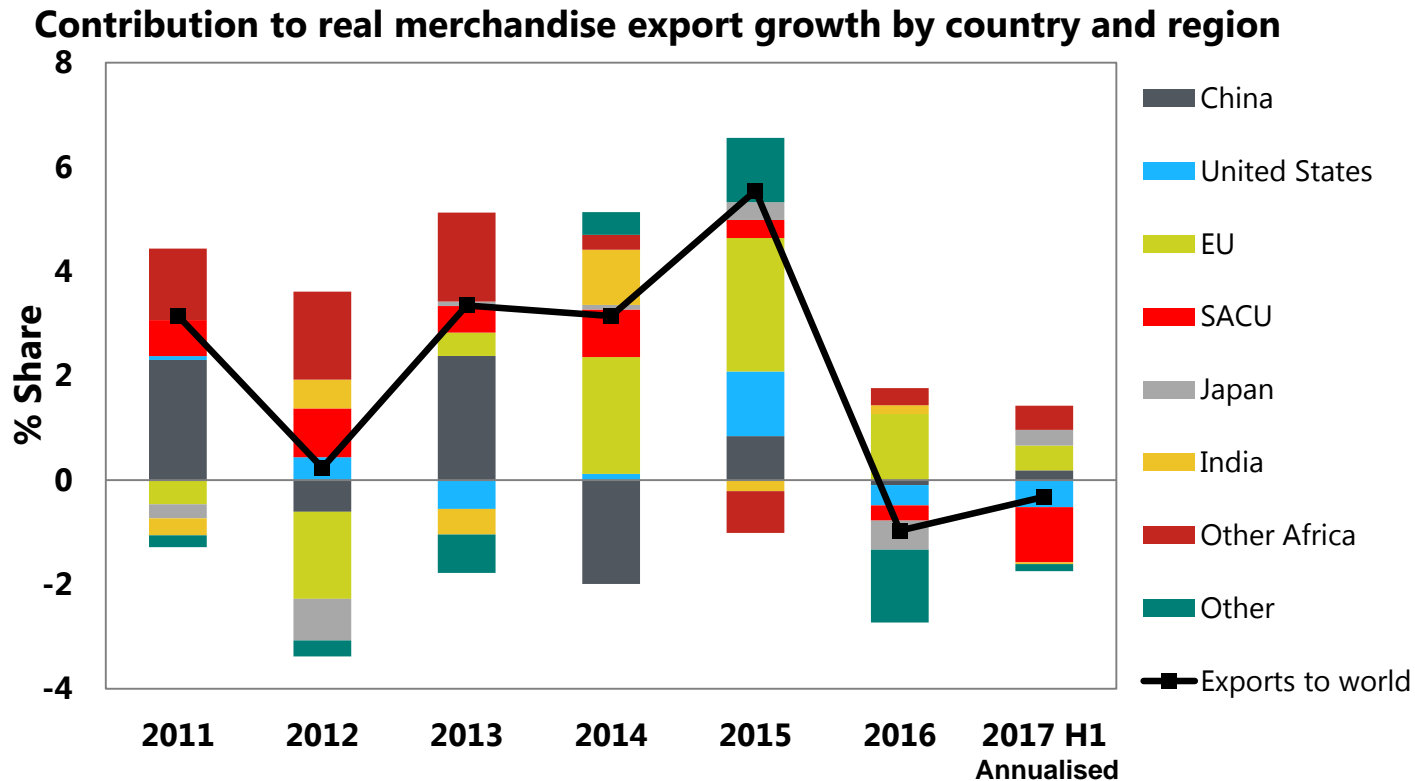
- After making significant contributions to overall export growth in the past 2 years, manufactured exports were under pressure in H1 2017. This was largely due to lower export sales of motor vehicles, parts & accessories, but also machinery & equipment; processed food; TV, radio & communication equipment; and electrical machinery.
- Mineral production and exports rebounded in H1 2017, albeit off a very low base.



Source: IDC, compiled from SARS and Quantec data

South African economy: Export performance by global market

- The EU as an external market has contributed positively to the overall growth (in real terms) in SA's merchandise exports from 2014 to H1 2017.
- In contrast, the drop in exports to the USA and some members of the Southern African Customs Union (SACU) in 2016 as well as in the 1st half of 2017 implied negative contributions (i.e. detractions from overall export growth).



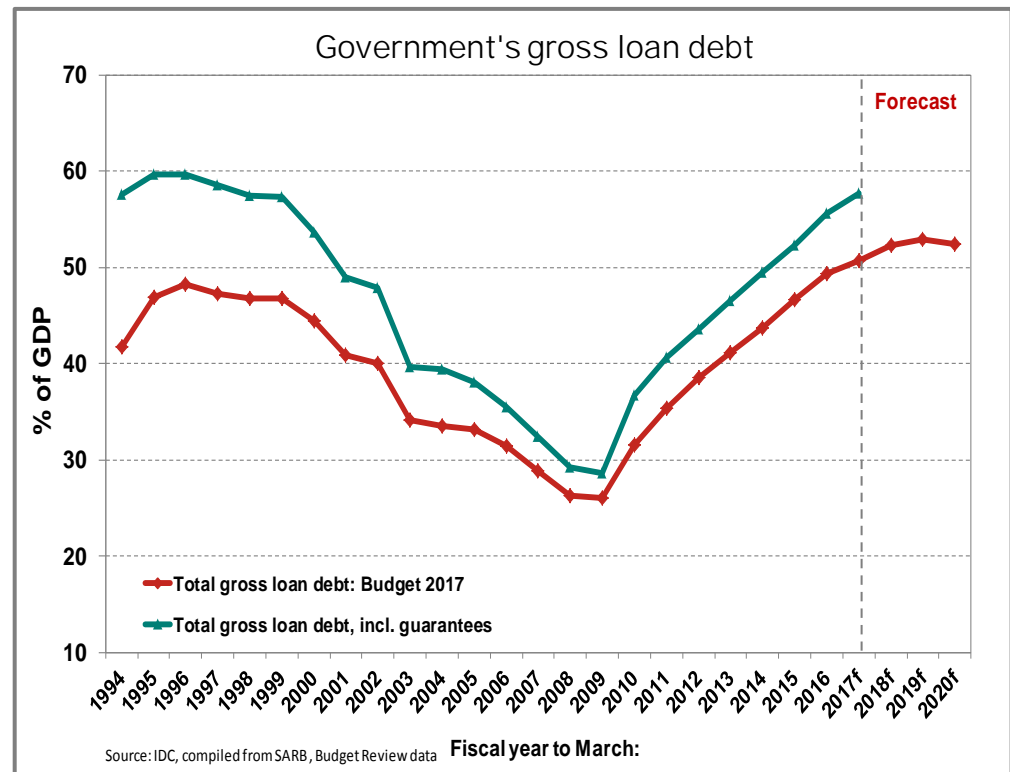
South Africa economy: Government finances in the spotlight



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- The fiscal deficit has remained large at an average of 3.5% of GDP over past 4 financial years.
- Revenue squeeze and need to contain expenditure requiring fine balancing act to maintain fiscal sustainability.
- Government debt is being closely monitored by the credit rating agencies, which are also concerned with the high and rising govt. guarantees to financially vulnerable SOEs.
- Gross loan debt stood at R2.3 trillion in June 2017 – more than double the figure of 6 years ago.
- Higher government debt resulting in rising debt-servicing costs (fastest growing fiscal expenditure item in recent years, accounting for 11.2% of total expenditure in 2016/17).

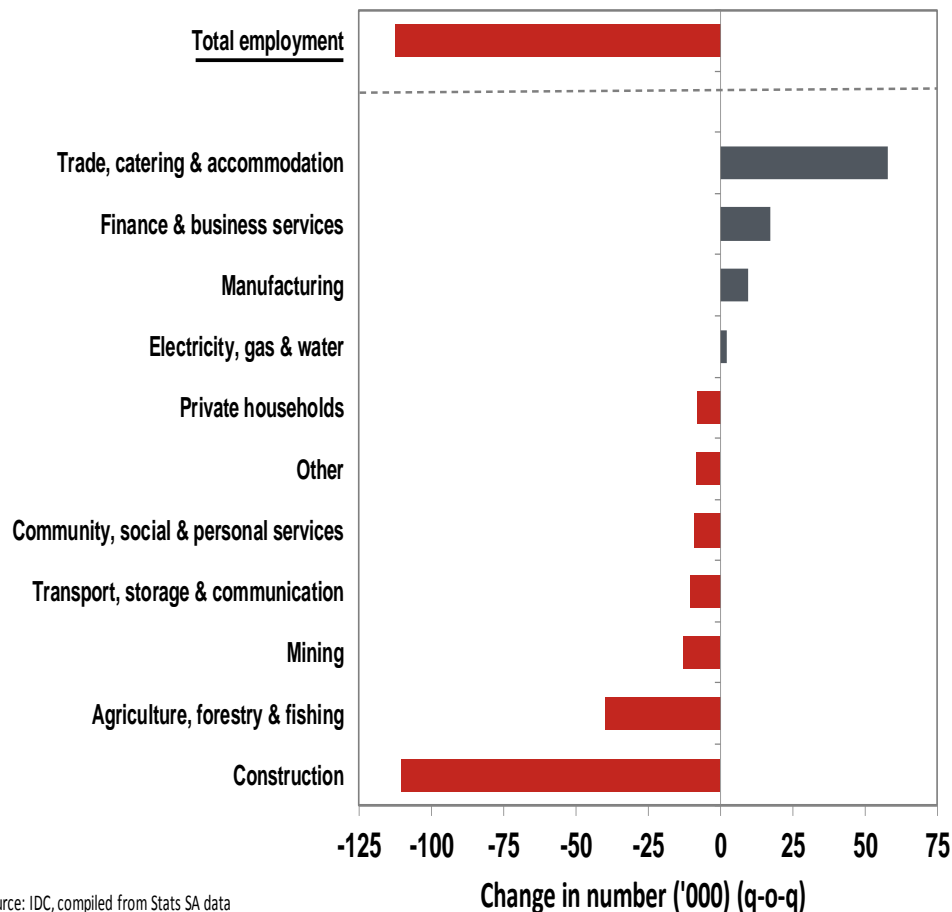


South African economy: Employment losses in a low-growth environment



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Change in employment : Q2 2017 vs Q1 2017



Source: IDC, compiled from Stats SA data

- SA economy's labour absorption capacity has worsened, with its weak performance having taken a toll on job creation.
- The formal and informal sectors recorded 113 000 job losses in Q2 2017 (q-o-q), with most sectors reporting lower employment.
- Manufacturing sector now employs 15% or 310 000 fewer people than in 2008.
- Economy has only managed to add 1.7 million additional jobs since 2008 (an average of 175 000 new jobs p.a.).
- Unemployment rate remained at 27.7% in Q2 2017 (6.2 million people unemployed).
- Subdued growth prospects in the short- to medium-term do not bode well for a meaningful recovery in employment creation.

South African economy: Outlook

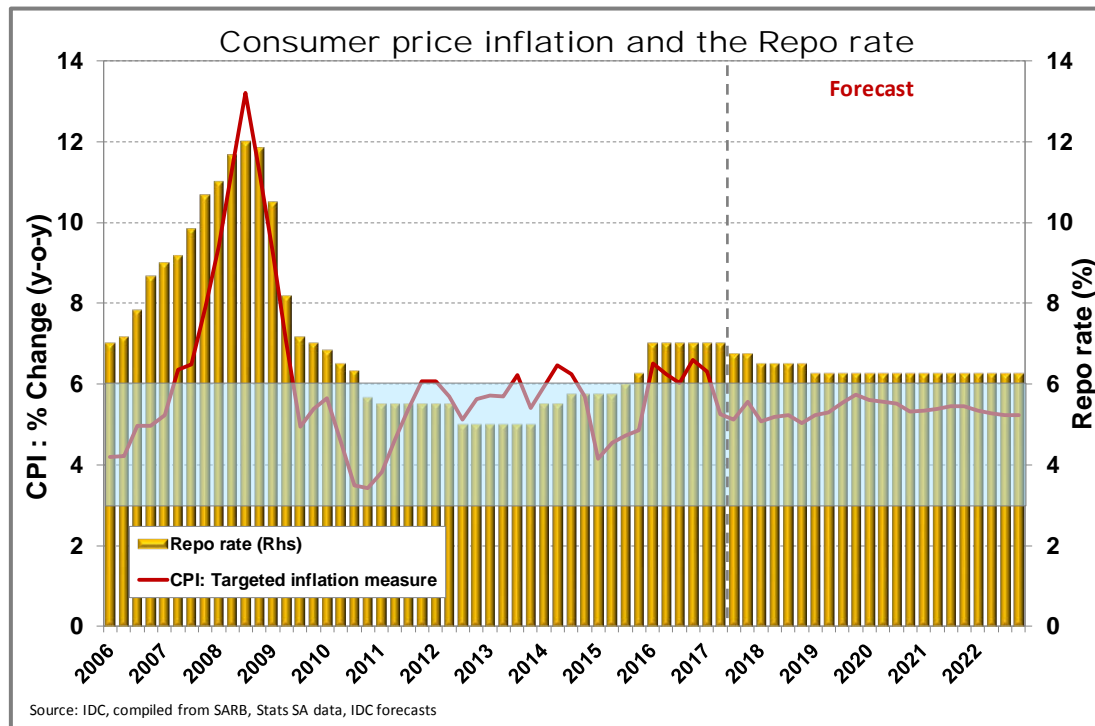
SA economic forecasts: Inflation and interest rates expected to moderate



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- CPI peaked at an average of 6.6% in Q4 2016 (6.3% for 2016 as a whole). It is estimated to decline to an average of 5.6% for 2017 and forecast at 5.1% in 2018.
- Lower food prices, subdued domestic demand and a stronger ZAR are likely to underpin this improved performance.
- Subdued inflation environment provides scope for accommodative monetary policy. The repo rate may thus be lowered by 25 bps in Q1 2018, followed by another drop of 25 bps in Q1 2019 if the outlook for inflation remains relatively more benign.



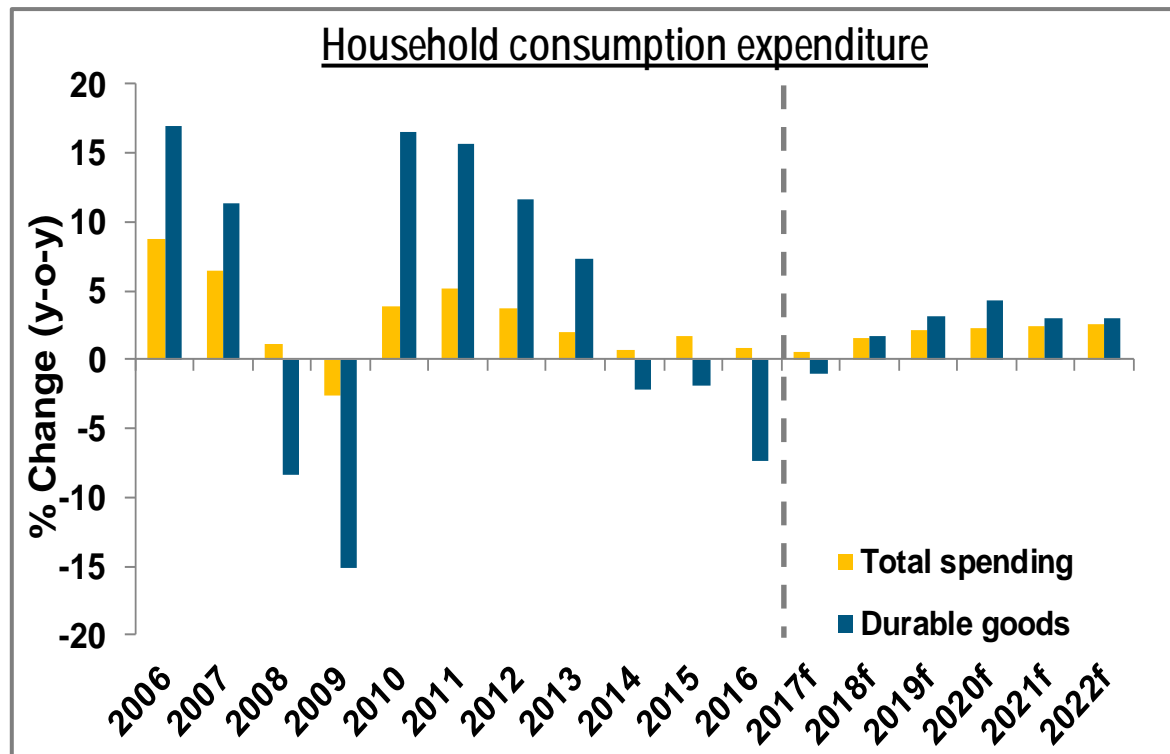
SA economic forecasts: Household spending under pressure



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- A difficult consumer environment should persist over the short-term, affecting the ability and willingness of households to raise their spending.
- Confidence remains low, disposable incomes are forecast to rise very gradually in 2017/18, debt levels are still high, and demand for credit is unlikely to gain momentum as households attempt to restore their balance sheets.
- Spending on durable items (e.g. motor vehicles, furniture) will be most affected.



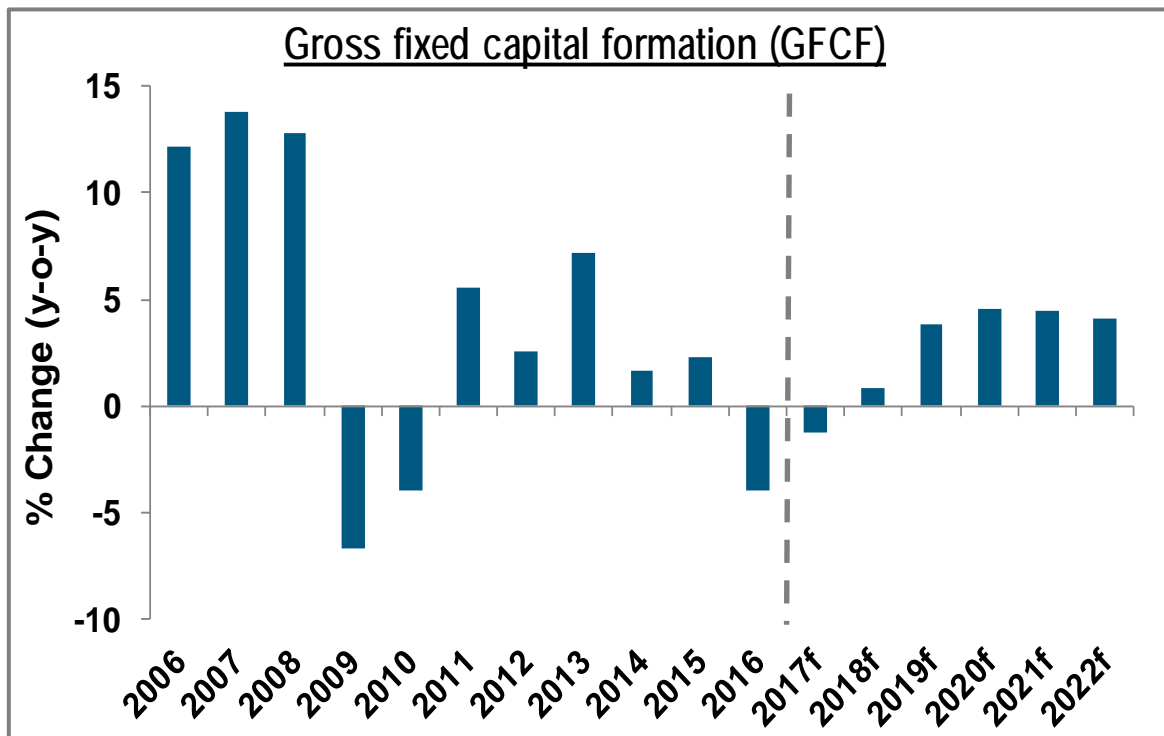
SA economic forecasts: Fixed investment expected to recover in the medium-term



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- Prevailing uncertainty regarding political developments, subdued economic growth and the risk of further credit rating downgrades are weighing heavily on investor and business confidence. Furthermore, many sectors of the economy are experiencing surplus production capacity, with weak domestic demand exacerbating the situation.
- Both the **private and public sectors** are forecast to cut back on fixed investment spending in the ST, with a recovery expected in the MT on the back of improving conditions in global markets and, very gradually, in the domestic market. Facing a revenue squeeze, **general government** may be forced to reduce spending on economic and social infrastructure in the shorter-term.



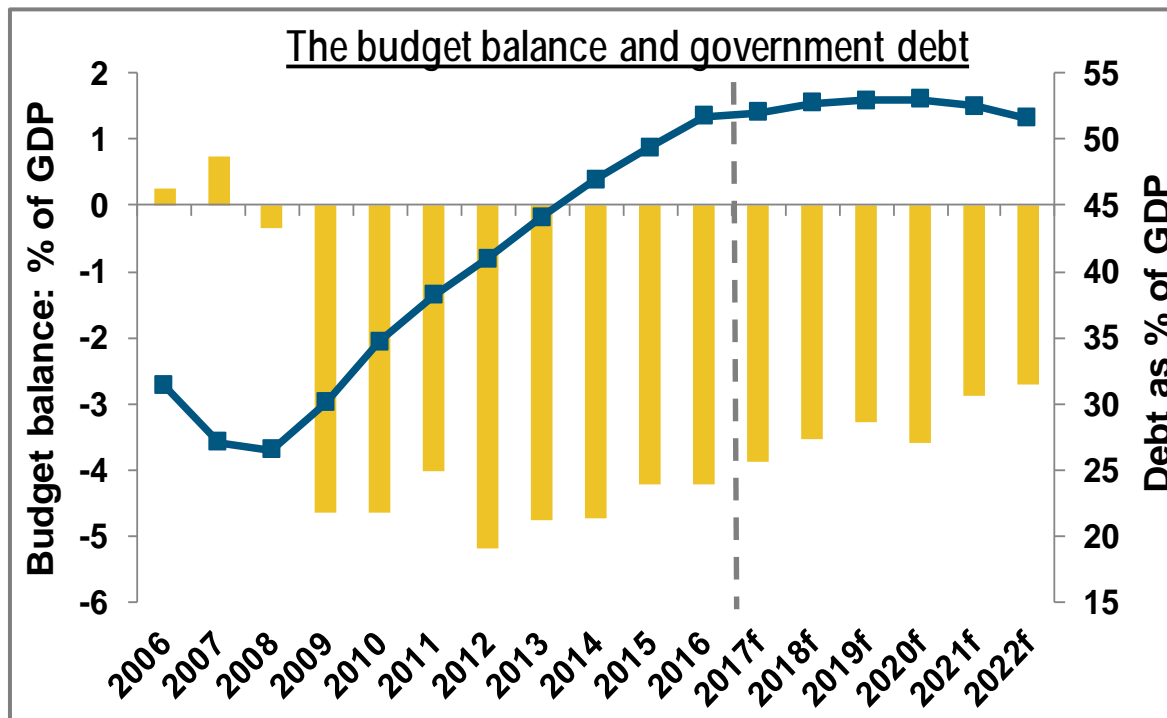
SA economic forecasts: Limited fiscal space, commitment to consolidation



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- Government is committed to fiscal consolidation and debt sustainability under difficult conditions.
- Facing a revenue squeeze in a low-growth environment, government is being forced to cut back on expenditure. The fiscal balance (as a % of GDP) is forecast to improve gradually over the outlook period.
- Gross loan debt of government (excl. guarantees to SOEs) is projected to peak at 53% in 2019, before a gradual decline ensues.



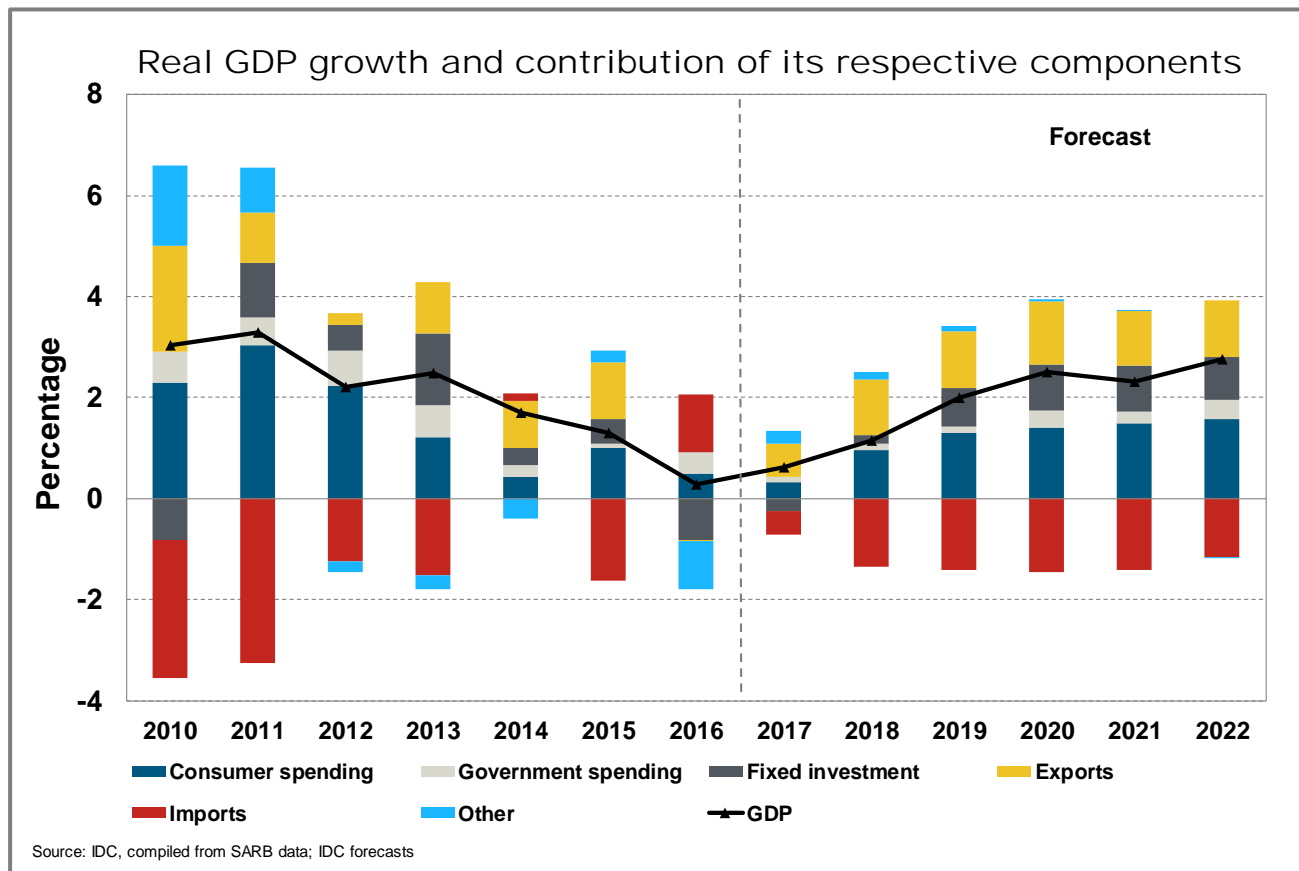
Economic forecasts: Growth prospects to remain unsatisfactory in the short-term, improving in the medium-term



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- GDP growth of 0.6% is expected for 2017. Consumer spending is likely to remain subdued and fixed investment to decline further in real terms. Exports, on the other hand, should made a significant contribution to overall growth. Demand conditions are improving in global markets and the ZAR is relatively competitive, providing significant opportunities for export development.
- Growth of around 1.2% is forecast for 2018, supported by modestly higher consumer spending, some recovery in fixed investment and an improving export performance.





Thank you



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