

## The economy: The ball is in the government's court

*The economy in Q3 2011 and beyond: Boosted by domestic demand, dragged down by the mining sector*

**Gross Domestic Product** (GDP) grew at a subdued 1.4% per annum rate in the third quarter, with the volume of output produced by the mining sector declining by as much as 17.4% in the quarter. Though helped by higher prices, mining revenues continued to increase in the quarter, by over R4bn. The manufacturing sector also saw output decline, at a -1.9% rate.

Those parts of the economy closest to their SA customers performed satisfactorily in the quarter. The largest sectoral contributor to the SA economy, Finance real estate and business services, with a 21% share of value added, grew by 4.5% in the third quarter while activity in the wholesale, retail and catering sector (13.9% share) grew by a healthy 6.1%. General Government, with a 15.6% share of the economy, grew by 4.1%. The economy is estimated to have grown by 3.2% in the first nine months of 2011, compared with the first nine months of 2010.

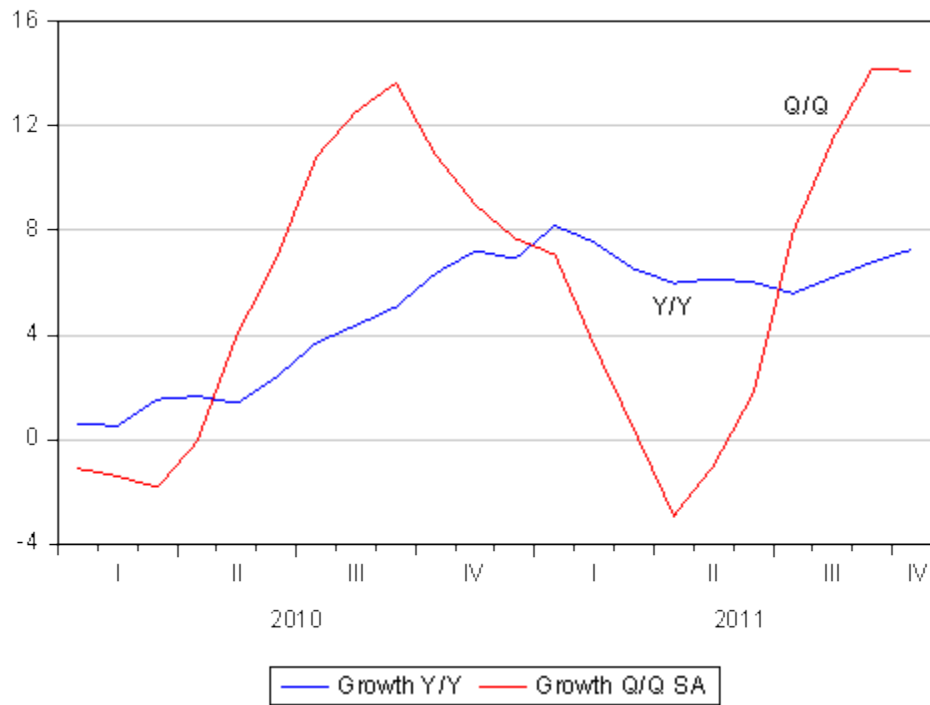
These statistics are consistent with the higher frequency data for retail and vehicle sales and also the supply of cash that we have reported upon recently. There was a strong revival in spending by households and firms in the third quarter compared to the second quarter, which continued in October according to our Hard Number Index of economic activity updated to October 2011.

The **money supply and bank credit statistics** released yesterday for October 2011 confirm this rebound. The rolling three month growth in the liability side of the bank's balance sheet, represented by the broadest definition of money (M3) showed particularly strong growth of the order of 14% p.a. Bank credit granted to the private sector has also picked up after a weak first half recording, with growth of about 8% compared to three months before. (See below). Growth in mortgage lending remains very subdued and is trending lower. It will take a revival in average home prices to lead this series higher.

These money supply and bank credit numbers confirm that domestic spending will not be a drag on growth in the months to come, even as the outlook for global growth has deteriorated. One can expect a better fourth quarter for mining and also manufacturing. Prices realised for metals and minerals in US dollars have more or less held up, despite the threats from Europe to global growth. And the weaker rand will help further to sustain revenues for the mining sector and also perhaps encourage some growth in volumes.

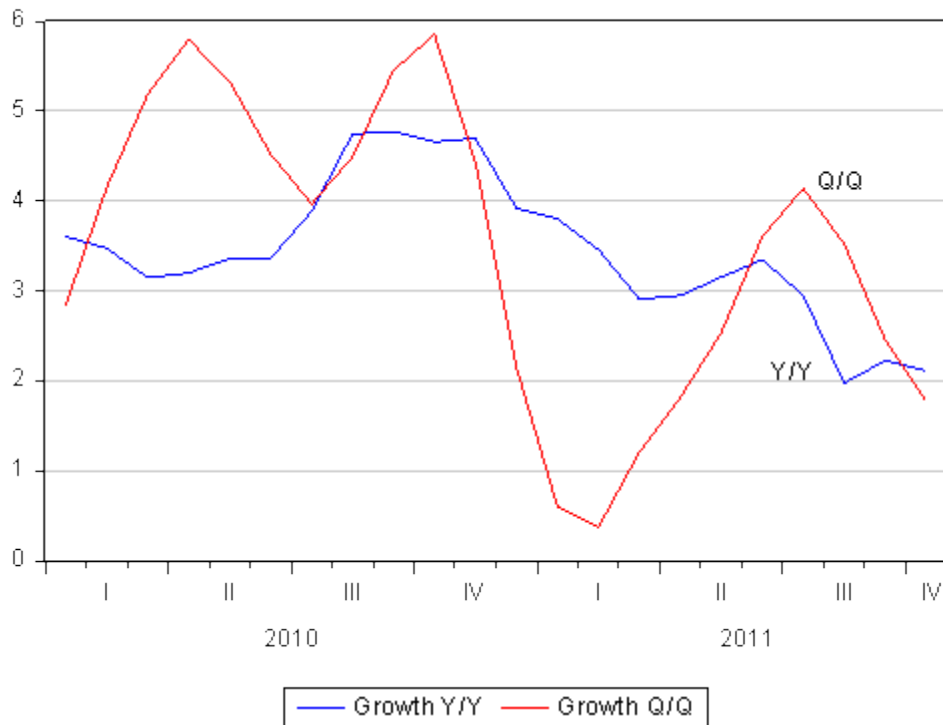
However strong real growth in the mining sector will have to wait for government agencies to add to the infrastructure for exporting minerals; hopefully the government and its agencies will also charge globally competitive prices for inputs of energy as well as apply a globally competitive tax regime and a more flexible labour market. The mining ball is very much in the government's court as the National Development Plan makes clear. **Brian Kantor**

### **Growth in the money supply (M3) to October 2011**



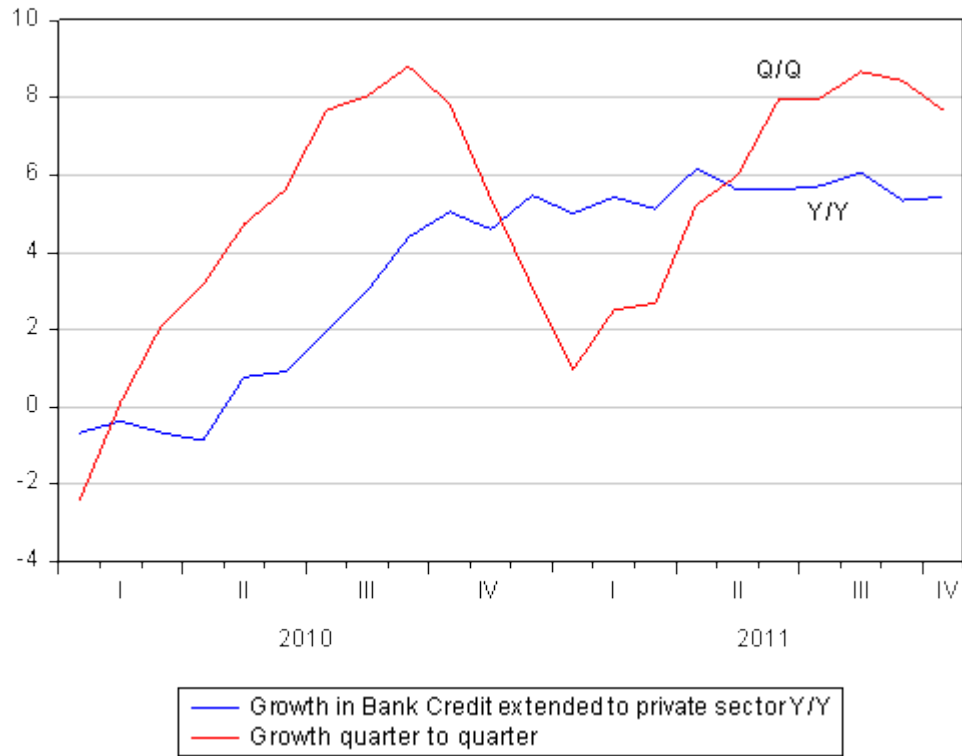
Source: SA Reserve Bank and Investec Wealth and Investment

### Growth in Mortgage Lending



Source: SA Reserve Bank and Investec Wealth and Investment

### Growth in the supply of Bank Credit to October 2011



Source: SA Reserve Bank and Investec Wealth and Investment