STANLIB

The Weekly Focus

Economic Update

1. **SA's consumer confidence index dipped to +2 in Q1 2019, which is more in line with the average reading since 1994, as prospects of economic recovery remain uncertain.**
2. **Sub-Saharan Africa growth is expected to rise to 5% in 2019, excluding SA and Nigeria.**
3. **SA's tourism regulations were changed in December 2018, but badly communicated. The new regulations are an improvement and should help to encourage a pick-up in foreign visitors.**
4. **US GDP grew by a very robust 3.2%q/q in Q1 2019, well above expectations. The growth was helped by consumer spending on services, another increase in inventories, fixed investment in technology and local government activity.**

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1. **The latest dip in the South African consumer confidence index (CCI) to +2 (down from +7 in Q4 2018) is more in line with the average reading since 1994, suggesting that the spike in confidence during early 2018 may have been a distortion in the data or an overreaction to "Ramaphoria".** The latest data suggests that most consumers are not especially optimistic about the outlook for the economy and their own household finances in 2019, and have become more concerned in recent months.

   The decline in sentiment in Q1 2019 can largely be attributed to the decline in the economic outlook sub-index of the CCI, although the financial position and time-to-buy durable goods sub-indices also moved lower. A breakdown of the CCI according to household income suggests that consumer confidence has deteriorated across all income groups, but the decline was most severe among high-income consumers (earning more than R14 000 per month). High-income consumer confidence dropped by 13 index points, while the confidence levels of middle-income consumers (earning between R3 000 and R14 000 per month) and low-income consumers (earning less than R3 000 per month) also deteriorated.

   The re-implementation of stage 4 load-shedding by Eskom during February and March has clearly had a negative impact on the South African economy so it is not surprising that consumers are becoming concerned about future economic prospects.

   Given the disproportionally large spending power of high-income households, the significant deterioration in consumer confidence among high-income households does not bode well for the already ailing retail sector. "Ramaphoria", hope for the President's "new dawn" and pledge to turn the tide of corruption, appears to have faded. However the national election on 8 May could see an uptick in consumer sentiment, although it is important to bear in mind real after-tax household income will probably remain under pressure throughout 2019 on the back of higher personal income taxes, sharp fuel and electricity price hikes and weak private sector wage growth.

2. **The early 2019 assessment of growth prospects in Sub-Saharan Africa highlights two key characteristics worth mentioning**. Firstly, while the growth of the region is expected to improve in 2019 to around 3.5%, up from 3% in 2019, about half of the region's countries that are mostly non-resource-intensive are expected to grow at 5% or more in 2019, and see a faster rise in income per capita than the rest of the world. These countries include Ethiopia (7.7% growth in GDP during 2019), Rwanda (7.8%), Kenya (5.8%), and Uganda (6.3%). The remainder, comprising mostly resource-intensive countries, are expected to fall behind.

   Secondly, growth in the two largest economies in the region, namely Nigeria and SA, is expected to continue to lag behind the rest of the continent. Sub-Saharan GDP growth, excluding SA and Nigeria, is forecast to rise to 5% in 2019, up from 4.5% in 2018.
   Out of interest, GDP growth in Zimbabwe is projected at -5.2% in 2019, while most of the other countries in southern Africa (with the exception of Botswana and Mozambique) have struggled to achieve much more than 1% growth in recent years. A much more vibrant regional economic performance is critical to the success of each individual economy in southern Africa.

3. **On 29 November 2018, the SA government announced a relaxation of the visa regulations for international travel**. These new regulations were promulgated in Government Gazette No. 10890, Vol 641 and became effective on 1 December 2018. Unfortunately, the new regulations were badly communicated, and will take some time to have a meaningful impact on tourism. The introduction of stringent visa regulations in 2015 made it especially difficult for families to travel and for children under 18 to visit SA.

   The changes to the visa regulations included the following:
   - **The need to show unabridged birth certificates when travelling with children has been reversed**. The new regulation stipulates that if both parents are travelling with a minor there are no fundamental grounds for suspicion. But if only one parent is travelling with a minor the immigration officials could ask for additional documentation. Although travelling with a child no longer requires an unabridged birth certificate, parents still need to produce the normal travel documents, ie copy of birth certificate, passport and a letter of consent from both parents if the child is travelling alone or with only one parent.
   - There are new policies for visa applications for spouses in a "permanent homosexual or heterosexual relationship". Applicants will need to prove to the director-general that they have been in a relationship for at least two years, that they can support themselves financially and they will be required to be interviewed separately, on the same date and time, to determine the authenticity of their relationship.
   - Revisions to general work, business and corporate visas have also been made for foreigners who intend to do business or invest in SA.
   - Special concessions will be made for travellers from the BRICS partner countries (Brazil, India, China and Russia).
   - Frequent travellers to SA will be able to apply for multiple-entry visa or a possible 10-year visa for business or academic staff from Africa.
   - SA will grant permanent residency or critical skills visas to foreign students who graduate from a South African institution of higher learning in one of the critical skills categories.

Encouragingly, this week the Department of Home Affairs issued a clarification advisory on its website on the regulatory changes. Once the regulations are better understood, the changes should help to encourage a pick-up in foreign visitors. Tourism remains a key potential driver of the local economy. Currently, the tourism sector contributes (directly) only around 3% to 4% of SA's GDP, accounting for 4.5% of total employment either directly or indirectly.

4. **In the first quarter of 2019, US GDP grew by an impressive 3.2%q/q, annualised**. This compares with growth of 2.2%q/q in Q4 2018 and 2.9% for 2018 as a whole. The GDP performance in Q1 2019 was far better than market expectations for growth of 2.3% (Bloomberg, STANLIB 2.6%q/q). If the increase in inventories is excluded from the data, then real final sales (GDP less inventories) grew by a still very respectable 2.5%q/q.

   The key areas of strength in Q1 2019 were broad-based, including household consumption of services, especially healthcare, which surged during the quarter, private inventory accumulation (which has risen meaningfully in each of the past three quarters), exports (despite the global trade wars), state and local government spending, and fixed investment in technology. In addition, imports declined noticeably during the quarter, which effectively boosted the GDP performance through a sharp increase in net exports. The key areas of weakness in the US economy remain investment in residential property as well as household spending on motor vehicles. The vehicle market as well as housing activity has been under pressure over the past year despite record levels of employment.

   This GDP estimate represents an initial assessment of US economic activity in Q1 2019, and is based on source data that are incomplete or subject to further revision. The second estimate of Q1 2019 GDP will be released on 30 May 2019. US GDP data is readily available from the US Department of Commerce, specifically the Bureau of Economic Analysis.

   For 2018 as a whole the US economy grew by 2.9%, significantly up from 2.2% in 2017 and 1.6% in 2016. The improvement in 2018 was partly driven by President Trump's fiscal stimulus package, which included a combination of tax cuts and increase government spending, including spending on defence. The most encouraging component of the Q1 2019 GDP performance was the pick-up in investment in technology, which has generally lagged during this economic cycle – although the performance remains patchy.

   A fairly wide range of US forward-looking indicators have softened in recent months. This includes the ISM manufacturing index, the leading economic indicator and various confidence indices. **This suggests that despite the latest GDP growth rate of 3.2%, the US economy is expected to slow into 2020**. However, although a number of economists are forecasting that the US economy will experience a technical recession some time in 2020, the data is certainly not yet reflecting that degree of weakness. Furthermore, the policy response from the Federal Reserve, indicating that interest rates are unlikely to rise any further during the current economic cycle, as well as their decision to stop quantitative tightening during Q3 2019 (they are probably more nervous after the latest GDP reading), will probably help to mitigate the extend of the economic slowdown in 2020.

   US GDP is now forecast to grow by around 2.5% in 2019, which is above the average growth rate over the past nine years of 2.3%, and then slow to around 1.5% in 2021. The consensus

US GDP growth estimate for 2019 is currently 2.4%, while the estimate for 2020 is 1.9%. We are a little more pessimistic than the consensus about the US growth outlook in 2020, considering the high base of economic activity that has been established as a result of President Trump's fiscal stimulus program as well as the excessive level of US government debt and higher interest rates over the past three years. The 2020 outlook for US growth (as well as world growth) would be boosted enormously if the US and China can reach a favourable and sustainable trade deal within the coming weeks/months.

Please follow our regular economic updates on twitter ***@lingskevin***
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Rates

These rates are expressed in nominal and effective terms and should be used for indication purposes ONLY.

STANLIB Money Market Fund	
Nominal:	6.92%
Effective:	7.15%

STANLIB is required to quote an effective rate which is based upon a seven-day rolling average yield for Money Market Portfolios. The above quoted yield is calculated using an annualised seven-day rolling average as at 26 April 2019. This seven- day rolling average yield may marginally differ from the actual daily distribution and should not be used for interest calculation purposes. We however, are most happy to supply you with the daily distribution rate on request, one day in arrears. The price of each participatory interest (unit) is aimed at a constant value. The total return to the investor is primarily made up of interest received but, may also include any gain or loss made on any particular instrument. In most cases this will merely have the effect of increasing or decreasing the daily yield, but in an extreme case it can have the effect of reducing the capital value of the portfolio.

STANLIB Enhanced Yield Fund	
Effective Yield:	7.99%

STANLIB is required to quote a current yield for Income Portfolios. This is an effective yield. The above quoted yield will vary from day to day and is a current yield as at 26 April 2019. The net (after fees) yield on the portfolio will be published daily in the major newspapers together with the "all-in" NAV price (includes the accrual for dividends and interest). This yield is a snapshot yield that reflects the weighted average running yield of all the underlying holdings of the portfolio. Monthly distributions will consist of dividends and interest. Interest will also be exempt from tax to the extent that investors are able to make use of the applicable interest exemption as currently allowed by the Income Tax Act. The portfolio's underlying investments will determine the split between dividends and interest.

STANLIB Income Fund	
Effective Yield:	8.38%

STANLIB Extra Income Fund

STANLIB Extra Income Fund	
Effective Yield:	7.93%
STANLIB Flexible Income Fund	
Effective Yield:	7.23%
STANLIB Multi-Manager Absolute Income Fund	
Effective Yield:	7.20%

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For the STANLIB Extra Income Fund, Fluctuations or movements in exchange rates may cause the value of underlying international investments to go up or down. The historical yield over the last 12 months is reported for the STANLIB Multi-Manager Absolute Income Fund.

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Attachments (1)

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