SA economy still alive and kicking

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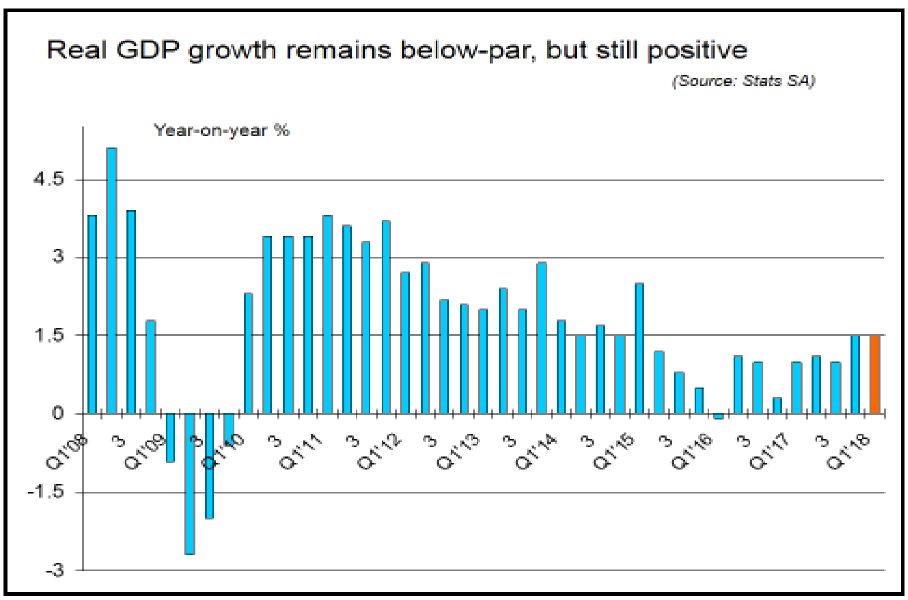
A well-worn adage on the degrees of comparison for untruths reads: "lies, damn lies and statistics".

Despite the invaluable role of data gathering and dissemination in virtually every field of human endeavor, this adage does crop up from time to time, as recently occurred with the interpretation of first quarter GDP data published by Statistics SA.

Unfortunately, different growth rates are contained in the quarterly GDP data release, each based on a particular methodology, which has presented an example of the way in which media reports based on selective data can portray a misleading state of affairs. Various business headlines were focused on the figure of a 2.2% decline in the annualised economic growth rate, based on an extrapolation of the quarter-on-quarter data sets.

The correct method

Based on a much more objective method, namely an annualised year-on-year comparison, the South African economy expanded at a positive rate of 1.5% during the first quarter of 2018 (in real terms). This is a marginal improvement on the real economic growth rate for 2017 as a whole (1.3%) and is also higher than last year's annualised first quarter GDP growth rate of 1.1% (year-on-year).



It would be useful if Stats SA could actually take note of the *Glossary of Statistical Terms* published by the Organisation for Economic Cooperation & Development (OECD), which advises agencies not to use quarter-on-quarter annualised growth estimates, as they magnify irregularities, but rather to keep it simple and objective by using year-on-year rates.

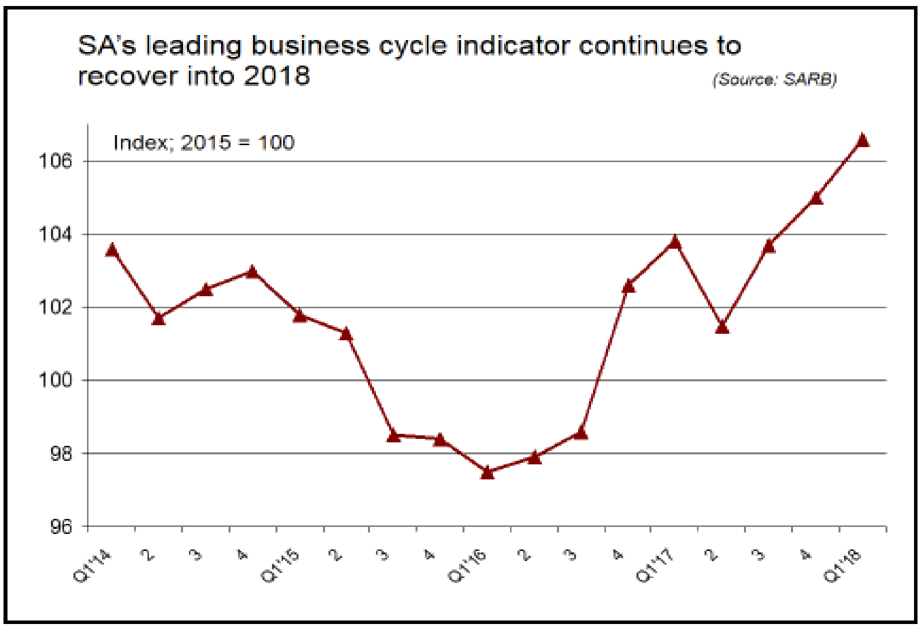
Marginally positive economic growth is nevertheless a far cry from what the doctor has ordered for South Africa, which continues to grapple with high unemployment, a lack of fiscal leeway to address infrastructure deficiencies and a huge backlog in basic service delivery to poor communities.

It is unlikely for GDP growth to have moved to a significantly higher level in the second quarter, due to the dampening effect of the higher VAT rate, a series of increases in fuel prices and the heightened policy uncertainty introduced by the issue surrounding radical land reform.

Uncertainty prevails

Until such time as Parliament's constitutional review committee (CRC) reports on this matter (hopefully by 30 September), land owners are justifiably hesitant to engage in expensive development initiatives and improvements to property (mostly classified as working capital).

Fortunately, there seems to be strong and unified support within the ANC's new leadership for the key caveat in any future approach to land reform, namely that it should not, in any way, harm the productivity of the agriculture sector or threaten food security. This condition was part of the motion passed in Parliament and may yet nullify any attempts aimed at a constitutional amendment to expropriate land without compensation.



On a positive note, two of the most encouraging trends to have surfaced since the middle of last year are the upward momentum of the SA Reserve Bank's composite leading business cycle indicator and the increase in real disposable incomes of households to an all-time record high in the fourth quarter of 2017.

The weaker currency, if it persists, will boost the country's primary sector exports during the second half of the year. Agriculture and mining were the laggards in the first quarter's growth performance, but their recovery during the rest of the year may still propel GDP growth to around 2% for the full year.