

Updated forecast

Since the forecast was completed in July a number of events internationally and domestically have necessitated a change in the South African economic outlook. Internationally, continued weakness in China, coupled with talks of a further delay in US monetary policy normalisation are the foremost developments. Domestically, weak second quarter of 2015 GDP growth has soured the outlook for domestic demand further. In addition, rand volatility (but on a weakening trend) as a result of the international environment has proven to be a double-edged sword, boosting exports somewhat, but raising the cost of imports.

Table 1 Forecast for selected variable (2015 - 2016)

	2014	2015 (Oct)	2015 (July)	2016 (Oct)	2016 (July)
Final consumption expenditure, households	1.4	1.5	1.9	1.4	1.7
Durable goods	5.3	1.4	1.9	1.2	2.1
Semi-durable goods	3.2	2.9	2.9	2.2	2.5
Non-durable goods	0.8	1.3	2.3	1.3	1.2
Services	0.5	1.5	1.2	1.4	1.7
Gross Fixed Capital Formation	-0.4	0.9	1.7	-0.2	2.1
Private	-3.4	-0.3	1	-1.8	1.9
Government	10.3	4.9	3.9	2.3	2.5
Public corporations	1.6	1.1	2.1	2.5	2.3
Exports of goods and services	2.6	9.6	5.2	3.1	3.9
Interest rates (annual average)					
3-month BA rate	5.86	6.19	6.27	6.69	6.63
10-year Government Bond	8.25	8.01	8.1	8.65	8.57
Prime overdraft rate	9.07	9.36	9.42	10.01	9.98
Inflation (annual average %)					
Producer prices	7.4	3.7	4.4	5.8	6.4
Consumer prices	6.1	4.7	5.1	6.2	6.2
Nominal wage rate (Private sector)	5.7	3.8	6.5	7.0	7.5
Exchange rates (annual average)					
R/US dollar	10.84	12.67	12.12	14.29	12.63
R/Euro	14.40	14.04	13.22	14.86	12.79
R/Pound sterling	17.86	19.34	18.25	21.79	18.63
Yen/R	9.75	9.61	10.03	8.77	9.92
Gross Domestic Expenditure	0.6	0.3	1.9	1.5	1.6
Gross Domestic Product	1.5	1.4	1.7	1.4	1.7
Current account balance (R billion, seas. adj.)	-206.64	-162.37	-216.6	-195.96	-233.9
<i>(as % of GDP)</i>	<i>-5.4</i>	<i>-4.0</i>	<i>-5.3</i>	<i>-4.6</i>	<i>-5.3</i>

Source: BER, October 2015

The most notable changes include a downward revision to Gross Domestic Expenditure (GDE), or domestic demand, which is expected to grow at a much more muted pace of 0.3 per cent in 2015, compared to 1.9 per cent in the July forecast (see Table 1). This is led by slower growth in household consumption on the back of subdued wage growth as well as softer growth in fixed investment due to weaker demand domestically, and from emerging markets, particularly China, and relatively low business confidence. Exports however are predicted to fare reasonably well in 2015 on the back of the deteriorating rand, lifting overall GDP. Domestic output is expected to grow at 1.4 per cent in 2015 and 2016 compared to 1.7 per cent previously, with a number of downside risks (see 2015 Provincial Economic Review and Outlook (PERO)).

This has implications for the forecast for the Western Cape economy which is derived from the national forecast. It is therefore likely that regional GDP growth in 2015 and 2016 will be lower than what is currently in the PERO as a result of the downward revision to the RSA outlook.